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Conference Name: Central Bank of India Q4 FY20 Earnings Conference Call
Hosted by Antique Stock Broking

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Main Speaker(s): Mr. Sohail Halai - Antique Stock Broking
Management Of Central Bank Of India
Shri Pallav Mohapatra, MD & CEO
Shri B S Shekhawat, ED
Shri Alok Srivastava, ED
Shri Mukul N. Dandige, CFO

Total 40 Participants including the Speakers.

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“Central Bank of India Q4 & FY’20 Earnings Conference Call”

June 29, 2020



MANAGEMENT: **MR. PALLAV MOHAPATRA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, CENTRAL BANK OF INDIA**
MR. B.S. SHEKHAWAT – EXECUTIVE DIRECTOR, CENTRAL BANK OF INDIA
MR. ALOK SRIVASTAVA, EXECUTIVE DIRECTOR, CENTRAL BANK OF INDIA
MR. MUKUL N. DANDIGE, CHIEF FINANCIAL OFFICER, CENTRAL BANK OF INDIA

MODERATOR: **MR. SOHAIL HALAI, ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day and welcome to Central Bank of India Q4 FY'20 Earnings Conference Call hosted by Antique Stock Broking. 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 Stock Broking. Thank you. And over to you, sir.

Sohail Halai: Thanks, Steven. Good evening, everyone. I welcome you all to Central Bank of India's 4Q & FY'20 Earnings Call. We have with us today, Mr. Pallav Mohapatra – M.D. and CEO; Mr. Shekhawat and Mr. Srivastava – Executive Directors and Mr. Mukul – CFO, along with other senior members from the management team. I thank Pallav sir to give us this opportunity to host the call and hand it over to him for his opening remarks. Over to you, sir.

Pallav Mohapatra: Thank you, Mr. Sohail and welcome to all analysts who are on the call. I will give you a "Brief Background of the Major Highlights of Q4 FY'20." And Powerpoint presentation has already been uploaded on our website. So if any analyst wants to go through it, he can see on our website. The major highlights for Q4 FY'20 are as under: The CASA deposit has improved from 45.82% in December 2019 to 46.83% in March 2020. The provision coverage ratio has also improved from 73.73% in December 2019 to 77.29% in March 2020. As regards Gross NPA, there is a reduction from 19.99% in December 2019 to 18.92% in March 2020. Net NPA which was 9.26% in December 2019 has come down to 7.63% in March 2020. Retail, Agriculture, MSME combined together constituted around 63.73% of the total advances. The cost of deposit reduced from 5.10% to 5.05% on YoY basis. The NIM has improved from 2.34% to 2.85% on YoY basis. When we move to the profitability, the operating profit of the bank improved for the whole year from Rs.3,127 crores to Rs.4,344 crores. After three consecutive quarters of the profits, the bank showed a net loss in Q4 2020 and there is a loss of Rs.1,529 crores but since there were three quarterly profits, the whole year loss is Rs.1,121 crores as against Rs.5,641 crores in last financial year. But if I look at Rs.1,529 crores of the loss, there are some extraordinary items in this particular loss; one is that, we had to make additional provision for the pension liability on account of reduction in the rate as given by our actuary. So on an average, we used to make Rs.150 crores per quarter which works out to Rs.600 crores per year but at this time actuary has given a liability of Rs.1,115 crores as a provision on account of which we had to make additional provision of Rs.515 crores in this quarter. we had to make 5% provision on those accounts which slipped to NPA in the March quarter. But benefits were given for not being downgraded and as per the RBI circular we had to make 5% provision, so that amount is Rs.150 crore. We had to make 20% provision as per the 7th June 2019 circular of RBI on the framework for resolution of assets after 180-days period was over, so there is additional provisioning of Rs.213 crores was made. There is one NBFC account which was declared as fraud in the month of May within the period of six months of the red flagging of the accounts. But since 2-3 other banks had declared it as fraud

in March, so we had to also make additional provisioning of Rs. 307 crores. So these four itself adds up to Rs. 1,185 crores out of loss of Rs.1,529 crores. So if these exceptional items been not there, the bank would have made a full year profit. So, this is about the net loss. Additional provisioning of pension has impacted the operating profit because this provision goes above the line.

The third highlight in the profitability is the total income for financial year '20 which increased to Rs.27,200 crores from Rs.25,052 crores in financial year '19. Non-interest income also improved from Rs.2,413 crores to Rs.3,637 crores in FY'20. Cost-to-income ratio improved from 65.96% to 61.44% on YoY basis but in the last quarter because of this additional provisioning for pension which was Rs.515 crores. In Q4 only the cost-to-income ratio deteriorated to more than 80%. Otherwise, if we take this out, then over the year, it would have been to around 61.44%. Business per employee has also improved to Rs.14.41 crores in financial year '20 as against Rs.12.99 crores in financial year '19. We are not taking a net loss per employee but we are taking operating profit per employee which improved to 12.66 lakhs in financial year '20 against 8.62 lakhs in financial year '19. With regard to asset quality, as I already said the gross NPA reduced to 18.92% from 19.99% and net NPA from 9.26% to 7.63% on sequential basis. Provision coverage ratio improved to 77.29% from 73.73% on sequential basis.

