"Union Bank of India Q3FY17 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Union Bank of India Q3 FY2017 results conference call hosted by Elara Securities Private Limited. 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. Rakesh Kumar from Elara Securities Private Limited. Thank you and over to you Sir!

Rakesh Kumar: Thanks Raymond. Good evening everyone to the conference call of Union Bank Q3 results. We have with us **Mr. Arun Tiwari – CMD** of Union Bank and along with him we have Mr. Vinod Kathuria, Mr. Raj Kamal Verma and Mr. Atul Kumar Goel the executive directors of the bank and also we have the senior management team on a call as well, so now I would like to hand over the call to Mr. Nitesh Ranjan for the opening remarks.

Nitesh Ranjan: Thank you Rakesh. Good evening ladies and gentlemen. I on behalf of Union Bank of India welcome each one of you to this investor interface. Before I hand over to our Chairman and Managing Director to address all present over here I would like to submit that certain statements that maybe made are discussed during this investor interaction maybe forward looking statement based on the current expectations. These statements involved number of risks, uncertainties and other factors that could cause actual results to differ from the statement. Investors are therefore requested to check the information independently before making any investment or other decisions. Thank you. I would now hand over to Mr. Arun Tiwari our Chairman and Managing Director who is joined by our executive directors and the senior management team. Over to you Sir!

Arun Tiwari: Thank you Nitesh. Good evening my friends from the fraternity of analysts. It is my pleasure to welcoming you all on this conference call on the financial results of Union Bank of India for the quarter and nine months ended 31 December 2016. Kindly accept my gratitude on my personal behalf and on behalf of Union Bank of India.

Let me take you quickly through the macro overview of what we have here in Union Bank of India. When there comes a time in life of every nation when it chooses a path less traveled and which makes all the differences in the end. Our country has also witnessed such moment on November 8, 2016 when Honourable Prime Minister announced a bold step forward to take on corruption, counter feeding and much of associated social economic malaise by cancelling legal tender status of extent high denomination by notes of Rs.500 and Rs.1000. The bravery decision could be understood from the fact that these two denominations accounted for about 86% of total currency in circulation then and for a country known for cash is king philosophy there could not be a bigger creative destruction than demonetisation. Its ramifications will indeed travel wide and far. As an immediate positive demonetisation has helped banks with cheap liquidity or the economic liquidity thereby lowering interest rates and accelerated the making of digital India in true sense of it.

As a matter of pride that banking sector and within which public sector banks have been central to the economic mayhem. Banks and bankers have given best of their time and resources to make this noble exercise a success and to help restore normalcy at the earliest. Call of duty however meant that code parities of business and profit took a backseat for a short while. Friends for Q3 of this current financial year the financials have this historic context, nevertheless Union Bank was able to continue along the guided path both in terms of business and focus areas and capacity building initiatives under HDR framework.

Asset quality has been central to banks profitability for some time, particularly since last four quarters when banks to plunge on its stressed recognition under asset quality review and began a concerted response to resolution recovery and let me begin my remarks with developments on the asset quality.

The gross NPA rose to the level of 11.70% as on 31 December 2016 from 10.73% as on September 30 2016. The net NPA ratio was stood at 6.95% as on December 31 2016 as against 6.39% on September 30 2016. During the quarter banks sold two accounts to ARCs with outstanding of 45 Crores. The slippages were contained at 3294 Crores, but for a large account slipping into NPA slippages remains almost about 40 odd percent below previous quarter. Recovery and upgradation is stood at 254 Crores and 101 Crores respectively during Q3 of FY2017.

Our strategic approach on asset resolution and recoveries gained traction with establishment of difficult asset resolution team DART and terminal asset recovery team TART, which are specialized units pursuing systemic coordination within the banks drawing expertise on across verticals like credit, legal, monitoring and risk management, etc. We did five accounts under SDR in Q3, thus at the end of December 2016 total number of accounts under SDR stands at 21 with an outstanding of 5339 Crores of which two accounts with an amount of 310 Crores have turned NPA.

