

“Lakshmi Vilas Bank Q2 FY 2017
Earnings Conference Call”

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ANALYST: MR. AALOK SHAH – CENTRUM BROKING LIMITED

**MANAGEMENT: MR. PARTHASARATHI MUKHERJEE – MD & CEO–
LAKSHMI VILAS BANK**

MR. N.S. VENKATESH – ED - LAKSHMI VILAS BANK

**MR. PALANIAPPAN MANICKAM – CFO – LAKSHMI
VILAS BANK**

**MR. RM MEENAKSHI SUNDARAM - HEAD OF
RETAIL BANKING – LAKSHMI VILAS BANK**

MR. A.J. VIDYASAGAR – LAKSHMI VILAS BANK

**MR. RVS SRIDHAR - CHIEF RISK OFFICER –
LAKSHMI VILAS BANK**



Moderator: Ladies and gentlemen, good day and welcome to the Lakshmi Vilas Bank Q2 FY 2017 Earnings Conference Call, hosted by Centrum Broking 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Aalok Shah from Centrum Broking Limited. Thank you and over to Sir!

Aalok Shah: Thanks Janis. Good morning all and thank you for logging on to this concall. We at Centrum Broking are pleased to host Q2 FY2017 Results Conference Call for Lakshmi Vilas Bank. Today on the call, we have with Mr. Parthasarathi Mukherjee, MD and CEO, Mr. NS Venkatesh, ED, Mr. Palaniappan, CFO and other senior management team of Lakshmi Vilas Bank. I would request MD Sir to give his initial comments followed by comments on the results post, which we can open, the floor for Q&A session. Over to you Sir!

Parthasarathi M: Thank you Aalok. Good morning ladies and gentlemen. I welcome you to the Second Quarter and First Half Results Call of Lakshmi Vilas Bank. I have along with me our Executive Director, Mr. N.S. Venkatesh, our Head of Corporate Banking, Mr. RM Meenakshi Sundaram, our Head of Retail Banking, Mr. Vidyasagar and our Chief Risk Officer, Mr. RVS Sridhar. They will all participate with me and hopefully we can answer questions that you might have in your mind. I would like to initially share a few thoughts with you about the results and then we would be delighted to answer your questions.

The business environment continues to be challenging and demand has remained weak. The bank’s operating profit for the quarter was 158.42 Crores which was a growth of 69.60% year-on-year. The corresponding number for the half year was 284.26 Crores which was a growth of 41.44%.

The net profit came in at 64.85 Crores for the quarter there again the growth was 44.63% while the corresponding number for the half year is 125.53 Crores. The NII for the quarter was 186.67 Crores showing a growth of 16.45% while debt for the half year was 364 Crores showing a yearly growth of 19.21.

Other income for the quarter was 131.90 Crores, which is a full 107% over the previous year, while the half year number was 221.11 Crores which was 54.96% over the previous year.

The net interest margin remains largely steady and was 2.84 for the quarter, 2.78 for the half-year. The ROA is steady marginally improving during the quarter to 0.86%. For the half-year it came in at about 0.85%. This is sharply up from 0.68% that we reported in the corresponding period in the previous year.

The ROE has also improved during the quarter to 15.39%. For the half year this is 15.17%. You will note that this is in sharp contrast to the 11.20% number that we had shown in the corresponding period in the previous year. The half-year cost of funds has also improved by about 67 basis points over the corresponding period.

If I turn to business despite constraints, the business has grown well. The bank's total business reached 46933 Crores as on September 30, 2016. This is a growth of 14.42% year-on-year. Total deposits came in at 26680 Crores and advances were at 20313 Crores.

Average CASA for the half-year grew 6.93% sequentially to reach 3951 Crores. I must of course say that the treasury had a very good half-year and have booked substantial profits.

I will turn to asset quality now. I must confess that I took a couple of hits here. The bank was hit by a series of bill discounting frauds at one of our branches. The total amount remaining unrecovered at this moment is around Rs.75 Crores. It is our expectation that at least a part of this amount would be recovered pursuant to the steps that we have been taking. In terms of extent provisions we have provided for a fourth of this amount.

Additionally one of our larger assets slipped into the NPL category during the quarter. Mainly as a result of these two setbacks the gross NPAs have risen relatively sharply to 2.70%. The net NPLs also rose to 1.87%.

I will stop here at this moment and I will be glad to answer any questions that you would have.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the question from the line of Deepak Kumar from Narnolia Securities Limited. Please go ahead.

Deepak Kumar: Good morning Sir. Congratulations on good set of numbers. Sir, my first question is regarding on the slippages. How do you think default of 72 Crores is going to be recovered?

Parthasarathi M: Out of the total of 173 Crores of slippages that we added during the quarter, the fresh slippages that we reported during the quarter you would appreciate that this is one extraordinary item of 75 Crores that we have reported. This you will appreciate is a one-off affair. I cannot really see this as a regular feature. So there is nothing much I can say about

this. It is a matter of great regret that I had to take this knock, but it is there. We had to provide for the entire amount as per norms at the same time we have a part of it is secured, covered by security. We do expect to recover through that and moreover the overall process of recovery is on and I do have a fair sense that we could recover a fair part of this.

