



“Union Bank of India Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Union Bank of India Earnings conference call for the period ended June 2020. The bank is represented by the Managing Director and CEO – Shri Rajkiran Rai G; Executive Directors - Shri Gopal Singh Gusain, Shri Dinesh Kumar Garg, Shri Birupaksha Mishra, Shri Manas Ranjan Biswal, and other members of the top management.

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 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. Nitesh Ranjan, Chief General Manager, Strategy. Thank you, and over to you, sir.

Nitesh Ranjan: Good evening, everyone. Thank you for joining this call. Structure of the concall includes a brief opening statement by the MD and CEO and then the floor will be open for interaction.

Before getting into the con call, I'll read out the usual disclaimer statement. I would like to submit that certain statements that may be discussed during the investor interaction may be forward-looking statements based on the current expectation. 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 decision.

You are also aware that Andhra Bank and Corporation Bank were amalgamated into Union Bank of India with effect from 1st April, 2020. Accordingly, financials have been disclosed to stock exchanges, which are not strictly competitive. However, to facilitate our investor community to have like-to-like comparison, the presentation is based on aggregating the audited or reviewed numbers of 3 banks for June 19 and March 20 and do not entail any at this stage.

With this, I now request our MD and CEO for his opening remarks. Thank you. Over to you.

Rajkiran Rai G: Good evening, everyone. It is my pleasure and privilege to welcome you all to this concall to discuss financial results for the quarter ended June 2020. The business environment globally is shadowed with unprecedented health pandemic. Many businesses are shut and supply chains remain disruptive. However, we are also witnessing extraordinary coordination between governments and central banks to ensure orderliness in markets and economy.

Our government also announced timely intervention through multi-sectorial support under Aatma Nirbhar program. These measures while responding to immediate needs of businesses hit by COVID are also forward-looking for creating long-term enablers in agriculture, infrastructure and social sector. As situation normalizes, and measures initiated under Aatma Nirbhar shall have huge positive impact on financial sector. At the same time, RBI's liquidity

injection, moratorium and other measures ensured financial stability in the system. The restructuring scheme and also by it is prudent for supporting individuals and businesses impacted by COVID.

For us at Union Bank of India, we have been celebrating the coming together of 3 great institutions. As you are aware, Andhra Bank and Corporation Bank were amalgamated into Union Bank of India with effect from 1st April 2020. We now operate through 9,500-plus branches serving over 120 million customers.

Our strategy is to leverage this amalgamation for cost efficiency and revenue synergy while focusing on digital journey across our functional streams. I'm sure you are also looking forward to have more color on amalgamated entity. That is why in our presentation shared with you, numbers are accordingly represented. However, please note that combined financials have been arrived at by aggregating the audited or reviewed numbers of Andhra Bank and Corporation Bank with Union Bank of India and do not entail any adjustments.

Let me now share the highlights of performance for the quarter ended June 2020. We spoke about harmonization last quarter. To repeat, all the 3 entities harmonized, loan loss provisions during the quarter ended March 2020, and it amounted to Rs. 3,650 crores. There was additional provision of Rs. 324 crores on this account during the quarter ended June 2020. Similarly, harmonization of employee benefits led to provision of Rs. 2,118 crores for the quarter ended March 2020. This is already reflected in the opening balance sheet as of 1st April 2020.

Further, during the quarter, due to change in depreciation methodology from written down value method, to straight line depreciation method and change in estimated useful life of certain category of assets, led to additional provisioning of 177 crores. During the quarter of June, there has also been onetime impact of about Rs. 400 crores on P&L due to provision for employee expenses, pending wage revision to align with the likely bipartite settlement. We have also made a provision higher than regulatory requirement in our account of one housing finance company as a prudent measure, this amounted to about Rs. 400 crores. This set of information, I believe, would help you assess our performance better.

Operating profit for the quarter ended June 2020 increased by 2.9% to 4,034 crores compared to 3,918 crores in the corresponding quarter of previous year. This increase was supported by growth in net interest income by 17.11%, which stood at 6,403 crores. NIM is maintained at the same level when compared to Y-o-Y basis. It is also in line with our guidance given for the year.

Operating expenses remained contained, showing growth of 11.18%. Provisions aggregated to Rs. 3,701 crores. This included provision on account of COVID of 339 crores, the net profit of the bank stood at Rs 333 crores.

