

“Union Bank of India Q4 FY ‘18 Results Conference Call”

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- Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Union Bank of India Q4 FY '18 Results Conference Call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. I now hand the conference over to Mr. Rakesh Kumar from Elara Securities. Thank you and over to you, Sir.
- Rakesh Kumar:** Thanks, Stanford. Welcome to you all on the Union Bank conference call. On behalf of Elara Capital, we would like to thank the management to having given us the opportunity to host the call. We have on the line Mr. Rajkiran Rai G. – MD and CEO; Mr. Vinod Kathuria – Executive Director; Mr. Raj Kamal Verma – Executive Director; and Mr. Atul Kumar Goel – Executive Director.
- Without much ado, I would like to request CFO Sir to give the disclaimer statement and thereafter we can start the call. Over to you, Sir.
- Nitesh Ranjan:** Good Day everyone, before getting into the con call, I will read the usual disclaimer statement. We would like to submit that certain statements that may be made or discussed during this investor interaction maybe forward looking statements based on the current expectations. These statements involve number of risks, uncertainties, and other factors that could cause actual results to differ from the statement. Investors are therefore requested to check the information independently before making any investment or other decisions. I would now hand over to our MD and CEO who is joined by Executive Director and the senior management team. Over to you, Sir.
- Rajkiran Rai G.:** Good Evening everyone, I have the pleasure and privilege of interacting with you all on the occasion of Union Bank financials for January-March 2018 quarter and Financial Year 2017-18. On behalf of Union Bank of India and on my personal behalf, please accept my heartiest welcome to our tele-con today. I shall take the opportunity to share our mind in detail both in my opening remarks and later by taking your questions. I believe you have gone through the financials, which is uploaded on stock exchanges as well as on our website. However, for the sake of relevance, I will briefly share the financials for Q4 and FY '18.
- Profitability: The operating profit stood at 1890 crores for January-March '18 quarter and Rs. 7540 crores for the full year '17-18. Net profit, however, turned negative reflecting the increased provision while strengthening of balance sheet. Cost-to-income ratio for the bank stood at 47.3% in FY 2017-18 compared to 46.4% of previous year. Here, I would like to mention that the bank has not undertaken any of the three dispensations provided by the Reserve Bank which includes spreading MTM losses to four quarters, lowering NCLT provisions in secured advances to 40% from 50% and gratuity-based dispensation.

Business Growth: Gross advances have grown by 4% on the global book annually to 3,13,860 crores. The moderate growth is mainly due to shrinking of international loan book by paying off of buyers credit. Domestic loan book recorded annual growth rate of 5.9%. It is a conscious decision that reflects our shift hour's average business. Average advances grew 12.9% for the year '17-18 as against 7.1% of previous year. On the loan mix, the RAM sectors now command 55% share. Our growth has been capital light as reflected from 1.7% decline in risk-weighted assets as against 4% growth in advances. On resources side, average deposits grew 8.7% for '17-18 as against 11% of last year, which is reflective of demonetization effect also. CASA ratio stood at 34.1% as of end March '18 as against 34.4% a year ago.

Asset Quality: Gross NPA ratio rose to 15.73% as of March 2018 while net NPA ratios stood at 8.42%. Slippages during Q4 stood at 10,043 crores. Of these, around 4000 crores came of SDR and S4A. Friends, you may recall that during my first interaction with you all last year, I had shared about three priorities for Financial Year '17-18. They are strengthening the balance sheet by raising PCR as well as CET-1 ratio, strengthening credit origination and underwriting, unlocking provisions blocked in existing NPA account by focused recovery of ours. I have the satisfaction of sharing with you that we could actually progress along these priorities. There have been some surprises of course particularly on account of latest circular of the Reserve Bank removing dispensation on restructured exposures. Our financials today are cumulative of these developments. Talking of balance sheet strengthening, our PCR stands at 57.2% compared to 51.4% a year ago. For large exposures being resolved through NCLT, Bank has 60% coverage, which positions us comfortably for eventual haircuts.

On the exposures other than the RBI list being resolved through NCLT, we have provided almost 74%. We are through with the recognition of stress with SMA2 exposure shrinking to 2.8% from 5.4% a year ago. On capital strength, we have pursued capital light growth in focus areas thereby limiting capital burn during the year. We have raised Rs. 2000 crores capital from market while getting Rs. 4524 crores capital from Government this year under recapitalization program. The bank has also raised 500 crores of 81 Capital to augment our capital adequacy. Accordingly, our CET ratio stood at 7.60 as of March 2018 which remains a regulatory minimum of 7.375. While strengthening balance sheet, our focus has also been on building capabilities for growth re-jigging processes for improved origination and better underwriting of credit while investing in people capabilities both the number and skill to effectively raise quality of business going forward. The bank has revamped its organization structure to better align marketing and sales resources specially focusing on outbound sales. The approach here is two pronged branches to focus on deepening existing relations, it will be through analytics-based lead for increasing product per customer. Meanwhile, the sales team would do outbound acquisition of new customers, while organization structure in place, our focus will be on scaling up partnerships with Fintechs to improve sourcing this year.

