"Lakshmi Vilas Bank Q3 FY 2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Lakshmi Vilas Bank Q3 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. In case you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aalok Shah from Centrum Broking. Thank you and over to you Mr. Shah!

Aalok Shah: Thanks Aman. Good evening all and thank you for logging on to this concall. We at Centrum Broking are pleased to host Q3 FY2017 Results Conference Call for Lakshmi Vilas Bank. Today on the call, we have Parthasarathi Mukherjee, MD and CEO. We also have NS Venkatesh, ED & CFO from Mumbai he will shortly join us on the concall, and other senior management team of Lakshmi Vilas Bank. I would request MD Sir to give his initial comments followed by opening up the floor for Q&A. Over to you Sir!

Parthasarathi M: Thank you Aalok. Good afternoon ladies and gentlemen. In addition to this our Executive Director, Mr. Venkatesh will joining us shortly, I have with me my colleagues, the Head of Corporate Banking, Mr. Meenakshi Sundaram, and the Chief Risk Officer, Mr. Sridhar and accompanying Mr. Venkatesh would be our Treasurer, Mr. Guru Murthy in Mumbai.

Welcome to this Lakshmi Vilas Bank Q3 call. As I was mentioning yesterday to some people it has been a very interesting quarter for all and definitely this quarter will be remembered for the withdrawal of the specified bank notes by the Government of India and by Reserve Bank. It is difficult to this moment to accurately assess the final impact of the action; however, we can discuss the impact of the steps on the functioning of our bank.

We have seen both positives and negatives. We saw a marked improvement in our CASA numbers. These rose quite significantly post the SBN and withdrawals. We did however also see lesser utilization of working capital glitch. Many cases of loan prepayments and as you will quite understand more often than not these were very good loans that got prepaid. At the same time we did see some stressed loans also getting repaid, which I will also notch up on the positive side.

Before I discuss the results, I must mention that the bank raised Tier I capital of Rs.168 Crores through a QIP issuance. This issuance is significant on more than one count; this was raised at the end of the calendar year when the market is very thin. This was also at the height of the uncertainties linked to the SBN withdrawals. This was the first time that Lakshmi Vilas Bank had accessed the public markets to raise direct equity in its history of 90 years.

Our P&L numbers are with you and I would like to discuss the salient points that strike me and me and my colleagues we would be glad to clarify your queries thereafter.

Somewhat difficult circumstances prevailing during the quarter are reflected in some parts of our results too, obviously it has affected the growth in credit and since I mentioned that there have been repayments also, the immediate impact was that saw from growing the credit book we actually saw a shrinkage in the book when I compare it sequentially with the previous quarter.

The net profit of the bank came in at 78.38 Crores, which is a growth of 20.87% sequentially and 70.13% if I compare with the year back. Similarly operating profit was about 171.45 Crores, which is in itself a growth of 8.23% sequentially and 61.76% Y-on-Y.

Net interest income came in at 190.62 Crores. This compares favourably though not very significantly differently from 186.67 Crores in the previous quarter and 167 Crores in the previous year. Net interest margin was stable though marginally lower than the previous quarter we came in at 2.72 this time. We were 2.84 in the previous quarter, 2.78 last year; here clearly there was an impact of the inadequate growth in the credit book.

Total business seems sequentially total business rose only marginally to 47464 Crores just about 1% over last quarter though of course that is about 12.5% more than the previous year. Our deposits rose 4% sequentially to 27750 Crores this is a Y-on-Y growth of about 15.93%.

Advances, as I mentioned, actually shrunk about 2.67% compared to the previous quarter down to 19714 Crores, but if I were to look at it in comparison the previous year there is a growth of about 8.5%.

On the CASA front, things was slightly more cheerful of course and at the end of December savings bank balances stood at 4196 Crores, which reflects a sequential growth of 35.4% and a Y-on-Y growth of 70.9%. I am sorry that is the savings bank balance. Similarly my current account balances stood at 1748 Crores that again reflecting sequential growth of 14.92%.

At the quarter end, the CASA percentage stood at 21.42%. Here I must mention that within the bank, we put greater emphasis on daily average balances rather than the period end balance where there is always scope for significant movement and as far as the average balances are concerned I must tell you there has been gratifying performance in the bank.