In the business segment, the total business of the bank increased from Rs.4,67,584 crores to Rs.4,86,007 crores in financial year '20. The core deposits increased to Rs.3,10,199 crores from Rs.2,95,833 crores in Q4 FY'19. Retail loans in the Q4 FY'20 was Rs.46,106 crores against Rs.41,042 crores as of Q4 FY'19. CASA deposit, as I already said, has improved from 45.82% to 46.83% on sequential basis. The capital adequacy ratio as per Basel III are still above the minimum level of 11.50% but it was 12.83% as on 31st December 2019. So because of this loss, it has come down to 11.72%. But if you look at previous year, definitely it has improved but sequentially it has come down from 12.83% to 11.72% and bank's net worth is at Rs.18,466.88 crores as on 31.3.2020.

During this financial year i.e. 19-20, we had taken some initiatives which were focused on transformation agenda in the bank. We have started a project called "Disha" for which we have appointed a consultant and the project has already started. This is basically focused on the analytics-based business transformation program, where the focus will be on further improvement in the CASA and also on the RAM segment of advances and also how the analytics can be used to improve our non-interest income.

We have also started the initiative of data warehousing and the entire revamping of the data warehouse in the bank is being undertaken. And this will help a lot in the data analytics and taking business decision based on that.

We have set up MSME hubs where the centralized processing will be done. We have also started the process of loan lifecycle management system which will be not only a loan

origination system but it will also help in doing the credit administration as well as decision for recovery in the NPA account. And so early warning signals, all these triggers will be generated from that particular platform. During the year, we restructured our organization by creating 31 new regional offices and reducing the zonal offices from 13 to 10 so that regional offices have reasonable number of branches under them because earlier it was hovering around 80 to 90, now it has been brought down to 50 to 60 so that it is manageable.

We also created corporate finance branches and mid-corporate branches and these branches are directly reporting to the credit department in central office so that we can reduce the turnaround time and we will get a better corporate loans on our books.

We have made the centralized credit processing system for our retail advances through the CCPB i.e. centralized credit processing branches. We have created 49 such branches where starting from receipt of the application, processing, sanction, documentation, disbursement and also credit administration will be done by these 49 centralized credit processing branches. And for this we have also got the approval of RBI. We have set up seven SAM branches and eight asset recovery branches. SAM branches for stressed assets above Rs.25 crores and asset recovery branches for accounts of Rs.5 crores to 25 crores so that there is the a faster resolution of the NPA and these branches are directly reporting to the GM SAM in corporate center.

We have also created a separate marketing set up where the overall processes and policies are being overlooked by DGM ranked officer in central office, however these marketing executives are under the control of the regional managers and they will be doing the marketing only for non-customers for the bank. For the customers of the bank i.e. upselling or the cross-selling will be done by the branch managers.

In the HR front, we have introduced performance management system, and this is in process. This will be totally stabilized in the current financial year. The performance management system will be a system driven performance appraisal of employees. And this will be based on the balance scorecard and will be focusing on the business and all the data will be coming from the system, there will be no manual intervention in that.

We have also embarked upon succession planning and competency mapping. The basic reason for this initiative was that to create a pool, who will be basically taking up the leadership positions in different segments and for that we have also created jobs and the system in the bank so that people are able to get the expertise in that particular area at least for five years remaining in that particular job family.

We are also revamping the entire training architecture to basically analyze what is the training impact on the employees' works.

We have introduced the e-Learning system in the bank and mandatorily everyone has to go through this e-Learning and five marks in their performance appraisal has been earmarked for the e-Learning. If they do not complete the e-Learning, then they will lose these five marks. And earlier it was only up to the desktop, now this e-Learning has been also introduced on the mobile too.

And we have also launched “Human Resource Management System” also on the mobile too.

In order to basically have effective control over different types of risk and especially the fraud risk, we have launched Enterprise Wide Fraud Risk Management Solutions in the bank. And this is being rolled out in the phases. One phase is over and another two phases will be over by June 2021.

We have also introduced new products in different segments and also rationalized some of the products which are not getting much of traction.

So this is in short about the “Highlights of Q4” and the “Initiatives” that the bank have taken.

I am open to questions from the analysts.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Elara. Please go ahead.

Mahrukh Adajania: I had a couple of questions. Firstly, sir, what are your thoughts on the one-time restructuring scheme that is being talked about – will it be implemented, any thoughts you can share on that? And second one is that the NBFC identified as fraud would be Religare?