Under S4A scheme, the bank has undertaken two accounts having outstanding of 677 Crores during Q3 of current financial year. The provision coverage ratio is stood at 50.6% as on 31 December 2016, it was a TAT below at 50.5% as on September 30 2016. Talking quickly about profitability, operating profit of the bank is stood at 1851 Crores for the October – December 2016 as 1820 Crores in previous quarter and 1334 Crores in Q3 of last financial year.

Net profit of bank is stood at 104 Crores for Q3 in current financial year as against 177 Crores in the Q2 this financial year and 78 Crores in Q3 of last financial year. Profits were ably assisted by income from treasury and cheque in operating expenditure through a **(inaudible) 6:49**. The bank has actively pursued treasury operations as bond market rally post demonetisation.

Let me add one more. We did about 177 Crores interest reversal in SDR account that translates to 17 basis points and like all other banks we also lost about 4 basis points in our earnings when incremental CRR was put in place for about three weeks time and I will add another dimension that during the current quarter Q4 of current financial year about 23% of our term deposit is going to be repaid, so we as a bank would be able to add back all these benefits in Q4.

On a sequential basis interest earnings declined as corporate loan book de-grew and this degrowth happened also on one account that during demonetisation period about 8000 Crores standard loans were repaid in cash by the borrowers across the country. While interest is spent on deposits rose in wake of demonetisation, this reflects in domestic name coming to 2.04% for Q3 as against 2.43% in the previous quarter. Non-interest income meanwhile rose by 18% sequentially in Q3 followed by treasury earnings, which rose by 38% over Q2 in the current financial year.

About business of the loan mix the RAM sector the retail agri and micro, small and medium enterprise grew at 13.5% Y-o-Y and now commands 55% share of our domestic loan books, which is higher than 52% at the end of March 2016. On resources side CASA share in deposits has further increased to 36.8% and even assuming a quarter of this cash deposit stays, within the system the CASA share could benefit by two percentage points on a sustainable basis and within this CASA if I talk about my number the savings bank growth has been 47% Y-o-Y.

Talking about capital, the position of capital of the bank is stood at 11.36% as of December 31, 2016, which are about 150 basis points above minimum regulatory requirement. Of this tier I is at 8.51%. The capital ratios are without considering the amount of net profit for nine months of current financial year and that capital, which is to be infused by Government of India they have promised us to gave 721 Crores if we add back just these two numbers my CRAR will go up by 30 basis points by the end of this year. If we include the same in our tier I the ratio will be up by same number of basis points that is about 30 basis points. Our banks' efforts in optimizing risks weight assets are also reflected in better risks weight asset quality compared to the scheduled commercial banks as well as the peer group banks.

Let me also quickly take the occasion to update you about the progress on structural changes being brought under HDR framework. As I have shared with you earlier on also several initiatives have been undertaken within the umbrella project Utkarsh redesigning several of court processes and practices raising efficiencies. At the end of September 2016 a total 540 branches covering more than 50% of retail and MSME business was brought under new design, the bank however chose to defer the scale up of new design in rest of the branches by a couple of months as the field resources were busy carrying out currency swap exercise. We rather took the opportunity to revamp administrative structure to harness leadership synergies across controlling officers. With eminent recovery in the economy corporate loan book demand will gradually improve. The bank has accordingly prepared for potential opportunities by instituting end-to-end ownership of the large corporate accounts, wherein focus is on new business generation along with fee income growth to gross selling.

New model is being scaled up across industrial finance branches of the bank, likewise a new structure is being rolled out for a home loan and mortgage loan business under which end-to-end ownership is being instituted by creating a new roles like city sales head and relationship managers across the country. For agri business homogenous clusters of branches are being created with the focus on better monitoring and efficiency of the branches. The bank continued to be vibrant with digital initiatives during Q3 as well extending presence across social media through twitter and official page on the facebook, youtube channel and also on the instagram.

