"Union Bank of India Q4 FY19 Results Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Union Bank of India Q4 FY'19 Earnings Conference Call hosted by Elara Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference call is being recorded. I now hand the conference over to Mr. Rakesh Kumar from Elara Securities. Over to you and thank you sir

Rakesh Kumar: Good evening, everyone to Union Bank of India Conference Call for the Q4 Results. We have on the line the entire senior management team from the Union Bank of India being headed by Mr. Rajkiran Rai G. -- Managing Director and Chief Executive Officer; Mr. Gopal Singh Gusain -- Executive Director; Mr. Dinesh Kumar Garg – Executive Director; Mr. Manas Ranjan Biswal – Executive Director.

I would like to request **CFO** sir to give the disclosure statement and then we can start with the small presentation to be given by the M.D. sir and then we can start Q&A session. Over to you, sir. Thank you.

B. Sreeneivasa Rao: Good evening, everyone. Before getting into the concall, I will read out the usual disclaimer statement. I would like to submit that certain statements that may be discussed during the investor interaction maybe forward-looking statements based on the current expectations. These statements involve a number of risks, uncertainties and other factors that cause the actual results to differ from the statement. Investors are therefore requested to check the information independently before making any investment or other decisions. Thank you. Over to you, sir.

Rajkiran Rai G: Good evening, ladies and gentlemen. I have the pleasure and privilege to welcome everyone to Union Bank's Financial Results for Quarter and Financial Year ended 31st March 2019. The Bank financials are reflections of broader dynamics in economy. When we glance back, the year 2018-19 began with hope on economic recovery, growth pick up was seen reducing the debt overhang of corporate and thereby reducing the stress buildup in Bank's balance sheets. Investments had indeed firmed up before running into stress in NBFC space. However, debt resolution through IBC though a substantial improvement over previous regime has not kept pace with the expectations especially the large exposure referred to NCLT. Externally, the narrative of growth with trade expansion has yielded to trade war and slow down concern. It has reflections in overall exports and financial flows in India.

Coming to Business and Financial:

Union Bank continue to build strength in balance sheet through expedited recognition, resolution and recovery of stressed assets while simultaneously building up capital and provisions buffer. Our domestic business advances grew by 7.8% while deposits rose 2.5% on annual basis. The RAM share has risen to 55.7% and CASA share has risen to 36.1%. This portfolio rebalancing resulted in 4 basis points improvement in yield on advances as well as 9 basis points decline in cost of deposits on overall basis. The net interest margin (NIM) accordingly rose by 16 basis points to 2.23 during FY'19. If we take NIM on earning assets also, that is excluding NPAs, it has grown 18 basis points to 2.50 for year-ended March 2019 and stood at 2.54 when you consider only the last quarter of the year, that is March 2019.

Our persistence on quality business shifts towards better rated assets. The risk-weighted asset as ratio to total assets have further declined by 240 basis points to 56.3% as of end of March 2019. This meant our growth has come with minimal capital burn. Operating profit stood at Rs.7,521 crores during FY'19 as compared to Rs.7,640 crores in the previous year. The Bank has promptly strengthened balance sheet by enhancing provision cover ratio which has risen by 9 percentage point to 66% during FY'19.

On a net level there was a loss of Rs.2,948 crores during the year as compared to a loss of Rs.5,247 crores of last year. There has been marked improvement in stressed asset portfolio. Total stress pool has declined both in absolute terms as well as ratio terms. Gross NPAs and net NPAs stood at 14.98% and 6.85% respectively as of March 2019. Recovery and upgradation have increased 3x to Rs.6,447 crores during the year '19. The Bank has prudentially written-off NPAs amounting to Rs.7,771 crores during FY'19. Recovery in written-off accounts stood at Rs.699 crores, more than the double amount of last year. The Bank has raised Rs.4,680 crores in capital including recapitalization from government and a successful employee share purchase scheme. The capital adequacy ratio and CET-1 stood at 11.78 and 8.02 respectively at the end of March 2019.

Let me briefly update you on the outcome of structural initiatives:

The Bank has achieved 75% centralization in underwriting of credit as against 56% a year ago. The centralization has helped in standardizing underwriting and reducing the turnaround time. This means we source quality assets from very beginning. Further emphasis on monitoring has led to early identification of stress and response that to in a structured manner. New tools like early stress system, monitoring portal, outbound call center, recovery app and OTS calculator are strengthening credit risk architecture in the Bank. Likewise, specialized marketing teams are set up at 50 centers which are called customer acquisition groups across the country for sourcing of new business. We are also leveraging alternate channels for new leads.

