

“Union Bank of India Q4&FY20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Union Bank of India Quarter 4 and Financial Year 2020 Earnings Conference Call. The Bank is represented by the Managing Director & CEO – Shri Rajkiran Rai G; Executive Directors – Shri Gopal Singh Gusain, Shri Dinesh Kumar Garg, Shri Manas Ranjan Biswal, Shri Birupaksha Mishra and other 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 conference call, please signal an operator by pressing “*” then “0” on your touch tone phone. Please note that this conference is being recorded.

Now I handover the call to Mr. Nitesh Ranjan – Chief General Manager (Strategy). Thank you and over to you Sir.

Nitesh Ranjan: Good afternoon everyone. Structure of the con-call shall include a brief opening statement by MD & CEO and then the floor will be open for interaction. Before getting into the con-call, I will 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 expectations. These statements involve a number of risks, uncertainties, and other factors that cause the actual results to differ from the statement. Investors are therefore requested to check the information independently before making any investment or other decisions. Thank you. Over to the MD & CEO.

Rajkiran Rai G: Very Good Evening everyone! It is my pleasure and privilege to welcome you all to our Concall on financial results for quarter and financial year ended March 31st, 2020.

A lot has happened since our last meeting. Firstly, I am happy to share with you that our Amalgamation process has continued well, and all milestones have been achieved on time. However, the biggest disruptor came in form of a Virus.

The Covid-19 Pandemic has brought every economy in the world to a standstill. Governments have been trying hard to protect citizen lives and livelihoods while containing spread of virus. Lockdowns and social distancing measures have bought policymakers time to respond to this crisis more effectively.

The IMF sees current economic hardships as severe as great depression. It's a both demand and supply shock coming simultaneously. Policymakers are responding with both fiscal and monetary levers, with stimulus as high as a tenth of GDP. Businesses across the globe are still coming to terms with the situation and working with new operating manual.

I have structured my remarks in three parts. I will begin with a brief on financial results for quarter ended March 2020. In the second part I will share how Bank is responding to COVID-19 challenges and finally some thoughts on amalgamation journey. Before sharing highlights

of business & financials let us see how we fared vis-à-vis the guidance given during our last concall.

1. Guidance for credit growth & deposit growth was 7-9 % and 9-11 % respectively – Bank actually registered 6.6 % growth in credit & 8.4 % in deposits.
2. NIM stood at 2.29 % against guidance of 2.30.
3. Delinquency ratio stood at 5.38% against guidance of 4.5- 5 %.
4. Credit cost stood at 3.51% against guidance of 3 %. But for harmonization impact which I will deliberate later, credit cost stood at 2.77%
5. PCR's guidance was 70 % while the actual PCR is 73 %.
6. Gross NPA & Net NPA ratio stood at 14.15% & 5.49% respectively well within guidance of 14.5 % and 6 % respectively.

To summarize operating performance was in sync with guidance.

Coming to business and financials:

Total business rose 7.6% annually to Rs.7.98 lakhs crore. Deposits stood at Rs.4.51 lakhs crore while advances stood at Rs.3.47 lakhs crore. The RAM sector share stood at 55.3%.

The Bank noted operating profit of Rs.9181 Crore, an increase of 22% from last year. Provisions however continued to weigh on financials. This also included harmonization of provisions on non-performing loans which amounts to Rs.2500 crore. Consequently there was net loss of Rs.2898 crore.

Let me give some more color on harmonization. We adopted principle of providing the highest provision on common accounts, i.e., if an account is common in three Banks and status of classification is D3 in one Bank then other two Banks shall match provision level of D3 in that account even if presently classified as D1 or D2.

Slippages for full year stood at Rs.14911 Crore, while recovery and upgradation together amount to Rs.6138 crore. Provision coverage ratio stood at 73.64% as against 66.24% last fiscal with Net NPA ratio declining to 5.49% at end March 2020 as against 6.85% in March 2019. Our CRAR stood at 12.81% as end March 2020 within which CET ratio stood at 9.40%. The Bank is adequately capitalized for growth opportunities.

Speaking of our response to Covid-19 pandemic, our first priority was to ensure safety of our workspaces and health of our people, both staff and customers. Business continuity plans were activated to ensure essential services are not affected. For critical support infra, alternative sites were kept on standby. Average 98% of our Branches and 88% of ATMs continued to function during lockdown, while we continued to serve through vibrant digital channels.