CASA has been growing steadily and that is reflected in the way the cumulative daily average balance of CASA has moved over the year. As points of reference if I might share with you, on a daily average balance the CASA percentage from the immediate three previous years were 13.79%, 14.12% and 14.28% respectively. This year in the nine months till December that number is 16.64%. The cost of deposits has improved marginally I will say to 7.45% from 7.58% and there is an improvement of about 8.23% on a year-on-year basis.

I will now move to advances. The impact of the slowdown as I said is quite apparent here. The CD ratio has slipped to 71.04% from 76.09% in the previous quarter. As I mentioned earlier the advances ended the quarter at 19714 Crores. Yield on lending was more or less flat sequentially at about around 11.48%. So this is down from 12.28% a year ago.

I will turn to asset quality. We continue to be extremely watchful as this area continues to cause concern. Gross NPLs marginally edged up to 2.78% from 2.70% in the previous quarter though the net NPLs eased marginally to 1.82% from 1.87%. You will appreciate that this is partly accentuated by the fact that my book has actually not grown and has shrunk, had the book grown in the normal way these numbers would have been significantly better, I would imagine.

During the quarter we added fresh NPLs of 87.76 Crores while recoveries were 81.30 Crores. We have some small upgradations of about 3.9 Crores and there was a very tiny write-off of just Rs.6 lakh. The largest NPL was a shipping related account at around 45 Crores I must mention here the next highest amount was less than 3 Crores.

As far as provisions go, we provided 38 Crores for NPAs as against 70 Crores in the previous quarter. The provision coverage ratio; however, has improved marginally to 62.21% from previous quarter's 59.87%. Just in case this interest, I must also mention that the unamortized amount of provision for past sales to ARCs is now about 35 Crores and we still need to provide another 4 Crores for another fraud where we still have some outstandings. I must mention that there were no sales to ARCs during the quarter.

As a result of all these total NPLs stand at about 548.60 Crores, which is largely flat actually it was 546.11 in the previous quarter. I must also mention that there were no fresh additions to SDR during the quarter. The total amount of existing accounts is two catering to about 58 Crores. We do not have anything under S4A.

Another flexible restructuring the 525 scheme outstandings under the programme are at 118 Crores. No fresh accounts were brought under the scheme during the quarter. What about our restructured book if that now stands at 753 Crores down from 873 Crores earlier and what is gratifying is that about 89% of the restructured book is now out of moratorium and is being serviced regularly.

Treasury has had a very good year thus far. Income from the trading during the quarter was about 100 Crores. This compares very favorably because 76 Crores that they showed in the previous quarter. If you are interested in some of our ratios, the cost to income ratio has come in at 49.70%. This is an improvement over previous quarter is 50.27. Were you to look at the number for the previous year third quarter that was 55.17%?

The return on assets has come in at 0.98% again an improvement over 0.86% of the previous quarter and 0.70% last year. For the nine months period the return on assets stand at 0.90% as against last year is 0.69%. Similarly if I look at the return on equity for the quarter we are reporting 18.18%. The previous quarter's number was 15.39% and the previous years was 11.64%. For the nine-month period, we are reporting ROE of 16.05%. The Bank's capital adequacy as of December end was 10.21%. This does not take into consideration the fresh capital that was raised at the year-end and naturally the nine-month profit has also been taken into consideration. Core Tier I has come in at 8.23%.

We had announced last quarter when we discussed the results that there has been a fraud of about Rs.75 Crores. I am delighted to mention here to you that we have recovered the entire amount along with the overdue interest.

Consequent upon the discoveries of the fraud, the Bank has taken significant steps to ensure that such instances never recur again. We have clearly identified the process gaps that needed to be plugged and it is an ongoing process to tighten our systems. However, our regulator, the Reserve Bank while recognizing the steps that we have taken saw it appropriate to penalize our Bank for the lapses that led to the fraud with the levy of the fining. The penalty has already been paid and I must tell you that it has been accounted for in the results that we have discussing.

Thank you very much. I would be delighted to answer any questions that you might have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Jhanvi Goradia from Motilal Oswal Asset Management. Please go ahead.

Jhanvi Goradia: Good afternoon Sir and congratulations for the results. Couple of questions Sir. First is on provisioning, if I look at the provisioning superficially on the NPL for the nine months ended it comes to around 147 Crores and your guidance at the beginning of the year was around 220 odd Crores so would that mean a big chunk would come in the next quarter or would you have revised the guidance downwards?