Of other initiatives, human resource management has undergone a paradigm shift with job families which will ensure functional specialization for every employee along with general banking responsibility. The Bank has invested well in developing competencies and leadership pool across hierarchies. Performance-oriented rewards and recognition are instituted to usher competition within organization.

Way forward:

We have witnessed lot of structural reforms in country aimed at ease of living and doing business. Several international ranking marked deals India has made in the last few years. Near-term challenges notwithstanding, India's prospects are seen strong with the GDP expected to grow from about 3 trillion to 10 trillion in next 10-15-years. Union Bank has anticipated the sea of opportunity ahead in creating capacity and capabilities within organization. We are encouraged by the early outcome and stand prepared to scale our business this year.

Let me conclude by offering the guidance for the year ahead:

The credit growth to be in the range of 9-11% and deposit growth to be around 7-9%. NIM for the full year is expected to be above 2.4%. The credit cost will come down to 2.15 and PCR will be well above 70%. Cost-to-income around 45-46%. Our endeavor will be to contain gross NPA below 12% and net NPA below 6% by March '20. Investor fraternity has been key stakeholder in our journey to become an efficiency pursuing organization. Your feedback has helped us constantly adjust our strategy.

On behalf of Union Bank of India and my personal behalf, I express my gratitude to you. Thank you. I look forward for the questions.

Moderator: Thank you. We will now begin with the question-and-answer session. The first question is from the line of Marukh Adajania from IDFC. Please go ahead.

Marukh Adajania: I had a couple of questions: Sir, what would be your exposure to Dewan and ADAG and how much of it would already be NPL? Also, if you could highlight your exposure to SEBs because there is a lot of negative news flow around (SEB) State Electricity Board, the distribution company debt these days.

Rajkiran Rai G: I think account wise information we will not be disclosing but Dewan as of now is not under stress, they were serviced up to last month. I am afraid whether I will be able to disclose the numbers here because Dewan is not in public domain as of now. Your ADAG group also, mostly I think same this thing. Reliance Defence has become NPA. RCom has become NPA. Reliance Capital, we do not have much exposure as of now. Anyway, it has not become NPA. Reliance Infra also our exposure is very small. Our exposure was largely on RCom and Reliance Defence and both are NPAs. Remaining is not a very major exposure for us in ad hoc. Dewan, yes, we have exposure. When it comes to all SEBs together, actually our exposure as of March is Rs.3,991 crores but then we have not seen any stress in this as of now.

Marukh Adajania: Sir, I had one more question on Dewan, that is nothing to do with the amount of exposure. Are you party to any resolution plans there or does the discussion just happen between the lead Bank and Dewan, other bondholders and Dewan, how does it work, is there any consensus or lender-driven plan there or…?

Rajkiran Rai G: In case of Dewan actually when they had issue with the commercial paper, the banks have helped them out by buying their portfolios so that they could get the liquidity because these are the very short-term. Actually that way we are the lead Bank even though my exposure is not as large as the other banks but then traditionally we are dealing with Dewan for long and we continue to be the lead Bank of Dewan Housing, not by the exposure side but then by being traditionally the lead Bank. So, as of now there is not that kind of plan under discussion among lenders to bail them out or do something and all that because till now they are servicing. But then yes, there are certain discussions going on but then I will not be able to disclose anything, but that is not lender-driven.

Marukh Adajania: So, it will be on an individual Bank basis is it if at all there are discussions?

Rajkiran Rai G: When they need liquidity, they can go to some Bank and get the portfolio purchase and all that so that they get the liquidity. So, it is individual Bank discussion, not as a group.

Moderator: Thank you. The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: Can you please talk about the divergence that we had shown in this quarter especially on the provisioning part, while the divergence in GNPA is pretty less at Rs.667 crores, so what is giving you the much higher divergence in the provisioning? And #2 is why is the negative divergence in net NPA?