The social media outreach has helped bank better contact with Gen Y customers and promises a lot on future sales and revenues. Digital transaction share continued to be robust 64% even as demonetisation necessitated branch-based transactions including Jan Dhan customers. Core digital transaction share that is excluding transaction on ATM meanwhile rose by 7.4%, 37%

I conclude with our guidance of the key variables for the financial year 2016-2017 that credit growth to be around 7% and deposit growth to be about 9%-10%. CASA share should remain at 35%, domestic NIM for the last quarter year to be around 2.2% to 2.25% and reduced amount of slippages by about 15% over next quarter. With expected recovery in economy and continued rebalancing efforts at the banks end we firmly believe that we will deliver on this guidance, our competitive offering on interest rates should facilitate an increase in credit offtake, declining cost of deposits along with various digital initiatives will also facilitate in achieving margins. As we witness traction in rate of delinquencies our greater focus during the rest of the year would be on resolution and recovery. Meanwhile we will continue to deepen the structural transformation of building capabilities in the organizations. Thank you so very much friends. We are ready for the questions from our fraternity of analysts.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Sameer Bhise from Macquaire. Please go ahead.

Sameer Bhise: I just wanted to know what is the CET1 number as of December?

Arun Tiwari: 7.68.

Sameer Bhise: On the S4A and SDR side what proportion would overlap with our restructured book?

Arun Tiwari: About 2000 Crores or so.

Sameer Bhise: Both including?

Arun Tiwari: Yes, both including.

Sameer Bhise: Thank you.

Moderator: Thank you. The next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Thanks Sir. Firstly just a clarification this 7.68 is excluding profit right I think?

Arun Tiwari: Of course, I did clarify that all these numbers are excluding this nine months profit and the capital, which we have to get from the Government of India.

Dhaval Gada: Sir if I just include the profits what would be the CET1 for us?

A K Goel: 30 basis points if we include the capital as well as the profitability, if we include only nine months profitability it will be 15 basis points.

Dhaval Gada: Fine. Secondly Sir in terms of upgrades and recoveries the momentum seems to be slightly weak here with relatively what our peer set has been doing on this front Sir, any sort of comments any thought process of how we should accelerate this as going forward, any thoughts?

Arun Tiwari: In my opening remarks I did say that we have created two teams, which are across the verticals, which we call DART and TART teams, these teams are just focusing on large critical accounts and I am pretty sure the kind of progress I have seen in last two to two-and-a-half months during this Q4 the recovery would be exponentially better than what we did in the Q3.

Dhaval Gada: Any sort of number that we can look for maybe not in Q4, but more from like next two to three quarters any sort of numbers you would like to guide on this front upgrades and recovery?

Arun Tiwari: As I said minimum 15% recovery will be more than the previous quarter.

Dhaval Gada: Fine. Sir on SDR I missed the amount the stock amount do you mention 21 accounts what would be the stock amount of SDR?

Arun Tiwari: 5116.67 Crores.

Dhaval Gada: During the quarter you did five accounts amounting to?

Arun Tiwari: Five accounts aggregating 659 Crores.

Dhaval Gada: In terms of slippages any colour like how many from large accounts like 100 Crores plus any sort of colour here?

Arun Tiwari: I think 100 Crores plus was six accounts.

Dhaval Gada: Have you availed of RBI dispensation of some one Crores accounts?

Arun Tiwari: Yes we have.

Dhaval Gada: Amount Sir?

Arun Tiwari: It will not be very large amount something around 200 Crores kind of thing.

Dhaval Gada: Fine, thank you.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from Antique Stock Broking. Please go ahead.

Nitin Agarwal: Good evening Sir! Sir do we have any watchlist of corporate accounts, which may step in the coming quarters because like they keep on spoiling the overall slippage trend, but for this corporate account our slippage number would have been very good this quarter, so any watchlist of such accounts we have?

Arun Tiwari: If you look at our SMA II accounts if I compare these numbers December 2015 this amount was 19,885 Crores, March 2016 this got reduced to 16,890 Crores, now December 2016 it is at 15,306 Crores and in terms of percentage it has gone down from 7.6% in December 2015 to 5.5% in December 2016.

Nitin Agarwal: Right and what proportion of this decline has happened by way of slippages?

Arun Tiwari: No, upgradation also.

Nitin Agarwal: Secondly Sir on the core tier I if I look at like there has been a very sharp decline on a sequential basis like almost 38 basis points sequential decline at the time when the balance sheet growth like the advances book has not grown the investments like are pretty much zero risk weight then why this tier I decline on a sequential basis almost is very sharp?