Coming to business, deposits registered annual growth rate of 7.25%. CASA share stood at 33.30%. There is subdued growth in advances. Gross NPA remained stable, while net NPA ratio reduced further to 4.97%. Provision cover ratio improved to 79.87%. Business would take time to revise, but we are encouraged by the pace of gain in the economic activities in select sectors and geographies. It is though not at a solid trend. We are utilizing this time to introduce strategic shifts to our organization.

Digital is at the core of our organization design and business approach. Soon, we will embark on next level of digital journey for our customers by offering choice of digital channels for sourcing of leads, end-to-end digital lending and leveraging analytics for cross-sell or upsell. We are looking at having a good share of business and revenue through digital banking. The times are so unprecedented that short-term visibility is masked with the health pandemic, while there is high hope in medium and long term. Therefore, any guidance for the quarter or so is fraught with greater degree of uncertainty.

We will continue to connect with you from time to time and share the development. That is what I wanted to share with you in brief, and now we are open to interaction and your feedback. Thank you.

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 Capital. Please go ahead.

Mahrukh Adajania: Sir, I just had a couple of questions. Firstly, on this restructuring scheme. So I know it's early days, but what do you think should be or would be the quantum of restructuring that you would see for the bank? And any guidance that you could give on slippages?

Rajkiran Rai G: Yes. We have some estimates. But then you can't hold me for these numbers because the...

Mahrukh Adajania: definitely not sir.

Rajkiran Rai G: So at this point of time, the fair estimates what we are trying to do. The restructuring can be anything between 5% to 6% of the book. Since we had some estimates on the slippages, the delinquency. So now the delinquency will come down with restructuring. So our revised estimate of delinquency is around 3% to 3.5%. Restructuring book can be anything between 5% to 6%. This is our estimates looking at the present situation after looking at, like talking to a lot of customers in the midsize and all that. These estimates we have at this point of time, but then this will definitely change as we go along.

Mahrukh Adajania: Got it, sir. Sir, what sectors in corporate would see restructuring because a lot of large ticket-sized corporates have already been restructured or NPAs or IBCs. So what kind of corporates will now be restructured? Retail is fine because it could be all across.

Rajkiran Rai G: Actually, our assessment of large exposure. When I say large, above 1,000. So we do not see any big account coming for restructuring. There will be very few, even if it comes. So below

that only, we find that there are cases which will come for restructuring. So now there will be cases like broadly, if you look at sectors, from the real estate, we will see some restructuring.

Real estate, when I say it will be both on residential where our book is quite small. But then we'll have some LRDs like Lease Rental Discounting, where it is for the malls and that kind of thing, we'll see some restructuring. Then, we will also see some restructuring on the textile side because a lot of order cancellations and all that have happened. You may see some in the gold, jewelry side, like the good accounts that there are order cancellations and the delay in collections and all that. So there will be various sectors where this restructuring will come in. So like we are thinking that the thermal large projects will not come under restructuring because of the government facilitation, particularly through discoms, where they are paying them on time. And we are also not seeing much on the EPC side because there also the government is providing enough liquidity. Some of the toll roads which are under BOT are affected by the toll collection and all that, they may also come under restructuring. So these are the various sectors like where the primary discussions are taking place, where we will see some restructuring.

Mahrukh Adajania: And in retail, you would see a fair bit on housing side?

Rajkiran Rai G: Actually, like we are factoring certain amounts under personal loans because RBI put it broadly under personal loan. But in our case, about 60% of the book is housing and mortgage that means preferably with good security loans. So we don't foresee a big portfolio going under this thing. But then when I say, restructured book can be 5% to 6%, we are also factoring a good number of personal loans also, but then it can be quite lower than what we estimate.

Mahrukh Adajania: Okay. So of that 5% to 6%, personal loans will be 2% or lower?

Rajkiran Rai G: 5% to 6% of the total book, actually see, assuming that we have a book of 600,000 crores plus. So all that number, I'm talking. But when it comes to the personal loan, our book is around 128,000 crores, retail book. So right now, we are factoring about 7%, 8% there also. But then I think it may be quite lower than that.

Mahrukh Adajania: Sir, my last question was on the MSME scheme. Basically, when the scheme started, everyone thought it is a no-brainer and all banks will lap it up to the maximum amount. And now, not everything has been utilized. It has been opened up to individuals, but a lot of NBFCs are also saying that they may not utilize the whole portion. So I know that a lot of borrowers may not even be eligible or their businesses may be weak, so there's no point giving more loans to them. But otherwise for the better businesses, isn't it a no-brainer? Because you don't have any risk weight. Even if your rate is lower, your risk-adjusted return can be the same. So why isn't it being used more than what it is now?