This brings me to our Amalgamation Journey. We were able to complete our amalgamation milestone as per timelines. There was smooth transition on Amalgamation Effective Date

(AED) with basic services going live for all branches and all customers. Staff benefits, products and policies were harmonized keeping best-in-class principles in mind.

With a business mix of about INR 15 trillion, (+9500) branches, and (+77000) staff, Union Bank is today 5th largest PSB, having a rich product suite for all kinds of customers. The Bank has over 5% market share in 15 states, which promises a lot, given positive network externalities.

Amalgamation has given us opportunity to build a great modern bank, capable of serving the needs and aspirations of New India. We are approaching it from a position of strength. Best thing is that our partners have complementing strengths which gives us head start in integration with minimal overlap. We are pretty confident of completing integration exercise smoothly this year, making available better opportunities for growth for our customers, staff and stakeholders.

Traditionally, we provide the guidance on various parameters. However this time, the guidance for FY 21 would be fraught with several uncertainties, given the evolution of Pandemic and duration of effects. Therefore I can only talk about the deposit and advances guidance for FY 21 which we expect would be in the range of 7-9% and 6-8% respectively. We will provide more color on the rest of the guidance, as we move forward.

We are thankful to investor fraternity, the analysts for being with us in our journey to become a great modern bank. Your feedbacks matter a lot in shaping our understanding. I am open to your questions now. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We have the first question from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: To start with, Sir, if you can share the moratorium number in Rupees crore, maybe if you have the data month wise it is just to see as to how it is progressing?

Rajkiran Rai G: Overall it is 24% in the book, I think amounts we will not be able to give, but I can give you sector wise. In retail it is about 35% under moratorium, in MSME it is about 37%, these are as of March, corporate it is about 16%, NBFC is about 12%, so overall book it comes to around 24%.

Jai Mundhra: Sir, this is for standalone Union Bank, right as of March?

Rajkiran Rai G: Yes.

Jai Mundhra: Do you have any number after that because after March a lot of other banks commentary suggests that from March it has definitely gone up either in April or May and probably in June it has started to decline a little bit, so if you have the latest number either for the merged entity or for the banks?

Rajkiran Rai G: As of March, I can give you merged entity number it is about 25.6 actually, so for the merged entity, but then April and May even though we are tracking it, at this point of time we will not be able to share the number, we will share at the June quarterly results, so you rightly said that there will be some increase during April and May, but not very phenomenal increase that way and June we are seeing it is coming down.

Jai Mundhra: Sir, on the overdue loans that we have that we have shared in our BSE note, that is SMA0, plus 1, plus 2, how is that trending, I mean that number is also as of March 1st?

Rajkiran Rai G: Yeah, that was 2500 crores if I am correct.

Jai Mundhra: That is the standstill, I think the total overdue was even much higher?

Rajkiran Rai G: Okay, because those accounts generally we have not given any relief actually that amount must be all SMA0 and SMA1 in total book, so we are keeping a track. Even this 2500 crores actually the latest, there are lot of recoveries which have happened because see what is the risk, as on September 1st all these accounts will shift to the same level like the SMA2 as of March 1st will become SMA2 as of September 1st, now if there is no recovery in between, there is a possibility that they may slip at September end, but then all these accounts we are tracking because I think it involves about 60,000 accounts this 2500 accounts, so now these accounts we are tracking and I am very sure that there are recoveries coming in this account, I am not able to share those data but then there are recoveries coming in this account also, so our assumption that all these 2500 crores will slip in September is wrong because like not more than 10%-15% will slip.

Jai Mundhra: Anyway Sir 2500 crores number is not that big anyway, I was more concerned on the 25,000 crore number, which is the total overdue, which is as on March 1st the 25,900 crores, how is that number moving Sir because some of the customers would have paid also and they would have moved out of overdue status?

Rajkiran Rai G: Right, that actually we are tracking those, so every month we are tracking these accounts and there are recoveries in these accounts also. If you look traditionally SMA0, 1, 2, book the size is very normal at the beginning of the month then the recovery efforts continue to be there and ultimately there will be a small slippage in the month end, so there is a trend I think more than this I will not be able to share at this point of time, but all those accounts are being tracked and the behavior is very normal, collections are happening.

Jai Mundhra: Sir, on merged entities if you can provide some more number at least on GNPA, NNPA, RWA and CET1, I do not know if you can share the merged entity for April 1st balance sheet, but given gross NPA, net NPA, and capital numbers that will be most helpful?