Arun Tiwari: There was some adjustment of the DTA, on account of some DTA.

Nitin Agarwal: So that has completely done this quarter so…

Arun Tiwari: Yes, that we have done completely.

Nitin Agarwal: And Sir while you have given guidances on the slippages and recoveries and upgradation so you think that the NPL ratios have peaked or there is more increase that is possible?

Arun Tiwari: Ratios yes, I will stand by this statement they have peaked.

Nitin Agarwal: And so the guidance on credit cost?

Arun Tiwari: We are endeavouring to bring it down to less than two.

Nitin Agarwal: Lastly the period in CASA mix is around 36.8 and we have maintained average CASA ratio stood at 30.7 so something I am missing there?

Arun Tiwari: No, you are not missing out anything. Whatever has come in is come in a last period of nine months period. So if you look at the average it gets spread over a period of nine months, which came in November or December is just because of that.

Nitin Agarwal: So this average is for the nine months not for the quarter you mean right?

Arun Tiwari: Yes.

Nitin Agarwal: Thanks so much.

Moderator: Thank you. Next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.

Gaurav Agarwal: Sir good evening. Sir just wanted few clarity on the NIM side. Considering the increasing competition, decreasing MCLR rates and with time more and more base rate linked loans we will start transitioning to MCLR based loan, so if you can talk about how do you see the overall NIM trends over 2017-2018 or 2019 for banks for the industry in general?

Arun Tiwari: Gaurav, when we were talking about NIM we also talked about a few things NIM has got an hit on account of that interest reversal, which we did on SDR accounts aggregating Rs.177 Crores.

Gaurav Agarwal: No Sir, that is particular for Q3 I am asking for a two-year three-year view, this is definitely a one off kind of a thing?

Arun Tiwari: Yes, this is absolutely one off, thank you so much Gaurav it is just one off and most conservative estimate if I would like to give for even current financial year exit NIM should be close to 2.25.

Gaurav Agarwal: For the next two years how do you see the NIMs performance considering the MCLR rates coming down because of increasing competition and more base rate linked loans will get linked to MCLR, which is where the difference is about 120-130bps would you give some qualitative inputs?

Arun Tiwari: The very genesis of MCLR is the marginal cost, so if my cost of acquisition of resources goes down only then it will translate into MCLR.

Gaurav Agarwal: Maybe I can ask it in this way of what percentage of your loans would be linked to a base rate versus MCLR currently?

Arun Tiwari: 70% would be floating and about 25% to 30% would be fixed.

Gaurav Agarwal: 70% you said would be linked to base rate 30% you are saying fixed?

Arun Tiwari: No reverse.

Gaurav Agarwal: Okay.

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

Mb Mahesh: Good afternoon Sir. Couple of questions, one last quarter you indicated that the SMA II was about 18000 Crores that has fallen to 15300 is it?

Arun Tiwari: Yes that is right.

Mb Mahesh: Going back to the same question, we started of with about 19000 Crores and now we are 15000 in between we have seen nearly about 10,000 Crores kind of an addition to the entire NPAs unlike most of the other public sector banks we seem to be at least showing some trend of reduction we kind of stuck around the 3000 to 3500 Crores quite consistently just trying to understand what is it which is different in Union that some of the other banks are showing a different trend out there?

Arun Tiwari: It is very simple, when the fall was in the other banks if we are trying to compare that was pretty steep.

Mb Mahesh: Yes, but they seem to be at least showing some trend that the reduction seems to be far more consistent as compared to what we see in yours?

Arun Tiwari: Mahesh that is what I am saying it is the theory of relativity. If my fall there towards NPA were lesser so would be my recovery. Getting my point?

Mb Mahesh: I get the point Sir, my only reason why I am pushing this question is that for example if they started at 100 and now are at 50 we started at let say 75, but we are still at that 60 mark.

Arun Tiwari: No, if we have to do this exercise let us take out the base effect let us go back the NPA numbers to two or one-and-a-half years back, if we start from that number whether it is my bank or some other bank you look at the incremental NPAs, NPA formation and reduction there in and see at mine also.