Pallav Mohapatra: Mahrukh, I do not want to name the NBFC. It will be better if I avoid because as per our policy we do not basically name any NBFC in any media call. So the first question is not related to the Q4. Still you have asked me, I will give my own views on that. See, one-time restructuring, I feel as a banker will come. But it may take some time because the one-time restructuring based on what is actually happening on the ground. No one knows that during this lockdown period what is the level of the operation of the unit, what is the capacity utilization as of now happening, what is the cash flow which is being generated. Unless these three items of the unit are not known, what type of restructuring can be done? See, simple restructuring is that if there is a repayment period of five years, it can be extended to seven years. But the question is whether extending it to seven years, the unit will be generating that much of cash so that if DSCR is comfortable, you are going to repay the loan in seven years. That will be known only when some idea about the cash flow on the ground is known to the regulator so that whether FITL, WCTL and re-schedulement or some additional funding is required or not, then decision most probably will be more judicious to take.

Mahrukh Adajania: Sir, would you have offered moratorium to NBFC?

Pallav Mohapatra: As of now, I will say very-very few have availed because that NBFC went with the opt-out, that means if you say that I want to pay, then you can pay, it is not the opt-in. So, I will say more than 95% of the NBFCs on their own are paying the interest and installments.

Mahrukh Adajania: Any idea on how onwards know what slippages from moratorium would be and would there be a complete overlap in moratorium compared to over moratorium-1 or will there be new customers taking, I mean what proportion would be not able to pay once the moratorium is lifted?

Pallav Mohapatra: See Mahrukh, in all the segments, we have SMA-2 of Rs.5,101 crores. Out of this Rs.2,980 crores, they availed the benefit of not being downgraded. So we made a provision of 5% on that which works out to Rs.150 crores. The remaining Rs.2,121 crores, they basically remain as SMA-2 by paying one installment in March. Out of the Rs.2,121 crores, for which installment was paid in the month of March, everyone has either moved to SMA-1 or have become standard. Now, out of this Rs.2980 crores, who availed the benefit, Rs.1,191 crores are left. I am quite hopeful that more than 50% of them will also pay by the time this current moratorium is basically lifted. So if this is the position in Central Bank of India, what I feel is the position will not be bad as other bank. I am talking about hard core data.

Mahrukh Adajania: The other question is that moratorium-2 will be a subset of moratorium-1, right, there will not be too many new clients or new borrowers?

Pallav Mohapatra: No, there will not be. And what we are observing on the ground is those who have availed the retail loans, that means B-segment loans, there the percentage of people who are availing the moratorium is less than those who are in the business or who are in the business in lower ticket size or middle ticket size. So there the availment of moratorium is higher but in case of the business segment the availment of moratorium is quite low and this is also coming down month-after-month because the realization that their interest cost will go up is gradually dawning on these borrowers.

Moderator: Thank you. The next question is from the line of Joshi **(Inaudible)**. Please go ahead.

Joshi: Sir, by when you think that the bank will be out of the PCA? And whether bank will require any new additional capital? And the third and the last one is that if you have gone through this Rs.20 lakh crores of announcement by our Finance Minister Mrs. Nirmala Sitharaman, she very clearly spelt out that any public sector enterprises where more than four units, they can avail for the divestment or a strategic offer. Same thing last 10-days before even the Chief Economic Adviser, Mr. Subramanian on CNBC also talked very clearly that any public sector enterprises more than four units in any segment, they can look to divest in a strategic offer. While the question has been asked by someone, even does that include the public sector banks, a very clear answer from Mr. Subramanian, that is the Chief Economic Adviser, any and every business where more than four units can go. So you feel that the remaining seven banks which is now not part of the PSBs?

Pallav Mohapatra:

I am not the right person to give you any answer to that because that is the call which is to be taken by the owners of the Public Sector Units or PSUs. If the owner sees that whether it is PSB or PSU, it is fit the divestment has to take place, they will do the divestment. So there I will not be able to give you any answer as a banker. Number one question you asked me, when we will come out of the PCA. Sir, we were quite hopeful that we will come out of the PCA in the financial year 2019-20 because there are three parameters for the PCA – one is the CRAR where we are meeting that, the second is the leverage ratio, there also we are meeting that, the third is the net NPA percentage where we are not meeting because it has to be less than 6%. I was quite hopeful that if the condition would not have not been vitiated by this COVID-19, most probably by the end of 2019-20, we would have been able to bring down our net NPA percentage by below 6%. I will give the reason why I was so confident about it. See, in the Q4, we were expecting a recovery of around Rs.4,000 crores in the NPA accounts which were large ticket size NPAs. And the investors are also there and only 5% to 10% of the bankers' sanction or the approval was pending. But somehow from March itself, things went in a different way and we did not get a single penny out of those where we were expecting Rs.4,000 crores of recovery. So that was a setback to us. In the current financial year, we are making all out efforts to basically bring down this net NPA percentage to below 6% and I am quite hopeful.

Joshi:

And will we require any new capital?