The Bank has centralized 50% of credit processing already, which cuts through size and sectoral exposure be it retail, agriculture, MSME, or corporate business. We undertook special efforts in strengthening capacity of current processing centres deploying skilled manpower and

equipping with right kind of technical support while also setting up new centres across the country. Agri processing centres namely Union Samridhhi Kendras is a pioneering initiative for improving quality of underwriting in agriculture sector. Our experience in pilot initiatives is very good, and therefore, we will be opening new Union Samridhhi Kendra this year. Taken together, our aim is to scale up credit centralization to 80% by this year-end. While setting up this capability building initiatives, we remain seized of the imperative of the day. Our third but most immediate priority was to enhance recovery from NPAs, business exigencies notwithstanding, Bank has skillfully used its resources and it yielded good results. Friends, you would agree that operating milieu has changed a lot during last 12 months. Economy is on sound footing, the structural reforms placing growth on a high pedestal this year and going forward.

More heartening is the development in banking and finance. We are witnessing marked raised in financial savings of household and a shift towards digitalization and formalization of economy together with new policy infrastructure like IBC, RERA, GST etc., we have necessary ingredients in place for ushering a good credit culture, it is time we build on these gains. Union Bank is well-positioned to gain from macro momentum in economy. Our focus though will be to grow in chosen areas, which are RAM sectors and better rated corporates. Meanwhile, there will be shift towards higher yielding loan segments within RAM such as housing, vehicle finance, credit cards, gold loans, and channel finance. We are seized of the risk and have accordingly first focused on creating right underwriting and monitoring structures. We are largely through this capacity building initiatives and look forward to harvest gains in terms of business this year. Let me conclude with sharing the guidance for year 2018-19. Credit growth to be around 7% to 8% and deposit growth to be around 8% to 10%. CASA share to remain in the range of 34% to 35%. NIM to be around 2.25%. PCR to rise to around 60%. Delinquency to be around 3% and credit cost to be around 2%. Cost-to-income ratio to be between 46% to 48% considering imminent wages revision. Our endeavor would be to contain gross NPA below 12% and net NPA below 6% by March '19 considering resolutions and projected credit growth of 7% to 8%. We have simulated our growth aspirations vis-a-vis capital requirements that we are confident of achieving our goals for the year 2018-19. With this brief, I invite you all to share your feedback and questions. Thank you.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: Sir, my first question is on your Power exposure, if you could breakdown the Power into private, public, and any other details, the standard Power exposure because your Power stress is around 20% to 23% whereas some of the private banks have 40% to 44% as Power stress, so just wanted to understand the composition of your Power loans right now? My second question is on the breakdown of slippages sector wise, as in how much of the slippage came from Power, fee?

- Atul Kumar Goel:** Mahrukh, total exposure of the Bank in Power sector is 22,450, out of which PSU and SEB is around 7121 and remaining is the loan PSUs, 15,329. Out of this, NPA is 4957 that is only from the non-PSU, there is no NPA in the PSU or SEB category. Further if you want what is the composition of the generation and transmission, please note generation is around 16,733 and transmission is 1705, and the remaining is the distribution. All the NPA of 4900 which I told you, that is from the generation only. Your second question is the slippage of the current quarter sector wise, so there was 228 slippage in retail, agriculture was 757, SME was around 1418, and others was 7640. Further breakup of 7640 is out of which infra was 4752 out of infra, Power was 3077 and others iron and steel was 506, food processing 153, and textile was around 432.
- Mahrukh Adajania:** Sir, why did the MSME NPLs rise in the quarter?
- Atul Kumar Goel:** There is no rise, if you see the book is around 50,217, so there is a slippage of hardly around 1418 and moreover you know. Now the audit was also little bit tough for this particular quarter.
- Mahrukh Adajania:** Sir, just one more thing that of that 167 billion of Power exposure that we still have as standard, what is the stress in that because most of them seem to have a much higher proportion on their Power loans as NPL.
- Rajkiran Rai G.:** Around 4900 plus is in the standard category, entire I do not think will come into the slippages, if you take the very conservative also, you can take 5000 maybe around on the stress book in the Power.
- Mahrukh Adajania:** Of the 167, only 5000?
- Rajkiran Rai G.:** Yes, already 5000 is NPA out of the total exposure to the generation, 16,000 includes the PSU also, so if you take roughly take thermal, particularly it is coming from the thermal sector you can say in the standard category there may be roughly about 4900 crores of Power which was not under SDR or S4A or any other kind of thing, but they are standard as of now, but they may be in SMA0-SMA1 category where we may have some stress, but not every account is in trouble.
- Mahrukh Adajania:** Sir, of this 167 billion, how much is private thermal would you have that figure?
- Rajkiran Rai G.:** 12,600 is Thermal Power that includes NPA portion also, it may be around 7000, out of 5000, 220 already NPA.
- Moderator:** Thank you. The next question is from the line of Prakhar from Edelweiss Securities. Please go ahead.
- Prakhar:** Sir, what is our SR outstanding on the book?