Rajkiran Rai G: I am afraid whether I will be able to share this because like I think it will be shared only at the time of June 30th amalgamation balance sheet, I will just check legally if we can share, we will be happy to share but then I may have to check actually whether I can share this number. Only

thing I can tell you is the net NPA numbers as amalgamated entity will be lower than what we have now, that is one thing. Then the PCR also is going to be higher than what we have as a standalone.

Moderator: Thank you. We have the next question from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: Sir, what were the upgrades or recoveries during the quarter, any key accounts or sectors that you can mention and which are the big accounts that were not resolved this year in FY '20 and will be resolved in FY '21?

Rajkiran Rai G: I think the last quarter recovery and upgradation was around 1130 crores, so March month was lost. We were aiming at about 3000 crores of recovery in the last quarter, but then like one of the main account we expected was Bhushan Power and Steel where we were expecting close to 800 crores of recovery and there were some other accounts which were under discussion, so let us get to the specifics later when we come to account wise discussion. At this point of time, we have identified accounts worth about 5500 crores under NCLT which can be settled in the next year where there is like good possibility of recoveries coming up includes Bhushan Power and Steel also.

Mahrukh Adajania: Sir, any big account that was upgraded in the March quarter of the 1130 crores?

Rajkiran Rai G: No major accounts, these are all mostly smaller recoveries. I think we had one settlement of Orchid Pharma.

Mahrukh Adajania: That was one-time settlement?

Rajkiran Rai G: Not one time, it was through NCLT only but the payment was done, this was acquired by one company and they paid, I think that is one major recovery maybe 300-400 crores, but 300-400 crores for the system not for Union Bank standalone.

Mahrukh Adajania: Sir, my other question was that in terms of moratorium, now that as of March around 25% of the book is under moratorium, and given that there is corporate and NBFC moratorium as well, would that mean in the first quarter there will be more slippages or there would be still some weak accounts in the corporate segment that could slip outside of the moratorium?

Rajkiran Rai G: There will be some slippage for various other technical reasons, but it will be very small.

Mahrukh Adajania: Sir, technical reasons means?

Rajkiran Rai G: Like consciously sometimes we mark some accounts as NPA because all the accounts are not eligible for moratorium, if the unit is closed, there is no operations in the account, there are various reasons why which account for, so there may be LC devolvement happening in existing NPA accounts, so which is getting invoked in the existing NPA account, there are various reasons why accounts fall, sometimes as a business entity we also take a call to classify

some account as NPA, so that kind of things will be there but then it will be like, I think our total slippage for March was something like 2500 crores, so it will be much less than that.

Mahrukh Adajania: Sir, my last question is that there are many AA NBFCs, even AA NBFCs which are not finding it easy to raise money from banks, so what is your view on these AA NBFCs, would you be willing to lend to them or?

Rajkiran Rai G: I think NBFCs at this point of time are flooded with money offers and that too if it is AA or A there is no issue particularly if you see TLTRO, our bank itself gave close to 10,000 crores to NBFCs and various other banks also have given, so NBFCs are the major beneficiaries are there. Now, there is a scheme under PCGS, now PCGS also is going to give about 40,000-45,000 crores to NBFCs and NBFCs are not lending that much. Now, if you look at their balance sheet, it is only the liquidity in their balance sheets going up. They used to keep one month repayment as liquidity, now they are keeping four-five months of repayment as liquidity, so whatever borrowing they are doing, they are keeping it as liquid rather than lending, so actually they also have to relook at their business models, how long they can continue like that and most of the borrowings are also going because of the moratorium to pay the other lenders, but they are not much of lending activity in NBFCs also, so I do not think that there a shortage of money for NBFCs particularly AA category, so it is their business model where there is a risk aversion in NBFC itself, that is the problem.

Mahrukh Adajania: Sir, 10,000 crores in TLTRO was to NBFCs, what was the total amount deployed by you?

Rajkiran Rai G: Both TLTRO put together, we did up to 14,000 I think, out of that about 10,000 went to NBFC.

Moderator: Thank you. We have the next question from the line of Bhavik Shah from B&KSecurities. Please go ahead.

Bhavik Shah: Sir, regarding the prudent provision that we made of 2500 crores, you indicated that across three banks if they were some classification of D3 and other banks, even we have brought down classification to D3 and made additional provision, there might be standard accounts or might have been slipped, but it would not appear in slippages as of now because of moratorium, so what would be that number then?