Rajkiran Rai G: Actually, the divergence on the provision side was Rs.2,281 crores and divergence on NPA side was Rs.867 crores, those numbers are right. Now the divergence on provision side actually happened. Because what happens, when the RBI does inspection, they push back the NPA date. They have the reasoning because like they may treat as a failed restructuring, they may push it because of the CDRs done earlier. So, what happen is the account which was due and which is substandard with me, suddenly becomes D2 or D3 which is higher provisioning. Few cases they even reduce the security values because I had the certain calculations and taken certain security value but the RBI during the inspection they reduce the security value. That is why my provision divergence was higher actually. So, those are the reasons. Another thing you need to see, actually like we are slightly behind the curve among the peer banks on a provisioning cover side. So, naturally the same account may have higher provisioning at some other Bank which RBI has the data. So, naturally like my provisioning maybe lower. So, they have more data points to compare which we are not aware. So, naturally like RBI takes a call based on that. So, anyway we have covered that now. We have reached a very decent provisioning level. When it comes to the negative NPA, you must have taken it from our disclosure net NPA effect. One or two accounts which are in divergence, they got recovered during the year.

Management: Also, the increase in the RBI calculated gross NPA is less than the increase in RBI calculated provision. So, net NPA is gross NPA minus provision. That is the reason that you are saying that NPA is as per RBI calculation would be lower than what the Bank reported which is negative, it got upgraded.

Rajkiran Rai G: The account got upgraded, that is one thing. One got sold, that is one thing. Because RBI give the data as on March '18. But then after that lot of transaction takes place and with more provisioning and all that, that negative this thing would have come.

Jay Mundra: Just out of this Rs.2,281 crores provisioning, how much have we taken in this quarter?

Rajkiran Rai G: Everything is taken in this quarter.

Jay Mundra: Secondly, there was some reduction in the standard 5:25 accounts I believe, this is power only, right?

Rajkiran Rai G: Only the IL&FS Thermal Power.

Jay Mundra: Apart from this IL&FS Power, if you can break down the sectoral slippages of Rs.1,760 crores?

Rajkiran Rai G: Rs.931 crores in Power, Rs.185 crores in Roads, Rs.212 crores in Iron & Steel, this maybe devolvement, some pooled accounts, these are the large.

Jay Mundra: What is the fresh disbursement to this Dewan Housing apart from the portfolio buyout if you have any in this quarter or there was none?

Rajkiran Rai G: No disbursement.

Moderator: Thank you. The next question is from the line of Praful Kumar from Pinpoint Asset Management. Please go ahead.

Praful Kumar: Just wanted to get some sense on the slippages going forward since you have hinted a lot this year as well. So, what is the guidance on slippages for next year?

Rajkiran Rai G: The delinquency carry max 3%. That also we are projecting because of the MSME stress actually. On the corporate side, we do not see much slippage. This year itself it has moderated a lot. But like we still feel that MSME book has some stress, so we have factored delinquency of below 3%, that is the maximum we hope.

Praful Kumar: In terms of recovery upgrade, because lot of the accounts are in NCLT 1, 2, have to play out maybe this year, so what kind of recovery upgrades can we see?

Rajkiran Rai G: At least maybe end of first quarter, second quarter, we should see at least Rs.3,500 crores of recoveries from the three major accounts which are close to resolution.

Praful Kumar: In terms of OPEX, what was the one-off in terms of employee expenses this quarter?

Rajkiran Rai G: Employee stock option, the 25% discount we debit, so that is about Rs.140 crores and about Rs.70 crores one-time provision on pension also happened, about Rs.200 crores was one-time expense to this.

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

Sneha Ganatra: Last time also you had mentioned good amount of the credit growth could happen but at the end of the fiscal we have just delivered 3% growth on the overall book and next year you are guiding for 9-11%. We would be able to achieve that number and in which segments you are expecting that growth to come?

Rajkiran Rai G: Last year if you see, domestic book has grown close to 8%, that is close our projection but then the degrowth of the foreign branches has actually brought down the overall global book. We accept that because that is a very specific reason. Now the foreign book also started growing and I think there also we will see about 10% growth rate and the domestic book. The retail has grown at 15%, MSME still grows around 6, 7% and corporate book actually we had moderated the growth last time but now since actually the book has stabilized, so we are looking for growth on the corporate book also. I think around 10% growth in credit is not a major challenge for us. Last year was a bit difficult year. Even the capital came in the last quarter. So, we could not plan for the credit growth. But this year we have advantage and it will be better off.

Sneha Ganatra: On the capital raising, any plans?

Rajkiran Rai G: Yes, because we are taking it to the board tomorrow. At that time we will disclose. Now we are not supposed to disclose.

