



“Central Bank of India Q3 FY-21 Earnings Conference Call”

February 09, 2021



MANAGEMENT: MR. PALLAV MOHAPATRA – MD & CEO CENTRAL BANK OF INDIA
MR. ALOK SRIVASTAVA – ED CENTRAL BANK OF INDIA
MR. MUKUL DANDIGE – CFO CENTRAL BANK OF INDIA

MODERATOR: MR. SOHAIL HALAI – ANTIQUE STOCKBROKING LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Central Bank of India Q3 FY21 earnings conference call hosted by Antique Stockbroking 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. Sohail Halai from Antique Stockbroking Limited. Thank you and over to you sir.

Sohail Halai: Thank you Faizan. Good evening everyone. I welcome you all to Central Bank of India Q3 FY21 earnings call. Today we have with us Mr. Pallav Mohapatra – MD and CEO, Mr. Alok Srivastava – ED and Mr. Mukul Dandige – CFO. First of all congratulations Pallav sir on a good set of results and for navigating the bank through really tough times. Now without further delay I would hand over the call to you for your opening remarks post which we can open the platform for Q&A. Over to you sir.

Pallav Mohapatra: Good evening to all of you and welcome to Q3 earning results analyst con-call. I will only give you the major highlights because we have already uploaded our PPT on our analyst page on our site. You might have also gone through or you can go through it.

The major highlights are the net profit during Q3 this financial year was at 165 crores showing a growth of 6.45% YOY. Net interest income in Q3 showed net growth of 10.19% with 2228 crores. The total business of the bank also showed a growth of 6.29% at 504728 crores as against 474846 crores in Q3 2019-20. CASA has also improved to 48.11% as against 45.82%. Provision coverage ratio also improved to 84.19% from 73.73%. If we take out the technical write-offs still the PCR is at 74.51%. Gross NPA improved from 19.99% to 16.30%, net NPA is below 6% at 4.73%. and it was also below 6% in Q2. So we are maintaining that particular tempo and we are expecting this to further go down. Cost of deposits improved to 4.28% from 5.08%. NIM has improved from 2.92% to 2.97%. Especially on the NIM and e-loan advances and interest income I will separately give the details. The capital adequacy was also at a comfortable level of 12.39% against the regulatory requirement of 10.875%. The banks net worth stood at 19211.77 crores. Net profit per employee also improved to 2.07 lakh against 1.82 lakhs in the previous corresponding period last year. Business per employee also improved from 13.83 crores to 15.72 crores. Business by branch also improved from 101.85 crores to 109.32 crores. Total deposits increased by 5% YoY, growth touching 3,23,872 crores. Retail loans also increased by 11.18% YoY reaching 49,111 crores. The RAM which is retail agricultural and MSME also improved without a growth of 8.60% from 1,07,594 crores to 1,16,843 crores.

Now this constitutes 64.61% of the total advances. We have 4617 branches as on 31st December, 2021 of which 64% branches are in the rural and semi urban areas. The digital banking also showed improvement now as against 55.8% in December '19. It has improved to

75.25%. Mobile Banking user base has also increased to 30.78 lakhs from 24.89 lakh. UPI transaction which is the major component of our digital banking has also improved from 10.10 lakhs per day to 19.61 lakhs per day in March 20. Active debit card users also increased from 2.42 crores in March '20 to 2.59 crores. Under the financial inclusion under the Pradhan Mantri Jan Dhan Yojna bank opened the 3.60 lakhs accounts during this quarter that is Q3. Outstanding balance has also gone up to 3785.28 crores in Prime Minister Jan Dhan Yojna accounts. Total enrolment under Pradhan Mantri Jan Suraksha Bima Yojna and Pradhan Mantri Jeevan Jyoti Bima Yojna to social sector schemes and also the Atal Pension Yojna, have increased to 48.68 lakhs, 16.15 lakhs and 11.63 lakhs respectively. And amount of transactions through business correspondent network, has also increased from 6374.24 crores to 7402.13 crores.

This is in short about the financial performance for Q3. Though in this financial year we have started on a big bang sort of thing on new unit initiative but I will focus only on the initiatives which we took during Q3. The project which was basically analytics based business transformation program was rolled out on a pilot project basis in seven regions, now we have included another seven regions and within 2-3 months we are going to basically roll out this in pan India. This is the program under which the focus is basically on the Retail, Agriculture and MSME and how to basically do this particular business by using the data and data analytics. So this is going to be a real game changer for central bank of India and with one of the lowest pricing which we have in these three business segments and with this push through the technology division as well as analytics driven as well as the new business models there's going to be a massive change in the quality of the portfolio, size of the portfolio and the type of business we are doing. Single data repository which is nothing but a data warehouse, we have bought the hardware and the installation of the hardware is in process and we are hopeful that this will be fully on board in a quarter or four months. This will help the bank not only generating the dashboard as per the requirement of the MIS by the management team or by the people to take decisions. But this also has features for doing the analytics. This is also going to be a major game changer.

Other technological initiatives which we have taken is the new loan originating software which is called lend safe which will be end to end in the credit area that means starting from getting the application, inputting the application, processing the loan application and then giving the diction of the loan application and then uploading that on to the CBS and then also doing the credit monitoring. This is going to be end to end loan origination and credit monitoring system. We have also taken during this quarter some initiatives under HR namely under performance management system, we have introduced a dashboard which will basically show the quarterly performance of each employee and can basically see in which direction they are moving. We have in January recruited (+200) probationary officers and a (+600) clerical staff and for the first time the probationary officers are being basically going through a process of induction which is 2 years which includes both institution training as well as on the job training. This

will basically groom them to take up the assignments in a much well equipped stage. This is another initiative which we have taken.

