



“Oriental Bank of Commerce Q1 FY19 Earnings Conference
Call”

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MODERATOR: MR. SOHAIL HALAI – ANTIQUE STOCK BROKING

Moderator: Ladies and gentlemen good day and welcome to Oriental Bank of Commerce Q1 FY19 Earnings Conference Call hosted by Antique Stock Broking. 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. Sohail Halai from Antique Stock Broking. Thank you and over to you sir.

Sohail Halai: Thanks Zaid. Good evening everyone. On behalf of Antique Stock Broking I welcome you all to Oriental Bank of Commerce 1Q FY19 earnings call. We have with us today management team of Oriental Bank of Commerce represented by Mr. Mukesh Kumar Jain – MD & CEO. We also have Mr. Himanshu Joshi – Executive Director and Mr. Jitender Mohan Singh – CFO. I would now request Mr. Jain to take us through the highlights of the quarter after which we can open the floor to the questions. Over to you sir.

Mukesh Kumar Jain: Thank you very much. Let me brief about highlights of the financial results for Q1 financial 2019. The bank has taken PCA as an opportunity to consolidate its financial position and focusing on quality growth to optimize business operations and all-round improvement in asset quality, capital adequacy and profitability so as to come out the PCA expeditiously and simultaneously complying with PCB reform agenda. As a result business mix as on June ‘18 stood at Rs. 3.48 lakh crores against 3.55 lakh crores in March ‘18. Total deposits and advances stood at 2.01 lakh crores and 1.46 lakh crores respectively. The advances had declined by 11.19% on YOY basis while credit risk weighted assets have declined by 19.53% or say 20% due to capital optimize growth and credit risk weighted assets to gross advances have declined to 79% in June ‘18 compared to 89% in June ‘17, reflecting Bank's focus on optimizing risk efficiency, more profitable and efficient use of capital.

Bank has been focusing on retail business i.e. retail lending and CASA deposits and is strengthening retail customer base. Bank is shredding its poor risk weighted corporates and high cost deposits during Q1 18-19 Bank's retail portfolio increased by 32.65% Y-on-Y basis and corporate book declined by 11.27% Y-on-Y basis. The retail portfolio of the bank as a percentage of standard advances has improved to 18.65% from 13.46% in June ‘17. Now our corporate book to total assets has reduced to 47.57% in June ‘18 as against 51.29% in June ‘17 and share of RAM sector has improved to 51.29% from 47.57%. The share of CASA has increased from 29.46% in June ‘17 to 31.40% in June ‘18 thereby increased by 194 basis points.

Bank's investment grade rated borrowers contributes 70% of total advances that is external distribution about Rs. 10 crores as on June ‘18 against 55% in June ‘17, so over a period of one year this has increased by 15%.

Operating profit of the bank has declined by 28% to 724.25 crores in Q1 FY19 from Rs. 1008.26 crores in Q1 of FY17-18, mainly due to lower contribution by treasury and due to

hardening of yield. Bank has made a net loss of Rs. 393 crores for Q1 18-19 against loss of 486 crores in Q1 17-18 due to higher NPA provisioning and depreciation on investment.

Net interest income of the bank has increased by around 17% on Y-on-Y basis to 1338 crores in Q1 18-19 from 1146 crores in Q1 FY17-18. During the same period Bank's yield on earning advances have increased to 10.18% in Q1 FY19 from 9.35% in Q1 18. The cost of deposit has reduced to 5.54% in Q1 18-19 compared to 5.83% in Q1 17, due to shredding of approximately 3500 crores of the bulk deposits. The net interest margin of the bank has improved to 2.82% from 2.19% during Q1 FY19 as compared to Q1 FY18.

Regarding asset quality recovery and resolution, bank has maintained gross NPA and net NPA at around March 18 level despite fresh slippage of Rs. 2800 crores. Gross NPAs stood at 17.89% in Q1 FY19 against 14.83 in Q1 FY17 and net NPA stood at 10.63% in Q1 FY19 against 9.56 in Q1 FY18 against 17.63% and 10.48% respectively in March 2018. The marginal increase over March '18 is due to decline of advances by more than 2000 crores over March '18. The provision coverage ratio has improved to 64.59% Y-on-Y against 54.68% in Q1 FY 18.