Rajkiran Rai G: There are no account which became NPA because of the harmonization across all the three banks, not even a single account we got where it was NPA in one bank and standard in another bank, there was nothing, so it is only in NPAs we had a divergence because you know Corporation Bank was pretty advanced in provisioning because they were coming out of PCA, so they had higher level of provisioning in many accounts, so that is a very generic statement but then most of the account they had higher provision, so Andhra Bank and Union Bank had to match that level of provisioning because what we did is all common accounts we matched the worst NPA status, suppose if there are D3 or loss we went there and then we also did the provisioning level matching, suppose if they have 60% provisioning level we reached 60%

provisioning level, so all the three banks have made accordingly provision as of March 31st that is why 2510 crores is the amount which was for Union Bank accounts where higher provisioning has to be done.

Bhavik Shah: Sir, you mentioned that next quarter there might be very marginal slippages because of technical classifications, so can you explain again what kind of technical classifications could there be?

Rajkiran Rai G: Right now, I will not be able to share any number with you.

Bhavik Shah: No Sir, the nature I mean.

Rajkiran Rai G: Nature, at the ground level if there is a business where person has stopped the business long back maybe three months back, four months back and you are very sure the account there is no chance of revival and there are other reasons like where you know that the business is not going to come back. Moratorium is basically for businesses which are affected by COVID, so for other accounts which have other natural reasons why they are becoming NPA, so for them we should not extend the moratorium, so such cases will be there. We are seeing that, but then there are few 100 crores here and there because when you look at amalgamated entity of a 6.5 lakh crore advances and 9500 branches, you will find these cases.

Bhavik Shah: Sir, this would be at the discretion of the bank?

Rajkiran Rai G: Yeah, it is at the discretion of the bank, definitely. If I want to give a moratorium to that fellow we can give, but it is not fair actually because tomorrow RBI also may question because this moratorium is for businesses which are purely affected by COVID, but if the problem was there in the account much before like they have stopped the business, there are some other reasons why the account has become NPA, so such reasons actually like I think it is better to make it as NPA.

Bhavik Shah: Sir, the moratorium number as you have said, sector wise can you broadly indicate where they opted out or were they opted given to the customer?

Rajkiran Rai G: The difference in number maybe because of that also. Initially, we have offered moratorium to everyone from the system itself, so then softly we have started advising people that there is a cost, if you are capable of paying you please pay, because otherwise if you postpone your payment there is a cost then people realized that they are going to pay higher amount if they defer, people started paying and in our cases particularly in the retail and all that mostly there will be standing instruction from their accounts and all that, so we did not stop those things actually so with that what happened when I said on the retail side about 30% where the people avail moratorium, if they wanted, so what we did is wherever we had collections where people are paying, so we reduce them from this thing, so we raised the demand on those accounts and recovered, that is how the strategy works because this is a very evolving situation. In MSMEs, now we are keeping them engaged by giving them extra limits. First we came out with the 10%

additional limit scheme, now there is a 20% guarantee scheme, so we are continuously engaging with them giving them additional limits, so naturally they prefer to pay their installments and keep it up-to-date not to postpone the pressure to September, so it is basically a continuous engagement with the customer but not to hurt because moment you put more pressure, they may complain and all that, so it is very soft way we are working, every branch is working on that, so that is why we are able to keep that at 25% level, but then retail and MSME, yes it is 30% and 35% levels actually, it is almost one-third of the book which is under moratorium.

Moderator: Thank you. We have the next question from the line of Parth Gutka from Macquarie. Please go ahead.

Parth Gutka: Sir, my first question is on the eligible, the credit guarantee scheme which the Government has come from, how many accounts are eligible for the same and what is the amount, and my second question is the number of MSME accounts which have been restructured, which are 42,767, what has been your experience there in the last one year?

Rajkiran Rai G: On this question of the guarantee scheme, as an amalgamated entity, we have 7.5 lakh accounts eligible and approximate amount which can be sanctioned is close to 12,000 crores under this guarantee scheme. On the second question, we have declared the 1124 crores that is the restructured account under MSME amount wise, we have seen a slippage of close to about 160 crores from this book.

Parth Gutka: Sir, out of the 12,000 crores how much you have sanctioned and what is the disbursement amount?

Management: 3500 was sanctioned in 2000 crores is the disbursement.

Moderator: Thank you. We have the next question from the line of Sushil Choksey from Indus Equity Advisors. Please go ahead.

Sushil Choksey: Sir, congratulations on the merger and best wishes for the amalgamated entity.

Rajkiran Rai G: Thank you.

Sushil Choksey: Sir, moving away from COVID and moratorium, what initiative led by COVID where digitization technology is concerned and what initiative are we talking for HR and asset monetization as our total entity?