We have also done the succession planning project for scale six and scale seven officer and also scale five officers is under process. We are creating the pipeline for those who have the competence and capability to move on to the next level. We have also completed HR audit which basically gauges the efficiency of the HR infrastructure which we have at different level and how the HR infrastructure is helping in the business development and the business growth in the bank.

Now I leave it, this is in short I have given the brief about the financial numbers and also the qualitative parameters. I leave it open to the analysts any questions they have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Akash Kotriwala from Cloud Advisors.

Akash Kotriwala: I have just two basic questions, on the investment side what is the unrecognized gains that the bank is sitting on in HTM books and is there any partnership with NBFC under co-lending that will possibly aid faster loan growth?

Pallav Mohapatra: We had done one under the co-origination, I'm responding to the second part first. And in the co-lending we got the policy approved in the recent past and we are in touch with some of these NBFCs. Hopefully very soon we are going to onboard some of the NBFCs under co-lending. On the first part unrecognized benefit in the investment as such it's not I think anyone can disclose because it is only the depreciation which is disclosed not the appreciation in the treasury book. Then when you are talking about hold to maturity so yes. So hold to maturity the basic benefit is that it is not marked to market.

Moderator: The next question is from the line of Ashok Ajmera from Ajcon Global Services Limited.

Ashok Ajmera: I've got couple of observations and some questions, that CASA has gone up 48.11% but our NIM has come down compared to the last quarter to 2.97 from 3.35%, so what would be the main reason for this NIM coming down so drastically?

Pallav Mohapatra: Shall I answer this question first or you want to ask more questions...?

Ashok Ajmera: I have a couple of other questions also whatever you want.

Pallav Mohapatra: I'm okay. I can answer question by question. You can also ask for the queries and I can answer all that.

Ashok Ajmera: I have a couple of other questions. My Second question is that there is a regular write-off in the NPA movement of 683 crores as compared to 149 crores of last quarter. What are the

main items of this write-off like are there some big account or there are a number of accounts which led to such a big write-off by which the gross NPA has come down drastically?

Pallav Mohapatra:

Answer to the first question regarding the NIM; on the deposit side you must have seen that the cost of deposits have come down. Now on the interest side, you will see that the interest on investment are almost flat but interest on advances has come down both sequentially as well as YOY. The reason, if you remember RBI came out with this repo linked benchmark. So in December '19 repo linked benchmark portfolio which was at 9476 crores, now has gone up to 35,816 crores. This is on the portfolio. Now the question maybe asked that how this has basically impacted our interest income.. If u see the last three quarters interest income which has been impacted that is around 415 crores. If I add 415 crores to December '20 nine months interest income it works out to 18,256 crores. So there is a sequential positive growth as well as on YOY basis This has the positive impact on the NIM and the NIM with this will be around 3.15 or 3.10, if my calculation is not wrong. So this is on the first part, the second part you asked about the movement of the NPA was the write-off. Now this write-off, there are two types of write-offs, one write-off is called the technical write-off where when we hold some provisions, we use the provision to write-offs so that on both the liability side as well as on the asset side the amount comes down. During the last, including this quarter that means three quarters we have not used that, so the figure is zero. Now the normal write-off is what, I will give you one example in one particular account which was settled in NCLT, the total outstanding was around 400 odd crores. And there as per the NCLT resolution we got around 50 crores as our share in the resolution flat. What happens is even if there is a provision against that but when the entry is passed, so 414 minus 50 crores will be the reduction in the principal outstanding and whatever is the provision being held against that that is basically written back to the profit and loss. So this is the accounting.

Ashok Ajmera:

My other point is on the tax provision, on Rs. 449 crores of this thing the tax is 284 crores. This is much higher, so what is the component of the deferred tax treatment in that and what is actually the income tax because this is much higher? It is almost about 58%-55%, if you take the total of the fact....

Pallav Mohapatra:

This regarding the taxes, what is the breakup of 284 crores, if you don't mind we will send you separately. But conceptually I can give you the concepts. What happens is based on the calculation which is based on the past trend, suppose the provision is in our bank it works out to 700 crores. If in a quarter we are making less than 700 crores of the provision. We do not get the benefits of that as a tax deductible, number one. Number two is whenever we do a technical write-off that means we use the provision for technical write-off then we basically are not impacted by the DTA. In this three quarters we have not basically used the provision for the write-off. So these other 2-3 factors on account of which this taxes appears to be on a higher side against the corporate taxes.