- Rajkiran Rai G.:** 980 crores.
- Prakhar:** Sir, what was the interest income reversal within this quarter?
- Atul Kumar Goel:** Income for this particular quarter was 443.60, it is net because some of the account has slipped from SDR, S4 where we were having the provision in the head office because as per the RBI guidelines, you cannot recognize the interest on the, debt was around 256, net was 443.60
- Prakhar:** Interest income reversal during the quarter?
- Atul Kumar Goel:** Yes.
- Prakhar:** Sir, what was our outstanding exposure to the gems and jewelry account that we mentioned in the notes to accounts and have we taken that through P&L or that is through net worth that we have deducted that?
- Rajkiran Rai G.:** That is the two accounts exposure was around only 250 was the account and we have made 100% provision on this debt.
- Prakhar:** Sir, there seems to be a sharp rise in non-interest income core, non-interest income during this quarter, what was the reason for that?
- Rajkiran Rai G.:** Yes, I can tell you there is we have got the refund of 450 crores from the income tax that we have booked in the other income.
- Prakhar:** Sir, last question what is your non-fund based exposure to this recognized gross NPLs that we have done this quarter?
- Rajkiran Rai G.:** It may be around 2000 crores.
- Moderator:** Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.
- Jai Mundra:** Sir, first I wanted to understand this deferred stress, so if I go to the Slide 24 where we have mentioned 525, SDR, and S4A and then in the next slide we have standard restructured book, so is there any overlap between let us say 1235 crores of restructured book and these basically 525, that is question number one? Secondly Sir, now we have only 12 accounts under 525 that looks like is there any only one addition or there was some account which slipped and then we have added one more account?
- Rajkiran Rai G.:** There was one addition in 5/25.
- Jai Mundra:** There was no slippage from 525 in this quarter, right?

- Rajkiran Rai G.:** There was no slippage. There is no overlap between 525 and standard restructured.
- Jai Mundra:** Sir, you mentioned about 3% kind of slippages, if I just back calculate that is somewhere around some 9000 odd crores slippages, so how do you see, of course you mentioned that the Power may be next key area wherein let us say 5000 odd crores are kind of weak account, so how should we see these 9000 odd crores kind of a number between corporate and let us say non-corporate?
- Rajkiran Rai G.:** Broadly, it can be about including Power up to 6000 that 2% from the corporate book, 3000 from the MSME retail book. This 6000 mainly will come from the Power, that is our expectation.
- Jai Mundra:** Sir, if I see our recovery apart from the large corporate recovery, we have elevated slippages in MSME book also, but if I see the recovery upgrade that is still on the lower side because other Banks they are still saying there is some recovery from small value account or MSME kind of an account where we are still having higher recovery, so any sense on how are you seeing recovery from these let us say non-large corporate account?
- Atul Kumar Goel:** Mundra, if you see the total recovery this is the net number I will tell you. If you see the gross recovery, it was more than 1000 crores, if you see that number also because this time the auditor has told whatever there was slippage in this particular quarter and whatever the recovery in this account, even it was beyond March 31, 2017. They have not taken in the recovery, so it is a net number, this is the reason because whatever the adjustment they have made, they have made in the last quarter, otherwise recovery is very good, it is gross basis is more than 1125.
- Jai Mundra:** If I were to gross out then let us say additional 700 crores would be added in slippages?
- Atul Kumar Goel:** You can say like this, you are right.
- Rajkiran Rai G.:** Recovery has really picked up and we have created the teams and they have done recovery of 1125 crores, but figure sake actually when auditors sit, the net of this thing, so ultimately what is reflecting there is the net figure.
- Jai Mundra:** Sir, you mentioned SMA2 at around 2.8%, if you can quantify that in the absolute number that would be very helpful?
- Atul Kumar Goel:** It is 1723.
- Management:** Out of this only around 1800 is the corporate SMA2
- Jai Mundra:** Would this also include, Sir, this deferred stress which are there in 525 or restructured?
- Rajkiran Rai G.:** It is there.

- Jai Mundra:** Sir, if I just were to ask this deferred stress plus SMA2, what would be the overlapping component roughly?
- Management:** Between SMA2 and standard structure around 350 crores and between SMA2 and 525, 250 crores that is the only overlap.
- Jai Mundra:** Corporate SMA2 is 1800 crores?
- Management:** Yes.
- Jai Mundra:** Sir, then the difference between these two of around 6000 crores that looks like very high less than 5 crores number, is that correct interpretation?
- Rajkiran Rai G.:** Correct, because retail and MSME, our SMA2 portfolios are quite high because generally there is a portion of borrowers who tend to pay between 60 to 90 days, it is not that they slip, but then their tendency is that to pay on the last, but then that continues to be there.
- Jai Mundra:** So 6000 is below 5 crores per account exposure kind of a number?
- Rajkiran Rai G.:** Yes, and it does not slip actually, but their tendency to pay between 60 to 90 days.
- Moderator:** Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.
- Amit Premchandani:** Sir, what was the MSME or SME slippage this quarter and what was the slippage run rate for MSME and corporate?
- Rajkiran Rai G.:** SME slippage was 1418.
- Amit Premchandani:** What is the book size of SME?
- Rajkiran Rai G.:** Book size in MSME is 50,217.
- Amit Premchandani:** It was roughly 11% to 12% slippage run rate right?
- Rajkiran Rai G.:** Yes, even on the whole book is also that is the trend, actually it is around 12%.
- Amit Premchandani:** Okay, and you are very comfortable growing the book which is slipping at 12% run rate?
- Rajkiran Rai G.:** No, actually you need to look at the historical numbers because this is basically flowing from the demonetization impact and subsequent damage, so there was a spike in NPA in MSME, so the fresh book what we are creating, we are creating a different way. Actually, we mentioned about that, we have created 45 MSME hubs actually where the back office processing is happening. We have also tied up for some new technology for a new kind of assessment in this