Sneha Ganatra: QIP or any other?

Rajkiran Rai G: At this point of time, all options are open because actually if you have seen my CET-1 at 8.02 actually we are at the regulatory satisfactory level. So, we may go for some 81 also this year. But then anyway the things evolve. But then what we need is the growth capital. So, at the relevant time we will disclose. There are no immediate plans but then anyway we will be taking in-principle approval from the board for enabling us to raise capital when we needed.

Sneha Ganatra: What would be the one if you like to share with us?

Rajkiran Rai G: We will disclose it actually moment the board approves. But whenever we need we are keeping enabling provision. So, I do not immediately need capital. But then definitely as we go forward we may need as a growth capital.

Sneha Ganatra: On the recoveries upgrade part, you mentioned Rs.3,500 crores you are expecting from the top three accounts and apart from this how do you see overall traction on the recoveries upgrades and this time there was a huge write-off compared to what we used to do in earlier six to seven quarters back, any reason behind that?

Rajkiran Rai G: No, actually most of these accounts have reached 100% provisioning levels and already they are NPA for last three, four years, they are all suit filed, the recovery action is on. So, we thought it is prudent because both sides clean the book so we have taken that step, but the recovery side you would have seen this year we are able to substantially higher improve, it is almost tripling of recovery what we did in the previous year. So, I think this year we will be better.

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

Anand Laddha: Sir, you guided for 3% of slippages for next year. How much you expect recovery upgrade from NCLT account? How much recovery upgrade you expect from normal slippages?

Rajkiran Rai G: Actually, I think we have factored about Rs.9,000 crores of recovery and upgradation for next year including this roughly Rs.3,000-odd crores from NCLT, so this is the estimate. So, I think it will be more than that, may not be less than that because recovery actions what we started, started yielding results during this year and it will continue because there are a lot of OTS and other structured schemes going on and now with the NPA tackling improving and lot of beams being formed at the formed, so recovery has substantially improved and the NCLT which we anticipated this year has spilled over to next year. But at minimum level we have factored about Rs.9,000 crores of recoveries and upgradation from both NCLT and our efforts.

Anand Laddha: Of the NCLT account, you expect Rs.3,500 crores of recovery, how much of that will result in reversal of provision for you sir?

Rajkiran Rai G: Maybe close to about Rs.1,000 crores.

Anand Laddha: Despite recovery upgrade is likely to be equal to the slippages, we still expect the provision cost to be higher next year?

Rajkiran Rai G: Actually, at this point of time, we are keeping it on a higher this thing. I think we projected about 2.15. I think these factors in the aging provisions what we have and some normal slippages. So, the provision reversals which we may get we have not factored at this point of time.

Anand Laddha: So, you are ultra-conservative in your guidance?

Rajkiran Rai G: Yes-yes, on the provisioning side.

Anand Laddha: On the margin also sir, I believe we are the only Bank who has the lowest margin among the public sector banks. If I were to look at Allahabad Bank which has humungous NPA they are still above us. OBS who do not have CASA franchises so much, they also have a higher margin than us. Is there any thought, what we are doing to improve our margin?

Rajkiran Rai G: I think this year there is a substantial improvement if you observed. But then one thing, we have given two numbers because some of the banks actually take over the NPA out of the book and then they calculate the earnings. So, when we do that, our NIM comes to 2.50 for the full year and March quarter it was 2.54 actually. So, when you take the NPA out, only take the earning loan assets, so then the NIM improves to 2.50 for the full year. We understand that because actually like it is like historic thing, it was bit low I think but this year there is a very focused attention, we have already seen good improvement in NIM. So, we are projecting on the normal side, about 2.4 for this year. But then like you may have to normalize these because some of the banks are using a different parameter, they are taking only the earning assets, they are taking NPA out for calculation.

Anand Laddha: What sort of ROA, ROE we expect sir this FY'20 and '21?

Rajkiran Rai G: Next year it can be around 0.3 and '21 our target is ROA of 1.

Anand Laddha: Sir, what will drive this 1% ROA target – is it improvement in margins, operating profit or is it just reduction of provision cost?