Rajkiran Rai G: There are lot of initiatives on the technology side, one is we provided Mobi-Teller on the day one on all 9500 branches so that any customer of any of the three banks can go to any branch and do the basic transactions, so that we successfully implemented. Then all the product rationalization we did, so harmonized. Today, like any branch you go you will find a common product whether it is on the liability side or on the asset side, and we did substantial virtual training; because of the COVID, we could not train the staff because we have a lending

automation system fully active in Union Bank where there is a process of processing a loan in the system, LAS. Now, Andhra did not have proper LAS whereas Corporation had but then they were different, so we trained more than 25,000 people by using virtual mode so how to use this and all that, so they became very, very comfortable and then when it comes to the cost and revenue synergies, we are planning about 2700 crores of revenue uptick because of the amalgamation both by the cost and asset side, so this includes a sale of insurance company where Andhra Bank has a stake some of the asset sales and then mostly on the branch rationalization side about 2700 crores we are thinking in the next three years we should be able to book in addition to what we are normally doing.

Sushil Choksey: Sir, secondly you replied to the previous question that you did disbursements of 10,000 crores in TLTRO 1 and 2, and you would be doing further in the current credit guarantee scheme, would you have lent in the TLTRO mainly to AAA and AA type of companies or it would be?

Rajkiran Rai G: That is the allegation against us that we do only AAA and AA but as a prudent banker...

Sushil Choksey: Now, I am asking Sir I am not looking as an allegation.

Rajkiran Rai G: We generally prefer AAA and AA, so under the TLTRO it is mostly AAA and AA.

Sushil Choksey: What yield would have fetched us, 8.5?

Rajkiran Rai G: It is between 8-8.5, I think average yield came somewhere around 8.07 kind of.

Sushil Choksey: Barring this Government scheme where you would be empowering MSME and others, what kind of credit growth are you seeing between corporate and retail, now because you have pan India branch net worth with 9500?

Rajkiran Rai G: The projection for this year is between 6% to 8%, corporate book we are strong, like we already have sanctions, some disbursements are happening on the infra space. Infra it is mainly coming from the Government side NHAI kind of thing, so we are active players there and we are expecting strong sanctions in that area. On the other corporates also, we have a good presence, so we expect that corporate book should grow between 6% to 8%. Retail actually last year it was bit of timid growth, but this year, we are getting into some kind of straight through processing actually your earlier question I missed that answer. We are developing a straight through processing, we are already active on the personal loan side, now we are going to expand it to the other retail products where a person can log into our website and just apply for the loan and he will have a sanction, it is a much advanced level of sanction we are building in. We have tied up with some Fintech players also for this, so this actually should push our retail growth above 10% because watching the sanction space, June my retail sanctions if I compare to the last June, it is almost same and maybe slightly higher, so the Tier-2, Tier-3 cities and maybe the NBFCs slowing down is helping us.

Sushil Choksey: This would be mainly towards salaried class or more self-employed?

Rajkiran Rai G: Actually, we have both, in our case you can say 50:50 because our regular customers are mostly self-employed who take loan from us, but at the same time we have salaried tie-ups also, but more of my personal loan is mostly salaried tie-ups. We have seen good traction in personal loan also in the last two months.

Sushil Choksey: Knowing erstwhile Union Bank for more than 20 years, what synergy benefit you really potentially see out of Andhra and Corporation India map where they are actually physically present in the customer base?

Rajkiran Rai G: If you look at that way today my market share in 15 States is going to be more than 5%, that is a substantial presence. In Andhra State itself, my market share is going to be 20%. Technically if you see, every fifth customer will be from this bank, now this kind of huge presence and domination in the State is going to benefit me and actually particularly on the South side, Union Bank was bit weak. Now, this five-six States I think we will have a very, very dominating presence now, so we are building our systems because last two years we have moved in a big way for centralization. All our credit, about 78% of my credit today happens at back offices. We have moved to a very strong technology platform in Union Bank. Now, we are expanding that to Corporation and Andhra and all my roll out is getting completed by June, all my new regional officer in place, all my zonal officers in place, all my credit processing centres are in place, all the manpower is already posted, so they are all fully active, within three months we have done all these, so we are expanding this technology platform to them, so I am very sure including by mid-corporate vertical, so by July 1st we will take off, most of those customers of Corporation and Andhra for whatever reason even though they are very good customer, old customers, we have not fully used them, so now actually we are getting back those customers in a big way, so I think there will be lot of synergy benefits particularly on the Southern States for Union Bank.