Now to come to the other slippages during the quarter of the balance amount, you would appreciate that against the number of about 98 that we report there is a single item of about 66 Crores that has slipped. This was one item in the food processing sector so if that were to be kept aside you will appreciate that my book has done quite all right that against the number of about 98 that we report there is a single item of about 66 Crores that has slipped. This was one item in the food-processing sector so if that were to be kept aside you will appreciate that my book has done quite all right.

Deepak Kumar: Sir, my another question is on other income break up. Can you provide the breakup of this other income because this quarter it has increased significant so, any color on this?

Parthasarathi M: Well, I must of course, I did make a passing mention of the fact that the treasury has contributed quite handsomely to the other income so, as far as trading income is concerned, that comes in at just under 80 Crores.

Deepak Kumar: Sir, in the previous concall, you have maintained that the bank is more focused on retail and SME so can you comment on any progress on that or you have developed the new product in the market?

Parthasarathi M: It is still work-in-process for us. We are setting up our systems on the retail lending side where team is gradually falling in place and the bank in any case has retail lending products including home loans and vehicle loans and so on, so those are already in place, but what is being done is really putting together the collection mechanism and the appraisal mechanism and so on. All this is work-in-process hopefully during this quarter I see greater traction there. Similarly on the SME side, the SME team is focused on building a granular book out there and the relationship team is gradually coming in place and we do expect to see quite a bit of traction during this quarter.

Deepak Kumar: Can you provide the breakup of these advances in terms of retail and corporate?

Parthasarathi M: Corporate continues to be about 45% for me and retail the pure retail would be about 10%, SME and agri between them take up the rest.

Deepak Kumar: Sir what is your restructured assets till now?

Parthasarathi M: I beg your pardon?

- Deepak Kumar:** Restructured assets?
- Parthasarathi M:** My restructured book is mostly same as it was earlier. There was nothing added, a marginal some 1 Crores might have reduced from that book during the quarter?
- Deepak Kumar:** Thank you Sir. This is from my side.
- Moderator:** Thank you. We will take the next question from the line of Amit Gupta from Everstone Private Limited. Please go ahead.
- Amit Gupta:** Heartiest congratulations for the fabulous numbers that have been posted. My question is mainly in regard to the NIM. I am seeing that the net interest margin of the bank has improved a little bit and so basically I would like to understand is it because of increase in the yield of portfolio or is it because of reduction in cost of the fund of the bank?
- Parthasarathi M:** My sense is funding costs have contributed more.
- Amit Gupta:** Sir, in terms of funding cost is it because reduction in the deposit or increasing in CASA base or what are the components that you have added reduction of 67 BPS in the cost of funds?
- Parthasarathi M:** To be fair both have contributed. The CASA percentage on a daily average basis for the quarter has improved marginally. So just to give you a sense, the CASA percentage for the first quarter on a daily average basis was 15.37% for the bank. For the second quarter that has marginally improved to about 15.48%.
- Amit Gupta:** 15.48%.
- Parthasarathi M:** Term deposit costs have fallen quite a bit actually. There of course, I will have to thank the system for it, overall system interest rates have fallen.
- Amit Gupta:** Regarding that slippage of NPAs that you have quoted that one of the large exposure on the food processing industry have slipped to the NPA that is why the overall NPA for the quarter has increased?
- Parthasarathi M:** Plus the 75 Crores that I lost on the bill discounting fraud.
- Amit Gupta:** Bill discounting fraud that you have discovered in one of the branches, this 75 Crores fraud, what amount has been taken a charge to the P&L this quarter?
- Parthasarathi M:** I provided one-fourth of it.

- Amit Gupta:** So it is something around 18.2 Crores.
- Parthasarathi M:** About 19 Crores I have provided.
- Amit Gupta:** 18.75 Crores already provided, and one more thing on the number of advances like loan advances if I see you have March ended with a number of 19600 and in the H1 of FY2017 the advances stood at 20060 Crores so on an overall basis there is a growth of net basis, there is a growth of only 400 Crores of advances?
- Parthasarathi M:** Net basis that is correct.
- Amit Gupta:** What is at the gross level Sir?
- Parthasarathi M:** Gross disbursements, do we have a number available, Mr. Meenakshi Sundaram?
- Meenakshi Sundaram:** That is about 900 Crores.
- Parthasarathi M:** About 900 Crores would have been the total gross disbursements.
- Amit Gupta:** Total disbursement during the first half you are saying, 900 Crores?
- Parthasarathi M:** Yes.
- Amit Gupta:** Out of which are we saying that the number has come down to 400 Crores because of this NPA provisions and all those things?
- Parthasarathi M:** What you will have to assume people repay loans from time to time.
- Amit Gupta:** Sir, what has been the average yield on the portfolio now?
- Parthasarathi M:** 11.47.
- Amit Gupta:** 11.47 on a blended book?
- Parthasarathi M:** That is correct.
- Amit Gupta:** What was that in the earlier quarter that you have reported?
- Parthasarathi M:** 11.49 Q1.
- Amit Gupta:** 11.49 so that has only not even marginal, so little bit here and there only.