Mb Mahesh: The second question is that this quarter can you give some colour on the corporate slippages that you have seen and also could you tell us how much of your portfolio is in. How much of the gross NPAs actually sitting in the steel sector and we seem to be again hearing a fair amount of resolutions are we adequately covered for these resolutions as well?

Arun Tiwari: No your first question was if I had give you the number slippages of.

Mb Mahesh: That is it is it, the last two quarter of the 3000 Crores the two accounts were just about 100…

Arun Tiwari: No I am saying above 100…

Mb Mahesh: Would they be in the range of 500 to 1000 Crores?

Arun Tiwari: Six accounts were over 100 Crores and one of that was around 1400.

Mb Mahesh: That makes a lot of sense and from a sector specific any colour on this?

Arun Tiwari: Sector or the same sector, steel, food and some construction and one is textile, auto.

Mb Mahesh: Your outstanding NPL, which is sitting in the steel sector?

Arun Tiwari: 7568.

Mb Mahesh: Would you have some colour on how much of provisions, which are sitting out here and also your views on what kind of resolutions you are seeing in the sector?

Nitesh Ranjan: Provisions would be somewhere around an average of 35% to 40% on this.

Mb Mahesh: Arun Sir since you have been sitting in many of these IBA platforms on resolutions on what seems to be on a fortnightly basis what is kind of stopping the resolution kind of seeing its logical conclusion?

Arun Tiwari: I think yesterday or day before we had our third such meeting and Mahesh what happens the larger the corporate larger number of the banks at least first positive thing is they are coming around a table and talking about the resolution.

MB Mahesh: Sorry I just kind of checking this, should we hear any conclusion of many of these

Arun Tiwari: Mahesh it is more of combined pressure on the counter party. Now they also know on the other side of the table that all these lenders are talking in one language that puts the pressure. Let me be forthright on that somebody was struck that I will not give my personal guarantee. Just one example, fearing to give not as his brothers also. Mahesh in the common parlance now they have also realised one thing the bankers have started to think beyond this what is worse to come, so let us take it head on.

Mb Mahesh: Sorry I did not get it. The question is that you know, do we get to hear resolutions and if yes, what will be the kind of haircuts that we will probably need to take?

Arun Tiwari: In fact the entire hassle is about the haircut thus far no further.

Mb Mahesh: Thanks.

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

Anand Ladha: Hello Sir. Your employee cost has been falling Y-o-Y most of the banks have seen a very high employee cost, so just want to understand have we provided for the pension because of the fall in lower rate or we are going to provide in Q4?

Arun Tiwari: We have provided anything and talking about pension the latest table is 2008 we have provided accordingly.

Anand Ladha: No Sir have we provided for the fall in GSEC so what is the discounting rate we are using now?

Arun Tiwari: This provision is a quarterly basis, which is on estimation and only in the fourth quarter the true activity estimation will be out.

Anand Ladha: Is it fair to say last time ten-year GSEC discounting rate was around 8% and we are using the same?

A K Goel: One more thing I may clarify you suppose I have already invested at the 8% to 7% because there is a mark to market profit also, suppose GSEC has declined to 6.40 debt will be applicable only if I sold my entire existing, so I will gain the profit also so my corpus will increase, so as per the actual calculation we have also discussed with the actuary we are providing what is required. It is more than what we are required to provide.

Arun Tiwari: One more thing average age of our organization is 37 years. That gives us the benefit, head start benefit, because cost to company basis outgo is much lesser than an organization for which average is 45 or 50 years.

Anand Ladha: Sir, any guidance on margins for next year?

Arun Tiwari: Next year, look, let me be very conservative for a change. This year as I said before I am sticking to my number of 2.25.

Anand Ladha: Sir, next year every banks have declined, MCLR has come down very drastically for almost all the banks, how do you see for you, do you think there will be more margin pressure next year?

Arun Tiwari: No, but MCLR is again marginal cost. If my cost of fund goes down only then MCLR will go down.

Anand Ladha: So we have already cut the rates, so probably next year almost all my corporate loan book will get repriced at the new MCLR?

Arun Tiwari:: It does not matter, so will be the deposits. 23% of my term deposit is getting repriced in Q4.