Rajkiran Rai G: Actually, I think banks have really used it. Even we have sanctioned more than 6,000 crores. Actually, we have tapped all the customers who are eligible and sent them the offer by way of

SMS and mail and so people who wanted it have used it. There may be a good section of people, either they don't want it because they are comfortable. They don't want to, again, leverage higher. So that kind of possibilities are also there. But then in our case, 6,000 crores on the MSME book of roughly 108,000 crores is not a bad amount.

Moderator: Thank you. The next question is from the line of Ashok Ajmera from Ajcon Global Services. Please go ahead.

Ashok Ajmera: Congratulation for such a good number, a good profitability even the increase in the operating profit in this difficult time. Having said that, I have a couple of questions. Now this quarter was basically a pressure-less quarter as far as the recoveries are concerned because of the moratorium, which are there and various other benefits which are given. Now, you see those who opted for this moratorium, now they are looked as a second grade client or customers by the bank, like some of the banks, I have been told, for some of the clients that they will not get any top-up even in future also because they opted for moratorium. So don't you think that the scheme was basically to give benefit to the people to take care of this COVID problem to build proper cash or emergency amount rather than taking it as any kind of a benefit because ultimately, they have to repay it. So what are your views on that? I mean, are you also treating in your banks that those who went for the moratorium or those who went for the 20% special loan, emergency loan or anything they are a second grade customer?

Rajkiran Rai G: Mr. Ajmera, I think we never thought about in this line. Actually, when you said this, we are all having a smile on face. I think like public sector banks and particularly our bank do not have that kind of thing, we understand difficulty during COVID times. Every borrower has been treated with lot of respect. We went and offered, you can speak to some of our customers. We ourselves have called 2-3 times. Sir, your loan is sanctioned, you can come and avail anytime. And I'll assure you that there is no negativity towards for these people because COVID times have been tough for everyone, not only business but personally also. So naturally, if somebody has availed moratorium, somebody is going to avail moratorium, restructuring, there is no negativity towards any of these people.

Ashok Ajmera: Great. That's very nice to hear. Sir, what would be the amount of this moratorium given on the working capital interest and the moratorium on the term loan installment, any breakup? Any idea about it? Because this is the last month and now from September, they have to start paying. So some color on that, some idea on that amount?

Rajkiran Rai G: If I understood you correctly, the term loan installments, which you have taken moratorium need not be paid now in one lot. If you are capable of paying, we'll be happy to take it. But otherwise, actually, your repayment period will be elongated and it will not be treated as restructuring. The 6-month installment will be back-ended and it will be recovered later. So it will not be treated as restructuring.

Ashok Ajmera: What is the total amount of debt quantum of that?

- Rajkiran Rai G:** Actually, like, what is the moratorium availed. See, moratorium availed in our case is about 28% of the book.
- Ashok Ajmera:** 6.5 lakh crore net book?
- Rajkiran Rai G:** No. Actually, what we have done, when we calculated moratorium, we have calculated on the term loans only because the working capital what has happened is basically, like there is a separate provisions being given by the RBI for reassessment and all that. And for them, actually, the interest portion, they have to pay in the month of September or they can convert it to FITL, which has to be paid by March 21.
- Ashok Ajmera:** March 21. Yes. Correct.
- Rajkiran Rai G:** Actually, like there is no benefit of moratorium as such for working capital. But then the benefit is given by different ways where, like, they can reduce the margins whereas where we can increase their drawing power. So a lot of cushions are being given, which we have already extended to the customer. So working capital side, I don't think the restructuring will be there actually, these moratorium. It will not be a big issue.
- Ashok Ajmera:** Sir, even in this fresh restructuring scheme which has come up, even the working capital pressure also will be considered for the restructuring apart from the term loan elongation or the ballooning or other thing kind of restructuring, even the working capital, some part of working capital may be converted into WCTL or period maybe elongated for repayment, something of that kind also is possible under this?
- Rajkiran Rai G:** It is permitted under that including additional loans, if required.
- Ashok Ajmera:** Additional loan also, if required?
- Rajkiran Rai G:** Yes. It is permitted.
- Ashok Ajmera:** Now coming back to the business, sir. Now since we are competitively better off now and from September onwards, the full activities are expected to start. So for the coming quarters, 2 quarters of this year, what are the targets approximately of the recovery, which was about 751 crore in this quarter? And even the write-off amount is also comparatively very less in this quarter of 247 crore upgradation of 751 crore. So in the next 2 quarters, what is the overall situation, which you might have made some assessment for?
- Rajkiran Rai G:** Yes. We have done our assessment. Actually, see, last quarter because upgradation also is a NPA reduction actually. So you can say that the recovery and upgradation last quarter was around 1,500 crores. And that has come in the most difficult times when there was a lockdown and all that. So this quarter actually, already we are having a good number, but then I will not give a quarter-wise projection. So our total recovery expectation, including the NCLT recovery for this year is about 15,000 crores. Out of that, about 5,000 crores is expected from NCLT. So