Parthasarathi M: Jhanvi, I have the option of revising of course, but I do not thinking to exercise that options yet. So what we are doing is as I said it was not anticipate, we were anticipating that we would require the entire 225 Crores, but I have said that subject to my availability of additional revenues, I would like to use that for contingent provisioning at the end of the year. That is the decision we will take at that point of time.

Jhanvi Goradia: Because you got a good chunk from your treasury income so would it be then prudent to do it this quarter itself or would you wait for?

Parthasarathi M: As you can well understand the Bank always tries to do a bit here and there, but clearly the bulk of it we will expect to do at the fourth quarter end subject to of course availability of appropriate revenue.

Jhanvi Goradia: Sir next question on the noninterest income that is excess treasury gains well I must give you credit for the year-on-year increase in the same, but see on a sequential basis it has been a decreasing trend and I understand that the macro is challenging with hardly any credit growth, but how do you look at this because we have recruiting a lot of RMs for corporate fees and of balance fees so how do we see this shaping up?

Parthasarathi M: Well, I am hopeful that the fourth quarter will actually see a reversal of this trend and you identified it correctly that without credit growing obviously to some extent processing fees are obviously directly are affected. I have reasonable comfort that the fourth quarter will see a reversal of the trend and both corporate bank and the SME group will in fact be looking a lot more buoyant as far as their business is concerned. I am expecting that the retail banks lending will also pickup a bit. So to that extent, I am hopeful that we will see greater buoyancy and fees. We will also appreciate that the fourth quarter normally is the one where on the retail side third party sales improves quite a bit, so you will see some significant improvement coming from that side too.

Jhanvi Goradia: So of the 50 odd Crores of the ex-treasury noninterest income how much would be corporate and how much would be retail?

Parthasarathi M: The bulk of it is corporate I would say.

Jhanvi Goradia: Sir lastly just wanted your outlook on the SME sector as a whole because that is where the pain point is now. So how do you see loan growth for the overall book and for the SME sector in particular?

Parthasarathi M: Loan growth is going to be slow but let me make a point here, Jhanvi. I am actually and this is the point I made the other day to and I made this morning I am actually not running after figures, growth. I am very clear that we will be the fixated also on the quality of growth. We are completely trying to reinvent this bank and we really do not wish to trip up anywhere. So SME growth will happen and I am given reasonable comfort that that will happen. We are taking a lot of initiatives as we speak tomorrow we are suppose to be having an SME expo in Coimbatore organized by our Bank where we expect to see a lot of business being decided upon and clearly the bank visibility has improved quite a bit. The corporate bank of course I have held back a bit and now the corporate bank itself is rearing to go and they expect to see some good business. We are very clear that we wish to now do business of the variety that will be relatively safer for us while that might impact returns to some extent it will at least ensure that the quality of my book remains good and I think SME will be alright, SME because we have been very careful going forward really there was challenges and to some extent the impact of the demonetization has also perhaps being felt by SMEs but I think as the basic robustness of the Indian economy will eventually will win through.

Jhanvi Goradia: Sir one last question if I may just slip in, we were in this entire exercise of centralizing the credit appraisal system from branches to the centralized units so far are we on that exercise and your views on branch expansion?

Parthasarathi M: As far as credit is concerned, it is already centralized in two parts. The corporate credit is entirely centralized at the corporate of the bank. SME credit it has a two-tier structure again centralized. So we have some for the smaller credits we have team sitting at the MSME centers, which we have created, 11 of them and the larger credits are handled by the corporate office, SME credit team and as far as credit is concerned and when it comes to branch expansion well this year I made and we should certainly go over the 500 branch mark and maybe a little lower that and for next year we have not yet taken a view the planning process is on, take a view as we go along, but we should cross 500 this year.

Jhanvi Goradia: So currently there is no credit appraisal that happens at the branch level?

Parthasarathi M: Branches do not do credit.

Jhanvi Goradia: Perfect Sir. Thank you so much.

Moderator: Thank you. We have the next question from the line of Shiva Kumar from Unifi Capital. Please go ahead.

Shiva Kumar: Thank you for the opportunity. Sir in the recent QIP issue of 168 Crores can you give us a sense of the investors who had come in?

Parthasarathi M: Well we had a whole list of them actually and we had one insurance company and we had three or four banks that came in and a couple of funds that came in.

Shiva Kumar: And which will be the largest investment Sir?

Parthasarathi M: It was an insurance company that brought in almost half of the issuance.