During previous year FY17-18, Bank had made a cash recovery and upgradation to the tune of 3161 crores during the entire year. Against this bank has made a cash recovery and upgradation to the tune of more than Rs. 2000 crores in the first quarter itself which will be around 64% of last year. Similarly during the entire FY18-19 Bank is targeting recovery of approximately Rs. 10,000 crores comprising cash recovery of Rs. 4000 crores, recovery in TWO accounts 1500 crores, recovery in resolution of around 2500 crores in NCLT accounts and upgradation of around 2000 crores. This aggregates to around 10,000 crores which we are targeting in the current year including the recovery in the first quarter.

During previous year FY17-18 bank has made a cash recovery in TWO accounts to the tune of Rs. 363 crores against this bank has made cash recovery of 387 crores in the first quarter itself which is 106% of the total amount equivalent to entire year last year. For financial year 18-19 Bank is targeting recovery of approximately Rs. 1500 crores in total TWO accounts.

In NCLT the successful resolution of Bhushan Steel Limited Bank's gross NPA reduced by 88 basis points and net NPA by 48 basis points. The resolution is under process in 108 NCLT accounts including cases filed by other banks, having exposure of 11,500 crores which is approximately 30% of total GNP of the bank and bank has made a provision of more than 76% in these accounts. Many more resolutions are expected under NCLT in the current financial year.

Regarding capital adequacy; government of India has infused Rs. 3571 crores equity during Q4 financial year '18. Accordingly, government of India shareholding increased from 58.38% to 77.23% in Q4 financial year '18. AT1 bonds of Rs. 3000 crores were redeemed with trigger of call option in March 18. The CRAR of the bank is 10.25% comprising of Tier-I 7.28% and Tier-II 2.97% and CET-1 stood at 7.13% for Q1 of FY18. Bank has taken various initiatives

during the year like cost cutting. Bank has already started implementing centrally monitored electronic surveillance system CLEH in the branches and rationalization of ATM/ Branches to replace the security guards. Bank is expecting the saving of around Rs. 45 to 50 crores annually through this exercise. As bank has redeemed high cost AT1 bonds of 3000 crores in March '18, Bank is able to save around 150 crores annually on the cost differential.

The space auditor rationalization of branch network, bank has undertaken rationalization of branches and ATMs and space audit to identify opportunity to downsize the branches without effecting business and customer service. Bank has already identified 18 branches in first phase for rationalization. Similarly bank is shifting back-office to cheaper locations to save on the lease-rentals. Bank is targeting savings of approximately 20 to 25 crores annually through this exercise. The bank is having vertical structure, specialize verticals have been catered for retail, MSME, recovery and CASA. The processing, sanctioning, monitory credit proposals are independent as a risk mitigation major, decision-making are now taking place at two tier levels to reduce turnaround time and improve compliance level.

Regarding monetization of non-core investment, bank has been continuously putting considerable efforts for monetizing non-core investments. The bank has already monetized approximately Rs. 265 crores during FY17-18 by way unlisted equity investment and Rs. 40 crores by way of sale of non-core assets. During current year we are planning sale of other identified non-core investments and non-core fixed assets aggregating to Rs. 500 crores comprising standing investment around Rs. 400 crores and non-core fixed assets around 100 crores.

Regarding continuing generation of fresh NPA, a separate monitoring vertical has been created at head office to maintain high credit quality, controlling growth of stressed assets and follow-up of SMA accounts. 30 GMs and DGMs at corporate office have been allocated high-value NPA, SMAs and TWO accounts above Rs. 5 crores for focused attention recovery and resolution. Similarly bank has placed 6 General Managers in field for recovery and resolution, a separate stressed asset vertical has been created for faster resolution of high value stressed assets above Rs. 10 crores. In digital banking the penetration has increased from 59.11% in June '17 to 67.24% in June '18.

Outlook; as mentioned bank's utmost priority is recovery and resolution during FY18-19 Bank has targeted recovery of 10,000 crores comprising cash recovery 4000 crores, NCLT recovery 2500 crores, upgradation Rs. 2000 crores and TWO recovery around 1500 crores. Credit cost is likely to be around 2.5% to 3.5% in financial year 18-19. We are also targeting CASA share to improve to 35% by year end. We expect to maintain net interest margin in the range of 2.25% to 2.50% and monetization of assets of around 500 crores including specifically the investment 400 crores in non-core fixed assets & 100 crores of non-core investment.