- Parthasarathi M:** Well that is it.
- Amit Gupta:** Sir, in regard to this NPA where do the NPA number current stand? We are saying 2.7% is the gross NPA?
- Parthasarathi M:** That is correct.
- Amit Gupta:** So out of this 20000 Crores book, which is net of NPA, so I just like to understand what is the exact position of the NPA of the bank right now?
- Parthasarathi M:** You want to know the total amount of NPAs that I have gross NPLs?
- Amit Gupta:** Yes Sir.
- Parthasarathi M:** 546.11 Crores.
- Amit Gupta:** Sir what would be the provision against that?
- Parthasarathi M:** My net NPAs are 376.07 and I will see whether I can give the provision number to.
- Palaniappan Manickam:** 170 would be the provision.
- Amit Gupta:** Sir how is the restructured book behaving there was some 900 to 1000 odd Crores of restructured assets which was there in the portfolio of the bank?
- Parthasarathi M:** Let me put it to you this way what analysts look at this how much of it is outside the moratorium. So my outside the moratorium book is 71% of the standard restructuring book.
- Amit Gupta:** Sir when they are saying this out of moratorium this includes my principal moratorium also and I was under this question that even in restructuring we allow some sort of moratorium in interest servicing also?
- Parthasarathi M:** No there would be FITL has separately outsourced but interest moratorium is not there.
- Amit Gupta:** No these are out of principal moratorium?
- Parthasarathi M:** That is correct.
- Amit Gupta:** Sir if I am comparing your September 2015 versus September 2016 financials there would be a decent growth in employee cost as well?



Parthasarathi M: Yes as you know we do participate in the Indian Banks Associations bipartite arrangements so the settlement took place and we arranged to pay substantial arrears and so on that has kicked in.

Amit Gupta: Sorry I could not get that Sir, in IDA participation sorry?

Parthasarathi M: The Bipartite settlement was completed and the provisions of the settlement had to be honored.

Amit Gupta: What was the amount Sir if I may?

Parthasarathi M: I will check that number so you give me a moment, well I am sorry I do not have the specific amount with me but maybe I will get it and one of my colleagues will give it to you separately.

Amit Gupta: That is all from my side.

Moderator: Thank you. We will take the next question from the line of Jhanvi Goradia from Motilal Oswal. Please go ahead.

Jhanvi Goradia: Good morning Sir, couple of questions on asset quality in slippages? Sir just a couple of questions on asset quality and slippages; firstly as you said there is a big accounting 56 Crores of slippage quarter the other any mortgaged accounts that according to you might placed in the next two to four quarters?

Parthasarathi M: We will be bankrupt, all the time that they would not so at this moment clearly someone had to slip it would have slipped. We do not go out of our way to hold anyone back I assure you so to that extent I must say that we are not anticipating any direct slippage immediately but we keep our fingers crossed. We do continue to what is our assets very closely so I cannot really say that anticipating any large slippage of this sort immediately if something have to slip it would have slipped already in this quarter.

Jhanvi Goradia: So then in as well if you can just elaborate just on your SME-II trends and if you are seeing some stress there, how is that behaving on an overall basis?

Parthasarathi M: To be frank, I must tell you that the SME book and the actual number of NPLs are completely different in the sense that a lot of corporates in these stressed times tend to utilize the 90-day period as a period of additional credit availability and tend to pay up their commitments only towards the end of the 90 days and which is what we find happening in many cases particularly in respect of smaller accounts. You would also appreciate that my book is largely granular in nature and the smaller accounts it is very difficult to project



which will slip and which will not, so we do have a SME book but when it comes to the 90th day they tend to have sort themselves out quite a bit so it is clearly the SME book is not an indicator of what will slip.

Jhanvi Goradia: But Sir accounts have a tendency to stay for the 89 days they clearly are accounts that have some sort of stress built up because if we were to analyze such accounts regularly slipping into the SME-II and then the SME back out before they come in NPA, this is probably to get a sense, give some idea is to what that numbers is every parentage of that?

Parthasarathi M: Let me put it to you this way the numbers that tend to continue to remain in SME-II for prolonged periods. Of course we may not be the same accounts every month but still that number could come to about 600 Crores or so.

Jhanvi Goradia: So would there then be any overlap between these accounts and restructured book?

Parthasarathi M: Some might be yes; some certainly could be but not necessarily all. There would be intersect certainly.

Jhanvi Goradia: Also on the creditor guidance the outlook given earlier was about because of this primetime big accounts slipping into NPA then would you revise this guidance?

Parthasarathi M: Credit costs of course thanks to the hits that have taken has topped the 1% mark. It was thus for around 80, 85.

Jhanvi Goradia: So given a guidance of around to 425 will that thing hold place for the year FY2017 or would you revise that approach?

Parthasarathi M: I beg your, pardon.

Jhanvi Goradia: This guidance of credit cost that you gave of 320 to 340 Crores for FY2017 so would you like to revise that upwards or are you seeing the credit cost...?

Parthasarathi M: We had given a guidance on the provisioning number which we had projected at somewhere between around 225 Crores or so. My sense is we will largely be around that possibly because of this feet, I might up to necessarily to push it up to 250 Crores but that should be about it.

Jhanvi Goradia: Thank you so much Sir.

Moderator: Thank you. We will take the next question from the line of Ashok Kumar from Unifi Capital. Please go ahead.