Pallav Mohapatra:

In this financial year what I am seeing is in the first quarter both our investment book and also our loan book are growing. And the growth in the loan book especially in the MSME segment and also in the corporate segment. Now you will ask a question in the corporate segment which particular industry is doing well. We got good response from very high rated NBFCs. And we also got very good interest from very high rated road developer. So there our loan book is growing. And in the MSME, the loan book is growing. And in case of the MSME, the best part is that the amount which we are giving under this MSME loan book, their risk weight is becoming zero because this is 100% guaranteed by the Government of India, so that will take care of my capital conservation. That is why I feel that, we may better than last year.

Joshi:

Sir, do you see any unusual new large NPA like Air India, our exposure and...?

Pallav Mohapatra:

As a banker, I believe Air India will not be NPA.

Joshi:

What is our exposure in that?

Pallav Mohapatra:

Our exposure as of now is nil. They created one subsidiary and they got the investment in that subsidiary and they used the money raised to pay off the debt. So they paid off all our debts.

Joshi:

Large receivable from Bhushan Power which is now going to be under IBC?

- Pallav Mohapatra:** Bhushan Power and Steel you are talking about, right. I think resolution plan currently whatever is there and whether that will go through or not is around 40% or 42% of the total claim amount and we were able to sell that particular asset to ARC at 39% last year. I have already earned my NPV amount on that.
- Joshi:** You do not expect the large sum surprises in the current year?
- Pallav Mohapatra:** I do not think so.
- Joshi:** At least on the corporate side?
- Pallav Mohapatra:** Yes, sir.
- Moderator:** Thank you. The next question is from the line of Ajmera from Ajcon Global. Please go ahead.
- Ajmera:** Sir, like I will pick up from the answer which you just gave about the advances, you are getting some good NBFC opportunity and some good infra road or bridge companies or ...?
- Pallav Mohapatra:** Not bridge, I only said road and that too HAM projects.
- Ajmera:** So it means that AA, AAA rated kind of...?
- Pallav Mohapatra:** AAA rating as of now, very few companies are getting in India. Definitely we are getting AA rated companies. Though I cannot give the name of that developer, a week back we got a proposal for road project under HAM which is the AAA-rated.
- Ajmera:** I am just trying to assess that generally looking at the present losses and other things, the bank might slow down its further fresh advances especially looking at COVID and all that. So it is good to know that you are...
- Pallav Mohapatra:** See, I am sitting on say liquidity coverage ratio of more than 300%, right. If I keep on putting my deposits which are flowing into my bank into the reverse repo or the SLR securities, how much I will earn? The average rate of return over there including T-bills is 4.25% or 4.30%. So if I keep on doing that, what I will earn? But if I moved a book to the loan, at least I will earn something 7% -7.25%.
- Ajmera:** Definitely, it is a very good idea. That is what I am saying that your profitability also improve and the money like your treasury, asset allocation is Rs.1,81,000 crores and out of that your retail book is Rs.76,000 crores, wholesale is Rs.77,000 crores. So you have a lot of scope there. Now, coming to this profitability only, like in the last quarter we see, you have validly given valid reasons for the pension provision at 5%, 7th June circular and NBFC Rs.307 crores, but in spite of that also this Rs.1,200 crores, still the loss would have been Rs.300-350 crore ?

Pallav Mohapatra: Rs.344 crores would have been the loss, but if I take the three quarters profit for the whole year there would have been a profit.

Ajmera: Yeah, but then whether this Rs.300 or Rs.340 crores is going to be like even without this provisions also which were extra put by you, how do we see then the profitability in the coming quarter?

Pallav Mohapatra: If you look at the presentation, you will see that my two segments especially agriculture and MSME, there was Rs.90 crores. Now in the current year, MSME straight line guarantee scheme, the availability that 20% of the outstanding as on 29th February itself is Rs.4,000 crores. And the way we are progressing, we have already done 75% of those accounts. So if I do this Rs.4,000 crores, that will be on a zero risk weight. So my capital has not been deployed there and average rate of return in this portfolio is 7.50%. So number two is my credit portfolio during the first quarter in the corporate book has already gone up by Rs.3,000 crores. So if there also I take the average rate of interest something between 7-7.5%, so this year I am expecting a better interest income than last year on my loan book. So that is why I am hopeful. And the other part is I am not exaggerating but the way we are handling our investment book, I will give you one data; in FY '18-19, we did a shifting and there was a shifting loss of around Rs.325 crores. In FY 19-20 again we did a shifting and there was a shifting loss of Rs.82 crores. In the current financial year, we also did the shifting and the shifting loss is only Rs.11 crores. In the first quarter itself, on the trading profit, not including the interest on the investment, we have already made a trading profit of more than Rs.325 crores in the first quarter.

Ajmera: The other expenses have increased by Rs.100 crores in this quarter; Rs.762 crores against Rs.662 crores and at the same time expenditure of interest is same around Rs.4,003 crores but interest expenses have gone up by Rs.100 crores. So the Rs.100 crores there and Rs.100 crores here, Rs.200 crores effect is also...