Strategy for coming out of PCA; bank expect to make profit during current year 18-19 and regulatory capital requirements are expected to be made by government of India. Bank is making all efforts to come out of PCA at the earliest with the expected recovery and resolution

under NCLT and operationalization of Sashakt framework bank expect to contain net NPA below 9% by March '19 thereby exiting PCA threshold to by 18-19 and to bring net NPA below 6% by March 2020 thereby completely coming out of PCA framework by financial year 19-20. Though of course we were trying our level best to bring our net NPA also below 6% during the current year itself but we expect if that is not taking place then at least during the next year we should be able to bring it below 6%. Now I'm open to the questions.

Moderator: Thank you very much sir. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Sanket Chheda from IDFC Securities. Please go ahead.

Sanket Chheda: Just wanted to ask that recoveries from Bhushan Steel, was there entries made into NII or provisions or just the asset was out of the book, what was the entries made on recoveries from Bhushan Steel?

Mukesh Kumar Jain: Total recoveries 991 crores, out of that 256 appropriated towards interest NII.

Sanket Chheda: It's been added to NII, is it?

Mukesh Kumar Jain: Yes Resolution package was like that. There were conditions from Tata Steel Ltd to first appropriate this amount towards the interest income.

Sanket Chheda: And anything on provisions?

Mukesh Kumar Jain: These are right under the provisions.

Sanket Chheda: How much?

Mukesh Kumar Jain: 142 is the reversal provision and 257 towards our interest income, so total profit is 398 crores in the transaction.

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

Anand Laddha: Just wanted to understand what's the outlook on slippages for the full-year as our slippages this quarter at the higher side, if you can explain why our slippages in SME side is still running at high-level?

Mukesh Kumar Jain: For the whole year we are expecting slippages of 7500 crores, this is including ₹2800 crore during current Quarter..

Anand Laddha: For the full year you are expecting slippages of Rs. 3500 crores?

- Mukesh Kumar Jain:** For the full-year 7500 crores including 2800 slipped in the first quarter, so balance is around 4700 crores. Out of that corporate slippage may be around 3000 crores and RAM sector around 1700 crores.
- Anand Laddha:** This quarter also our SME slippages were quite high, so if you can give some color like what's happening since now we had moved on verticalization we would be able to know what's the reason for high slippages in SME sector?
- Mukesh Kumar Jain:** Whatever was sanctioned post verticalization the slippage is of around 0.55% in MSME sector. Thus most of slippages are from legacy sanctions, legacy advances prior to the verticalization.
- Anand Laddha:** Any reason, we still expect corporate slippages to be Rs. 3000 crores, is it because there are lot of watch-list still pending with us or if you can give some color?
- Mukesh Kumar Jain:** February '12 circular including power everything, we have factored everything.
- Anand Laddha:** What's our SMA-1 and SMA-2 number now?
- Mukesh Kumar Jain:** SMA book is around 6000 crores, entire SMA book, out of that SMA-2 is around 4000 crores including the watch-list.
- Anand Laddha:** This book has not seen any changes, last quarter Q4 also the SMA book was around Rs. 5000 crores only, so this book has not seen any changes despite that we have recognized so much of NPA this quarter.
- Mukesh Kumar Jain:** This SMA book?
- Anand Laddha:** Yes.
- Mukesh Kumar Jain:** Previously it was around 7500 or so what we mentioned to you last quarter which is now reduced to entire book reduced to 6000 crores.
- Anand Laddha:** You had guided for 2.25% to 2.5% NIM but this quarter our NIM was 2.8%. So in fact we are guiding for lower NIM going forward, so is there any reason?
- Mukesh Kumar Jain:** This quarter the Bhushan Steel Ltd interest that we booked in the interest income, so we are discounting that. Otherwise also our NIMs have increased but we are discounting that.
- Anand Laddha:** Adjusting for the Bhushan Steel interest, what is our NIM this quarter?
- Mukesh Kumar Jain:** I will have to calculate actually.
- Anand Laddha:** Our other OPEX growth, non-employee OPEX growth was still very high this quarter, so was there any one-off expense in that order was there some PSLC purchase in that?

Mukesh Kumar Jain: PSCL is also there.

Anand Laddha: How much is that?

Mukesh Kumar Jain: 5000 crores.

Anand Laddha: So what was the expense incurred on that Rs. 5000 crores?

Mukesh Kumar Jain: 130 crores.

Anand Laddha: This quarter?

Mukesh Kumar Jain: This quarter, Rs.33 crore.

Anand Laddha: And this is part of our non-employee OPEX expense? This 130 crores is booked where, is it part of our non-employee expense?

Mukesh Kumar Jain: Out of this we have booked 33 crores in this quarter as rest was repaid.

Anand Laddha: Where we have booked, so this is part of which line item? Is it part of other income line item or part of other OPEX line item?