- Shiva Kumar:** Congratulations for a good set of numbers. Sir I just had a few questions on the asset quality. There was a write-off amounting to 51 Crores this quarter and you said that for that fraud account of 75 Crores you have taken 1/4th of which as a hit as a P&L hit so if you remove that the rest 32 Crores what is the nature of that account Sir which was written-off?
- Parthasarathi M:** This was not one account. This is a technical write-off in respect of few such accounts where my provisioning was full 100%.
- Shiva Kumar:** What is the sense of that account? Are they flowing from the retail or SME space corporates?
- Parthasarathi M:** This could be mostly corporates there could be some SMEs.
- Shiva Kumar:** Sir and I also notice that the cash recoveries and upgradations were slightly on the lower side this quarter coming to just around 10 Crores by last quarter we saw some 20 Crores in number so is the bank facing some challenges in terms of recoveries?
- Parthasarathi M:** You would appreciate that this is a matter of process some of it is still work-in-process a lot of these should have been completed but could not be completed couple of these have subsequently been done in the current quarter also so our expectation is that you will see better performance from us in this quarter on that account.
- Shiva Kumar:** Sir and coming to the loan book growth are you confident that you will be able to grow the loan book for this full for FY2017 by 10% to 15% because if you see sequentially we are roughly around 2% to 3% over Q4 FY2016.
- Parthasarathi M:** Yes, you will appreciate that and as I answered the previous questioner also we are trying to set our systems in place. My experience tells me that H2 is always a much brighter one so you will see a lot more buoyancy in business in H2 and I am reasonably confident of reporting something like a 15% to 16% growth.
- Shiva Kumar:** Sir and sorry if I am repeating the question can you give the breakup of that 132 Crores non-interest income, in terms of trading, your fee income?
- Parthasarathi M:** About 80 Crores would be trading income this quarter.
- Shiva Kumar:** Sir last quarter do you have the number simultaneously how it moved over Q1?
- Parthasarathi M:** About 30 Crores last quarter.
- Shiva Kumar:** The rest it would essentially be fee income?

- Parthasarathi M:** Transaction banking numbers.
- Shiva Kumar:** Sir are you confident that this spurt in non-interest income will kind you will be able to maintain the traction may be Q2 was higher but you will be able to maintain the average non-interest income that we going to see over Q1 and Q2?
- Parthasarathi M:** My treasury will always tell me it is not possible but we will hope for the best.
- Shiva Kumar:** Sir and finally are you done with the senior level appointments that you had in mind for various segments of the bank?
- Parthasarathi M:** Yes, we have a very stable set up at the top at the moment.
- Shiva Kumar:** Can you just mention the names that have been on boarded Sir and with their experience in the segments that they are managing?
- Parthasarathi M:** Well let me start with myself I come in, in January our Executive Director, Mr. Venkatesh to took from the July 1. He served probably longer than me in banking. There is nothing much I can say about him, and the team overall including the present team Mr. Meenakshi Sundaram heads the corporate banking. His experience is greater than mine again, Mr. Vidhya Sagar is the head of retail banking. His experience should be almost similar to mine, Mr. Sridhar is the Chief Risk Officer. His banking experience would be very close to mine too so that is how it is at the top.
- Shiva Kumar:** Any more appointments in the offing or you are done with the senior level appointments?
- Parthasarathi M:** I do not think we anticipate any major changes any additions as such to the team.
- Shiva Kumar:** Sir and finally your sense on the QIP, which has been there in the pipeline for a long, time so any sense of as to the timing and the quantum that you will be targeting?
- Parthasarathi M:** It is something that we have been in discussion with our advisor and we hope to finally come to a conclusion soon and finally the capital raising committee will take a view on this I am able to say particular amount of date has not fixed yet we are still working on it.
- Shiva Kumar:** But broadly can you give us the timeline as to one or two months everything must be done or something like that?
- Parthasarathi M:** Hopefully.
- Shiva Kumar:** Great Sir. All the best for the rest of the year. Thank you.



Moderator: Thank you. We will take the next question from the line of Vishal Modi from May Bank. Please go ahead.

Vishal Modi: I have just one question on this fraud account. Can you explain it in a bit more detail to what is exactly happened is with something which the client forged documents or what is exactly went into it and was it something which was the branch level and if so then what was the limit that the branches had and what kind of risk to arrangement practices were there which were kind of there present to avoid such thing if it may occur in future?

Parthasarathi M: Let me start by saying that the matter is now with the police of course. We have filed a police complaint and the investigation is at the present moment. So there is nothing much I can add to it. Let me even put it to you this way yes there was some procedural issues involved and yes clearly documents concerned were not genuine perhaps took so may be some fictitious transactions were shown as the underlying transactions here for which transport documents were provided to the bank. We have taken a lot of learning's from these. There has been an ongoing process to tighten systems and processes over the last so many months. With the coming in of the Executive Director, he has been personally monitoring this and he is putting in place of lot of systems, corrections, tightening systems quite a bit and we take lesson from every such instance. Let me put it in this way that frauds are something that you cannot give in writing that you will never have another fraud, fraudsters are always ahead of you, but if one takes lesson from every fraud to ensure that similar frauds do not recur which is what we have done. We have tightened our systems considerably and my sense is a similar fraud would be difficult to perpetrate in future.

Vishal Modi: Sure but we are quite confident of recovering whatever some portion of this money?

Parthasarathi M: Let me start by saying that we have already recovered about a little lower 4 Crores from this and a part of it is covered by security also so we will be enforcing security there and overall it is our expectation that fair portion will come there, but that remains to be seen of course.