Rajkiran Rai G: All put together. Now like the resolution will start coming in, that is one part. Most of the aging provisions also will be absorbed next year. So, the requirement will go down in '21 substantially. We are around Rs.7,500 crores baggage of NPA. When that comes down and gradually with the growth of 10-11%, naturally I think the operating profit also ease like because this is one-time reversals and all that, whatever is happening. So, they will all go away. Even this year we had a reversal of nearly Rs.1,200 crores on net interest income. Because next year we will not see these things happening. The NPA slippage on the corporate side will come down substantially. So, calculating all that, ROA of 0.3 next year seems to be perfectly possible but for the time just we had almost ROA of 0.2 this year also. When it comes to 2021 lot of favorable things because we will be on the reverse cycle. Actually, now operating profit is totally eaten away by provision. So, you will see lot of unlocking of provisions also in 2021. ROA of 1 seems to be perfectly possible.

Moderator: Thank you. The next question is from the line of Shrijan Sinha from Future Generali. Please go ahead.

Shrijan Sinha: My question is with respect to the pension liability. Any sense on what percentage of our employees would be on this contribution plan?

Management: 70% will be on defined contribution, around 30% will be on the benefit.

Shrijan Sinha: So, are we an exempt organization or EPFO manages our PF?

Management: That is managed by us only.

Shrijan Sinha: So, in that regard, Supreme Court has recently come out with the verdict wherein they have asked the companies to allow the employees to contribute to employee pension scheme based on their full salary rather than the 15,000 cap that was put by the EPFO till now. So, subsequent to that one of the public sector oil majors they came out with the BSE notification stating that the hit it is about Rs.1,800 crores which is significant for them as well. So, have we done any kind of calculation if the employees were to opt for the full contribution to the EPS, what would be the hit to our balance sheet P&L?

Management: We have not done that right now. Maybe offline we can discuss. Whenever we kind of such a view, we can share with all.

Shrijan Sinha: But this circular applies to you as well?

Rajkiran Rai G: We have read this judgment but then whether it is applicable to public sector space, we need to see now.

Shrijan Sinha: My second question is with respect to the IL&FS. How much of that has already slipped into NPA?

Rajkiran Rai G: Almost all because we had large exposure in Thermal, close to Rs.900 crores. That has slipped in this quarter. We recognized Thermal as NPA.

Shrijan Sinha: So, this quarter what was the contribution from the IL&FS to the total slippages?

Rajkiran Rai G: Rs.885 crores.

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

MB Mahesh: Just a couple of questions: Can we have the latest data on your SMA-01 & 02?

Rajkiran Rai G: SMA-2 we disclose every year; SMA-2 is Rs.8,971 crores, out of that corporate is Rs.2,575 crores.

MB Mahesh: Is it possible for you to declare even the SMA-1 as well because the reason why I am asking is that we continue to see very high slippages in the business and while most of the other banks have started reporting meaningful decline in gross NPLs, we still are not seeing the same in your Bank, we are just trying to understand is there more that we need to be worried about in FY'20?

Rajkiran Rai G: Corporate actually has come down this year also, even this quarter you could see that except IL&FS our corporate slippage is minimum. So, it was more coming from SME book actually this quarter. SMA-1 actually traditionally we have not declared. We will examine whether we have to disclose that. But then SMA-1 is also not a large book actually. Actually, in SMA-2 the retail will still be Rs.3,700 crores and if you see the slippage for quarter it is hardly Rs.200 crores. So, the paying habit of the retail fellows who pay between 60 and 90-days, out of Rs.8,971 crores, Rs.3,700 crores pertain to retail only. So, we do not foresee some major thing but then yes, on the MSME side still like it continues to create some issues, even this quarter our slippage in the MSME was about Rs.695 crores.

MB Mahesh: The second question is on your gross NPAs itself. While you have visibility for about Rs.3,500 crores as we speak today, you have roughly about Rs.3,500, 3,800 crores of corporate NPLs, any broad idea as to how are you approaching the rest of the book?

Rajkiran Rai G: Your Rs.3,500 crores is only on the NCLT list-1 and 2, but then the corporate NPLs for us it is around Rs.33,000 crores. All these accounts are tackled, they are under different legal actions, either DRT or NCLT, various other means. Actually, the resolutions will be happening beyond these two lists only. Maybe it will start crystallizing during this year and next year. We are tackling that. Gross NPL will come down only by recovery and write-off. Two ways. Because net NPA by higher provisioning it will gradually come down, but then here either it should be recovery or write-offs. As we reach 100% provisioning level, some more write-offs also may happen. We are planning to bring gross NPA below 12%. Net NPA already has come down below 7% now.