and we have digitized the total processing loan applicant onboarding and all that, so the new book will not have this kind of stress, but then yes historically whatever we have that stress will continue for some time, but on the new book slippage it will be below 1% that is the way we will be building, but there is no way we can go out of MSME, MSME will be there but this year we have grown very conservatively on MSME, it is less than 3% because we were correcting the book actually.

Amit Premchandani: Sir, the previous MD also said the same thing that he will grow RAM and slippage will go down and we are seeing the results right now, so I am not really sure whether as a Bank or as a culture you are equipped to actually assess or underwrite MSME loans, so this whole method of going into MSME, everybody going into MSME and then reporting 10% slippage does not look like it is working?

Rajkiran Rai G.: I agree with you but then like the issue is in Banks actually if I have 4300 branches, all the 4300 branches underwrite credit particularly MSME, so that is why what we have done is, we have restricted the lending powers of the branches, shifted the credit processing score totally to the MSME hub. My earlier MD would have mentioned it, but then the structure was just getting ready, now we completed that structure actually, so now I think the whole process. Now, we are aiming at 80% centralization of credit processing by this year end. We have already achieved 50%, so this will definitely improve the quality because that is the way we are looking at it and maybe when we talk after next six months, we will see the difference.

Amit Premchandani: Sir, 2.25% margin and 2% credit cost, are you as a chairman also giving up hope, this implies that there will be 0% ROA?

Rajkiran Rai G.: This year will be because the consolidation will happen this year, so we will be definitely, the resolutions will give us some benefit this time.

Amit Premchandani: This credit cost of 2% is without taking into account any resolution?

Rajkiran Rai G.: That was on the aggregate level, but then the resolution benefit whatever flows in will be added to this, that is actually roughly we are estimating the provisioning requirement based on the ageing provisions which are on the existing book plus actually we are taking some kind of additional provisioning which may be required in the Power sector because in Power sector whatever NPA has happened I already have a 30% provision, so if it gets into NCLT also another 20% I may need, so that is how we have calculated this 6000 crores, I think some resolutions will help us unlocking the value and my operating profit will definitely go up this year.

Amit Premchandani: Sir, which part of the RBI circular led to a sudden increase in NPL this quarter say to 10,000 crores?

Rajkiran Rai G.: That is actually removal of forbearance on the SDR and S4A and other restructuring accounts, so that straight away actually SDR and S4A, our exposure was 4500 crores as of December,

that totally slipped and something from the restructured book also slipped, it was roughly 6000 crores of slippage because of this guideline.

Amit Premchandani: This forbearance which was removed on a retrospective basis, so all the SDR where you have actually converted into equity your exposure had also slipped?

Rajkiran Rai G.: Yes, they are in the investment book but there also, this time if you look at the investment book we have made a provision of this quarter itself on the investment 1200 crores in the provision on the investment book this quarter, so that includes that provision on this equity which was converted out of SDR and S4A.

Amit Premchandani: And that also slipped and reported slippages?

Rajkiran Rai G.: Not slippages, investment book it will not be slippage it will be mainly the addition in the.

Management: The securities which are listed they will be valued at the market price and those who had not listed, they are valued at zero.

Amit Premchandani: In the S4A also even though you have...?

Atul Kumar Goel: I may clarify you whatever the portion converted in the equity in the investment book, that is also NPI that is not included in the NPA, but that is very much NPI there, whatever provision we have to make in advances, the same provision as per the RBI we have to book and considering the market value whichever is higher. First, I want to clarify you were saying 2.25 is the NIM and credit cost is 2%, so you are saying ROA will be zero, ROA will not be zero. If you see 2.25 in the gross book that is the loan book as well as investment book, my loan book is 3,13,000 and I am having the investment book around 1,26,000 whereas credit cost 2% is only on the loan book, so there will be a positive ROA even you take the same thing.

Amit Premchandani: There will be some OPEX or there will be no OPEX?

Atul Kumar Goel: Naturally, the OPEX will be set off by the other income.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Out of the 17,000 crores of standard Power generation assets, what is the lowest PLF that any plant is running on?

Rajkiran Rai G.: We can say zero also.

Pranav Tendulkar: So that is there are Power assets which are yet to commission at the operation?