Vishal Modi: Keeping this aside of what is our view on asset quality going ahead so we had earlier mentioned that we have around three accounts some in steel and other sector so this apart from the 66 Crores of food processing so now we are left it to or this was not includes because those three accounts that we have discussed earlier, which could potentially be a problem?

Parthasarathi M: I must put it to you this way that I do not have a specific recollection of which three we have discussed earlier but this account was certainly on our watch list, I must say. Now accounts in the steel, cement sector we have a few I must confess that those are doing quite well. I really cannot say that those are giving me a lot of trouble at this moment.

- Vishal Modi:** Some data points basically the breakup of loan book I think we have not provided that in our presentation?
- Parthasarathi M:** About 45% of the book is corporate, about 10% is retail, the balance is agri and SME, SME would be about 27% and about 18% would be agri perhaps.
- Vishal Modi:** Sir similarly breakup of the CASA between current and savings?
- Parthasarathi M:** It is about 2:1.
- Vishal Modi:** That is it from my side.
- Moderator:** Thank you. We will take the next question from the line of Renish Patel from Antique Stock Broking. Please go ahead.
- Renish Patel:** Sir, just want some couple of data points. Sir how many incremental branch we have opened during the quarter?
- Parthasarathi M:** This half-year we have not opened any branches.
- Renish Patel:** Sir then our other operating cost is still up by 17% Y-o-Y despite not getting any branch so is there any one-offs in the 79 Crores other operating cost the last quarter it was 65 Crores?
- Parthasarathi M:** Yes, I would not say one-off by some consultant fees were paid, AMC charges had risen a bit lease rentals have gone up so whole lot of factors have added to operating cost.
- Renish Patel:** Similarly on staff cost so it up about 33% YoY?
- Parthasarathi M:** You will appreciate that I am also added a lot of staff we recruited earlier this year above 400 staffs, in fact overall the staff strength has gone up by about 500 people across it is also contributed.
- Renish Patel:** In first half 2017 you mean right?
- Parthasarathi M:** Yes please.
- Renish Patel:** Okay, and sir sorry for repeating that question again on this fraud accounts our total slippage during the quarter is 173 Crores out of which 66 Crores is that food processing account?
- Parthasarathi M:** That is correct.



- Renish Patel:** Another 75 Crores is this bill discounting fraud am I right?
- Parthasarathi M:** That is right.
- Renish Patel:** We have already provided 18 Crores for that 75 Crores?
- Parthasarathi M:** That is right.
- Renish Patel:** Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Alok Ramachandran from Future Generali. Please go ahead.
- Alok Ramachandran:** Thank you for taking my question. First of all just on this restructured book of 65 Crores which slipped into NPA how much quantum has that?
- Parthasarathi M:** That was not a restructured asset.
- Alok Ramachandran:** So how much percentage of your total book is on the food processing industry and is the nature of this is actually been percolated that to the industry of is it only standard for this account?
- Parthasarathi M:** I beg you pardon. I did not get the last bit.
- Alok Ramachandran:** Is it kind of for this account only have been doing NPA or is it kind of a nature for the entire industry per se for the accounts that you are holding in this industry?
- Parthasarathi M:** No for me in this particular sector I do not have too much of exposure and this account was the only one that has given me any particular trouble.
- Alok Ramachandran:** How much this account as a percentage of this total food processing industry total exposure?
- Parthasarathi M:** Food processing total let me just check. Well this particular one would have been about a 10th of that.
- Alok Ramachandran:** And are you witnessing any kind of same kind of a stress in others?
- Parthasarathi M:** No I am not.
- Alok Ramachandran:** How much have you provided for this slippages in this quarter?

- Parthasarathi M:** I do not have a specific account wise number.
- Alok Ramachandran:** For this slippage?
- Parthasarathi M:** About 19 Crores I would have provided for this.
- Alok Ramachandran:** So about nearly 40 Crores you have provided for these two accounts primarily. So the adjusted to these two accounts your provision would have been down the 40 Crores or so.
- Parthasarathi M:** You are right.
- Alok Ramachandran:** What would be your GNPA number if I have to ask you addressed into these slippages what would have been our GNPA ratio if I have to adjust them?
- Parthasarathi M:** It would have been 2.33 or so if this fraud that has been there.
- Alok Ramachandran:** For now even both of this as well?
- Parthasarathi M:** You would have to make somewhat adjustments. I will have to reduce that it is maybe 2.1 or so. I cannot say the way I put it to you this way I would not like to take this one now because this is a regular slippage the 75 Crores yes I would like to indicate that without the 75 Crores my slippage would have been like this. This one I do not want to take with me allowance for.
- Alok Ramachandran:** Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Rahul Jha from Bay Capital. Please go ahead.
- Rahul Jha:** Sir what is the guidance for the branches in FY2017?
- Parthasarathi M:** My sense is we will open about 40 to 50 branches this year.
- Rahul Jha:** And you have not opened any branches in this half-year 2017 right?
- Parthasarathi M:** No.
- Rahul Jha:** Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Rakesh Kumar from Elara Capital. Please go ahead.



Rakesh Kumar: Sir just if you can just highlight on some of the segments like agri, retail, SME how these books are, how these segments are behaving in especially in the southern market so that would be helpful?