- Ashok Ajmera:** I'll take it offline, no problem. There is one another a small observation on that penalty by RBI of 50.46 lakhs, is it a common feature or for all the banks or it is something special for the housing loan irregularities and something to do...?
- Pallav Mohapatra:** This what happened was, this was basically a case which was filed by some gentleman in the Supreme Court against RBI and Central Bank of India that Central Bank of India has given the full amount of the loan without basically sticking to the construction wise disbursements. In that case RBI basically enquired into it because as RBI was also one of the defendants and when they went through it they found that out of maybe 150 accounts there were only 11 accounts where the full payment was made, out of these 11 accounts only 4 or 5 accounts were NPAs, rest accounts they were paying the instalments regularly. There was a personal hearing which was given to me,. I explained everything that there was no violation of RBI guidelines because when RBI came out with the circular that there cannot be one instance a disbursement of the full amount, it should be linked to the construction. We had immediately issued the instructions but one of our branch in Delhi did not comply with that instruction. So that has nothing to do with the policy. That has nothing to do with the decision taken at the bank level. But somehow RBI did not agree to that and they imposed the penalty, so we have paid it.
- Moderator:** The current participant has left the question queue. We will move to the next question from the line of Mahrukh Adajania from Elara Capital.
- Mahrukh Adajania:** So I just wanted to have any color on the proforma slippage.
- Pallav Mohapatra:** We have given this as a part of the discloser, It is 3414 crores, something like that.
- Mahrukh Adajania:** Is there any breakdown that you can do like how much in retail?
- Pallav Mohapatra:** That breakdown right now I don't have, I can separately give it to you. But out of 3414 odd crores, 145 crores we have already upgraded and I'm quite hopeful by the end of this financial year we will be able to update more out of that. Though we have made the provision now 15% on that but we will be able to update more of that. That breakup we will send you separately that how much retail, how much agriculture, how much MSME and how much corporate.
- Mahrukh Adajania:** I know that it's a government decision. It's not yours but would you have any comments on privatization of state-owned banks?
- Pallav Mohapatra:** As an individual I strongly believe that in case of the bank, financial sector more and more financial sector units should be in the private hands. And the decision taken by the government first for merging and then privatization that means reducing the number of public sector banks to 5-6, is in my opinion a good move. And when some of these banks are

privatized, so they will be from the efficiency point of view definitely it will improve a lot. This is my personal assessment.

- Moderator:** The next question is from the line of Amit Mishra from Indus Equity Advisors Pvt Ltd.
- Amit Mishra:** My question is on retail loan growth. We have done 11% of retail loan growth this year. How you're planning to take it further from here and also can you talk about the asset quality in retail segments?
- Pallav Mohapatra:** Asset quality in retail sector is definitely better than the corporate sector. It will be 3%-3.25%. And regarding the guidance for the current financial year that means fourth quarter, I feel that we will be able to close this financial year with a growth of 10% to 11%
- Amit Mishra:** 10% to 11% in retail or overall growth?
- Pallav Mohapatra:** No, overall will be 5% to 6%.
- Amit Mishra:** In retail segment also why has education loans portfolio reduced.
- Pallav Mohapatra:** In Education loan, this year there is a de-growth in the education loan and main reason for that is first of all very few people came forward for education loan for the overseas studies. Virtually I will say no one came forward for our overseas education loan, even for the domestic also the demand was very less this year. So there was a de-growth in education loan if I look at the YOY. From 3892 crores it has come down to 3662 crores, if you look at the Slide #17.
- Amit Mishra:** What about asset quality in education?
- Pallav Mohapatra:** Education loan the asset quality especially below 4 lakhs is very bad and below 7.5 lakhs is also bad but anything above 7.5 lakhs the asset quality is good. And the stress in the asset quality is more or less concentrated in two states. One is in Bihar and the second is in Tamil Nadu.
- Amit Mishra:** Another question is on ECLGS scheme. What is our total sanction and disbursed amount so far?
- Pallav Mohapatra:** Right away I don't have that figure. We will provide you separately.
- Alok Srivastava:** Against the sanction of 2800 crores roughly we have disbursed around 2600 crores and they are yet to be disbursed. But in the latest ECLGS 2, the cases are still coming and in fact such proposals we are doing it at our central office level in both the ED headed committee as well as the MD headed committee and Management Committee, all three.

- Amit Mishra:** My last question is, that you talked about so many reforms on technical front, so how much incremental cost you are expecting on the same?
- Pallav Mohapatra:** Incremental cost whatever is the cost of we keep on accruing in our balance sheet and on the revenue side, the total expenditure will be around 15 to 20 crores. On the CAPEX side it will be much more.
- Moderator:** The next question is from the line of Sushil Choksey from Indus Equity Advisors Pvt, ltd.
- Sushil Choskey:** I have couple of questions which maybe repetitive from the previous quarter. What are you indicating on asset quality in CASA of the bank, so near term maybe two quarters or a year ahead?
- Pallav Mohapatra:** On the CASA, now our strategy is to focus more on the CA of the CASA side. And since our presence is more in semi urban and rural areas. We have already floated the RFP for 3-in-laccount which will improve the stickiness in the savings bank depositors, and we will be able to get more of these depositors. The third is we are introducing a new salary saving packages for different categories of employers where we will have offering free insurance premium depending on the number of salary accounts which we will get. This will improve the SA side and by doing more of merchant acquiring business we will be improving our CA side in the CASA. On the asset quality the fourth quarter because we are not getting very good positive signals for resolution in the NCLT. Our dependence is more on sale to ARP, OTS and non-discretionary and non-discriminatory one-time settlement scheme. We are expecting a reduction in the NPA in the fourth quarter through these three to an extent of around 3300 to 3500 crores. This is I'm talking about the reduction in NPA. Normally the ratio is 2:1 that is if two-third is the recovery then 1t will be the reduction in the NPA. So from that point of view I am hoping that we will end without technical write-off. The gross NPA level of something around 25000 or 24000 crores.
- Sushil Choksey:** The next question based on the same is what is the CASA number which we think irrespective what decision and what change of policy we do 46% to 48% or 47 to 48%, would be a stable CASA for the bank and what will be the cost?
- Pallav Mohapatra:** Yeah this will be stable. I think it will get stabilize at something around 49% to 50%.
- Sushil Choksey:** Where do you see our cost to income going forward with the bank is concerned?
- Pallav Mohapatra:** Cost to income, this time this has gone up mainly because we made additional provision for the wage revision. We had a made provision of 885 crores up to September. At that time the wage revision was being negotiated with the unions at a 12% rate hikes without any reason for the leave encashment and other things. When finally, this was settled and signed, it went up to 15.2% with 2% as the loading. This quarter we have made additional provision of around more than 200 crores. So when we have paid the arrear and when we have worked out