Sushil Choksey: Last question, in the media interaction today morning you said your NIM will be much higher than what you saw in Union Bank standards?

Rajkiran Rai G: Yes, actually if you look at NIM of Andhra and Corporation, they are much higher than us because it is the kind of portfolios they have basically, like as a combined entity I am definitely looking at NIM of 2.4 to 2.5 because even Union Bank strategically last two years is working on the NIM, but then the ecosystem did not favor us because one side the lending rate started coming down, there was too much pressure on us to cut the rates and CASA does not improve that way that quick despite all our efforts, the cost of deposit does not come down that this thing, but then our operating incomes have helped us, but then NIM somehow remains subdued and I am very aware that among the peer bank, my NIM is quite low so aiming at 2.5 NIM as amalgamated entity is a must for us.

Sushil Choksey: What would be our estimated CASA on the combined entity?

Rajkiran Rai G: We are around 35, it will be around that because those two banks are also at similar level of CASA.

Moderator: Thank you. We have the next question from the line of Anand D. from Emkay Global. Please go ahead.

Anand D.: Sir, as far as your SME book is concerned that seems to be on a higher side about 20% and I believe for Andhra and Corporation also it would be on the higher side, so what is your asset quality outlook particularly on the SME book going forward where we are seeing lot of differences having hit primarily because of the COVID impact?

Rajkiran Rai G: MSME actually like we have something close to 15% NPA and if you have seen traditionally also, this is the assumption that you see about 15% particularly in the stress situation last two years, so it is around 15%, we are around that, so I think even this guarantee scheme when it came it is also assuming about 15% NPA and accordingly it is being worked out, so I think this is a very standard over a period of time we assume. I do not think it will go beyond that and with the kind of supports coming now by way of guaranteed scheme, now there is a stressed asset fund coming, so I do not think it will go beyond that and the stress book in MSME is always there, we need to work very closely with MSME accounts, it is not that easy because my foot on ground is very high. We have branch people who are connecting to MSME and we have built a verticalization in MSME what we call Saral structure. Today, any account above 50 lakhs is being monitored by a centralized vertical, which is called Saral, so we have lot of data about this people and we are working closely with them, they will continue to be under stress, I will not say they will not come out of stress, but then slippages will not be that high, I am very sure.

Anand D.: Sir, the stressed asset fund that you referred, it is the same which was there in the economic package which was announced by the Government?

Rajkiran Rai G: Right.

Anand D.: Sir, I mean that has been formed already?

Rajkiran Rai G: No, it is in the process actually, this will come more for SMA2 and NPA accounts because in earlier package they avoided SMA2 and NPA. Basically, MSMEs are short on equity, so this is kind of sub-debt which is likely to come.

Anand D.: It will be basically funding directly the SME or how the mechanism is really going to work on this?

Rajkiran Rai G: Accounts which are under SMA2 and NPA on a particular date will be identified and wherever there is availability because if the unit is running and there is a business, but then the customer has lost his equity for whatever reason so his borrowing, so generally what happens banks will not be able to lend further to them because the current ratio will not be there, debt equity will be all spoilt, so this sub-debt will be treated as equity, with that all this financial ratios will improve and he will be able to borrow more from the bank that is the idea basically.

Anand D.: Sir, the hit that you have taken on the NPA provisioning front in terms of realignment, so similar hit also being merging banks would take like in Andhra and Corporation Bank where you would have a higher provision?

Rajkiran Rai G: They have done that.

Anand D.: So what would be that amount?

Rajkiran Rai G: I will take a opinion whether I can share this data because this is not a public document as of now, you know Corporation and Andhra they also have finalized their books, but then since it is not as per the policy not a public document, but then that will be disclosed when we put the amalgamation balance sheet as of June 30th, before that if I am able to come out, I will come out with this data. At this point of time, let me avoid this question, but they have done I can assure you that they have done that.

Anand D.: In that regard only, so the Tier-1 ratio that you have now whether you will need to raise equity capital going forward?

Rajkiran Rai G: Not necessarily, that assurance also I will give you that it is not required.

Anand D.: Tier-1 ratio will remain similar or it would actually come down?

Rajkiran Rai G: It will go down a bit, but then we will be on the safer side, it is not that we will like default kind of thing, we will have sufficient cushion.

Moderator: Thank you. We have the next question from the line of Devanshi Gandhi from Quant Capital. Please go ahead.

Devanshi Gandhi: Sir, I just wanted to ask you about your expected credit loss considering the current scenario on your outlook about that going forward?