Anand Ladha: Thank you.

Moderator: Thank you. Next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Thanks Sir. Just to extend what Mahesh was asking on this resolution and what you alluded in terms of the haircut, which has been discussed, I think this was also one of the points, which the governor mentioned today, just to get some things in perspective is the gap today very significant or are we close to transaction like, suppose you are talking of 50 and the other guy is talking of 20, is that the gap may be very significant, but is it today narrowed quite substantially is what the question is, so that will give some idea of how close we are to resolution?

Arun Tiwari: Even your guess is quite on bull's eye. You know that 50-20 was never there and to its now we have reassessed who blinks first.

Dhaval Gada: Are we likely to see anything meaningful that is coming out from whatever we have been hearing from the papers?

Arun Tiwari: That is right, look I will tell you. Next three to six months you will see many accounts.

Dhaval Gada: Thanks.

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

Adarsh P: Sir, just going back to the question on that pension thing, I just wanted to understand the accounting part, example you hold lot of investments at say GSEC yields of 7.5% to 8% and now yields are lower. When you report at the end of March 2017, when you report your pension asset, can you do an MTM and report your pension asset without actually booking it, I just wanted to understand or because the liability will get marked up, I am just trying to understand how the pension liability and asset will look like?

A K Goel: Actually, it is purely based on the calculation to be taken from the actuary. There are two methods - suppose, we are having the corpus of a particular amount on which a particular rate of return we are getting. Your question is suppose rate of interest had declined, so we are sitting on the mark to market profit also. So corpus will be increased immediately if I will sell that particular security. Actually giving the calculation, we are considering both the things, what is the mark to market profit is available to the fund as on date and what is the rate to be applied on account of decrease in the GSEC rate.

Adarsh P: So when you report your pension asset in the end of March 2017 annual report you would include the MTM or you would not consider that?

A K Goel: Not at all we are not including whatever the calculation we received from the actuary, difference we are providing.

Adarsh P: So, your gap between liability and asset will increase, but that is more like an MTM gap that you would have?

A K Goel: Right.

Adarsh P: Understood. Perfect Sir, that is about it, thanks.

Moderator: Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: Good evening Sir. Sir, first question, I missed the initial part of your comments, why there is a sharp drop in the margins in this quarter?

Arun Tiwari: Two things; one there is a one off interest reversal of Rs.177 Crores, which translates to about 17 basis points.

Alpesh Mehta: Okay, but even adjusted for that the number would be in that case 2.18, right?

Arun Tiwari: Yes, 2.18.

Alpesh Mehta: So still there is a 12 basis points kind of a decline on a quarter on quarter basis?

A K Goel: Alpesh, there are some reasons, Sir has already told you 17 basis is paid on account of debt, second, whatever deposit we have received on account of demonetisation that is 20000 odd amount, so that we have invested through treasury where we are not getting 2% yield, so NIM definitely has to go down because numerator is not increasing in the same proportion in which the denominator is increasing. That is the impact.

Arun Tiwari: And also taking demonetisation further, about Rs.8000 Crores of loans were repaid.

Alpesh Mehta: During the quarter because it is related to demonetisation.

Arun Tiwari: That is right.

Alpesh Mehta: Okay, but even if I take demonetisation related Rs.20,000 Crores and your average cost on those loans would what, those deposits would be around 3.5%?

A K Goel: Suppose you take 4% then we cannot invest more than 6% because the treasury where we invest, either in the call or either in the reverse REPO or REPO.

Adarsh P: Okay, I got it. Secondly, what is the overlap between the SDR, S4A all the account, all the various forms of stressed recognition among the different segments so, there would be certain accounts in S4A which are there into SDR or into the restructured loans or what is the overlap among all the categories?

Nitesh Ranjan: So, this SDR, S4A and 525 are largely mutually exclusive, but if we compare with the standard restructured there will be overlap of around Rs.2000 Crores.

Adarsh P: Amongst all the accounts?

Nitesh Ranjan: Yes.

Adarsh P: Lastly, what is our total power exposure right now, power sector exposure excluding SUVs?