Mukesh Kumar Jain: Operating expenses.

Anand Laddha: But any reason why the operating expense growth is so high?

Mukesh Kumar Jain: I will come back.

Anand Laddha: Any provision have we made on the wage revision expected?

Mukesh Kumar Jain: Yes wage revision we have made the provision of about 40 crores and that is from November '17 to June '18 and on quarter-on-quarter provision will be around 15 crores.

Anand Laddha: So this quarter we could have made 15 crore provision?

Mukesh Kumar Jain: Yes rest of the quarter will be around 15 crores per quarter. This quarter we have made 40 crores for November '17 of June '18.

Anand Laddha: This we have made to the provision line or the employee cost line?

Mukesh Kumar Jain: Employee cost.

Anand Laddha: So employee cost includes the provision of Rs. 40 crores?

Mukesh Kumar Jain: The other OPEX you were asking, PSLC 33 crores and CENVAT 52 crores, then outsourcing is around 30 crores and depreciation is around 65 crores.

- Anand Laddha:** My question was this 30% YOY growth in non-operating expense will continue or is it...?
- Mukesh Kumar Jain:** No, this is 17% Y-on-Y operating expenses.
- Anand Laddha:** This 17% will continue or this will come down?
- Mukesh Kumar Jain:** It should come down.
- Anand Laddha:** You just guided that we expect to make some profit in FY19?
- Mukesh Kumar Jain:** Yes. Should I elaborate?
- Anand Laddha:** Yes if you can.
- Mukesh Kumar Jain:** We are expecting core operating profit of around 3200 crores then Electrosteel around 236 crores then Bhushan Power & Steel Ltd around 150 crores then it comes to 3586 crores and sale on non-core assets around 500 crores and, recovery in TWO accounts 1500 crores which comes to around 5600 crores. We have one insurance joint-venture also that is Choice. If need be then we can exit that also or diluting our stake in that.
- Moderator:** The next question is from the line of Jai Mudra from Batliwala & Karani Securities. Please go ahead.
- Jai Mudra:** Thanks for the increased disclosure, in this quarter we have seen a lot of new disclosures and one request if you can also include balance sheet in first and third quarter that would be much useful. Coming to the question, so last quarter we had this corporate SMA-2 book of roughly around 650 crores and this quarter we have seen slippages from corporate book is around (+) 1400 crores, so how does this reconcile, what happened between the quarter that is one question?
- Mukesh Kumar Jain:** You're talking about the SMA-2?
- Jai Mudra:** Yes, the last quarter corporate SMA-2 book that was around 650 crores.
- Mukesh Kumar Jain:** No, corporate book was around 2500 crores.
- Jai Mudra:** That was the total SMA-2 if I remember correctly.
- Mukesh Kumar Jain:** No total SMA book was 7000 crores and SMA-2 was around 4000 crores and this, 616 crores we were finding in the stress sector which were likely to slip.
- Jai Mudra:** Because we have the last quarter the SMA-2 book was roughly around 4000 crores, right?
- Mukesh Kumar Jain:** Yes.

- Jai Mundra:** And this quarter is also 4000 crores, so whatever is the slippages would it be safe to assume that that was the incremental flow to that SMA-2 book or if you can share the movement of SMA-2, roughly broad numbers?
- Mukesh Kumar Jain:** Around 1000 crores in corporate has slipped during the first quarter.
- Jai Mundra:** Correct.
- Mukesh Kumar Jain:** And now our expected slippage during the rest of the quarter is around 3000 crores, and we have this 4000 crores SMA-2 in the corporate book. Our watch-list is around 3500 crores.
- Jai Mundra:** This, 3500 crores include corporate and non-corporate book as well or this is only corporate watch-list?
- Mukesh Kumar Jain:** Large corporate basically. Somebody was asking NIM without Bhushan, this is 2.28.
- Jai Mundra:** On RBI circular, so let us say after second part of the RBI circular mentioned that all of these more than day zero default banks would have to come out with the resolution or they would-be brought down to NCLT wherein the deadline would be ending next month end. In all these cases is there any successful resolution which has happened or this will get dragged to the month-end only, so any successful exiting that deferred weak loan?
- Mukesh Kumar Jain:** Under the leadership of SBI we are working on the Samadhan Scheme and we have analyzed our portfolio, so more than 2000 crores aggregate exposure our Bank is in 7 accounts that amounts to around 2200 crores. But we are expecting slippage of around 400 crores.
- Jai Mundra:** Within that 7 accounts?
- Mukesh Kumar Jain:** Within that 7 accounts which are reported by our bank.
- Jai Mundra:** 1800 crores is already NPA, right? So these are non-NPA account, this 2200 crores is the non-NPA weak accounts.
- Mukesh Kumar Jain:** Yes. And the other banks where we are also there, they have reported around 60 accounts amounting to around 22,000 crores, expecting slippages of around 950 crores in that. Total, our bank and other banks we expect slippage around 1350 crores in the year.
- Jai Mundra:** So at system level wherein you have formed a consortium that 60 accounts which total somewhere around 22,000 crores is the one which have slipped but are under resolution at this point of time, right?
- Mukesh Kumar Jain:** Yes.
- Jai Mundra:** Of which roughly 950 to 1000 crores could slip?