Pallav Mohapatra: Sir, that Rs.100 crores in operating expenses, there were some arrear payments to be made and we wanted to clear it off during this financial year '19-20. So this is also I will say one-time exceptional exercise which we did. If you look at the interest earned and interest spent, that is mainly on account of the treasury interest income. If I go to the interest income detail, advances have also come down. So this is as I said on two segments – agriculture and in MSME there was a huge negative growth. And MSME normally gives a good rate of yield as compared to the corporate book. I am quite hopeful that this particular trend will reverse in this current year. And my focus in this current year is that my non-interest income should take care of operating expenses and my net interest income should be more than the other expenses so that my operating profit goes up.

Ajmera: But sir, when you said the expenses has gone up because of the revision, sir, wage revision is Rs.75 crores...

- Pallav Mohapatra:** No, I am not speaking about the wage revision. I am talking only about the operating variance. These were Oracle licenses, there were some past arrears which we paid, in rents also some old lease which had to be renewed, so we paid arrears in that. So I wanted to clean up the books better once and for all.
- Ajmera:** Sir, in case of wage revision, you provided Rs.75 crores out of Rs.300 crores in this quarter. And therefore was already a provision of Rs.735 crores. So it means total wage revisions were Rs.960 crores, right because Rs.225 crores you have carried forward?
- Pallav Mohapatra:** Yes, sir.
- Ajmera:** So it means total wage arrear is Rs.960 crores?
- Pallav Mohapatra:** Yes, sir.
- Ajmera:** And it will take care of ?
- Pallav Mohapatra:** Yes sir, because we are doing a little bit more than whatever the rate on which discussion is going on so that last moment we do not suffer from hit.
- Ajmera:** My last question is on those four accounts. You provided Rs.213 crores beyond 180-days account. How much is the total outstanding in those accounts?
- Pallav Mohapatra:** Total outstanding was Rs.1,067 crores.
- Ajmera:** So it means in future also if it gets further delayed...?
- Pallav Mohapatra:** No, as per the circular, if it is delayed beyond 180-days and that 180-days period has expired before 1st March, then we have to make 20% provision. Now in those cases the moment I file the application in the NCLT, I will be able to reverse my 10%. And when this is accepted in the NCLT, then I will be able to reverse the remaining 10%. Now the framework also talks about if the total period is more than 365-days, that means from the date of the default, then another 15% is to be basically made as of 31st March. There were a lot of single case which was warranting the 15% as of 31st March, there is one case which warrants the 15% in June 2020, but most probably the NCLT application would have been filed today by the lead bank.
- Ajmera:** Related to this, this divergent provision for the RBI audit, this all fully taken care of, there is nothing pending now or you do not see...?
- Pallav Mohapatra:** All taken care of in December quarter.
- Ajmera:** Means there is no further audit or anything pending?

- Pallav Mohapatra:** No sir.
- Moderator:** Thank you. The next question is from the line of Keshav Kanoria from ITI Capital. Please go ahead.
- Keshav Kanoria:** I have just a couple of questions. Since you are talking about operating expenses, if we look at the operating expense to average asset ratio, it currently stands at around 2.5%. So going forward do we see any cost curtailment measures that bank...?
- Pallav Mohapatra:** As I was discussing with Mr. Ajmera, this was one-time exercise which we have done. It will not be a repetition. Say I got this pay, now this rent and taxes we see an hike of Rs. 24 crores, lot of very old leases we have now renewed, so we have to pay the arrear on account of that. Now the other is insurance that is DICGC insurance which has gone up from Rs.300 crores to Rs.378 crores. This will have the impact even in 2021 because the DICGC insurance is paid on the balances as on 31st March. Now with the deposit going up, definitely, this will also go up. In the financial year '19-20 there was an additional factor that the rate was hiked by 20%. So on account of this, Rs.78 crores was the additional expenditure. Then we have the ECGC premium of Rs.123 crores, this is figuring on the expenditure side as well as on the income side from the GST point of view. So this is not the impact. Then repair and maintenance arrear was paid and then professional fees when I was talking about e.g. payment to Oracle for licenses and payment to some of these consultants which we have engaged, so these expenses will not recur in 2021.
- Keshav Kanoria:** What do you think NIMs could move into next one to two years? We have significantly improved on NIMs if we look at the last ...
- Pallav Mohapatra:** Whenever we discuss the NIM, our Board always consider, if the NIM becomes very high, say more than 3.10, 3.20, that will show that I am building up risk in my portfolio. My board is comfortable with the NIM of 3% or 3.10% and if you look at the MCLR and the external benchmark linked rate of interest of Central Bank of India, I think only State Bank of India has a better rate than us. If we are giving better pricing, we will get good customers. We are okay if we earned a NIM of 3%, 3.10% because then the risk of having a credit cost on our book will come down.
- Keshav Kanoria:** And sir, do you want to give some color on the proportion of book which is under moratorium right now?
- Pallav Mohapatra:** Sir, proportion means percentage wise, right? Total without agriculture as on 31, March 2020 was 21% who have availed, on 30th, April 2020 it was 21%, on 31st, May 2020 it was 20% and on 26th June 2020 it was 18%. If I add agriculture, then it is 28%, 28%, 24% and 25% respectively. This is the percentage of people who have availed moratorium.
- Keshav Kanoria:** Is central bank able to move to new tax rate? If yes, by when?