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

Dhaval Gada: Just one question on this SMA-2. Could you give the Rs.5 crores plus SMA-2 which you report to CRILC just to get the like-to-like comparison across banks?

Rajkiran Rai G: Right now, I do not have the number. I will ask Mr. Nitesh to share with you.

Moderator: Thank you. The next question is from Bhavik Shah from B&K Securities. Please go ahead.

Bhavik Shah: I just wanted to have a color of out of the slippages how much has happened from BBB and BB accounts, right and how much will it happen going forward, and how granular is it with sectors are they from?

Rajkiran Rai G: BB and below book is around Rs.27,871 crores.

Management: Already given in Slide #34 if you can see in the presentation.

Rajkiran Rai G: It is very difficult to project that way. We do not have that much granular data because actually like we track SMA-2 and early stress signal.

Management: Right now, we do not have that break-up.

Rajkiran Rai G: Maybe offline Nitesh will share.

Moderator: Thank you. The next question is from Mohit Surana from CLSA. Please go ahead.

Prakhar: This is Prakhar. Just a little clarification, I needed one in the slippages this quarter of Rs.3,275 crores. You mentioned about Rs.800 crores is from IL&FS. Is there anything from Jet Airways or any other…?

Rajkiran Rai G: We have no exposure to Jet.

Prakhar: All the divergence would have been downgraded in this quarter?

Rajkiran Rai G: There is no down-gradation. It was basically higher provision.

Moderator: Thank you. The next question is from Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: NIM is 2.4% and credit slippage is still going to be 3% plus. So, I am wondering how on a sustainable basis will we be able to make 1% ROA. If you can take me through the numbers expected for FY21 that would be helpful?

Rajkiran Rai G: Because we have our calculations, so we will share with you offline like broad numbers, how we are planning that ROA of 1%.

Tushar Sarda: Are you under consideration for being merged with another Bank?

Rajkiran Rai G: At this point of time, there is no discussion taking place.

Moderator: Thank you. The next question is from Anand Dama from Emkay Global. Please go ahead.

Anand Dama: Sir, can you please help us with the exposure that we have now to NCLT list-1, NCLT list-2 and the provision coverage on this?

Rajkiran Rai G: NCLT list-1 our exposure is 6,023 and our provisioning there is around 68%. On the NCLT list-2 our exposure is 3,603 and the provision cover there is 80%. So, on both accounts put together list-1 and 2, the provision is around 72%.

Anand Dama: Just wondering like most of the banks typically would carry higher provision coverage ratio on the NCLT list-1 in the range of about 80% to 90% as well. So, why is that our provision coverage ratio on NCLT list-1 is so low at about 68%.

Rajkiran Rai G: Because this is actually normal aging provisions… actually it will come as per the aging. Unless there is deterioration in the security value, but this is a quite decent cover we have account wise. Wherever we feel that there is a higher requirement, we are doing it because some of the banks actually where the older NPAs they have reached higher level like if you look at my NCLT second list I have 80% provisioning. I think this is quite reasonable.

Moderator: Thank you. The next question is from Ramesh Rao from Vashisht Capital. Please go ahead.

Ramesh Rao: My question is why did you have to make this disclosure? Is it because of divergence because gross NPA divergence seem to be within the 15% limit allowed by RBI. Is it because of the net loss that has been made?

Management: It was the provision divergence that as a percentage of last year's profit. In that criteria, we are supposed to disclose. It is and/or, it is not that any.

Rajkiran Rai G: The provision side, it was required to be done, so we did both the disclosure.

Ramesh Rao: Any flavor on exposure to commercial real estate and do you see any stress in that sector?

Rajkiran Rai G: We are not seeing any stress in commercial real estate as of now but then the numbers are given somewhere, it is close to 2% of the loan book, but in our case the commercial real estate is basically the lease rental discounting; it is about Rs.4,200 crores.

Moderator: Thank you. The next question is from Ankit Chheda from ICICI Securities. Please go ahead.

Ankit Chheda: I just wanted outstanding pool of securities receipts that you may hold?

Rajkiran Rai G: Secured receipts around Rs.920 crores.

Ankit Chheda: There will be any overlap between SMA2 and other schemes like 5:25, S4A and restructured?