Shiva Kumar: Sir and what is the breathing space that this QIP issue would give you as in what kind of a loan book would actually force you again to access the markets again?

Parthasarathi M: Let me put it to you this way, as far as my capital adequacy is concerned my sense is post the issuance, I should be sitting on the capital adequacy of somewhere in the region of little over 11% as of now. My sense is for this year's growth I am comfortable when I say this year I am saying let us say FY2018 also I should be alright. You will appreciate that I am going to adding back four quarters profit also in March so I will be quite comfortable for FY2018 to handle my business plan. So about 20%, 25% growth is something that could be taken in us stride.

Shiva Kumar: So can we take it that you would not be doing any equity dilution throughout FY2018 Sir?

Parthasarathi M: No you cannot take that because if I get a good opportunity I might.

Shiva Kumar: Sir do you have any ROE targets now that that would have got diluted EBIT due to equity infusion are you looking at any ROE targets wherein maybe you would again look at another on our equity infusion?

Parthasarathi M: What I have been telling my investors is that I will look at giving ROE across that capital rising cycle so across the capital rising cycle ideally I should be able to give my investors for the present about 18%.

Shiva Kumar: Sir coming to the loan growth given that in Q3 there has been a degrowth even when your compare with March 2016 numbers so in Q4 what is your target at what loan growth would you be ending FY2017?

Parthasarathi M: My sense is well my colleagues are certainly running around quite a bit to do a lot of business in Q4 it is not unlikely that we will give you a Y-on-Y growth of about 10% or 11%.

Shiva Kumar: Sir and one question on the cost of funds in spite of a sharp increase in the CASA ratio, the cost of funds only came down by 11 BPS so what more does the Bank needs to do to actually make it even more sharper in the coming quarters as in what is it that is lacking that is actually leading to some stress on the NIMs?

Parthasarathi M: Some of our strengths are also our weaknesses. So Lakshmi Vilas Bank is one of those banks that have a very strong retail deposit franchise. Our depositors tend to keep long-term deposits so even though term deposits rates have come down our deposit maturities have been relatively small. You would appreciate that rate changes happen only when deposit mature and are replaced by other deposits, but at the same time having said that I must tell you that going forward over the next three to four months I anticipate at our Alco earlier today and it was very clear that we could see some significant downward shifts in deposit costs going forward.

Shiva Kumar: So you are saying that the trend would continue it might…?

Parthasarathi M: Will accelerate a bit.

Shiva Kumar: Sir and one last question on your reading of the SME sector post demonetization and also the approaching GST there are some concerns on the overall SME sector and how the consequence would be able to pop up with the emerging scenarios. So how confident are you that you would not face any asset quality issues going forward from this sector, what is your rating of the emerging scenarios?

Parthasarathi M: SME sector is always a sector that could face challenges in the sense that their ability to withstand shocks is obviously less but having said that one great thing about the SMEs is that they are on the whole are relatively under leveraged. So the secret finally comes around to the question of selection of appropriate accounts and that is where I will win or lose. The team has reasonable comfort that it will be able to do some good business because you would appreciate that this is an area where this is practically our own hinterland and we are very well represented in many of these areas and so I think the team hopefully will be able to get in good business. I mentioned earlier today and as been mentioning constantly we are not in the game of chasing numbers. We are trying to chase quality so to that extent I have even been telling my colleagues that I am willing to make sacrifices as far as returns are concerned provided that I get good quality stuff eventually it is the rare of that we will look at and I think I have reasonable comfort that the team will be able to handle stress or challenges or SMEs quite adequately.

Shiva Kumar: Sir and just coming back to that capital adequacy query, which you have answered wherein you said that you would ensure that the investors would get 18% ROE across the cycle so how does that panel? Sir you mean to say that you will wait for 18% to come in and then do an equity dilution or how do you plan it sir across the cycle. Can you just elaborate on that?

Parthasarathi M: Yes, making it very difficult for me. The answer is very clear. One has to continue to provide returns of course. Now it does not happen really that I have to exactly wait we will try to balance it out. It does not mean that if I will not enter if it is 17.75% or something but we will have to match it out but my sense is that by and large we will be able to give it.

Moderator: Thank you. Thank you we have the next question from the line of Alok Ramachandran from Future Generali India Life Insurance. Please go ahead.

Alok Ramachandran: Thank you for taking my question and congratulations on good set of numbers. Just wanted to know any particular reason of the loan growth have actually come down during this quarter?