- Rajkiran Rai G.:** No, these are the accounts actually on the total book when you said there are plants which are not running, there are plants running at different capabilities and different capacities. Now, on the Power side, your question is on the...?
- Pranav Tendulkar:** Just the Power generation, 17,000 crores of Power generation assets that are standard on our book?
- Atul Kumar Goel:** No, that is the total book out of which 4957 is NPA.
- Rajkiran Rai G.:** Total Power book is 22,450 crores out of that 7120 crores is exposure to PSU and SEBs where there is no issue, so to the private sector our exposure is 15,300. Out of that, almost 5000 crores is already NPA, so we are left with a book of 10,000 crores?
- Pranav Tendulkar:** So 10,000 crores is remaining?
- Rajkiran Rai G.:** 10,000 is remaining, out of that roughly we have indicated 50% of that which is mainly from the thermal which may come under stress because there we have this issue.
- Pranav Tendulkar:** Rest 50% is from which sector of Power?
- Rajkiran Rai G.:** They are from the transmission and there are so many other things, where there is no risk including like some transmission and some other where there is no problem.
- Pranav Tendulkar:** You are saying that out of this 5000 generation where stress can come, all this are operational projects or any of this is yet to commission?
- Rajkiran Rai G.:** They are all operational assets, servicing their loans at this point of time, but they may be at SMA0, SMA1 level at this point of time, per the new guidelines they have to be treated differently, that is why we say roughly 5000 crores may be under that restructuring plan now?
- Pranav Tendulkar:** Sir, my second question pertains to the slippage guidance that you gave at the start, can you please repeat, I missed it?
- Rajkiran Rai G.:** Slippage is delinquency of 3%.
- Pranav Tendulkar:** This 3% will come from the existing restructured book which is standard or?
- Rajkiran Rai G.:** Now, restructured book which is standard is hardly 1200 odd crores, I am not seeing much pain in this book, these are all behaving well now at this point of time, so this will come from this mostly the corporate side it will be thermal Power and some non-fund based exposure on the existing NPAs which will crystallize, so we are assuming roughly about 6000 crores of slippage from the corporate books totally for this year.

- Pranav Tendulkar:** Sir, how much of your loan book is given to substandard builder loans any idea that you can give us, so builder is like basically real estate developers?
- Rajkiran Rai G.:** We have one account, we cannot call it as a builder, it was a Township which has slipped now because it was under SDR and all that. Now, because of the removal of SDR, they have slipped that is one exposure we have, but for that we do not see like any stress in the sector, we do not have any other bad accounts, real estate this is the only one.
- Pranav Tendulkar:** Sir, total real estate exposure is how much roughly?
- Rajkiran Rai G.:** We will share later on.
- Pranav Tendulkar:** Sir, what are the incremental areas of growth that you are seeing right now?
- Rajkiran Rai G.:** Retail we have grown 22% this year, even though we may not grow at 22% now the base is much higher, but then we expect the retail growth will be between 18% to 20% this year also, so that is one area. MSME since the new structure is in place and we have also created 25 mid-corporate branches at different centres now, which is a new development out of that 18 are already functioning, so we like maybe we grow on this sector also now with better credit underwriting unlike the earlier 12% NPA, so that is where we are focusing on. Large corporate very selectively we will grow because there is a rebalancing of portfolio plus actually what we are planning is with the NCLT resolutions coming in, in the first list I have 7000 crores exposure, out of that even 5000 crores getting either paid or getting adjusted from the provision, so much of degrowth will happen in the large corporate, so we will supplement it with better quality, so we are bringing the risk-weighted assets so we are again expecting that net growth in the large corporate will be 2% 3% because we have to cover up for the recoveries in the large corporate also, but then overall it will be 7% to 8%. Now, if you look at our RAM sector, we already reached 55% level that is where we will grow and in agriculture also this time there was not much growth because of this debt waivers and all that, this year again the growth will come back in agriculture also.
- Pranav Tendulkar:** Sir, you said that non-fund based exposure from the existing NPAs might slip, so can you just elaborate how much is the quantity of standard?
- Rajkiran Rai G.:** There were 2000 crores of non-fund exposure on existing NPA, but most of that may not slip actually, but then we are factoring about 50% may get crystallized.
- There was a question on the real estate exposure, it was 7200 crores.
- Moderator:** Thank you. The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.
- MB Mahesh:** Sir, very basic questions, one what is the current status on that account with PNB that you have on the gems and jewelry account?

- Rajkiran Rai G.:** We have recovered everything.
- MB Mahesh:** They have paid the entire amount is it?
- Rajkiran Rai G.:** Yes.
- MB Mahesh:** The second one this buyer's credit reduction that you are seeing is it because in general the public sector banks have had issues with respect to getting foreign currency lines?
- Rajkiran Rai G.:** This is basically because the buyer's credit got paid off because the LOU is stopped, so on maturity, they are not renewed they are all paid off.
- MB Mahesh:** Just simple one the SMA2 book you had mentioned 1800 crores is it?
- Rajkiran Rai G.:** On the corporate like out of total SMA2 book only 1800 is corporate.
- MB Mahesh:** What is the total outstanding SMA2 book?
- Rajkiran Rai G.:** 8700.
- MB Mahesh:** Last question, MSME you had the benefit of, the RBI had come out with a regulation in a circular in February saying that you can take benefit on the waiver there provided they have registered under the GST framework, have you taken advantage of that, one, and second, how much of your MSME are actually, have you checked your portfolio how much of them are actually registered under the GST framework?
- Rajkiran Rai G.:** That numbers we may not have, yes, we have taken the benefit of that RBI guidelines, I think it is about 300 crores kind of thing where we took the benefit not many because we could not get the GST onboarding data in our core banking. I think many of these customers maybe already registered, but then we are collecting that data, so at this point of time out of MSME how many are in GST it will be difficult to get, but fresh MSME whatever we are doing we are ensuring that we have the GST data.
- MB Mahesh:** Sir, the reason I am asking this question is we are just trying to understand, do you have a portfolio which is on the unorganized or which is outside the GST framework where their business is coming under pressure, so just wanted to understand that part as well?
- Rajkiran Rai G.:** One thing in MSME portfolio, we have MUDRA portfolio also, which is under the Prime Minister's program, actually these are small advances mostly ticket size between 10, 20, 25 lakhs that kind of thing, so they are a different kind of this thing, but when the larger ones are particularly above 50 lakhs there actually GST is coming in and for some time, yes, there was some discussion from the mid-sector, there was some pressure but I think now it is balanced off, now people are very comfortable.