Parthasarathi M: My agri, my retail books are doing rather well if I might say so, practically very little stress that I have seen and it is obviously predominantly south and on the SME side again the book as we have been discussing so far as we would have seen the slippages have been small on the SME side so it has been doing all right but I cannot say that there is absolutely no stress there they do have liquidity issues but they more or less managed by the quarter end.

Rakesh Kumar: So it is that like by the quarter end just try to get over of the situation bad situation somehow it is does they are managing somehow like in the end of the quarter or how it is.

Parthasarathi M: My sense is a lot of them can easily clear their dues even earlier but because of the overall liquidity situation because of the overall environment they tend to use the extra period for liquidity.

Rakesh Kumar: From which segment in MSME we are getting a loan demand right now loan demand?

Parthasarathi M: It is across sector if I might say so and I see interest in the small industry small engineering units plus trading entities of course.

Rakesh Kumar: Where is the pain points are there in MSME?

Parthasarathi M: Again these are the sectors that are also seeing some pain too. The export industries are also facing some stress, I find.

Rakesh Kumar: Due to this grid thing, which has been resolved, on the power sector in Southern India, I think the power situation is much better than it was may be a year back?

Parthasarathi M: Well quite possibly. Since my exposure to power practically is not there.

Rakesh Kumar: I am thinking from the MSME perspective?

Parthasarathi M: The MSME that way their complaints are less clearly. Places like Tirupur, and Coimbatore earlier had a lot more of complaints on this ground.

Rakesh Kumar: How do we see the situation on the gross NPL side and the restructured standard work side by the end of this year?



- Parthasarathi M:** I have not given myself a guidance as such of the slippage but what I had said is that I will proactively provide wherever I see accounts that so even the remotest signs of stress, so I have been saying that we will provide about 225 Crores for the year now on account of this bill discounting event I might indulge myself by another 25 Crores and go up to 250 Crores.
- Rakesh Kumar:** What are the PCR levels we would like to maintain?
- Parthasarathi M:** I see I would like to maintain at least 70.
- Rakesh Kumar:** 70 with write offs?
- Parthasarathi M:** Yes.
- Rakesh Kumar:** Thanks a lot.
- Moderator:** Thank you. We will take the next question from the line of Jay Mundhra from B&K Securities. Please go ahead.
- Jay Mundhra:** Thanks for the opportunities. Sir, we believe we have some exposure which could classify for SDR cases, so I just wanted to know what is the outstanding SDR exposure for us and if there is something in the pipeline?
- Parthasarathi M:** I will just check, give me a moment. I have about 190 of SDR exposure at the moment. None of these have happened this year. They have happened in the previous financial year. SDR is likely to happen could be in the region of about 300 Crores or little more perhaps.
- Jay Mundhra:** So outstanding is 190 Crores and then the pipeline could be another 300 Crores?
- Parthasarathi M:** Yes please.
- Jay Mundhra:** Sir, similarly anything in the 5:25, I believe we have one account at around 120-odd Crores.
- Parthasarathi M:** I have actually two accounts under 5:25 and the outstanding there could be a little over 100 Crores.
- Jay Mundhra:** Nothing in the pipeline as far as 5:25?
- Parthasarathi M:** No I am afraid not.
- Jay Mundhra:** Sir, now the board has approved the QIP for the banks. Any likely timeline, how much time?



- Parthasarathi M:** As I mentioned earlier, I am unable to give any specific timeline as yet. It is something that the capital raising committee will deliberate upon.
- Jay Mundhra:** Sir, lastly on this restructured book, so the restructured book is largely flat on quarter-on-quarter basis. What could be the quantum for steel, and do we have any Discom exposure under restructured book?
- Parthasarathi M:** Discom nothing. Restructured book I will tell you, in the restructured book you wanted to know what iron and steel is right?
- Jay Mundhra:** Yes.
- Parthasarathi M:** I will put it in this way, iron, metals and minerals together I will add and make it 6.8% for you.
- Jay Mundhra:** 6.8% of total exposure in that sector or is it like 6.8%?
- Parthasarathi M:** Of the total bank's book.
- Jay Mundhra:** In restructured book?
- Parthasarathi M:** Yes.
- Jay Mundhra:** Okay that is the small proportion side.
- Parthasarathi M:** Yes.
- Jay Mundhra:** Thank you Sir. That is all from my side.
- Moderator:** Thank you. We take the next question from the line of Ravi Singh from Ambit Capital. Please go ahead.
- Ravi Singh:** What are the outstanding security receipts on your balance sheet?
- Parthasarathi M:** Total SRs on my book would be, just a minute; we have not had any depreciation on our SRs of course, and I will check on that. Do you have any other questions? I will get that for you.
- Ravi Singh:** Just one another question. Sir, you mentioned the food processing account was under your watch list sort of thing, which is maintained internally, so after this account is NPA, what is the size of watch list accounts, which you are closely monitoring?