the leave encashment my sense is that in March quarter there will be a right back of around 25 to 30 crores in this wage revision provision which we have made because the payment and the provision required will be much less than whatever we have provided up to December. This is the reason that in December the cost to income has gone up to 50% which was I think 54% in September. And hopefully by the end of March we will be able to bring it down to the same level of 54% by March end and in the next financial year to bring it below the 50%.

Sushil Choksey: If I just ask you a same question on a repetitive basis that wage bill which we have incurred in nine months is 3243 crores. On a quarterly basis should I assume it 1000 crores or 1100 crores is a run rate?

Pallav Mohapatra: You u said 3244 crores, here only you look at the provision for wage settlement. This is the provision which we were making since November 2017.

Sushil Choksey: What I'm asking is that is a past what as per the wage revision...

Pallav Mohapatra: This provision for wage settlement you take it out and not entire 405 because now the wage has gone up. So if you take something around 15 to 20 crores you reduced from this, so this will become 380 crores. 3244 minus 380 crores will be for the nine months. So that you divide by nine that will be the per month entire wage bill including all sorts of benefits.

Sushil Choksey: Based on our CASA where do you see our rural and retail reach over a period of 1 or 2 years based on the transformation journey which we are starting whether it is 1000 crores or with the lowest MCLR rather than LPI?

Pallav Mohapatra: It will stabilize at 49% to 50% because taking it beyond that is very tough.

Sushil Choksey: I'm asking what will be your retail reach link to CASA because CASA is enabler for lot of retail cross sell....

Pallav Mohapatra: I think last time also we gave you the figure, the retail portion of the CASA is 35% 40%?

Alok Srivastava: 91% is coming from below 1 crores account.

Pallav Mohapatra: No, his question is how much is being contributed by retail and how much is being contributed by non-retail in the CASA am I right Sushil sahib?

Sushil Choksey: No sir. It's a well-accepted fact, Central Bank has a lowest MCLR, you have the highest CASA among the peer of competitive banks when you are compared to larger banks. Now this is a strength of the bank grow are we utilizing to grow our retail book and how do you see that growth because I hear from the industry that's Central Bank is able to garner lot of retail loans specifically housing loans? How are we shaping up that journey going forward in

terms of reach and increasing our—you may call it RAM—but I am looking more from other products other than the housing loans?

Pallav Mohapatra: The focus definitely is on the RAM and in the RAM the focus is more on the housing loan and the housing loan both organic as well as inorganic. We want to take this RAM as a percentage to total advances to at least 75% in the years to come. And this would be mainly through the branches in the semi urban branches because the requirement for the housing loan in the rural may not be that high but it is quite encouraging in the semi urban.

Sushil Choksey: So is it possible to foresee 10,000-12,000 crores of yearly disbursement fresh loans and housing loans?

Pallav Mohapatra: Yes.

Sushil Choksey: Any other product where you see that kind of growth trajectory coming in?

Pallav Mohapatra: I think the major growth trajectory will come from there. The other growth trajectory will come from the corporate especially up to the gap which we have for different sectors. So another growth will come from the NBFC because we see a lot of demand. The third sector from which the growth will come will be from the HAM projects in the road sector. Now fourth, the opportunities which will come to us is now the manufacturing sector is opening up. I feel that pharma, fertilizer and steel these three sectors are going to give us I think reasonably good prospects.

Sushil Choksey: Earlier question was asked on HTM book, my question is lot on what is the un-booked profit but I would ask till what rate is bank insulated where mark to market loss cannot happen?

Pallav Mohapatra: We anticipated this going to happen around 3-4 months back. We started tightening the investment book, in the sense not to take exposure in a long tenure investments. Though we got the approval of the board for having a modified duration of 3% but we ourselves have given a target to ourselves as 2% to 2.5%. Though will see that in the December quarter it was a little bit higher at 2.57%. But our efforts are that how much we can basically invest in less than five years of the paper.

Sushil Choksey: Based on this outlook of what you have guided for or indicated for, how do you see the bank in coming quarters from a perspective for long-term investors?

Pallav Mohapatra: I think the bank, what I feel is the initiatives which we have taken though we may be a little bit late in those initiatives, but once these initiatives start giving us that results, so that would be great for the investors to come in now. Because the price at which the bank shares are as of now, this is a very good price with all type of initiatives being taken, the change of focus which have been made and the change in the policies which have been made, I strongly

believe that unless some extraordinary thing happens, this bank is not going to look back. So this is the right moment for the investors to come in, maybe later on the value may go up.