- Moderator:** Thank you. The next question is from the line of Vishal Goyal from UBS Securities. Please go ahead.
- Vishal Goyal:** Sir, the question is on the second part of RBI circular which says you start tracking one-day delinquencies and you have to resolve within 180 days or else it goes for bankruptcy, so that process must have started from March 1st?
- Rajkiran Rai G.:** Yes.
- Vishal Goyal:** Sir, any thoughts or in development you can share on the same because there must be cases who have turned overdue after March 1st, so what exactly would have happened, I am not looking for specific answer, but generally what is happening?
- Rajkiran Rai G.:** In my case, there are 11 accounts we are tracking which are in this category and out of that three accounts have already regularized, yesterday I was just checking the data because they were under SMA0, SMA1 by one month default kind of thing, they serviced that extra and they have regularized, and others, like this is where most of this Power sector stress I said is also coming from, they are from this about 2000 crores category where they are SMA0-1, always they service with 60 days default kind of thing, so that is where some of the accounts may get into resolution plan and this thing, this is the exact area we are pressurizing RBI to change the guideline also, because these are the accounts which are servicing me for the last two years with a one to two month default because their payments from DISCOM is not coming, that is where we are telling either you change the DISCOM so they pay on the due date so that we will not have default or change the regulation to at least 30 to 60 days, I think this is one dispensation we are still pursuing.
- Vishal Goyal:** Sir, currently you are working on a one day overdue, correct?
- Rajkiran Rai G.:** This is listed on one day overdue, already all these accounts the bankers have met and there is a continuous follow up on all these accounts.
- Vishal Goyal:** Sir, so on 11 cases you are lead banker or only 11...?
- Rajkiran Rai G.:** We are not lead in any.
- Vishal Goyal:** These are the 11 cases where there is an overdue of one-day, correct?
- Rajkiran Rai G.:** No, one-day and above 2000 crores.
- Vishal Goyal:** Above 2000 crores and 2000 crores aggregate debt, not your exposure?
- Rajkiran Rai G.:** This is from aggregate.

- Vishal Goyal:** Sir, for example when a specific case becomes one day overdue, what is the action plan you guys are doing like you basically you highlight it obviously to CRILC and then there is a consortium meeting which is happening or?
- Rajkiran Rai G.:** Within a week or so we call and then we discuss and many times the borrowers they arrange to pay it up actually because they also know the implication, that is why I said three accounts got upgraded from this list because they paid-up actually, they were running one month default actually, so they paid-up and got regularized like that it happens. If they are not able to resolve then I think that is where we have planned the delinquency of 2% in this book.
- Vishal Goyal:** Sir, for the rest of the eight cases, I am sure there would be like multiple options available for resolution, one obviously is repayment, but apart from that let us say whatever haircut or maybe...?
- Rajkiran Rai G.:** Then they will get into NPA, the only way is payment of the overdue so that account remains standard, any other option will make it NPA expect the change of management.
- Vishal Goyal:** Change of management is still allowed, correct which is basically...?
- Rajkiran Rai G.:** Change of management is allowed but then that will be a long process, then all the days still a change of management happens, he has to maintain account as standard.
- Vishal Goyal:** Otherwise, 180 days you have to file for bankruptcy?
- Rajkiran Rai G.:** Yes.
- Vishal Goyal:** What I am asking is, for example, let us say you have eight cases now in pipeline, now on this cases would you prefer to basically take haircut, call it NPA and move on or you would prefer it to go into bankruptcy and then take haircut?
- Rajkiran Rai G.:** That is very difficult to take a call, account wise we may have to look at it because out of this eight accounts also, these are all good accounts which are servicing me for more than a year but albeit bit delayed, so we will work out a mechanism, but then few accounts will definitely cross this 180 days and then make it into NCLT that we are factoring that. These accounts we are handling for many years, we know them and we know the inherent issues in this account, wherever it is possible we are helping them out, and otherwise, it will get into and as you said, the haircut. At this point of time, if there is a correct resolution mechanism, we do not prefer to go to NCLT, but if there is no solution coming, NCLT is the last resort because we have seen NCLT lot of value destruction also happens in many cases particularly on the infra side, so we will not push account to NCLT, we will try to resolve on our own as far as possible.
- Vishal Goyal:** Sir, just one last thing on the same thing, in the consortium of banks are all banks coming to one-page especially because you would have seen for eight cases I am sure there is no resolution there that is why they are and not repayment also, so I am just trying to think in your

consortium meeting what kind of stuff you are discussing because you know what I am saying because either you are waiting for the repayment to happen before 90 days?