- Mukesh Kumar Jain:** Yes.
- Jai Mundra:** SMA-2 and SDR 5/25 that we have reported that is actually pertaining to 5 sectors or there is something in other sectors as well, the slide which is given that has only 5 sectors, so is this it or there is something more in other miscellaneous kind of sectors, so this is Slide #28?
- Mukesh Kumar Jain:** These are the major sectors.
- Jai Mundra:** If you can tell us the total 5/25 and standard restructured total which is outside of the sector, the total number.
- Mukesh Kumar Jain:** Total number 5/25, standard 8 accounts and 956 crores and NPA around 1156, the restructured portfolio net accounts are 66, amounting to 529.
- Jai Mundra:** 613 is given in this which is pertaining to these 5 sectors.
- Mukesh Kumar Jain:** One account is covered in 5/25 also.
- Jai Mundra:** Excluding that account is 500 crores?
- Mukesh Kumar Jain:** And NPA is 12,180 in restructured portfolio.
- Jai Mundra:** And restructured what was the amount 519, right?
- Mukesh Kumar Jain:** 529 and 66 accounts are there.
- Moderator:** The next question is from the line of Amit Singh from Batliwala & Karani Securities. Please go ahead.
- Amit Singh:** What is a breakup between treasury and exchange profit this quarter?
- Mukesh Kumar Jain:** Exchange is 17 crores and treasury 55 crores.
- Moderator:** The next question is from the line of Snagam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Just wanted to check with you what's our growth outlook for this year that we are looking at?
- Mukesh Kumar Jain:** Overall growth in advances maybe 3% to 5% only. We are basically shedding poor-rated corporate and encouraging our retail portfolio that is our basic strategy. So we are able to release the capital of Corporate Portfolio and then deploying it in our retail portfolio.
- Sangam Iyer:** So to achieve this 3% to 5% growth just the non-core sale of assets will be more than sufficient to do that or are we factoring in any fund infusion as well during the year?

- Mukesh Kumar Jain:** We have actually requested government for fund infusion. However growth we are doing at front is at our own only by releasing the capital from the risky assets.
- Sangam Iyer:** When we look at the overall slippage guidance that we are giving for the year, incrementally we are talking about just around 4000 crores odd coming in.
- Mukesh Kumar Jain:** No, 4700.
- Sangam Iyer:** 4700 crores odd. Is there any other incremental risks to this 4700 crores that you can see or it is like all the SMA accounts and all the risky accounts that you are factoring in is kind of embedded in this 4700 crores that we are looking for?
- Mukesh Kumar Jain:** We have accounted for almost everything here. In fact, we are expecting a little lower than this. This is on the conservative side we have taken.
- Sangam Iyer:** And on the recovery side when we look at the overall recovery for this, we are talking about other than the NCLT recovery, could you just run through that recovery of 10,000 breakup for that?
- Mukesh Kumar Jain:** This is our Slide #9 also, normal cash recovery 4000 crores. The recovery in our TWO account 1500 crores, NCLT resolution 2500 crores and upgradation 2000 crores.
- Sangam Iyer:** In terms of the credit cost incrementally, how much should one be factoring in as the incremental credit cost going forward?
- Mukesh Kumar Jain:** Basically, we are giving guidance for 2.5% to 3% and total provisioning around 4500 crores.
- Sangam Iyer:** This is NPA provisioning you're talking about when we say total provisioning?
- Mukesh Kumar Jain:** 4500 crores including current quarters.
- Sangam Iyer:** That is the NPA provisioning we are talking here, right?
- Mukesh Kumar Jain:** Yes because we had made around 76% provision in our NCLT cases and overall is around 65%.
- Sangam Iyer:** So, when we are talking about this 4500 crores of incremental provisioning....
- Mukesh Kumar Jain:** That is including current quarter.
- Sangam Iyer:** So does this also factoring in the reversals that we've come through as and when the resolutions take place?
- Mukesh Kumar Jain:** Yes.