- Pallav Mohapatra:** No, we have not. We have taken the approval from the board to be on the existing one.
- Keshav Kanoria:** And were there any frauds recognized in the current year or current quarter and have we made any provisions against it?
- Pallav Mohapatra:** In the current quarter means March, we have a list of accounts where we declared fraud and we made the provision. And all those frauds which were declared in the quarter ending March, we made the full provision whatever was the difference from the provision already had.
- Keshav Kanoria:** And now we have very small cases related to IBC-1. So going forward what is the expectation of cases in IBC list-2 and others?
- Pallav Mohapatra:** Sir, it is a very difficult question what is going to happen in these IBC cases, but as the results which are coming, more of these cases are going into liquidation. We are thinking of analyzing some of these IBC cases as if we are able to sell some of these cases to ARCs or funds which we did last year and we did it well. Last year in the month of March itself, we sold four or five cases which were in NCLT, and out of these 4-5 cases, not a single one case has been resolved through NCLT till now.
- Moderator:** Thank you. The next question is from the line of Amit Kumar, an individual investor. Please go ahead.
- Amit Kumar:** Sir, credit-to-deposit ratio is little low. So what are our strategies regarding that?
- Pallav Mohapatra:** Strategy is basically to increase our loan book. So in the current financial year, we are looking at increasing our loan book by 8.5% and that will help us in taking our CD ratio to something around 56%-57%. But one thing I want to tell you, our deposit franchise is very strong and 64% of the branches are in the RUSU area and in some of the areas we are very competitive and we are very strong. So, the deposit growth in the current financial year means 2021, I am trying to match my loan growth with the deposit growth, but overtaking the deposit growth it will be very tough because the deposit growth as such I cannot stop, I have reduced the rate of interest on my deposit but still the deposits are flowing.
- Amit Kumar:** Sir, can you give me breakup of CASA in terms of how much is in rural, urban areas?
- Pallav Mohapatra:** Sir, if you do not mind, can we send it separately. As of now, we have bucket wise break up.
- Amit Kumar:** Sir, we have seen a robust growth in your investment book. So what are our yields on investment and our outlook on treasury book?

Pallav Mohapatra: Sir, in the current financial year there will not be much of growth in the investment book because we are trying to match our growth in the deposit with the growth in the advances. But till now since the growth in advances was much lower than the growth in deposit, so investment book was growing. The average yield which I see in the current year is around 4.35% or 4.50%. So definitely it is lower than the yield on loan book. So in the current financial year, the growth will be mostly in the loan book.

Amit Kumar: As you mentioned in your opening remarks that bank is taking a lot of new initiatives, so what do you think it will have impact on our margins, can we have some guidance on margins for this year and next year?

Pallav Mohapatra: Sir, the impact will be positive because when we are doing this analytics-based business transformation supported by the loan lifecycle management system, this will have very good impact on the customer selection. Because the analytics will help us which type of customers we want and the scoring model, the balance score card which will be done through this loan origination system will ensure better customer selection and this will reduce the credit cost and also improve the quality of our books. Due to this, our margin will improve. Similarly this data warehousing will also help us in selecting the type of customer and also trying to find out what type of products one particular customer wants. We will also be able to design the product as per the requirement of the borrower. And when we were doing the of MSME credit processing centralization or agriculture credit processing centralization or the retail credit processing, all this will go towards improvement in the customer acquisition and improvement in the margins.

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

Sneha Ganatra: Two to three questions. First is your cost-to-income ratio was around in the range of 80%. Where do you see our cost-to-income ratio for this fiscal year? Second question is any credit cost guidance you would like to share with us? And how do you see the overall moratorium? And how are we seeing our asset quality impact both on the slippages and the recoveries and upgrades? Are we expecting any big recoveries and upgrades from NCLT one or two accounts or any other OTS or anything on the recovery front?

Pallav Mohapatra: On the first question that cost-to-income ratio in Q4 which was 80%, I gave the reason that one single factor that is additional provisioning of more than Rs.500 crores on pension liability has disturbed this cost-to-income ratio. It is only a provision and it is not the pay out. The cost-to-income ratio in the current year which we are looking at is not to exceed anything between 50% to 55%. And then you talked about the annualized credit cost, which we are looking during the current financial year, that is 2.90% we are looking during the current financial year. On the asset quality front, some large ticket size recoveries I am expecting and more from outside the NCLT. As regards slippages during the current financial year, no major one in the corporate book is anticipated, but there may be something in the MSME and agriculture.