like 10,000 crores from other accounts and about 5,000 from NCLT account, this is the estimate. But then we are very confident about our 10,000 crores recovery for the full year. NCLT will definitely depend on so many other developments because you know there are large accounts involved in this. So there are a lot of litigations going on. So anything between 10,000 to 15,000 will be the recovery and upgradation number for this year.

Ashok Ajmera: Good, sir. Now sir, coming to this profitability statement, now this total provisions sir, I think, 3,555 crores because we got very less time to analyze this. And the provision for the advances is 2,451. So about 1,100 crores, if I'm not wrong, is the other provision. Out of that, maybe 150 crore of income debt might have been. So what is the remaining 900 crore provision?

Rajkiran Rai G: 400 crores we have done for the wage revision. 339 crores, we have done for the COVID.

Ashok Ajmera: Yes. So that I missed, actually, okay.

Rajkiran Rai G: Right now, we hold, 2 quarters put together 678 crores of provision for this probable COVID moratorium impact. So out of that, 142 crores is extra than what RBI has stipulated. We hold 142 crores more than what is required. So if we put this 400 wage revision and 339 and then the tax.

Ashok Ajmera: No. That is okay. I mean that's good, I got a proper clarification on that. Now sir, indeed, if you go into segment wise income revenue, treasury profit is 2,804 crore. Retail book, the profit is 819 crore and the wholesale book losses are 3,301 crore, which means the major provision has come from the wholesale book and treasury profit has only taken the major portion out of the entire thing. How do you analyze it? What will be going forward will be the trend?

Rajkiran Rai G: Yes. Actually, the provision on the corporate side is the wholesale book will be always there actually because even though we have reached almost 80% provisioning level, the PCR stands at 79.8%, practically we can say 80%. Still, there will be accounts where this provisioning requirement will come. But then, I think maybe I may also have to look deeper and come back on this. Maybe some other time we'll catch up and we'll give you a better analysis on that. Nitesh, you have some view on this segment?

Nitesh Ranjan: Yes sir. On the segment reporting because the figures are very, I mean it looks prima facie as if the entire bank has been taken care of...

Rajkiran Rai G: Yes. Maybe give us 2, 3 days because actually, for us also, the numbers are available from today morning only. So we have not done a deeper analysis. So I will come back with you on this. Maybe next week, we'll catch up and clarify on this.

Moderator: Thank you very much. We take the next question from the line of Ajit Gabi from B&K Securities. Please go ahead.

- Ajit Gabi:** The asset quality, I have seen that asset quality has improved Y-o-Y. But Q-o-Q, the asset quality hasn't improved. So the slippages amount is quite high despite asset quality, asset classification given standstill, okay? So I just want to get the idea that from which book you got the slippages, what are those?
- Rajkiran Rai G:** Yes. I'll give you that. Actually, quarter-on-quarter also, if you look at gross NPA numbers, the number is same because the advances came down quarter-on-quarter. So the percentage has gone up a bit actually. Otherwise, the number is stable and gross NPA. And then we have not resorted to much write-off this quarter. So gross NPA remains there. So if you look at the breakup of the slippages, we had 463 crores of slippage in micro and small. And then 171 crores from retail, 104 crores from agriculture and remaining from corporate book. About 1,750 crores was the slippage.
- Ajit Gabi:** Got it. So in the first question somebody asked that whatever you are thinking about the restructuring amount of the personal loan, right. Personal loan, you're expecting 6% to 7% of the book will go under restructure, right? You are expecting?
- Rajkiran Rai G:** 6% to 7% of the total book, actually, can go under restructuring. That is our estimate.
- Ajit Gabi:** And loan book.
- Rajkiran Rai G:** It is not like 6% to 7%. It is 5% to 6% of the total book. When it comes to retail, it can be around 7%, yes.
- Ajit Gabi:** If it comes to the personal loan, unsecured personal loan I am saying.
- Rajkiran Rai G:** We do not have much of unsecured personal loan. I think I have clarified because most of our loans are mortgage backed. So our personal loans are mostly salary tie-ups.
- Moderator:** Thank you. Next question is from Rahul Nair from SBI Mutual Fund. Please go ahead.
- Rahul Nair:** My question was, can you give me the breakup of moratorium customers? 28% of loans were under moratorium, right?
- Rajkiran Rai G:** Yes. Breakup of retail like that?
- Rahul Nair:** Retail and corporate, yes.
- Rajkiran Rai G:** Yes. So retail and MSME is around 35%, 36% each. And corporate is around 22%, 25%.
- Rahul Nair:** And do you have any capital raise plans for the quarter?
- Rajkiran Rai G:** For the quarter, for the year, we have taken approval from the Board for 10,300 crores of total capital, which includes a buffer of 100 basis points over the minimum. And within that, the