Parthasarathi M: As I mentioned earlier we have been very careful and our processes our risk systems are extremely robust now and clearly as I said we are not chasing number just for the sake of growth we are chasing at quality growth and frankly and I also mentioned right of the beginning that we have had a lot of repayments and prepayments of the loans.

Alok Ramachandran: Is it on account of demonetization?

Parthasarathi M: Yes that has played its part. I would imagine I would have lost about 450 Crores there but these are good accounts that I have lost. So that partly has contributed to the fall.

Alok Ramachandran: Anything apart from in the asset quality, which you would like to comment?

Parthasarathi M: I beg your pardon.

Alok Ramachandran: Apart from this thing anything on asset quality you would like to comment apart from the 45 Crores account that has slipped?

Parthasarathi M: Look I mentioned this earlier in some other conferences. Our book is relatively granular. Now one of the challenges you have is the granular book is unlike large corporate book where you can very reasonably comment on when this is going to slip or not slip. In the case of the small accounts they are and many of these are accounts where I am the sole lender. Now in such cases what happens is a lot of them take it from granted that the 90 days that they have given by RBI is a grace period that is always available to them then they are not particularly sensitive about SME status and so on they all hang on till the end and then at the last moment if somebody can clearly click here with someone who cannot he slips. It is very difficult to predict how much of you are going to take a portfolio approach there and as I mentioned other than that 45 Crores the largest single slippage was 2.7 or something.

Alok Ramachandran: Sir just the thought is that every it is like you are normally your runrate was about 30 Crores kind of a slippage of maximum 40 to 50 Crores slippage and which has actually intensified in the last two quarters or maybe possibly three quarters so just that…

Parthasarathi M: I will attribute that largely to the overall system position. On my part, I neither speed it up for bring it down, so I will assume that it is just an impact of the period.

Alok Ramachandran: Sir any color on the slippage of the previous quarter on account of food processing units any color on that?

Parthasarathi M: I am afraid that continues to remain slipped.

Alok Ramachandran: Thank you for your questions.

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

Jignesh Shial: Congratulations Sir and thanks for the opportunity. First just we need to know a problem is that the slippage number for the quarter along with recoveries and upgrades if I can have it?

Parthasarathi M: I had a slippage of 87 Crores this quarter and recovery was 81 Crores and upgradations were about 4 Crores and there was a marginal tiny write-off of about 6 lakhs.

Jignesh Shial: You mentioned about the restructured book I could not get the numbers outstanding funded restructure?

Parthasarathi M: My standard restructuring book today stands at 753 Crores.

Jignesh Shial: Sir just coming back to what you were discussing earlier from the credit book part and now post demonetization what I am – correct me if I am wrong, you are saying that corporate demand have remained at – there had been some sluggishness, but you expect the pickup to happen in the current quarter, am I right to understand it?

Parthasarathi M: That is correct.

Jignesh Shial: And actually MSME you were saying since it has been generally under leveraged we will see a faster recovery happening on that particular front also. So Lakshmi Vilas as a bank is not facing much of an issue as far as growth is concerned?

Parthasarathi M: I would not be that hang with the growth is always a challenge particularly because I am not pushing numbers, I am rather looking at quality, at times for my colleagues it will be somewhat frustrating because they will bring a lot of business and then I will not sanction them that might well happen. So I cannot say growth is given but growth opportunities are there and the teams seem to be confident that they will be able to produce the growth this quarter.

Jignesh Shial: But now since large banks like the names like SBI or HDFC cutting down the MCLR by close to 90 BPS and all the pricing is getting really intensified. So one, the smaller banks like yours would be facing an issue because of this as far as pricing is concerned or as far as competition is concerned?

Parthasarathi M: In theory yes that is a good point. The fact is I have been there in this business for the last 22 years when those two banks were also there and which continue to have grown our books so we have our own areas; there are people who will rather deal with the Lakshmi Vilas Bank than with some of the other banks that you mentioned, we have our own relationships, which seem to work quite a bit despite the competition if anything today Lakshmi Vilas Bank is going to the new compeititon because the bank has woken up and is trying to do a lot more if anything, which the competition that now has to wonder about Lakshmi Vilas Bank.

Jignesh Shial: Lastly, you said there have been large prepayments close to 450 Crores if I got it right any specific reason that you found it that the large prepayments are coming is it only because of the demonetization, the slowdown or the some of the other banks are getting aggressive what could be the probable reasons behind it, the key reasons that you have?