Arun Tiwari: Power sector exposure as of today is Rs.22370 Crores.

Adarsh P: What would be the NPLs?

Arun Tiwari: NPLs in this is Rs.1658 Crores.

Adarsh P: What is your view on this sector Sir, because this seems to be a big concern area for FY2018 or FY2019?

Arun Tiwari: Like you I also read the newspapers, power is the end thing.

Adarsh P: So, what is your view on this?

Arun Tiwari: So many people asked lighted before and I do not know what is the deadline is. Let me answer you. The power sector has got the pains, the pains of pregnancy for a long time now and the matter of fact is if and you look at per capita consumption of power, long way to go. Whatever has happened in the recent past, last two to three years is more on an account of the external reasons. Coal mines awarded in 1992 - 1993, one fine morning they are taken away, EPS are not being signed and even some the state governments unfortunately they are raising their BPS. So unless otherwise, very systematic manner, which Ministry of Power is trying to do for about a year and year and half, I think this would also be resolved may be in a year's time.

Adarsh P: Assuming if that does not take place, considering because we have seen something in steel sector wherein we were hoping for a longtime several things will revive, but even though MIB has come in, but still large part of the steel sector exposure has been classified as NPL, if something like that were to happen in case of a power sector what percentage of...?

Arun Tiwari: Let me say what former governor used to say about NPL, it is an accounting statement. Look, none of these industries are bad, whether you talk about power or you talk about steel. If you believe any of that GDP growth number unless otherwise these two sectors are fixed, it cannot happen. So it is more about the cash flows for last two and half or three years and if you look individually also in some of the steel companies, at least their EBITDA is positive now for the last six to eight months.

Adarsh P: Yes, but still when at the time of resolution people are still asking for 40% to 50% kind of a haircut?

Arun Tiwari: That is I said who blinks first. If you, and me at least I believe and if not today, the tomorrows to come if, why if, the sector picks up. Even if I convert part of that unsustainable equity I will be reaping that benefit two years or three years hence. These two sectors cannot be written off just like that.

Adarsh P: What percentage of this power sector is already commissioned in terms of the date of commencement of the commercial operation over and they have started generating power and all?

Nitesh Ranjan: More than 80% is already generated?

Adarsh P: Within the private sector space?

Nitesh Ranjan: Yes.

Adarsh P: Okay, so that is the risk of portfolio would be only for that 20%, assuming that 80% is already repaying on time.

Nitesh Ranjan: Yes.

Adarsh P: Thank you so much Sir and all the best.

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

Nilanjan Karfa: Thank you Sir. Just harping back on this resolutions again, if I look at our Chief Economic Advisor has kind of written today in one of the media articles and again if you look at what Deputy Governor highlighted today, it just seems that both RBI and the economic advisors seems to believe that banks are unable to resolve this problem and we would need a bang-bang strategy, but if I hear you it seems like the banks are reaching closer to resolution at least on a few assets. Where do you stand, why is this difference in opinion about where things are?

Arun Tiwari: Nilanjan, I am sorry because I had my quarterly results today, so I could not read the newspaper you are referring to, one is the economic advisor, other is regulator and I am from that set of class of people who deal with these people, so I am little closer to the ground reality.

Nilanjan Karfa: What does that mean Sir?

Arun Tiwari: It is me who deals with the counter party, not that I write an article, I mean believe me on this I will say this with a disclaimer, if was to be an editor of a newspaper I will have solutions for anything and everything in the country.

Nilanjan Karfa: Right, so does that mean the guys who are writing about policies or the regulator are less skewed about how assets could be resolved, is that what you trying to tell us?

Arun Tiwari: No, I am not trying to tell, what I am trying to tell what I know that I am dealing with these parties and you know, a problem, which is three, four years if you expect that it will be, and it is not just the bank it is the entire ecosystem. It does not work in tandem. I mean normally Nilanjan, what happens people will say when you are reducing your interest rate because investments are not happening, I mean there is a thumb rule, manufacturing sector, the finance cost may be about 9% to 9.5%. Even if the industry reduces, the banking fraternity reduces the interest rate by 2% or 3%, what it will be of 9%, nothing. So we try to find answer where it will not be available.