Sushil Choksey: The second thing is, this is a little hypothetical question and you may answer or you may not answer. We are one of the candidates who have not much, except PCA tag which is more or less not effective but it's being tagged and that's the reason we have not been chosen for the two candidates as being spoken about in the press. But as per your own individual statement which you mentioned to Mahrukh and few others in the past that 5-6 banks is about thinking. Do you think Central Bank is a good candidate from a perspective which government is looking on privatization?

Pallav Mohapatra: Sushil Sahib, till I retire don't ask me this question.

Moderator: The next question is from the line of Anirvan Sarkar from Principal India.

Anirvan Sarkar: One question, we have seen a sharp increase in our SMA-1 and SMA-2 books. Just to understand a bit better there.

Pallav Mohapatra: If you hear me out and have a little bit of patience then I will give you the breakup. Now, see what happens is that we try to prioritize which is the segment in the SMA we should hit first. So the first segment in the SMA which we hit first is the SMA-2 because the NPA risk is higher in SMA-2. Out of 11,595 whatever figure you are seeing in the slide, in January itself this figure of 11,595 has come down to 7,700 crores. We have basically done a provisioning on 3,414 crores. Out of this 3,414 crores where we have done a provisioning treating it as a proforma NPA, we have already upgraded to the extent of 145 crores. So that leaves 3,259 crores. Now, 7,700 crores minus 3,269 crores works out to 4,431 crores. Out of which 2,756 crores we have already done one-time restructuring. And in case of the one-time restructuring as per RBI regulations this will not be downgraded. So you reduce 2,756 from 4,431, that leaves 1,675 crores. So, this is almost in line with September and with little bit of more efforts we will be able to bring it down to June 2020 level. You got my point, sir?

Anirvan Sarkar: Yes, sir. That is very helpful. Thank you. And just one more question on the SMA-1 book, we have seen some increase in the MSME and retail portion. So, any comments there?

Pallav Mohapatra: Pardon, sir?

Anirvan Sarkar: In the SMA-1 book I am saying we have seen a sharp increase in the MSME retail books. Any comments you have to offer there?

Pallav Mohapatra: Right now, as I said that my immediate attention was on SMA-2, so that I can reduce. Right now I don't have this much of break-up what I gave for SMA-2. But on the sale and departments are also following up on the SMA-1 and in case of the MSME this SMA-1 major portion of the SMA-1 what you see is 2,667 crores. These were eligible for restructuring as

per August, 2020 circular of RBI. That is additional provisioning of 5% without downgrading of the RI classification. So this restructuring is going on. By the end of March, we will be either able to maintain the status or get this upgraded.

Anirvan Sarkar: My last question is, are we seeing an increase in our BB and below book.

Pallav Mohapatra: That I will give you, BB and below. First of all, below investment grade, and this question I have been asked by to many rating agencies. 2019-2020 was a very-very unusual year for the entire economy. And if the rating agencies follow the same model which was being used by them pre-pandemic in the pandemic area then definitely all the ratings will be downgraded. In few cases I myself for my clients, I had a long discussion with the rating agency. One example, I can give you that a future growth rating was downgraded from A to BB because of whatever you must be reading in the newspaper. So it is not that we have invested more in BB. It is because of the downgrading of the rating during the pandemic period and majority of this downgrading is not on account of the fault of the unit, it was mainly on account of the environmental issues. You got my point?

Anirvan Sarkar: Yes. I understood that the downgrades are mostly due to the unavoidable circumstances. So, the broader question is whether from here on we should expect to see those downgrading checks?

Pallav Mohapatra: Now in my interaction with the rating agencies, they are also understanding this point. Some of the rating agencies that have already made some changes in their rating models and most probably they will do some sort of a discounting on the cash flow during the pandemic period. I don't think that we will see most of these downgrading. But it is a fact there is a stress in the economy, there is no doubt in it.

Moderator: The next question is from the line of Mahesh, individual investor.

Mahesh: I just wanted to ask something on this Bhushan Power, the case has been pending in Supreme Court. But if I remember in March last year 2020, Supreme Court had said that JSW can still pay and bankers can take the money. That time what happened was banker said that we want the money but JSW didn't give it maybe because of the crisis which was happening the world over. But in November 2020, what was there in the media was that JSW has offered to pay but the bankers are not willing to take it. Is it right? How do we see this going ahead?

Pallav Mohapatra: Mr. Mahesh, I am a person you will find that he is one is one of the few bankers who believes in net present value or the time value of money. So, in case of Bhushan Power and Steel, so the resolution plan is 42 cents a dollar and there because in the NCLT cases after the claims have been admitted, there is no accrual of interest unlike in the DRT. So this case is I think of 2018 or something. I showed this asset to ARC at 39 cents a dollar in March 2019. Now if we think of, on the NPV how much money I have made on this.