- Sangam Iyer:** So how much is the reversal in provision that you are factoring in in this guidance of 4500 crores?
- Mukesh Kumar Jain:** Maybe roughly 500 or so.
- Sangam Iyer:** 500 crores?
- Mukesh Kumar Jain:** Yes.
- Sangam Iyer:** Since it was pretty helpful in terms of when you said that you had added 256 crores as interest recognized during Q1 from Bhushan Steel. In our guidance of 2.25% to 2.5% NIMs for the full-year from the resolutions that you have in mind, could you give us some idea in terms of the incremental addition to the NII or interest income from the resolutions that you are factoring in while giving this guidance of NIMs of 2.25% to 2.5%?
- Mukesh Kumar Jain:** That depends upon the NCLT orders only. The details will come out of that. But around 400 we are sure about that. Like Electrosteel is there we have not accounted so far and Bhushan Power & Steel Ltd is there.
- Sangam Iyer:** Which you did mention that is you are expecting some amount from both these accounts coming through, that 150 crores and Electrosteel of 236 crores?
- Mukesh Kumar Jain:** Electrosteel amount is only lying with the bank.
- Sangam Iyer:** So that will get reflected in Q2 numbers?
- Mukesh Kumar Jain:** That will be reflected in Q2 numbers.
- Sangam Iyer:** So that is 236 crores which you are speaking about?
- Mukesh Kumar Jain:** Yes. Many of the banks, they have taken it in Q1 also.
- Sangam Iyer:** So basically, when we are talking about the 400 crores, it's 150 crores Bhushan Power and 236 crores of Electrosteel that you mentioned during the call earlier, this is the interest add-back that you are factoring in post-resolution?
- Mukesh Kumar Jain:** Which are by and large certain now.
- Sangam Iyer:** So this will get reflected in the NII or this will get reflected as provision reversals?
- Mukesh Kumar Jain:** No, this will be reflected in the NIIs.
- Sangam Iyer:** At the NII level?
- Mukesh Kumar Jain:** Yes.

- Sangam Iyer:** When we talk about the guidance of 2.25% to 2.5% NIM when we look at adjusted for Bhushan Steel we had a NIM of 2.28 as Anand had asked earlier, so this guidance of 2.25 to 2.5 is like-on-like with 2.28% or the 2.8% that we have reported correctly?
- Mukesh Kumar Jain:** Including that 2.8% now you have reported correctly that also is included there.
- Sangam Iyer:** So in the 2.25 to 2.5 that is also factored in that all the reversals and everything factored in, we will be closer to that kind of a number.
- Mukesh Kumar Jain:** So that's why we have kept it to 2.25% to 2.5%.
- Sangam Iyer:** But why do we you think that incrementally given that we are now going to grow the book if we are looking at a 3% to 5% growth for the full-year and with reversals and the normalization of the business coming through why should the NIMs track down because the run rate of Bhushan Steel was around 256 crores during this quarter, right? So we are seeing a similar kind of run rate in the coming 2 quarters as well from if I were to break-up Electrosteel and Bhushan into 2 parts, so 200 crores run rate will continue, so why should the NIMs of 2.8 come down to 2.25 to 2.5 range? I mean even if you look at the higher range we are at 30 basis points reduction in NIMs.
- Mukesh Kumar Jain:** In March it was 2.17.
- Sangam Iyer:** I'm looking at Q1 FY19 where your NIMs are closer to 2.8 and that had a benefit of 256 crores of Bhushan Steel.
- Mukesh Kumar Jain:** Yes.
- Sangam Iyer:** If I were to look at Q2 and Q3 and even if I take the 400 crores equally divided between the two quarters you still have a 200 crores incremental benefit coming through which is more or less similar to what Bhushan Steel was contribute in, right or give or take 50 crores here and there. So when we look at that kind of a match, so why should our NIM contract by 330 basis points even when your book is actually supposed to grow from now on as against Q1 where the book was actually de-growing.
- Mukesh Kumar Jain:** Actually, as we are coming out of poor rated accounts now where the interest rate is higher. We are going for the either retail assets or A rated and above in corporate sector.
- Sangam Iyer:** So basically we are now looking at our RWA improving from here on because of the shift in the corporate book as well.
- Mukesh Kumar Jain:** Yes. You must have seen RWA has reduced by more than 19%.
- Sangam Iyer:** Right, so incrementally the trend will continue as the shift happens and to that extent our incremental yield on advances will get diluted because of the improving quality in assets here.