Rajkiran Rai G.: No, actually here there is some advanced level discussion I cannot disclose but then this bankers are taking presentation from the customer and customers are very, very serious, that much I can assure you. There is different plan being discussed. This is very seriously taken, it is not that it is just buying time, it is very seriously discussed.

Moderator: Thank you. The next question is from the line of Manish Shukla from Citigroup. Please go ahead.

Manish Shukla: Sir, following up on the previous question, of the 11 accounts, the three which have been regularized, have they become regular with all banks or only with you?

Rajkiran Rai G.: All banks.

Manish Shukla: Going back to the Power sector, you said roughly there is 5000 odd crores of standard thermal Power exposure which potentially can become NPA. On this 5000 odd crores, what would be the average utilization today?

Rajkiran Rai G.: I may not have the numbers.

Manish Shukla: The point I am trying to understand is you say that they are standard and they are servicing their debt currently, how is it?

Rajkiran Rai G.: They are servicing with some delay.

Manish Shukla: Yes, with some delay and you believe that potentially they can become NPA, so what I am trying to understand is how are they servicing the debt today and what makes you think that they may not be able to do it sometime during the year?

Rajkiran Rai G.: Left to themselves they will continue to service. Now, the pressure is to bring that overdues in overnight, which they are not able to do because at least two to three cases where I discussed the operating levels were around 50% to 60% and then there are overdues of practically four months kind of thing with the DISCOMs.

Manish Shukla: Sir, my point is that he is able to pay you after one month or two month delay now and if he is able to pay you up with a similar delay six months down the line, it should not become an NPA, I am trying to understand what is likely to change that will push him from standard asset to NPA?

Atul Kumar Goel: They are doing well, but the question is only they are making the payment late as per the new circular, why we are seeing 5000 crores may slip to NPA, reason behind that because if this has not would not have come, so they will start paying after one month or two months, but

once there is a single day overdue, if this position remains continued for six months even they are paying, but they are not up to whatever they have to pay, so we have to go to the NCLT, either they have to take the resolution, this is the reason we are saying.

- Rajkiran Rai G.:** It is not necessary they should become NPA.
- Manish Shukla:** Sorry to continue on this, the new circular only says that at first day of default, you need to come together, NPA is still 90 days overdue?
- Rajkiran Rai G.:** Agreed.
- Manish Shukla:** Anything which pays you in less than 90 days will continue to be standard asset that does not change with the new circular?
- Rajkiran Rai G.:** Yes.
- Manish Shukla:** So what I am trying to say is how will circular make this asset which is current into an NPA, why should it become NPA because of the circular?
- Atul Kumar Goel:** It will not become NPA but after six months, if there is a continuously overdrawn in the account for six months, I have to go to NCLT. The moment the account will go to NCLT then you can understand what will be the fate of the account.
- Manish Shukla:** Sir, in three months it will become NPA, at 90 days will be an NPA?
- Atul Kumar Goel:** No, account will not become NPA but remain overdue for six months, suppose if is not making the up-to-date payment, suppose there is a one-month overdue continuously for the six months then either they have to do the resolution otherwise we have to do the NCLT.
- Moderator:** Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Sir, in your overall guidance for NPA for the next financial year, how is the assumption of in terms of normal course of recovery and from resolution that you have factored in here?
- Rajkiran Rai G.:** Next year number?
- Sangam Iyer:** Yes.
- Management:** Can you repeat it?
- Sangam Iyer:** Sir, when you gave a guidance that you are looking at a gross NPA level below if I am not wrong 12%, so what is the kind of because you have already given the slippages in terms of?

Rajkiran Rai G.: We are expecting a total resolution of 14,000 crores through NCLT whole year next year from our book 14,000 crores and then recovery of 4000 and then slippage of roughly 9000, 3% delinquency what we said, so that makes a figure of roughly 12% on the gross, which is 7% to 8% growth in the credit.

Sangam Iyer: Sir, in terms of the overall OPEX going forward, should one assume given that you have looking at around 7% to 8% kind of a growth overall and we have done some systematic changes this year also, the OPEX growth next year would be lower than the overall business growth or how should one be looking at it?

Management: This would be largely in line with the business growth, if you see our OPEX as a ratio to average asset, it is in the range of 1.4 to 1.5 which is at par with the rest of the bank actually, so we do not see it coming further from 1.4 to 1.5 range of the average assets, maybe 8% to 10% could be the OPEX growth during the year.

Sangam Iyer: Sir, I was just trying to understand, MD Sir had come over TV and said that we are looking at a profit number in by Q1 of next financial year, that is, FY '19, now how does the status look like?