Parthasarathi M: I will attribute the bulk of it to the SBNs, people who are getting rid of their SBN holdings; I would attribute the bulk of it. I cannot rule out some it have been gone elsewhere, but the bulk of it is on account of SBNs.

Jignesh Shial: And just you are targeting ROE of close to 18% now how exactly is the game plan, will it be margin improvement, discussions on cost to income of how exactly you plan it?

Parthasarathi M: Here I must first analyze the ROE for you. Now in the normal course, you will have to appreciate that my treasury has done tremendous this time and that has contributed quite significantly to the ROE boost that I got. So if I were to sort of split the ROE for you I would probably put it something like maybe 14 and 4 if you ask me. I mean if I want the scheme of the treasury contribution, the ROE I would have probably reported to you would have been something like 14 this quarter. You will appreciate that and now my target would be to ensure that my core ROE basically non-treasury ROE continues to rise and separate of course I have immense phased in the ability of my treasury to continue to deliver.

Jignesh Shial: Thanks a lot Sir and all the best.

Moderator: Thank you. We have the next question from the line of Renish Patel from Antique Stock Broking. Please go ahead.

Renish Patel: Sir just one question on our cost thing, basically if we look at our cost to income ratio though it has been declining from last two to three quarters but it is largely driven by the treasury income as you rightly mentioned so Sir what is the strategy going ahead to improve cost to income ratio is treasury income is not to the extent which we have already witnessed in nine months 2017 because I believe in FY2018 that would be how much lower than this year?

Parthasarathi M: In the first place let me tell you that I hope that my treasury will continue to deliver that is one part. Having said that clearly the treasury is not only contributor to my businesses. The way we have restructured our business our corporate banking group and our SME group as well as the retail banking group will themselves be contributing significantly on fees going forward and with our transaction banking kicking of soon we hope to see a lot more buoyancy in our forex revenues, our cash management business, we expect to see a lot more coming from our payroll accounts and so on the SME RMs, the corporate RMs they all carry targets there, sale of third party products is picking up, there is a lot more buoyancy there so all these will further strengthen my fees and as the lending also stabilizes you will see credit processing fees also coming.

Renish Patel: So actually Sir what I am looking for the data is like our NII growth is between 16% and 17% and our cost is actually growing at 25% to 30%. So even if our other income grows up and if NII continues to remain sluggish so we would not see a significant improvement in cost ratios so what our plans to grow NII that is number one and do the current base of total operating cost to be continue going forward or we will see some moderation in growth rate?

Parthasarathi M: That the operating cost you will really see moderation going forward. You will appreciate that we are somewhat in an investment phase at this moment which was we are investing a lot more that is the staff augmentation that has happened, lot of people is coming to the bank so that has boosted numbers to some extent.

Going forward I got anticipate the growth at the same pace that is one and clearly there will be the CFOs office the ED and CFOs office is constantly working to work out a position of cost optimization within the bank so that part is happening even in case and as I said revenues have been pushed very strongly and you mentioned NIIs my sense is as my savings and current account balances stabilize and our dependence on term deposits reduce and even within term deposits going forward my sense is Lakshmi Vilas Bank will not always be at the high end of the market so you will find that my NII will improve quite a bit, having said that I must again mention that as far as my NIMs are concerned, my NIMs are around 2.72 this quarter and I am personally quite happy with it and I am not really in a hurry to boost these to three or four or anything I would much rather allow my credit teams to lend to better corporates rather than boost my NIMs at this moment.

Renish Patel: Sir just one last question again on cost our employee cost has been 91 Crores this quarter versus 82 Crores last quarter so is there any one half or any provisioning to pension or anything?

Parthasarathi M: There were some payments we have to pay for some overtimes for this cost that they worked during the demonetization process and so on some of that happened that has to some extent contributed.

Renish Patel: But there are no one-offs in this base?

Parthasarathi M: No, nothing else.

Renish Patel: Right. Thank you very much for it.

Moderator: Thank you. We have the next question from the line of Megha Hariramani from Pi Square Investment. Please go ahead.

Megha Hariramani: Sir my question is on the growth side. What is the projection for next two years? I know demonetization was kind of one-off but do we see the similar loan growth and we have seen a very robust net profit growth in the past two, three quarters do we see to continue that in next two to three years?