- Mahesh:** So you don't have any exposure. I thought you have some big exposure.
- Pallav Mohapatra:** We had exposure, but I sold it in 2019 where many of the critics were saying that Mr. Mohapatra, 3 cents a dollar you are losing. I said that, I want to see when this money will come, who will be getting 42 cents a dollar. Now even sitting in February, how many bankers have got for 2 cents a dollar?
- Mahesh:** I missed that, I thought you are still there. But any idea what is happening, are the bankers still willing to take the money or no idea?
- Pallav Mohapatra:** I have lot from my trade, sir. Why I will bother if I have got the money.
- Mahesh:** I can understand. Sorry I missed that part.
- Moderator:** The next question is from the line of from Ashoka Ajmera from Ajcon Global Services Ltd..
- Ashoka Ajmera:** I will take this opportunity first to compliment you for whatever work you have done in Central Bank of India, especially in the system, the automation and digital and a lot of qualitative changes, the result of which will be seen in the future, but having come from the State Bank of India, Central Bank is not even 10% of State Bank, but you have done a lot of good things here and we will all witness the results. So congratulations for that and we wish you all the very best even after your superannuation. Having said that, I would like to say, in case of credit monitoring and other things you said that you have got a very robust system in place now, where the performance management system, when the applications are received, they are put and they are processed, is being monitored. But the interim period between the receipt and putting in the system who is monitoring that, because the experience in many of the banks is that it goes on lingering, the day you apply, because people do not put in the system.
- Pallav Mohapatra:** For that, when this particular system will be made open to the customer and the customers are basically educated, so these are the two things. One is, this will be linked to the website and the customers can basically put their application there and they can do the tracking of their application there. But the major question is the customers should be also educated that this is the system which is available. Now what I presume is that we should basically advertise more and customers could basically track their own application on the system and when they are seeing that there is a delay in the decision-making, they should do the escalation. And I don't disagree that this is happening that the application is submitted maybe in physical form and branches may be not sending it across to the right department or whatever it is. But this particular system which I am talking about the new loans origination system, this will be linked to the website where the customers themselves can put the application and track it.

Ashoka Ajmera: That will help a lot because for months together it is just lying in the branches and they are having only informal discussions with their higher officials without even processing the applications.

Pallav Mohapatra: My strong belief in banking is that as less as possible, the manual intervention should be, as more as these system interventions should be there. Because the ultimate goal or aim of a bank is what? To give the service to the customer and this can be achieved when the control is in the hand of the customer, not in the hands of the Branch Manager.

Ashoka Ajmera: My one question is on recent budget announcement of the finally coming the bad bank, going to come in the reality, the special asset recovery, reconstruction company. And I am sure that the government or the Reserve Bank of India must have consulted the banks like yours. So what are your views on this? I mean how this NPA will be transferred to these bad banks, whether it will be at the net NPA price level or there will be negotiation case to case for transfer or the bankers will get benefit of the NPV difference between the net NPA and NPV, some difference later on when the assets are finally sold or disposed off? What are your views on that? Whether the banks will be really benefited by this?

Pallav Mohapatra: Ajmera Sahab, you are asking so much of detail, most probably has not been thought over. But I will give you in whatever the things have come in the public domain, I will only make the comment on that. First is, there will be a national ARC and because secondary DFS has said that the ARC will be buying the assets on the model of 15:85, 15% cash 85% SR. I have read somewhere also; someone has said this will be net of the provision amount. Now if suppose there will be a negotiation or discussion between the national ARC and the bank on these reserved price on this, this will be basically bought over by them, then the basic purpose of national ARC is defeated. There has to be a standardized model, there has to be a formula driven model which will be applicable to all the banks so that there is a uniformity in it. Otherwise it will be just like a sale to some ARC. Number one. Number two is if it is going to be on the model of 15:85 because what I strongly believe is 100% of the assets cannot be resolved, what is going to happen those FRs which will never be redeemed. So these are unanswered questions, let us see the time will give us the answers.

Ashoka Ajmera: My last question is, after the budget the whole euphoria has been built up in, not only euphoria the fact is also there that huge CAPEX and investment in going to take place...

Pallav Mohapatra: That is the right decision which has been taken. This is a very bold decision which has been taken without basically focusing on the deficit percentage; the government has taken the right decision. See, what happens is we take care of deficit, we don't spend on the capital expenditure, but there will be a revenue expenditure. This revenue expenditure is neither going to create GDP nor going to create the employment. This will only go down as consumption. When this capital expenditure is done by the government, there are so many entrepreneurs who are sitting on the fence and are waiting for the government to take the first

step. And the moment that the government takes the first step, they will also be jumping into the fray. When this CAPEX takes place, this is not going to help in that particular sector where the CAPEX is going to be invested, but this is also going to help the other ancillary sectors which will also gain. And this will not only gain from the GDP point of view this will also gain from the employment point of view. This will also gain from giving the higher paying power to the consumers. So this will, again re-fuel the economy.

Ashoka Ajmera:

And it will take the bank credit to again double digit a year?

Pallav Mohapatra:

Yes, it will, because of once the cash flow improves definitely the bank credit quality will improve.

Moderator:

The next question is from the line of from Mahrukh Adajania from Elara Capital.

Mahrukh Adajania:

I wanted to discuss on the recovery. You already have sold Bhushan Power to an ARC, and people are also talking about DHFL, which is pretty much in the press as well, but apart from these two are there any major corporates that are in the recovery pipeline, either in power or in any other sector?

Pallav Mohapatra:

In the last quarter, there is no major except for one that is Matix Fertilizers, which we are quite hopeful because all the banks have basically given their approval for the OTS. I don't think in the last quarter there will be any other major recovery happening. But next year I hope that recovery may be there in Coastal Energen, the money will come in DHFL. DHFL I am not very sure that the money will come in the last quarter, but 50% of the 40%, Bhushan Plant which has been done, which has to come in hard cash. So I am hoping this will come in the first quarter of the next financial year. Then there may be some, of course, I don't want to name some, but there will be 4-5 other accounts which are quite in the newspapers today, which may have the resolution plan, where the resolution plan has been approved but because of some other complications maybe litigations, suite file, so this is not going forward, but I'm quite sure that those will be finally settled in the coming financial year.