maximum equity raising plan is 6,800 crores. So right now, we are evaluating raising of additional tier 1 bonds from the market. We are in the process. And hopefully, we should raise some amount during the current quarter.

Rahul Nair: So 81, you're planning to raise in the current quarter and after that, you will come out with the equity raise, right?

Rajkiran Rai G: Equity raise, we have taken the enabling approval from the Board, but it depends on the developments, what is the kind of restructuring, slippages and final numbers. So if it is sufficient to meet the expected growth numbers and the provision with the capital that we have, we may not also be going for the market during the current year.

Rahul Nair: Okay. So where do we expect our capital ratios to be by the end of the year? Like any target is there?

Rajkiran Rai G: Actually, like as per the approval what we have taken from the Board, we would like to have 1% over the regulatory minimum. So that is the idea because now, see, if you look at CET1, which is more critical ratio, at this point of time, it is 7.375. So we would like to have 8.37, but then these are up to September, March, it can be 8%. So what we projected is CET1 up 9%. So that's how we have estimated. At the same time, we are also working out that can we manage without raising equity capital. So we have made an enabling provision so that if required, we can go to the government or any other sources. But then like we are also seeing actually, like, it depends on how it evolves. Basically, the delinquency ratios, what we are estimating, the restructuring number because the restructuring will entail about 10% provision. So all these estimates. So if it goes per our estimates, then I think maybe we will be able to manage. But in that case, actually we will not have cushion. So we may be just getting 8%, 8.2% kind of CET1 ratios. And once we end the year with that number, maybe we'll go for equity raising next year. It is very fluid at this point of time. We kept enabling provision. Definitely, we will avoid capital raising, if it can be avoided at this price.

Moderator: Thank you. The next question is from Jayant Kharote from Current Suisse. Please go ahead.

Jayant Kharote: There's just a slight increase in your net worth Q-o-Q, the reported balance sheet in the first quarter by 1,000 crores. What will that be sir?

Rajkiran Rai G: I think there is credit to around 1,310 crores and that is on account of the amalgamation. So the net of the assets of the amalgamating bank and the shares issued that difference has been 1,310 crores.

Jayant Kharote: This is the one which RBI approval is pending.

Rajkiran Rai G: Yes.

Jayant Kharote: And sir, on the capital piece, just a little bit more, because on one side, we are expecting around 3.5%-4% delinquency. This should play out by starting of the fourth quarter. So at 6,000 crores, it's around 100 bps. And how do you see this play out? Is this in Q3, Q4 that you would have to raise capital or this can be stretched up to, say first quarter, second quarter of next year?

Rajkiran Rai G: Very difficult actually to predict at this point of time. It will depend on delinquency and the restructuring. Maybe we'll get it. 81 anyway, we have space and we would like to raise. Maybe we'll get more clarity around September, October because September itself will get good clarity on the restructuring book. And by October, we'll be very sure of what will be the restructuring book. So then actually, based on that, the delinquency numbers also will come out. So then we'll have a better clarity. And based on that, we will work out. So anyway, we have a support from the government in case of a worse situation. But we will see, actually, like, that's why I said, it is very delicate to predict numbers at this point of time. Maybe when I come with the next quarter results by October end, I think we'll be able to give you more correct picture of the things.

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

Jai Mundhra: Sir, I have a couple of questions. First on retail restructuring, sir. Now that has been up to the individual banks. Sir, when can we expect the policy? When can we expect the bank level board policy for retail restructuring?

Rajkiran Rai G: We got the approval today from the board, for the personal loan part. So next week, maybe we will put our guidelines.