Parthasarathi M: There is 60% growth in profit is something I cannot assure you at the moment but my internal calculations and I have a base case position where I anticipate that book growth in the region of 20% to 25% for the next few years the profitability growth closer to 30% is something that I would like produce for you.

Megha Hariramani: Our spread and NIMs would also be impact or we see the NIMs improving?

Parthasarathi M: As I just mentioned yes there would be a tendency for NIMs to improve but you may not see that happening immediately because whatever opportunity I have to will be passed on to the lending side and I would like to lend to better rated entities and improve the credit profile of my book. At some point perhaps we will focus on the NIMs at the present moment the NIMs are a quite adequate.

Megha Hariramani: And what would be our branch target three years end?

Parthasarathi M: We have been completely reappraising the branch strategy. You will appreciate the digital banking now gaining foothold, the need for branches has to be completely reappraised. I do not really I am in a position to tell you exactly where I will be in three years from now but it is not unlikely that we might be somewhere in the region of about 700 branches perhaps in three years.

Megha Hariramani: Okay that sounds perfect. Thank you so much and that is from my side.

Moderator: Thank you. We have the next question from the line of Nishant Shah from Axis Capital. Please go ahead.

Nishant Shah: Sorry if this is as repeat question I joined in a little late. Sir just can you give me a breakup of your non-interest income the details of the fee income?

Parthasarathi M: 100 Crores of course came from the treasury of course, steady income, so the treasury gains as I said 100 Crores and you are talking about the nine months numbers right?

Nishant Shah: For the quarter.

Parthasarathi M: The non-treasury revenue came in at something like about 23 Crores.

Nishant Shah: Sir any breakup that you can give between corporate retail. We know that the card income must have been lost but sale of third party products can you give some granularity of this?

Parthasarathi M: The third party numbers are not with me at the moment I am sorry but let me tell you the bulk of it is processing fees.

Nishant Shah: On the corporate side?

Parthasarathi M: That is correct.

Nishant Shah: Corporate and SME.

Parthasarathi M: But not retail really.

Nishant Shah: No retail numbers are very small.

Parthasarathi M: Thanks Sir.

Moderator: Thank you. We have the next question from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir just few questions from asset quality. This quarter we have seen a slippages of one corporate account in shipping so if you can just quantify the kind of exposure that we have to some of these troubled NIMs especially in corporate exposures some sort of watch list that we if you can quantify?

Parthasarathi M: It is a subjective term as to which is troubled and which is not. Now the way I will put it for you is that my accounts that sort of prominently figure in SMA2 those are regularly figure in SMA2 might reach at its peak something like 600 Crores I will say but they do not always remain there and different accounts come in and go out but those that sort of prominently figure more often than not would amount about 600 Crores actually a little less probably would it be progress to 450, Mr. Guru Murthy?

Guru Murthy: 500.

Parthasarathi M: 500.

Jai Mundhra: Sir this SDR that you mentioned is outstanding is somewhere around 58 Crores and so does that includes the pipeline as well because I believe there was some pipeline of SDR cases with us?

Parthasarathi M: I will check and tell you what is the pipeline could be give me a moment please. In the pipeline I have five accounts and these can add up to about 300 Crores.

Jai Mundhra: Sir related to this now because of these RBI new guidelines on unaccrued interest on this SDRs/S4A account so how are we accounting the interest on these exposures?

Parthasarathi M: Exactly as RBI tells us.

Jai Mundhra: Or is it now have we reversed the interest, which was accrued and not paid in December on these including the pipeline one?

Parthasarathi M: Yes including the pipeline that has also reduced my NII.

Jai Mundhra: And this all the 350 Crores exposure is roughly standard almost this standard portion only right?

Parthasarathi M: This is standard, yes, please.

Jai Mundhra: Sir lastly I just wanted to understand your view on the Lakshmi business credit which is kind of a flagship product because of this demonetization and some sort of stress in SME how are you seem asset quality especially in that product?

Parthasarathi M: Lakshmi business credit has been doing okay and whatever stress that we have seen has been purely temporary at times and the big thing going for us is these are entirely collateralized and our banks has had significant success wherever there has been stress in enforcing these. So to that extent we have not really had a problem. My colleagues seem to be quite comfortable there.

Jai Mundhra: Sir lastly on this provision on this recovery the earlier fraud that we had happened you recovered in full so earlier we also had a provision against this so this quarter there was some provision write back also right?