- Mukesh Kumar Jain:** Yes. Our investment grade book has already improved to 70% from 55% last year, so the improvement is visible.
- Moderator:** The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.
- MB Mahesh:** Can you just re-explain the Bhushan transactions as to why did Tata Steel ask you to take the charge against the NII line and not move the entire recovery is on the outstanding NPLs? Second on Slide #36, can you explain what is the nature of slippages that you have seen in the agriculture side and if the Agri Allied is part of agriculture or is it part of industry? And the third question is, are you buying out retail loans from NBFCs at this point in time?
- Mukesh Kumar Jain:** As far as Bhushan Steel is concerned it is as per the NCLT order.
- MB Mahesh:** But the NCLT order if you look at it though we don't get the full transaction, they only say that this much amount of money has been paid to the bankers, so they also split between what should be paid on the principle and what should be paid against the interest and more importantly why is it important from the company's perspective whichever is buying why do they have to insist that it has to be against interest or principle?
- Mukesh Kumar Jain:** I think there may be some tax planning.
- MB Mahesh:** For home?
- Mukesh Kumar Jain:** For the company, it seems like that and for bank that is the same.
- MB Mahesh:** That's the whole reason we are asking, it's a benefit for them not for you?
- Mukesh Kumar Jain:** It's a benefit for us also. It is neutral for us you can say.
- MB Mahesh:** Can you just re-explain the transaction; Bhushan your total outstanding exposure was how much?
- Mukesh Kumar Jain:** 1317.
- MB Mahesh:** This includes principle as well as total outstanding, penal interest, interest outstanding?
- Mukesh Kumar Jain:** Our total claim you can say.
- MB Mahesh:** On Slide #36 if you could explain the Agri Allied slippages that you have seen this quarter, the ancillary, is it part of others or is it part of agriculture?
- Mukesh Kumar Jain:** It is part of Agri as well as others also.
- MB Mahesh:** I'm just asking what is it a part of, is it part of agriculture or is it part of others?

- Mukesh Kumar Jain:** Partly it is covering the agriculture also and partly others.
- MB Mahesh:** And why is there such a high slippage in the agriculture portfolio?
- Mukesh Kumar Jain:** Because of the debt waiver announced.
- MB Mahesh:** But there has been no debt waiver announced today, right? In last six months we have not seen any debt waivers announced by any specific states, right?
- Mukesh Kumar Jain:** There is likelihood like Rajasthan, Punjab has already announced, UP has already announced, Karnataka has announced.
- MB Mahesh:** But those have been more than a year?
- Mukesh Kumar Jain:** That badly impacts the recovery structure. People expect when they are going for the elections they will be announcing.
- MB Mahesh:** Finally, on the retail loans, are you buying out loans?
- Mukesh Kumar Jain:** In our agri ancillary slippage two major accounts of rice sellers are included.
- MB Mahesh:** How much would that quantum be?
- Mukesh Kumar Jain:** Around 400 crores.
- MB Mahesh:** 400 crores, this is part of the agricultural loans or is it part of others?
- Mukesh Kumar Jain:** Agri ancillary, these are rice sellers.
- MB Mahesh:** There is mention of 18 accounts of 463 out of which two accounts are 400 crores, is it?
- Mukesh Kumar Jain:** Yes.
- MB Mahesh:** And the retail loans? Are you buying out loans from NBFCs as we speak today?
- Mukesh Kumar Jain:** We are buying also; we are doing at our own also.
- MB Mahesh:** Can you give us some indication as to out of your 26,000 crores of loans that you have how much would be bought out portfolio and how much are you buying out today and at what yields are you buying out these loans?
- Mukesh Kumar Jain:** This includes around 7500 crores.
- MB Mahesh:** Of the 26,000 crores, is it?
- Mukesh Kumar Jain:** Yes.