Nilanjan Karfa: Right, I hear you sir and just quickly whatever resolutions are under discussion, I am presuming all of these will be in your SMA-II of Rs.15000 odd Crores. What percentage of this Rs.15000 odd Crores are on which discussions and happening, on which you are saying that we should hope for some resolution in the next three to six months?

Arun Tiwari: In fact all these accounts, which were being discussed they were in the descending order of the outstanding.

Nilanjan Karfa: But what percentage are we talking about here on this 15 if I look at your comparison to your SMA-II?

Arun Tiwari: More than Rs.5000 Crores. It should be about close to 40% to 50%.

Nilanjan Karfa: 40% to 50%, okay. Thank you Sir.

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

Sheha Ganatra: Sir, post demonetisation where do see a sustainable CASA and cost to income ratio to be settling?

Arun Tiwari: Cost to income and demonetisation, I think they are two different things, CASA 35%.

Sheha Ganatra: And on the cost to income ratio, where do we see?

Arun Tiwari: We are much below 50% what we have given the guidance, 46% we are at in cost to income ratio whereas our guidance was 50%, so we are well within.

Sheha Ganatra: Okay and where do we see our gross and net NPA would be settling for FY2017?

Arun Tiwari: In terms of percentage it will be lower than what we shared with you today.

Sheha Ganatra: And what would be the PCR target you would like to maintain?

Arun Tiwari: 50 plus.

Sheha Ganatra: For FY2018 could you guide in the asset quality number if possible for moment?

Arun Tiwari: I think whatever we have been talking for last 45 minutes I do see a reason and I have a reason to believe so that asset quality should improve even the banking system as a whole and it would.

Sheha Ganatra: So, assuming that worst is over for the banking system?

Arun Tiwari: Worst is over, you look by and large. All banks whoever come out with their Q3 results, their slippages have gone down recovery has gone up.

Sheha Ganatra: So we are back to net slippages positive point of view.

Arun Tiwari: That is right.

Sheha Ganatra: Thank you.

Moderator: Thank you. The next question is from the line of Sameer Bhise from Macquarie. Please go ahead.

Sameer Bhise: Thanks for the second opportunity. What is the outstanding SR on the book?

Arun Tiwari: SR is Rs.736 Crores, cumulative of SR on our books.

Sameer Bhise: If I look at the provisions held across SDR, S4A, 525 and SR, what would that number be in terms of broad proposal?

Arun Tiwari: Sorry Sameer, I can get it sent to you through an e-mail may be if not today, tomorrow.

Sameer Bhise: Thank you very much.

Moderator: Thank you. Due to time constraints, we will take the last question. The last question is from the line of Rajesh Chhichhia who is an individual Investor. Please go ahead.

Rajesh Chhichhia: Sir, considering this digital cashless economy scenario bank has to spend more on technology, so in future will it be compensated by employee cost, I mean employee cost will be reduced in future?

Arun Tiwari: Rajesh, two or three things about the digital that to the extent we are already digitally enabled. In fact we as an organization spent ahead of the curve on our IT platform. If you look at our customer facing transition which are highest in the industry, which are e-transactions, most of the processes they are digitalised and as I shared with some other analysts, our average age the employee is 37 years. So two things, one, wherever incremental spent is required to be done on digital platform, yes we are committed to do it and the simplest example as of today would be of the ATM operations of any banks. I think we would be one of those few banks for whom standalone ATM operations are profitable.

Rajesh Chhichhia: In future our digital cost will be increased, so will it be compensated by employee cost or it will be around 10% of the total income employee cost I am talking about?

Arun Tiwari: Whatever was to be invested in IT platform has already been done. Now as the volumes go up, during the demonetisation process also, even if I assume my debit cardholders' numbers increase by say 10%, but the users of debit card has gone up by four to five folds.

Rajesh Chhichhia: Thank you.

Moderator: That is the last question ladies and gentleman. I would now like to hand the conference back to Mr. Rakesh Kumar for closing comments.

Rakesh Kumar: First, everyone thanks for the management team from the Union Bank of India for giving the insights of the results, all the participants for being on the call.

Arun Tiwari: Thank you so much.

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