- Parthasarathi M:** I must confess that because our overall numbers are small we do not really have separate watch list. What we do is we watch our SMA accounts overall very closely, so the entire SMA as far as we are concerned any account getting into SMA is on the watch list for us. So we monitor that and that book tends to fluctuate quite a bit of course, so time it will be small as 300, 400 and it could go up to 2000 Crores at times. SRs are Rs.199 Crores.
- Ravi Singh:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Amit Gupta from Everstone Private Limited. Please go ahead.
- Amit Gupta:** In my earlier discussion you suggested that gross disbursement for the particular H1 has been something Rs.900 Crores. So, can we have breakup of that 900 Crores in what segment like what would be the corporate, what would be the retail agri and SME?
- Parthasarathi M:** In theory, we could do that, but it is not presently with me, may be separately we could work it out. Kindly do send us something or to Centrum something we will get it. I do not have it with me ready.
- Moderator:** Thank you. We take the next question from the line of Umang Shah from Emkay Global. Please go ahead.
- Umang Shah:** Thanks for the opportunity. Most of my questions have been answered. I just wanted one clarification that in the notes to accounts in the result there is a mention of around Rs.8 Crores provision toward some fraud accounts of which Rs.2 Crores has been taken during the quarter gone by. I just wanted to understand this provision is pertaining to which fraud account, I mean is that pertaining to?
- Parthasarathi M:** FDs have happened at one or two of our branches, small frauds adding up to about Rs.8 Crores.
- Umang Shah:** Okay and this has been identified in the current fiscal or this pertains to some previous fiscal?
- Parthasarathi M:** The frauds might have happened over a period, but these have been all identified recently.
- Umang Shah:** Okay, just a related question, which I wanted to check, is that obviously let us say, if I was to although this is smaller in terms of quantum, but let us say if I was to just at these two incidents. Is it that we are looking at some kind of process change or may be we are kind of revisiting our own systems and processes, tightening certain norms as an outcome of which



we are kind of detecting this or basically from the risk management standpoint, how are we kind of looking at these incidents?

Parthasarathi M: I will put it to you this way, so we will not take credit for our new process for detects and of course the detection happens in the normal course, but as an ongoing measure for the last few months, we have been tightening all our systems and processes. We are revisiting the bank's processes, systems and business model in many cases and we are completely reshaping the processes and in the process of course we are tightening our systems. We are putting in place a whole new setup market best practices and a whole set of people across businesses and operations are working on these and the detection of course has happened in the normal course of inspection and otherwise, but the processes are being tightened considerably which hopefully we will minimise operational risk losses.

Umang Shah: You already mentioned that you do not really have gross NPL number to be achieved by year end obviously you have given around Rs.225 to Rs.250 Crores is the credit cost range that one should be looking at for FY2017. For FY2017 and 2018 do you have any ROA target in mind ROA and ROE, so we already around 85-basis points for the first half versus closer to 70 or basis points last year. So any year-end or FY2018 target that you would want to leave us with?

Parthasarathi M: To be frank, the target that we had, we have reached actually. I had projected that we would probably take about three years to reach an ROA of 1% on a stable basis. As far as ROE was concerned, I had expected to reach the 15% mark on a stable basis may be in about five or six years. It still remains to be seen whether we can maintain this. You would also appreciate that if I raise capital ROE will slip a bit.

Umang Shah: Sure, so basically one can assume that this 1% ROA sustenance is something, which we are looking at and not at further looking at expansion from these levels at least at this juncture?

Parthasarathi M: That is how I would put it.

Umang Shah: Thank you so much and wish you all the best for future quarters.

Moderator: Thank you. We take the next question from the line of Pratik Shah from Motilal Oswal Securities. Please go ahead. Mr. Shah your line has been muted. Please go ahead with your question.

Pratik Shah: Actually my question has been answered regarding the NPA, so I have no further questions. Thank you Sir.

- Moderator:** Thank you. We take the next question from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.
- Parthasarathi M:** Incidentally may be interrupt for a minute. I had given the number for our SRs at Rs.199 Crores. The book value today is Rs.281 Crores. I stand corrected. Please go ahead.
- Sarvesh Gupta:** Can you provide the breakup of gross NPA in terms of various segments like agri, SME, corporate? What are your NPA percentages across these segments?
- Parthasarathi M:** Segmental breakup of gross NPL, not available with me at this moment. Just a minute, please. I will see if I can give it to you. I have it. I will give it to you my way of course if you do not mind. So the food-processing sector contributes about 20% of my gross NPA and the next sector is wood and wood product, which is 13.76. Metal and metal products would be about 10%. These form the bulk.
- Sarvesh Gupta:** Sir I wanted to know across segments like agri, MSME what is your gross NPA percentage in corporates?
- Parthasarathi M:** We divide it by sector rather than by segment, but I will check if I have it. Agri has about 2.21% of my total gross NPL. MSME that way do not have it, I could probably get it for you, just a minute, I have a rough hand ready calculation so here you are, just a minute I will do it for you. The corporate segment contributes about 60%.
- Sarvesh Gupta:** Of the total absolute gross NPA?
- Parthasarathi M:** That is right, MSME and what we call commercial, which is handled by the same group is, MSME is 20.92%, retail is 3.9% and what we call commercial, which is about 13%.
- Sarvesh Gupta:** Thank you Sir. My second question was if I see your average gross advances that has gone up by 52% while your period end advances have gone up by 15% so I think the trajectory is more like 15% and because of the base effect these average numbers are showing a higher number right?
- Parthasarathi M:** Well that is one we are looking it certainly.
- Sarvesh Gupta:** So 15% is more like the correct representation of your growth?
- Parthasarathi M:** As I mentioned to an earlier questioner we are in the rebuilding phase, my SME and retail business will start kicking off in the second half more, the first half we were in the building base, team being put together and so on, the corporate bank has a very stable base and continues to run on its own, but the SME business is stable I think and so to that extent may



be one has seen some slow down there, I am expecting the second half to see a lot more traction there.