Rajkiran Rai G.: Definitely, we are looking at profits next year overall full-year; June and September, it is very difficult to predict at this point of time because like if you have seen, I have factored everything in this year, I have not taken benefit of NCLT where I could have made 40% provision, I have not taken that benefit. My provision actually has increased to 60%, I did not spread that mark-to-market provisions which I could have spread to next three quarters, I did not take the benefit of the gratuity so that means I do not have any overhang of provisions for next quarter. The only thing is the ageing provision and if the slippage is as per our projections, we will be having profit but then see what happens is when I said this Power sector which is in this SMA0-1 category, if they slip and the NPA which has already happened in Power sector about 5000 crores, I have a provision of about 30%. Now suppose they get into NCLT, now then another 20% have to make. This may come either in first quarter or second quarter, that is where I am not very clear whether my provisions will overshoot the operating profit, but then full-year when I take I think ROA we have given 0.20 projection, so that means full year we will make profit, but I will be definitely looking at the profit for June but then these are some things which are variable at this point of time, when exactly I may have to make provision on this Power sector will be decided because the moment it needs NCLT, I have to make 50% provision.

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

Harshit Toshniwal: Sir, couple of questions again related to how the operations work once because of that RBI circular, just want to understand that if we are in a consortium and the bank is continuously

paying to specific loans and not paying to other set of banks, so in such kind of scenario how will things work in a consortium?

Rajkiran Rai G.: If they default even in a single bank also, they will get into resolution plan, but for the standard and paying every bank.

Harshit Toshniwal: Another thing Sir, if we do any kind of restructuring or resolution procedure before the 90 day then also do we need to recognize it as NPL as soon as we do that?

Rajkiran Rai G.: Yes, it has to be recognized as NPL.

Harshit Toshniwal: Okay Sir, even if we do something restructuring in 30th or 60th day?

Rajkiran Rai G.: Any change in original sanctioned terms will amount to restructuring.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management Company. Please go ahead.

Roshan Chutkey: Sir, how much is the SMA2 outside of corporate SMA2?

Atul Kumar Goel: Around 8723 is the total amount and out of which 1800 is the corporate.

Roshan Chutkey: Split the rest of it, how much is SME within that?

Rajkiran Rai G.: About 7000 crores is non-corporate, it comes from MSME, retail and agriculture.

Management: Around 2000 will be MSME.

Roshan Chutkey: Retail?

Management: Retail is bit higher in excess of 3000 crores, but that has been the general trend, the slippage from retail is not high, but in terms of payment behavior, most of such accounts are in SMA2.

Roshan Chutkey: What was the corresponding numbers for MSME a year ago?

Rajkiran Rai G.: Similar numbers, actually this SMA2 trends for MSME and retail more or less remains the same actually, specifically we had launched a campaign because of this to recover one extra installment. Generally, they pay between like 60 to 90 days, so we are trying to improve that but it has not worked actually, there is the payment habit like that.

Roshan Chutkey: Can you just talk a little bit about your MSME due diligence process?

Rajkiran Rai G.: MSME due diligence actually now what we have done is we have removed the Powers of the branches to do any MSME loan above 50 lakhs, everything goes to back office. We have created 45 centres where this MSME processing happens, it is a pure back office. There

actually the data gets uploaded from the branch, they process it, like the processing sanction is totally delinked from the branch, inspections and all that. Now, we have also tied up actually, one is the CIBIL and other data what we download. Now, we have already tied up for the CRM ratings also. Now, this is another additional number which comes in which helps us to take a better credit decision. Now, we are also floating certain RFPs and some tieups are happening like underwriting of this MSME where lot of unstructured data which they are able to, they have made presentation to us because most of this MSME customers have credit data which is not captured by CIBIL, but it is available somewhere else, so this is helping us now, this is how we are doing from the smaller thing up to 50 crores. Above 50 crores up to 150 crores, we have opened 25 mid-corporate branches, so now this 25 centres instead of every branch during this kind of loans, these are like we have industrial finance branches, this mid-corporate branches at the second tier cities so they are created and there we have posted the new credit officers who are trained, we have recruited some new credit officers plus internally we have selected, we have fully strengthened. Now, the structure is in place, last year we were working on that, so now I think we hope that the credit underwriting quality will substantially improve. Earlier the weakness was basically the credit underwriting was happening across the country and across all the branches, so branch managers were not fully equipped to do the quality credit, so that is part we are addressing. Now, today if you look at MSME, it is only 75 hubs or branches will do the major part of my MSME and mid-corporate credit.

Roshan Chutkey: What is the weightage of this MSME slippage?

Rajkiran Rai G.: I think it is built over a period of time actually.

Management: These are mostly industrial loan connected to the large corporate.

Rajkiran Rai G.: We have a large chunk between 10 and 50 crores also in this, which are basically ancillary units so went down along with the big corporate, so numbers we do not have, we will give you the year wise NPA how old it is and all that, right now I do not have that data, we can give you NPA before five years and how it is continuing.

Roshan Chutkey: What is your cost-to-income ratio guidance you said?

Rajkiran Rai G.: 47% to 48%.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Rajkiran Rai G.: Thank you very much. We have been through a very, very difficult year in the last quarter particularly change of regulatory guidelines have really like shifted the numbers adversely, but we think that we have almost hit the bottom. Maybe next two quarters some variances maybe there than the projections because some unpredictability on how these resolutions are going to happen, but for that the full-year guidance stands and we are very confident that this will be a good transition year. Thank you so much.

Union Bank of India
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Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of Elara Securities Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.