Jai Mundhra: And sir, how do you look at this number, which is some 49,000 crores, which is overdue? What is your thought process on this? A large part of it may not qualify for restructuring because that may be over 30 days past due. So how do you look at this number, sir, 49,000 crores?

Rajkiran Rai G: See, actually, we have lived with this number for last 2, 3 years. Actually, this number doesn't indicate anything about the actual default because people keeping 30 to 60 days, 60 to 90 days default and paying is a very regular phenomenon for us. So actually, it doesn't result in slippages. So that is one of the habits, the behavior patterns of the customer. So looking at that number, drawing a conclusion will be very difficult. That's why I said that September and October will give us more clarity. And actually, I'll tell you, to give you color of the things. The SMA-2 book where we had to make 5% provision in March, another 5% in June, we saw recovery, closure and upgradation of about 1,500 crores from that book also. That is about 6,800 crores what was there in March and then it came down by almost 1,500 crores when it came to June 30th and it has come down further. So even that account, which has given a classification benefit, there also recoveries happen. So actually, these accounts are still live and

the recovery efforts are on. So trying to draw some conclusion from 49,000 crores or from the moratorium book to how much will slip will be a bit difficult.

Jai Mundhra: Sure, sir. But sir, a last portion of restructuring, would be out of this pool only. Would that be a reasonable assumption?

Rajkiran Rai G: No, because actually, the eligible accounts are only 30 days default as of 1st March. So that is only SMA-0. SMA-1 will not be eligible for this restructuring. So that is one part. And some of the standard accounts also may get into restructuring.

Jai Mundhra: Understood. Sure. And last 2 data keeping questions, sir. What is the moratorium number in rupees crore? Because what we have given as a percentage of term loan, it would be better if you can give in rupees crore. And how are we calculating moratorium, is it people who have not paid the last month installment, which is July? Or this is something else?

Rajkiran Rai G: I think the logic followed is I think, more standardized in June, actually. So I think we have taken term loan installments who have paid less than 2 installments under moratorium.

Jai Mundhra: And what was the number, sir?

Rajkiran Rai G: For June, 4installments were due. So it is like that here.

Jai Mundhra: Sir, what is the number in rupees crore?

Rajkiran Rai G: I think number we have not shared because then it will need a disclosure.

Jai Mundhra: But in other words, sir, what is the term loan component of the bank? 60%, 65%?

Rajkiran Rai G: Ultimately, will come around that. So we can roughly say that about 50% can be term loans.

Moderator: Thank you. The next question is from Sushil Choksey from Indus Equity. Please go ahead.

Sushil Choksey: Sir, first, can you give us an outlook on the current financial year in CASA and NIM, credit growth, CD ratio and digital spend?

Rajkiran Rai G: Actually, we desisted from giving projections because of the unpredictability. But then the...

Sushil Choksey: Sir, I'm just asking on basic NIM and...

Rajkiran Rai G: Yes. NIM, I think, 2.5% to 2.6% is the range. Actually, I don't think it will improve beyond that. Because there is a lot of pressure because of the MCLR cuts and other things, CBLR. So 2.5%, 2.6% will be the range. Credit growth, by the end of the year, can be something around 6%.

- Sushil Choksey:** So it will be more domestic or combined international?
- Rajkiran Rai G:** Yes. It is combined, actually, combined book. And CASA, right now, it went down a bit, around 33.3%. But then it will be around 35% to 36% by the end of the year.
- Sushil Choksey:** And where do you see cost of deposits along with that?
- Rajkiran Rai G:** Cost of deposit will go down slightly because like it's around 5, I think now. Around 5, 5.03. So it may go below 5 now by the end of the year.
- Sushil Choksey:** Sir, your treasury book has grown well in the quarter because of the deposit, which we've grown in CASA and otherwise. What's the outlook for the year?
- Rajkiran Rai G:** Yes. Treasury, today, actually, I think we had a big disruption.
- Sushil Choksey:** Sir, that is the one day disruption.
- Rajkiran Rai G:** Hopefully. So I hope RBI comes with some OMOs. But otherwise, the treasury book, we are doing well. I think this quarter also, we are able to do a decent churning. So anyway, I can't share the numbers. But then it is a very decent number in the first 1.5 months. So we expect...
- Sushil Choksey:** What is the HTM and AFS book, sir?
- Rajkiran Rai G:** AFS book, that is we have disclosed 105000.
- Sushil Choksey:** It is there in the presentation.
- Rajkiran Rai G:** Yes.
- Sushil Choksey:** I'll have a look at it. Secondly, I asked the question in last quarter results also, what is the outlook on digital spend and how are we shaping up because the connectivity of the combination between 3 banks and your penetration in South can have a greater advantage, that's what I visualize. So how are we mapping that and how are we capitalizing on that?
- Rajkiran Rai G:** Yes. Actually, there are a lot of intertwining of numbers when it comes to spend. Because one side, yes, we are buying a lot of hardware, we are also buying new software. There are a lot of issues going on because then there are savings also because see, broadly, we have put a number of 3,600 crores as a synergy benefit for 3 years. It involves IT spend and savings from IT. It involves some rationalization of branches. It also involves some onetime benefits, which are acquiring. So I think we have not given a split actually. Maybe when we sit one to one, we'll try to give you a color on that because there are multiple spending happening, and then there are multiple savings happening because we are in the technology integration phase now. See, now the data center that some places will be surrendering. There will not be necessity of having 3 data centers and 3 back-up centers. So all that will conserve lot of money. But at the