- Sneha Ganatra:** Any run rate of the slippages you would like to guide us?
- Pallav Mohapatra:** In the financial year 2021, slippages we are expecting will be around Rs.4,000 crores.
- Sneha Ganatra:** And recoveries and upgrades how much we are expecting?
- Pallav Mohapatra:** Recovery, we are expecting something around Rs.10,000 crores which includes upgradation also.
- Sneha Ganatra:** And sir, considering our CRAR at 11.4%, are we expecting any capital infusion from the government, are we planning...?
- Pallav Mohapatra:** My CRAR was 12.83% as on 31st, December 2019 just because of some exceptional items, it came down to 11.72% and during the current financial year what I am seeing is, there is a good growth in the loan book and this will help in my interest income going up. As of today I can say that probably we will be able to manage from our internal accruals for the capital adequacy rather than depending on Government of India, but definitely in this financial year we are exploring to raise capital through FPO/SIP.
- Sneha Ganatra:** And what is the credit growth guidance you would like to give us?
- Pallav Mohapatra:** Both the credit growth and deposit growth during 2021, are expected in the range of 8% to 8.5%.
- Sneha Ganatra:** And Sir, on moratorium, how are we seeing the trend in terms of repayment and the installment payment of the customers?
- Pallav Mohapatra:** Ma'am, without agriculture, the percentage of the customers who availed moratorium was 21% in March 2020, it remained at 21% in April 2020, it came down to 20% in May 2020 and then it further came down to 18% as on 26th June, 2020.
- Moderator:** Thank you. The next question is from the line of Sushil Choksey from Indus Equity. Please go ahead.
- Sushil Choksey:** As I see the results, the strength of the bank is very visible as a brand or image with CASA account holders. So what would be our retail strategy because CASA is enabler for retail, so with COVID, digitization and a lot of other AI-led driven technologies would be available, can we capitalize on this to grow our balance sheet?
- Pallav Mohapatra:** Yes, with 8% to 8.5% growth both on deposit and advances, definitely our balance sheet will grow. CASA and growth in the retail, agriculture and MSME is the focus of this bank. But at the same time we should not forget that there should be some nominal growth in the corporate book also to maintain overall quality of the loan portfolio. If I look today my 78% corporate

loan book is investment grade level and above and around 58% is AA-rated and above. They are also giving me good return in the sense that the credit cost in those cases are low. You are right that while doing this retail, we have to focus more on the automation and also on the technology. That is the reason that we are going for this loan life cycle management system which I consider, we are a little bit late entrant. But being a late entrant, we are getting the advantage of the better technology available today and the state-of-the-art technology will help a lot in origination of all type of retail loans including agriculture and MSME and also the processing documentation seamless opening of the account and also the credit administration. This plus the data warehousing project which we are running and the department for the information and data analytics which we have opened, we have also gone through the recruitment of the data scientist, data analyst and very shortly, they will be joining us. So the focus in the retail segment or the focus in the RAM segment is moving from the manual intervention to the total seamless technological intervention.

Sushil Choksey: Sir, you just highlighted 8.5% credit growth. Can you indicate what percentage growth you would look for corporate because of AAA and...?

Pallav Mohapatra: The corporate growth rate will be something around 5% to 5.5%. The major growth rate we are looking at is MSME and retail. In MSME I am looking at something around 12% and in retail I am looking at something around 13%. These are the two major segments where I am looking at the growth.

Sushil Choksey: To an earlier question, you answered you are looking without any impact on equity requirement. MSME growth because the government guarantee scheme would be a huge number for us in the current quarter. What kind of a number one should assume?

Pallav Mohapatra: Sir, even if I look at only this emergency credit line guarantee scheme of Government of India where 20% of the outstanding on 29th February, 2020 we give the loan which is with a zero risk weight and no capital is required, that itself is Rs.4,000 crores. If I do this Rs.4,000 crores on a base of 29,000 crores, so that works out to achieving the target of MSME.

Sushil Choksey: Sir, we must have surely participated in TLTRO-1, 2 and credit guarantee scheme. What kind of number have we achieved in this and what kind of...?

Pallav Mohapatra: There were two TLTROs. The present one we raised Rs.2,200 crores was within the timeline because as per RBI guidelines, the investment was to be made within 30-days and if the investment is not made within 30-days, then penal interest to be paid by the subscriber to the TLTRO. But we made the investment of Rs. 2,200 crores within that timeline, and all these investments were AA and above. In TLTRO 2, we did not raise any money as we did not get reasonable proposal because there at least 10% was to be given to MFI and 15% to be given to NBFC with AUM up to Rs.500 crores. There we did not get much of good proposal. In the partial credit guarantee, the NCGTC has allocated Rs.1,414 crores to our bank, out of which

we have already done Rs.920 crores and there are some proposals, we are quite hopeful that we will be achieving this Rs.1,414 crores.

Sushil Choksey: Average should be around 8.5%...?

Pallav Mohapatra: Yes, sir, average yield is 8.5% or 8.75%.

Sushil Choksey: Seeing the treasury performance in the last two years specifically because of high CASA deposits and franchisees ability to manage the book well, do we see because the yields are not going to rise, basically bonds are going to give us super gain for us I think we have done well in the trading is what I could hear in the con-call, what kind of support do we estimate in the current year?