Sarvesh Gupta: Correct and similarly with your CASA deposits, your average number has gone up by 30% YOY, so again this is because of base effect and 15% is?

Parthasarathi M: I give you what statistic there if you want. I have studied on a quarterly basis, not the period end numbers, this is what is actual number, so Q1 I will just read out six succeeding quarters for you, 13.97, 14.25, one dip of 14.08 in Q3 FY2016 then 14.77, 15.37 and 15.48 in the last quarter and this is quarterly average number, on a daily average of the quarter, so you see that clearly it is in moving on the right direction if anything I am a bit unhappy that we did not grow enough in the month of August otherwise this quarter we would done even better, August somehow was a slow down in CASA for us.

Sarvesh Gupta: Thanks a lot and congratulations for a good set of numbers.

Moderator: Thank you. We will take the next question from the line of Ravi Singh from Ambit Capital. Please go ahead.

Ravi Singh: Sir just wanted a clarification, the amounts which you mentioned for the SDR and 5:25 accounts, are we standard or some of these are already classified as NPA?

Parthasarathi M: These are all standard accounts.

Ravi Singh: Okay Sir and on the three to five years planning fees what sort of loan which you are looking at and any sense on the opportunity, are you looking to stay focused on Tamil Nadu or expand more on a pan India or pan South India basis?

Parthasarathi M: I cannot deny that, Tamil Nadu is my strong point at this moment and obviously the bank has built enough strength in the south, gradually as we develop ourselves in our strengths and our brand recall we would like to branch out into other parts of the country, but it is something that will happen overtime, I cannot see a very sharp change in the focus, but it could happen overtime.

Ravi Singh: Sir on the ideal loan which you are targeting?

Parthasarathi M: Very ideal loan, which today would have been about 30% retail, 30% SME, 25% corporate and the balance agri for me, but it is not something that will happen very quickly, it will take a bit of time and as you said it rightly about five to six years certainly.

Ravi Singh: Thank you Sir.



- Moderator:** Thank you. We will take the next question from the line of Gaurav Jani from Centrum Broking. Please go ahead.
- Gaurav Jani:** Thank you for taking my question. First a bookkeeping question, could you quantify the cost of deposits for this quarter?
- Parthasarathi M:** Yes my cost of deposits is 7.50 for this quarter.
- Gaurav Jani:** The yield on investments if you can provide that please?
- Parthasarathi M:** Investments 7.82.
- Gaurav Jani:** Thanks. Sir just to take this question on the fraud NPA going forward, so as I understand this would have been part of the non-funded book right?
- Parthasarathi M:** No it was a funded book.
- Gaurav Jani:** So if I look at the amounts that you mentioned Rs.75 Crores was unrecovered of which Rs.19 Crores provided and of which the Rs.4 Crores is recovered, so the balance being?
- Parthasarathi M:** 75 is after recovery of Rs.4 Crores.
- Gaurav Jani:** Okay 75 is after the recovery, so what is the likely, could you quantify the likely recovery of the balance amount?
- Parthasarathi M:** I am unable to do so. I have no sense.
- Gaurav Jani:** Sir just to get a run rate of the slippages from the SME book, you mentioned that the average SME book is around Rs.600 Crores, so would you like to put a number in terms of run rate?
- Parthasarathi M:** No I am unable to do so because as I said earlier it is extremely unpredictable, quite frankly the slippages have been small, so over the last two quarters if you look at Q1 my total slippages was Rs.62 Crores out of which the single largest was about Rs.5 Crores. This quarter leaving aside these two big hits the third biggest was only Rs.8 Crores and the rest are all in the region of Rs.1 Crore or may be even less.
- Gaurav Jani:** That is it from my side Sir. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Srinivas Baratam from Kris Core. Please go ahead.



- Srinivas Baratam:** Mr. Mukherjee congratulation on the numbers, they look good. I had a very small question, which is related to the unamortized amount on the sale of loans to ARCs as of March 31 2016. I am quoting a number from your annual report page number 32, it was Rs.95.6 Crores, I would assume that this amount whatever you amortize will be part of provisions for NPA is that correct, if it is correct, what is the amount included under that?
- Parthasarathi M:** About Rs.42 Crores have been provided.
- Srinivas Baratam:** Rs.42 Crores provided, any guidance on by when this will be totally provided for because I presume this has to be provided this end of the year?
- Parthasarathi M:** It has to be provided by the end of this year.
- Srinivas Baratam:** By the end of this year, okay.
- Parthasarathi M:** The small portion will be left over, about Rs.12 Crores might be carried over.
- Srinivas Baratam:** Rs.12 Crores would get carried over, so my assumption that the amortized amount is included into provision for NPAs is that correct?
- Parthasarathi M:** Whatever has been provided, yes.
- Srinivas Baratam:** That is it from my side, all the best Sir.
- Moderator:** Thank you. That was the last question, I now hand the conference over to Mr. Aalok Shah for his closing comments.
- Aalok Shah:** Thank you Sir for your comments and putting across the thought process on the results and way forward. Thank you people on the call for being there and you may disconnect the same now.
- Moderator:** Thank you. On behalf of Centrum Broking Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.