Rajkiran Rai G: We have not given the projection because there is not much clarity on this, so we have avoided giving that guidance, but what we have clarity is as amalgamated entity what will be the aging provision, because there is two cost coming basically aging provision and then the fresh slippages, so aging provision can be around 1.6 that is, if there is only aging provision, credit cost will be around 1.6 kind of thing.

Devanshi Gandhi: Regarding the fresh slippage?

Rajkiran Rai G: Fresh slippage, it depends like on delinquency, if it is a 3% delinquency what will be the number, 5% delinquency what will be the number, you can calculate I have given you the base, this is the credit cost based on the aging provision because these are all legacy accounts which I already have on which actually the provisions will come in different quarters. I am not factoring any recovery in this, because most of these accounts recoveries will come, it may not be required that further provisions to be done and all that because some of the accounts are like

that where the aging provisions are there, they get settled then the further recovery like will stop that, but then at this point of time assuming that no recovery comes in these accounts where there will be aging provisions in every quarter, I think around 1.6 maybe the credit cost.

Moderator: Thank you. We have the next question from the line of M. B. Mahesh from Kotak Securities. Please go ahead.

M. B. Mahesh: Sir, just wanted a couple of clarifications, one is I am not balance this charge that you have made for the net worth of about 2200 crores with respect to a fraud, I understand that you have made a 25% provisioning in the previous quarter, even if you adjust for that you do not seem to be getting this answer to the closing net worth, that is one? Second one is how much of Treasury gains are you currently sitting with that you can encash today given that these capital levels are spiky and at some point of time during the course of this year, you may have to take a call on the DTA which is sitting out there, how are you approaching that topic?

Rajkiran Rai G: First on the fraud this thing because RBI gives me four quarters for provisioning, so these are different accounts at different level of provisioning, so like during the course of next year because now actually it is a capital charge, it is charged to capital what is the remaining provision. As we make provisions, capital will be restored and it will be like when I say the aging provision during the year, these factors provisions which are required to be done for the fraud also as you go forward, so that is one part.

M. B. Mahesh: Just to clarify, the reduction in your net worth has come down from 34,200 to 30,000 crores which is about 3870 odd crores, the loss for the quarter is about 2500 and there is 2272 crores of fraud adjustment, even if I adjust all these numbers there is a shortfall here, I am just trying to understand what are we missing?

Rajkiran Rai G: It is basically DTA capital, charge comes from three actually, basically one is the loss, another is the DTA and because the DTA beyond a point also we reduce from the capital. We create DTAs because we are making huge provisions.

M. B. Mahesh: But the DTA you just make the adjustment only for your calculation of your Tier-1, right, but otherwise it is part of your net worth?

Management: Mahesh, I think you are looking at net worth compared to December and you yourself are telling that there is a difference of around 4000 crores, so around 2500 is coming from the loss and around 2300 is coming from the debiting of reserves for the prospective provision on fraud accounts.

M. B. Mahesh: One of the fraud accounts you already made a provision of 25% with respect to the NBFC?

Rajkiran Rai G: During March what we do actually suppose if there is a fraud of 1000 crores in March, I make 25% in March and other three quarters I will make another 25% each, but then at the end of March, the balance provision which have to make of 750 crores, it is reduced from the capital because I have not made the provision fully, so capital will get hit.

- Management:** Going forward from the quarterly profit we will debit that account in the next three quarters.
- M. B. Mahesh:** Sorry, just to clarify this, the NBFC fraud which most of them seem to have taken it through the net worth, 25% of it was provided in the previous quarter is what you had indicated last quarter, so what was pending is only 1700 crores, right?
- Management:** No, that is all one account you are talking about, but we are talking about all fraud accounts.
- Rajkiran Rai G:** That account we have reached about 40% provisioning level now.
- M. B. Mahesh:** How are you looking at the DTA file for this year and the Treasury?
- Rajkiran Rai G:** Treasury I think even the Q1 looks like almost similar to Q4, Q4 was very good, even Q1 is very good, so Treasury gains will be there, we will continue to book actually. On the DTA side actually we need to take a call because we have accumulated losses coming in from the other two banks also, so our fair estimate is another one or two years, we can like take the benefit of this carryover losses and all that then shift to the new taxation regime, but then anyway final call will be taken by the Board but then this is the feeling at this point of time.
- M. B. Mahesh:** Sorry, just to clarify, there is Treasury gains of 800 crores which you are saying for the combined entity you have only 800 crores is it?
- Rajkiran Rai G:** 800 crores Q4 standalone, like you do not expect that I will make 1600 crores in this quarter, that is not possible but as you rightly said like I cannot give that numbers as of now, but then Q1 is also good.
- M. B. Mahesh:** I am saying why you do not exhaust all the gains and just ease of the capital because the levels are reasonably inadequate as we speak?
- Rajkiran Rai G:** We can, see what happens is the market also should absorb like these are different securities as of like whenever we get the opportunity, we sell but then market also do not have that kind of appetite of GSec today. As we get the opportunity, we sell.
- Moderator:** Thank you. We have the next question from the line of Jayant R. from Credit Suisse. Please go ahead.
- Jayant R.:** Sir, actually I just wanted to know on the amalgamated book what would be our closing advances and deposits?
- Rajkiran Rai G:** I think that we have put out actually.
- Management:** We have not given the numbers, but if you look at the December number which is available for all the three banks, it comes to something around 15 trillion of which around 8.5-8.6 trillion is the deposit and around 6.5 trillion is advances.