- MB Mahesh:** And which major products are you buying out? Is it housing, LAP, is there any other portfolio?
- Mukesh Kumar Jain:** Housing and LAP.
- MB Mahesh:** And these portfolios I assume that it is showing any delinquencies as we speak today?
- Mukesh Kumar Jain:** No, almost zero.
- Moderator:** The next question is from the line of Sushil Choksey from Indus Equity. Please go ahead.
- Sushil Choksey:** Can you tell me how much equity have we requested to the government or the current year?
- Mukesh Kumar Jain:** Government we have requested 5300 crores.
- Sushil Choksey:** And besides that can you indicate the recovery in NCLT1 you put on the slide based on the provision which you have made, are you suspecting that recovery in some cases is far lower than what you provided for or you think you will have a better recovery?
- Mukesh Kumar Jain:** Overall, if you see in List 1 we are expecting around 50% and rest of the List we are expecting around 35% also.
- Sushil Choksey:** In the RBI second list 2370 crores you are estimating 35% and RBI 1 List 4100, 50%, so you will roughly have a 1000 crores right back in that and in the other one you will have no gain or no loss that's what you mean, am I correct?
- Mukesh Kumar Jain:** Yes.
- Sushil Choksey:** What about the other cases which have been filed by other banks and case filed by your bank?
- Mukesh Kumar Jain:** There also we are expecting around 35%. Our provision is more than 80% in those cases.
- Sushil Choksey:** So overall on the scenario of total 11,468, 8748 is the provision which is made if I take one year forward let's assume by next June if most of the cases are done in NCLT, what is your optimistic and conservative scenario for recovery?
- Mukesh Kumar Jain:** This year as I mentioned we are expecting around 2500 crores.
- Sushil Choksey:** And 2500 I'm sure it's not comprising of all the cases, some cases will remain in....
- Mukesh Kumar Jain:** Not all the cases.
- Sushil Choksey:** On the business front, risk-weightage adjusting I understand but you must be doing A rated customers, what kind of yields are we working on, 1 year MCLR, 3 month MCLR or what kind of rating?

- Mukesh Kumar Jain:** This is case to case but around one year MCLR we are expecting. But we are more going for retail.
- Sushil Choksey:** So the pool buy-out—which Mahesh and other also asked you so this pool buy-out, are we doing at 1year MCLR or higher?
- Mukesh Kumar Jain:** 1 year MCLR plus premium.
- Sushil Choksey:** What is the trend expected between retail and corporate book if I take by the year-end where will we end up on corporate book and retail book in terms of percentage?
- Mukesh Kumar Jain:** Roughly 55%-45%.
- Sushil Choksey:** 55% to corporate and 45% retail?
- Mukesh Kumar Jain:** No, 55% retail, 45% corporate. We are already around 52% retail.
- Sushil Choksey:** You didn't specify that's why I asked you; possibly I thought he would reverse the gear?
- Mukesh Kumar Jain:** I actually mentioned in my speaking points also.
- Sushil Choksey:** The call was not very audible that's why I have to repeat the question.
- Moderator:** The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** On the provisioning side you said full year you expect 4500 crores of provision in the P&L, this 4500 crores even includes the MTM loss provision?
- Mukesh Kumar Jain:** This is the provision for NPL, 4500.
- Anand Laddha:** The mark-to-market loss provision will be additional around Rs. 500 crores?
- Mukesh Kumar Jain:** We have carried forward.
- Anand Laddha:** But for the full-year it will be there in the P&L, approximately Rs. 500 crores?
- Mukesh Kumar Jain:** Yes.
- Anand Laddha:** So in that case our total provision cost including mark to market for the full-year should be Rs. 5000 crores.
- Mukesh Kumar Jain:** Yes.

- Anand Laddha:** Again on this portfolio buy-out if you can just indicate at what yield the housing portfolio buy out is happening?
- Mukesh Kumar Jain:** Maybe around 10.75% to 9%.
- Anand Laddha:** The housing loan portfolio?
- Mukesh Kumar Jain:** Yes; Housing and LAP both.
- Moderator:** The next question is from the line of Amit Singh from Batliwala & Karani Securities. Please go ahead.
- Amit Singh:** Just wanted to know have it taken any dispensation on MSME which has been given by the RBI?
- Mukesh Kumar Jain:** Yes we have taken.
- Amit Singh:** Can you specify what exactly the dispensation which we have taken.
- Mukesh Kumar Jain:** The amount is around 367 crores as per the RBI guidelines and we have made the provision of 5% that too as per the RBI guidelines.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Halai for closing comments. Over to you sir.
- Sohail Halai:** I would like to thank Mr. Jain and team for taking out time and sharing their insight. Also I would like to thank all the participants for joining the call.
- Mukesh Kumar Jain:** Thank you very much all the participants and Mr. Halai.
- Moderator:** Ladies and gentleman, on behalf of Antique Stock Broking that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.