Pallav Mohapatra: Sir, this year, treasury segment in the trading profit, that means in the non-interest income, we expect good support from the treasury segment. On the interest income definitely we will depend more on the loan book.

Sushil Choksey: So if I go by the treasury, year-on-year number is almost Rs.1,200 crores higher compared to the previous year, can we assume that if everything goes well, that kind of a number...?

Pallav Mohapatra: I am keeping my fingers crossed. So this is the area where I am devoting at least every day one hour in the morning. I can say the things are moving so far so good.

Sushil Choksey: Sir, now with CASA doing so well and you have mentioned in our presentation as well as what you speak I hear, is in areas where most of the customers not able to access so many products. So how are we capitalizing on those customer reach whether it is insurance or any other product? I am not being to a specific product. But I think the kind of customer base we have, many other banks may failing because the larger banks have CASA in the region of 30-40% at maximum whereas we are doing much wonderfully well because of our reputed brand being carried by them, so how are we capitalizing?

Pallav Mohapatra: On capitalizing on good CASA franchise, the non-interest income through the cross-selling which we really pushed hard from the financial year 2019-20, we could earn a commission of Rs. 39.55 crore because earlier the focus in case of the cross-selling was how much premium we are getting, now the focus is on how much commission we are earning on this cross-selling business. This year we have target of earning Rs.90 crores commission through cross selling, achieving Rs.90 crores and we also want to add some of the new products like mutual fund in this current financial year. We are in discussion with some of the AMCs which will also give us good benefit.

Sushil Choksey: Are we specializing staff towards retail banking or we will be utilizing the same staff?

- Pallav Mohapatra:** No, sir, we are doing recruitment and this year I think most probably we will be recruiting around 1,000 clerks and 250-officers, but they will be main stream officers, so they will basically go into different areas of the retail. These officers will not work in the administrative department.
- Sushil Choksey:** What kind of retirement are you estimating this year?
- Pallav Mohapatra:** If I look at all officers, clerical and subordinates, I am losing around 1150 employees this year.
- Sushil Choksey:** I hope each and every employee or management because of COVID efforts what you all are warriors right now is being insured for every aspect of life?
- Pallav Mohapatra:** We have insured our employees not through any insurance company, but we have our own policy of 20 lakhs for any death on account of COVID-19. And unfortunately in our bank there were four cases; three cases took place in Mumbai and one case was in Delhi. This is difficult time and no one knows that how this is going to impact each and every one of us and especially those who are working in the branches because they are in direct touch with the customers.
- Sushil Choksey:** In view of this COVID-19, how much digitization will improve or technology adoption we will be doing at a faster rate as we have made in the presentation?
- Pallav Mohapatra:** Yes sir, that is 100% correct and we are focusing more on improvement of our availability of the ATM which has gone up from around 80% to now around 90%. We were focusing that the ATM availability during this lockdown period should reach 95% because of some issues relating to the vendors where they had to supply the spare parts, we were not able to reach but the focus is there. The focus is also on increasing the number of internet users, the number of mobile banking users and we have given the instructions that both internet and mobile banking should be given as a default when the account is opened instead of sort of opting in by the customer. So in UPI, we are doing well. But if you are able to catch up on this internet banking and mobile banking I think my transaction banking will improve. As of now the total digital transactions which I am doing excluding ATM, comparatively has improved by 80% but the percentage to total digital transactions is 64%. I want to take it to 80% or 85% which will be comparable to private banks and public sector banks like State Bank of India.
- Sushil Choksey:** Seeing the CASA, this is a wish as a shareholder or investor for future also for all would be, your experience of cards being utilized of CASA. Second thing, I sense that Rs.90 crores of income which you indicated in customer fees for third-party products, with the CASA number at 1,50,000 plus in current year, so many branches, insurance and mutual funds scrip is being collected Rs.8,500 crores per month, can be much higher than what we anticipate, I think it is only a move which we need to initiate?
- Pallav Mohapatra:** Sure sir, we will do.

- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Sohail Halai for closing comments.
- Sohail Halai:** Thank you, Pallav sir and the entire management team for giving us this opportunity to host the call. We wish you and the team all the best. While you have covered most of the things, would you like to add anything before the call concludes?
- Pallav Mohapatra:** Yeah, the only thing I want to add is today we got the approval from our board for raising capital to the tune of Rs.5,000 crores through various route including QIP and we will be going to the shareholders to get the approval and the shareholder meeting will be on 7th August 2020. After that I want to come out first with a QIP to test the water and especially institutional investors should look at the positive sides of the bank instead of looking at a one particular figure or the one quarter loss. I gave the reason that why there was a one quarter loss. So I will make a request to all the investors that the bank is on the right direction and the opportunities will be good for the investors to invest it through the QIP route.
- Sohail Halai:** Sure sir, thanks.
- Pallav Mohapatra:** Thank you.
- Moderator:** Ladies and gentlemen, on behalf of Antique Stock Broking, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.