same time, there will be some additional spending. So putting it quarter-wise will be very difficult for me. Maybe one-to-one, we will come with more clarity.

Sushil Choksey: Secondly, sir, knowing Union Bank investor base, I see 89% is government and 11% is public. Knowing the market conditions, you would not like to dilute much below book value, adjusted book value. Why don't we look at rights issue for nongovernment holders? This is my request to consider that would reward only existing shareholders, and you will also show up the capital. So you won't have dilution. At the same time, that would bring down the government holding, which every investor, including government would like that you raised from the market and it becomes healthy data for.

Rajkiran Rai G: I think if the government permits, we would love to do that, at least reward the customer who stuck to us during the difficult times.

Sushil Choksey: I am sure government will reward. Why won't they reward.

Rajkiran Rai G: Yes. We will definitely examine that suggestion. Thank you for the suggestion.

Moderator: Thank you. The next question is from Abhijeet S from Kotak Securities. Please go ahead.

Abhijeet S: Sir, just to go back to your outlook on slippages of about 3.5% for the year. That seems like a pretty high number. If you calculate, it comes close to 20,000 crores. We are also saying that another 6%, which is up for restructuring is another 35,000 crores. Sir, just trying to understand what will comprise of the slippage outflow that we are talking about?

Rajkiran Rai G: See, actually, we are airing on the higher side, actually. Because for us also, we don't think that it will go up to that because capital estimation, we are assuming that number because that number is quite high. If I am restructuring a book of close to 6%-7%, the delinquency should be around 2%, 2.5%, not more than that. But then like for estimation side, we are taking that. We will moderate that number as we come to September quarter because that's quite high because we also know and then, like, it is basically with the idea because how many people will actually suffer because of COVID, and who will not be able to do the restructuring and they will actually slip. So these numbers is very difficult to assess at this point of time. That's why we have kept a higher cushion because basically, this is done for capital assessment also.

Abhijeet S: Sir, secondly, on the 6% restructuring number, what you're resort of indicating is that retail will not be a big contributor, and so is the large ticket corporate loans. So probably MSME will be the biggest contributor here.

Rajkiran Rai G: MSME and medium industries. They will be beyond MSME, but then they are the medium ones.

Abhijeet S: So MSME, when we look at the current level of NPAs and whatever we have restructured, it's already like 20% kind of stressed ratios on that book. Another 6% of the book restructuring

part of that coming from MSME. Possibly, we are looking at this number going substantially upwards of current levels. So just trying to understand the potential stress on this book .And secondly, we also have this facility from the government in the form of the credit guarantee scheme. How are we doing on that? What sort of sanctions we have done? And given that we're still seeing slippage from this book, why are we not able to sort of utilize that scheme to kind of benefit on the book?

Rajkiran Rai G:

If you look at MSME restructuring, this is available for last 1, 1.5 years. So this is the same scheme, which is continuing actually. So if you look at the restructured book in MSME, despite the scheme being made available, I think the total restructured book in MSME maybe around 3,000 - 4,000 crores, not more than that. So when a scheme was available and it's a very liberal scheme, the eligible cases which are found unviable is only that number. So putting that number again now, so I don't think there is a big restructuring book in MSME and the slippages have been quite high. You are right, actually, because it is beyond 15% NPA level in MSME. So because restructuring is not helping because if the MSME is totally not viable, then that is not worth restructuring .So we'll see actually. That's why between restructuring and slippage, there will be certain number adjustments, which will happen by the month of September, October. But we'll be able to give you a better color. So it will be a choice between restructuring or account becoming NPA. So that kind of things will happen in MSME, we will see. Because now there is a stressed asset fund also which is coming from the government, which is a kind of equity funding which is coming for MSME, which has also been announced. In addition to this 20%, what we are giving. So we foresee that the slippage of MSME should come down and we will see more restructuring happening in MSME. That is my call, but then that will be known only in September, October. So medium size, yes, we will see that restructuring coming more from that book. Maybe 40% of the restructured book what we are projecting should come from this sector.