- Jayant R.:** So March number we are not putting out?
- Management:** March number will be similar the growth during the quarter has not been very significant for the banking industry.
- Jayant R.:** Sir, on the merged basis what would be the CET1 right now?
- Rajkiran Rai G:** As amalgamated entity we have not disclosed, we are 9.4 as standalone.
- Moderator:** Thank you. We have the next question from the line of Bhavik Shah from B&KSecurities. Please go ahead.
- Bhavik Shah:** Sir, again with respect to slippages, the moratorium benefits would also be extended to agriculture slippages right, so usually when we see spike in agriculture slippages in our first quarter of every year, will we be seeing that next quarter?
- Rajkiran Rai G:** Difficult to predict at this point of time what will be the agriculture slippages, but then the activity has been quite good so maybe we will be able to give you more color at the end of June. We are not seeing potential because these are time when they come for more renewals and all that. Agriculture NPAs happen only when there is a debt waiver announced by the State Government and that kind of things, otherwise agriculture there is no possibility of huge NPA, it is only when the Governments come with loan waivers people stop payments, otherwise I do not see a spike and this time has been very cool and the agriculturists are having good crop, so hopefully this year should not see much agriculture slippages.
- Bhavik Shah:** Sir, one last question, wageprovision, what hike have we assumed on our book?
- Rajkiran Rai G:** 12%.
- Bhavik Shah:** Sir, any update on the negotiations?
- Rajkiran Rai G:** I myself is a Chairman so I will not be, because of the COVID in last two-three months not much of discussion happening, but then we should be able to close it pretty quickly as the things open up. We have come to almost a final stage actually.
- Bhavik Shah:** Sir, any update on Religare and Jindal Holding resolutions?
- Rajkiran Rai G:** Religare I feel SBI has already declared as a fraud, I think that is the news I cannot authentically say that, but I think that is what the news is and RBI anyway did not permit the Chatterjee Group to take it over, we had all approved and we were expecting that this will be done, so we were all thinking of upgrading that account but then I think RBI did not permit. Now, I heard that SBI hasdeclared it as a fraud, so that you can verify but then anyway I do not have authentic news I will have to check with my team.
- Bhavik Shah:** Jindal Thermal?

Rajkiran Rai G: Jindal Thermal, it think it is close to a resolution, but then did not happen, so this year let us see.

Bhavik Shah: Sir, with respect to recovery, have we received anything from Anrak Aluminum or Alok Industries?

Rajkiran Rai G: Alok is closed.

Bhavik Shah: And the money has been received?

Rajkiran Rai G: Yeah, it is completely adjusted. Anrak Aluminum has not yet come, Alok is closed.

Moderator: Thank you very much. That was the last question. I now would like to hand the conference over to the Management for closing comments, over to you.

Rajkiran Rai G: Thank you so much and thank you for the participation, so we definitely would like to clarify on some of the questions which are raised but then I have a limitation at this point of time because of the legalities involved and as the things evolve and once we are close to June, we will come out with more clarity and thank the investor community again for actively participating in this discussion. It is a difficult situation, so things are evolving but as we see things are not as bad as we thought during February and March, definitely my ground feelings actually talking to the branch heads at different places giving a very positive signal and as a institution we have a huge presence in Tire-2, Tier 3 centres, so I think economy is definitely coming back to normalcy and many of the sectors are also coming back to normalcy maybe by end of June, July we should be able to speak and come with more clarity. Thank you for the participation and all the best, please take care.

Moderator: Thank you very much, Sir. On behalf of Union Bank of India, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.