Mahrukh Adajania:

But that's through NCLT?

Pallav Mohapatra:

Yes, I'm talking about the NCLT. Matix is not under NCLT that is outside NCLT.

Mahrukh Adajania:

And there will be recovery in all of this, would all this be fully provided for?

Pallav Mohapatra:

Yes, most of them are fully provided for. So it will be either the write-back of the provision or if there is a technical write-off then it will go straight into profit and loss.

Moderator:

The next question is from the line of Leela from Fintex.

Leela: You made a comment telling you're looking forward to increasing the productivity for the employer, because central banks productivity per employee was very less compared to other public sector banks and private banks. So can you just throw a light and give some numbers?

Pallav Mohapatra: The number has started going up, that is number one part but that incremental part is not very-very significant, but what we are trying to do is we have reorganized entire setup by the branch to be a delivery point, Branch Manager to be basically doing the marketing and other areas. We have created a separate marketing team, so it will be doing the marketing for the non-customers. Branch Managers will be doing the marketing for their own customers through up-sell and cross-sell. For the non-customers it will be done by the marketing team. We are basically tracking the lead conversion of these leads given by the marketing team. We have taken out the processing in the RAM that is retail Agriculture and MSME, all from the processing and we have created this cell, retail processing center for Agriculture, processing center for MSME. And, so the entire processing will move there and the project which we are and this loan origination system which will be end to end, where there will be minimal manual intervention, so that will also reduce the involvement of the human beings. We are going through this project Disha which is a transformation initiative and the result is they have thrown through the pilot projects which they have done in the 14 regions that per branch, there is a saving of 222 hours of the Branch Manager by moving out these things to the processing center. This will definitely give up Philip to the improvement in the productivity and all the other technological products which we are focusing on and also trying to improve our digital banking penetration. So it is for sure that the productivity of the Central Bank which was one of the lowest in the market is going to go up. We are not recruiting that many people for the sake of having the manpower. We reduced our manpower from around 36,000 when the PCA started to around 32,000 odd which we have now, though we recruited some 600 clerical and 200 odd officers. This we are thinking of the future because we do not want to face a situation when there is a boom in the business, and we do not have the manpower to basically support that. So for that the minimal requirement and to take the productivity up all these initiatives have been taken.

Moderator: The next question is from the line of Ashoka Ajmera from Ajcon Global Services Ltd..

Ashoka Ajmera: In your last a reply, you said some of the company's names you have given that to recovery process, and you referred one name of costal energy and also, so I believe that is for OTS and not for NCLT, isn't it? Have you approved that OTS?

Pallav Mohapatra: Yes, that is not in NCLT that is OTS. We have given our approval a long time back.

Ashoka Ajmera: There how much of percentage of the overall that 6000-7000 crores off outstanding?

Pallav Mohapatra: It is around 40% or 39%.

Ashoka Ajmera: That will be a big, good recovery in times to come?

- Pallav Mohapatra:** I have just done one analysis of a recovery of whatever we are getting in the NCLT, the recovery percentage there is also 50% to 56% and this 56% is mainly because of Essar Steel. Without Essar Steel the recovery percentage will be something around 44% to 45%. If we are able to get something in the OTS of something 40% to 42%, to clean up in books that is in my opinion are good recovery percentage.
- Ashoka Ajmera:** So it will increase our operating profit also which this quarter has come down to from 1459 crores to 1193 crores. It came down from the last quarter, so it will again go back to almost about 1800 crores.
- Pallav Mohapatra:** Operating profit I told you, I gave you the figure that was mainly on account of the major portfolio moving to the REPO linked benchmark, which was as per the regulation. So that was there on account of this moment the lost and the interest during those three quarters was around 415 crores. If I add back that to my nine months income, my operating profit is more than the operating profit of 2019 and also if I add back 105 crores, which was one quarter loss in the interest that is also more than the September 20 interest income.
- Ashoka Ajmera:** So on recovery front also will go back to 1000-1200 crores figures.
- Moderator:** As there are no further questions from the participants, I will now like to hand the conference over to Mr. Sohail Halai for closing comments.
- Sohail Halai:** Before we end, I have couple of questions if I may ask. One in terms of basically our CASA and cost of funds, CASA has been very robust and the cost of funds is now significantly lower. In that context if you could just explain in terms of the margins for future, one basically we have seen some decline in the margin. I believe some part of the large part of it could be because of interest income reverses as well. If you could just guide in terms of what is the kind of pressure on the lending yields that we are witnessing and basically the outlook for margins.
- Pallav Mohapatra:** The outlook for when you are talking about the margin I think you are talking about the NIM, right? So NIM, what I feel is anything say it 3% or say it about 3% I'm very comfortable with. Number two is there will be a pressure on the yield on advances which we are now basically seeing in the market even a AAA rated borrow up, their request for any loan is not even one-month MCLR or overnight MCLR. It is much below the MCLR at such that asking for a three months' loan or a six months loan at something around 3.75-3.8%. So there will be a pressure on that. The question here is, what I have basically strategize is if you move more towards AA because in case of AAA the risk weight is 20%, in case of AA the risk weight is 30%, there's only a difference of 10% point on the risk weight. And if we are able to get a good, I would say that a better pricing on AA that will compensate more on that loss of 10% point loss on the risk weight. So this 3% or 3.05% of the NIM, I think we will be quite comfortable in achieving whatever we have set the target for ourselves.