Abhijeet S:

And sir, one clarification. What kind of hedging provisions do we need on the current stock of NPAs as we foresee?

Rajkiran Rai G:

I think last time I made that statement, 1.5% to 1.6% is the credit cost for hedging provision for the full year.

Abhijeet S:

And lastly, the depreciation on investment, 200 crores. What's driving that?

Rajkiran Rai G:

That is because of the shifting from HTM to which we do in the first quarter. We shift the securities and there will be some hit we take. But then actually, they will be always sitting on some profits also when we shift.

Moderator:

Thank you. The next question is from Rajeev Mundra from Mundra Investment. Please go ahead.

Rajeev Mundra: I just wanted to know that as far as rationalization of operations and other activities between the 3 banks are concerned. By when do you think the bank will be able to utilize the full benefits of the amalgamation?

Rajkiran Rai G: Actually, the amalgamation that way is complete. We are able to roll out all our physical infrastructure, like the new regional offices, zonal officers, mapping of the branches and then our centralized process centers for retail, MSME, agriculture, large corporate branches, mid-corporate branches. They're all rolled-out actually. So that way physical infrastructure is ready and we are working as an amalgamated entity and all that. Now the next part is the heart of this is, is the technology. The technology integration, according to us, Corporation Bank should be onboarded by October end and Andhra Bank by January end. So we are working towards that. So already in September itself, some of the branches of corporation for a test run can be onboarded. We are working on that. But by October end, we will complete corporation. And by January Andhra. And then actually all the 9,500 branches will have real synergies because everybody will be on a common platform.

Rajeev Mundra: Right, sir. And my last question is sir, if you look at it from an investor perspective, I think it's been challenging not only due to COVID, but generally, it's been challenging last 5 years. So while we are not looking at any predictions as such, do you think that the worst is behind us?

Rajkiran Rai G: I can say things are not as bad as we think. The future is much better because when I look at my numbers also, you yourself have the numbers in front of you because actually, if you look at our valuation and the numbers what we have, I think it doesn't correlate because we are much better than people thought, actually. Despite other income going down, look at our net interest income and the OP what we have and the operating profit actually could have been higher by another 400 - 500 crores. But for certain adjustments which happened, which is specific to this quarter. So that way like we have sufficient capability to absorb the numbers what I'm talking about like delinquency of 3.5% and a related provision, 5% to 6% restructuring and related provision and the hedging provision. So we should have sufficient operating profit to absorb these kind of things. So that is a rough estimate we have. And that is good enough actually, I think in the given circumstances. So it can be better than that. It may not be worse than that.

Moderator: Thank you very much. We'll 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. Actually, I think, very good questions. I would have loved to give more clarity on some issues, but we ourselves are not very clear on certain numbers. But then my request to all analysts. Now as an amalgamated entity, I think the numbers are before you. So now I think it's a time to reassess Union Bank. Actually, all uncertainty around the amalgamation is complete. All harmonization related provisions, we have absorbed maximum in March, some leftovers we absorbed in this quarter; with that, it is complete. So now I think as we go on, more synergy benefits will accrue. Now we had a double hit, actually. One was the COVID

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disruption and another is the amalgamation. But if you look at that, with both the major disruptions, the performance of the bank has been quite good in the first quarter. It will improve in second quarter. And as we go along, I think this will emerge as a very strong bank. And I think the time to reassess Union Bank has come.

My request to all the analysts, please look at our numbers more keenly. We are always open for further discussions if you want. On restructuring, I would like to give more color as we complete September quarter. Definitely, we'll come up with more clarity. And I always love to be very open and sharing the data with you to the extent possible. But then now a lot of uncertainty, I am sorry, certain numbers I am not able to give very strong prediction. But then as we come for second quarter, we'll be more clear on this number.

Thank you, and thank you very much for all the support.

Moderator:

Thank you very much. On behalf of Union Bank of India, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.