Rajkiran Rai G: Actually, we do not have much left, like only 5:25 is there where there is some standard books actually, but for that I think…

Ankit Chheda: Would it overlap with SMA-2?

Management: There is overlap between SMA-2 and standard structure of around Rs.400 crores and between 5:25 and SMA-2 of around Rs.120 crores, that is only overlap.

Moderator: We have a follow question from the line of Marukh Adajania from IDFC. Please go ahead.

Marukh Adajania: I have a question on your MSME slippages. You said that next year also you could have slippage from the MSME sector and you already seen considerable slippages even in the past. So, why are the slippages still so high?

Rajkiran Rai G: I will tell you one more thing actually, MSME recoveries are all happening. MSME NPA outstanding in Q3 and Q4 if you see, Q4 is lower than Q3. When the slippages are happening, parallelly recoveries are also happening. Slippage is happening because there was forbearance by RBI about six months earlier because of the stress in MSME book. So, actually some of them have slipped in Q4 and some may slip in the Q1 of this year because that forbearance gets over by June.

Moderator: Thank you. The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: I wanted to know what will be our power sector exposure and NPA?

Management: If you see Slide 27, power sector we have Rs.24,000 crores of loan outstanding and then NPA is around Rs.6,600 crores.

Anand Dama: Some time back you said that on the real estate front, you do not see much, that you have bulk of the exposure sitting into LRD, so you do not have any residential real estate exposure at all?

Management: We have the exposure but that is not very significant, but it is very small.

Rajkiran Rai G: Like Rs.4,200 crores is the exposure, it can be less than 10% of that book.

Moderator: The next question is from the Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: On this power sector earlier, we had some resolution plan and we had some visibility on the three to four assets. Just wanted to know if you can share if there is any incremental update on that?

Rajkiran Rai G: Yes, few cases the approvals are given, but then I think they are all at different level of regulatory clearances.

Jay Mundra: But do you see them moving towards resolution or do you think the regulatory approval is going something out of the way in the sense once the regulatory approval comes there could be some other issues as well?

Rajkiran Rai G: Two, three assets should get resolved, that is our feeling, but yes, it is taking some time for regulatory clearance. So, it is very difficult to predict at this point of time.

Jay Mundra: Last question is on the credit loan loss provisioning that we have done Rs.5,700 crores in this quarter, this has piped from Rs.2,000 crores previous quarter, the run rate that we had in the last few quarters at around Rs.2,000 crores. So, we understand the part of it is because of divergence, but how do you plan to smoothen this thing because divergence even otherwise you would have aging kind of provisioning. We understand fourth quarter could be where you have accelerated aging provisions, but what is your thought process from going forward as to how do you plan to smoothen that kind of a credit cost on quarterly basis?

Rajkiran Rai G: Actually this divergence, they are nothing but preponement of provisions because these were already existing NPA accounts, so the aging provisions would come in 2019-2020 and 2020-2021, so technically what has happened is these provisions would have happened in the next years have happened this year. So, to that extent actually it reduces the pressure for next year on the aging provision side.

Moderator: Due to time constraints we will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Rajkiran Rai G: Thank you very much. There are few points actually, like the provisioning was a spike but then this is a one-off because in addition to the Rs.2,200 crores of divergence provision what we made, the accounts because the NPA date got shifted, there was another Rs.1,100 crores of provision which kicked in this year, which is not divergence because this NPA become older so aging provision came. Actually, total impact of this classification and other divergences was almost Rs.3,300 crores on the book, but since we have the capital to absorb that, we absorbed that without defaulting on the capital side. So, CET-1 at 8.02 gives us that comfort. So, hopefully now this has taken the pressure out of us for the next two years on the aging provision side. So, even though our projections are on a very conservative side, we would like to reverse it after the next two quarters, we want to watch the next two quarters how it plays out. Except for the MSME side I think the slippages will moderate and I think we will see that in June and September. Our net NPA movement we see one or two major resolutions in NCLT, our net NPA is likely to go below 6%. I think these are the major things we are aiming at and once this happens, I think the year 2021 we should see substantial progress in the profitability, by that time actually even the pricing part we are taking care because we are aware that our NIM is lower compared to the peer banks. We are constantly working on improvement; we have already seen almost 10 basis points improvement this year and next year also we would like to continue that, the pricing part we are taking care. With that thank you very much for your cooperation and the questions you have asked and additional information we will be sharing with you wherever you need it. Thank you.

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