Sohail Halai: That is helpful; other thing is if you could just help with basically the overall restructuring including what has been invoked.

Pallav Mohapatra: The restructuring is mostly in MSME and whatever has been invoked in the corporate sector is 700 crores is the amount which has been invoked in the corporate sector. But the major recycling is happening in the MSME sector. In the corporate sector what most of the eligible borrowers what they have done is, instead of going for the restructuring they have preferred ECLGS tool and they get 20% of their outstanding as on 29th of February. And if they are not more than 30 days overdue in February 2020, they are eligible and they are taking more interest in this ECLGS tool. And I think in our bank we must have given ECLGS tool to corporate something around 20 customers and more-more requests would be—now of course that time is over right, for the corporate—sorry the time is up to 31st March. So till the corpus of that 3 lakh crores which is the Government has put, so a lot of interest is being taken and till now and I think the Corpus has been used to the extent of 2,50,000 crores.

Sohail Halai: If I may actually just try to check one thing as you mentioned obviously in terms of the RBI guidelines, restructuring was allowed only for the corporates who had 30 days or less overdues as in February? So there would be corporates who are sitting in SMA-1 and SMA-2 and probably we have not seen for the system as well as for us a large quantity of slippages. So can we expect that corporate performance can be slightly volatile going ahead?

Pallav Mohapatra: When you are saying that eligibility of SMA 0 for the ECLGS tool that is in February 2020. Today they are sitting in SMA-I or SMA-II, but they were SMA-0 in February 2020, they are eligible for ECLGS tool. So what we have done is we first took out the dump of February 2020 and for that how many cases are eligible and we approved those corporates, even if suppose they had become a SMA-I or something like that now and they showed the interest instead of doing the restructuring they said that we will go for the ECLGS tool where they are getting a 20% additional. And for the bank also it is a safe in the sense that 20% is zero risk, 20% is guaranteed by the government. So the bank also preferred to go with this route.

Sohail Halai: So I was just asking that on February 29 there would be borrowers who are sitting in SMA-1 and SMA-2, they are not eligible for restructuring as well. So what happens to those borrowers?

Pallav Mohapatra: That also we are monitoring and when I gave the figures, some of these borrowers they have become NPA as on 31st March and then RBI gave a differentiation that if you have upgraded the net provision of 5% plus 5%, so 3414 includes that also. These borrowers which remained in SMA-2, that also we have taken and suppose they have not paid the installment from September to December, so technically they are an NPA. There also we are taking them in the pro forma SMA, NPAs, there may be cases where they have paid and as per IRAC norms they are not NPA and they are still SMA-2. So we are following up with them and whatever is possible of which we can do, we'll do it for insertion case of the future growth. In

case of the future growth, if there is going to be a management team and the possibility is quite bright, because now high court has also allowed them, so if there is a change in management, so they will be no hit to the bank.

Sohail Halai:

I will ask my last question basically in terms of before that, I'll just thank you for a detailed insight and wish you all the best for the future. It was really nice of you to give us the opportunity to host a call. So, in my final before handing over you to the closing remarks, basically last year's we are putting a lot of efforts and we have done a lot of consolidation in our balance sheet as well. Probably the cost of fund is one of the lowest in the system now? Just in terms of your final closing remarks at this it could include, where do you see if the sustainable ROA is, in not immediate quarters, but probably in one-two-three year's kind of a time. That would be very helpful, and once again, wish you all the best for the future.

Pallav Mohapatra:

This question is so tough to answer because when you are basically in board in that consolidation of the bank, so three years down the road if you will look at now, what will be the position? It is very difficult to answer right now because there are some many other things which are moving in the bank. I got basically involved in those things and I wanted to push those reforms in the bank, giving clear focus to the compliance angle, then on the IT side. So I may not be able to give you guidance, what would be the ROA in 3 years' time, but somehow it will remain that something around 0.5% to 0.75%.

Sohail Halai:

That is very helpful, basically you have laid the foundation and now it is on the next person who have joined this to build on to that foundation and that we have seen in the past as well in probably many other examples, not only in banking but overall in general life as well. I thank you a lot for basically in terms of giving us this opportunity to host a call, if you want to add any other closing remarks.

Pallav Mohapatra:

I have nothing, and I want to thank all of you because being a patient with this bank and also guiding us and also pinpointing the bank of wherever the bank was losing the track off. I give lot of importance to the analysts because they are not only analyzing the figures of one bank, they are analyzing the figure of the entire financial sector. Their in-depth and incisive idea about the financial sector is much more than even the MD of a bank. I'm really thankful for all the guidance you people have given to me, I am thankful that you have been very-very patient with our bank. Regarding Central Bank of India, the only thing I can say is this bank is now on the move forward. This is the right time when the investors should look at this bank, that this bank is the right organization to put the money. They can test by doing small investments and test the water. I am not saying that don't test the water, but as a banker with 37 years of experience, I can say that it has moved out of a mess. Thank you.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.