Parthasarathi M: The correct term would be these were set off against fresh provisions.

Jai Mundhra: Sir what is the outstanding gold loan for our bank and how was it last quarter?

Parthasarathi M: The book has done well though it has shrunk I am afraid quite a bit but it is around 2000 Crores or so it has not grown.

Moderator: Thank you. We have the next question from the line of Amit Rane from Dalal and Broacha. Please go ahead.

Amit Rane: Thank you for the opportunity. I would like to know what is the advances growth sector wise in terms of corporate, retail and SME in this quarter.

Parthasarathi M: Well what you want to know is how much has shrunk what it is?

Amit Rane: Y-o-Y.

Parthasarathi M: So Y-on-Y I have grown 8.5 and I am afraid the growth has been largely on the corporate side though I had been telling people that I will grow elsewhere since I have to keep the kitchen fire burning since the SME and retail business picks up the corporate bank has to chip in so the growths has been largely on the corporate side even within the SME side there has been small growth in some parts and the agri business has done alright the retail business has not grown much and the SME business they have been struggling a bit but then we are particularly conscious about quality.

Amit Rane: For this year, we are saying around 10% to 12% kind of loan growth right?

Parthasarathi M: Yes once the engine will start firing.

Amit Rane: Thanks a lot.

Moderator: Thank you. We have the next question from the line of Avinash Singh from Jefferies. Please go ahead.

Avinash Singh: Two questions. First, if you can just provide some sort of a trend in your 30 DPD pre-demonetization and post-demonetization in the month of November and December and the second would be if you can just provide some sort of a trend or growth number in disbursal across this retail, corporate and SME?

Parthasarathi M: Let me start by thinking the answer and well as the 30-DPD initially spiked. It spiked initially and I would say it was a bit heightened let us say post the announcement the initial position was like that I would say things started improving from the second half of December. Position continues to be maybe marginally worst than what it used to be pre-demonetization.

Avinash Singh: Can you tell where do we stand today versus October?

Parthasarathi M: The 30-DPD are marginally higher now than what they were in October and I will also say that it is mostly in the area of SME rather than the corporate side, corporate side there is not much change.

Avinash Singh: And in the retail?

Parthasarathi M: No significant change. It is appreciated by retail book is largely home loans and LAP and so on and I have not really seen too much of stress there.

Avinash Singh: And my second question was trend in disbursement?

Parthasarathi M: Disbursement has been very slow. We have not seen much demand and to that extent it has been very slow. I must confess that we have not really seen a significant pickup yet but I am told that the pipeline is now looking better.

Avinash Singh: So in relation with that what the level are of enquires and sanctions if you compare versus last year January or say if you compare January versus October so where do you stand in terms of enquiries and approvals?

Parthasarathi M: Slightly less than last January.

Avinash Singh: A double digit decline?

Parthasarathi M: I have not really looked at this way. I would say about certainly about they would be down to about half of what they were in January last year.

Avinash Singh: That is very clear.

Moderator: Thank you. We have the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir for the opportunity. Sir for my first question is related to your retail versus retail and SME there our focus is going forward so how do you see over next two to three years the proportion of your retail and SME business growing as compared to your non-retail, non SME into this?

Parthasarathi M: Once things stabilize, we will find that retail and SME will be close to 30% each in the book and corporate might be about 25%.

Deepak Poddar: Sir Retail and SME are currently about 30% right?

Parthasarathi M: Retail and SME together would be about today is about, retail and SME I would put little lower than maybe half at this moment together.

Deepak Poddar: So rural is also included basically?

Parthasarathi M: My sense is post the demonetization going overall we see some robustness now coming in. Already one positive that I clearly see that current accounts, which were always our weak spot has actually now improved quite a bit and more importantly I see more transactions now going through the banks books not happening earlier. Clearly showing that cash has been replaced.

Deepak Poddar: So going forward what I wanted to understand that the proportion of your business or advances in retail and SME which is currently 30% so how is that proportion likely to behave?

Parthasarathi M: As I said the idea is very clear eventually retail and SME between them will cover about 60% of my book as then if you add agri that will add another about 10% or 15%.

Deepak Poddar: So in this retail and SME we are also including the rural book basically?

Parthasarathi M: Agri is rural book. Retail and SME is excluding agri.

Deepak Poddar: So basically retail and SME, which is currently 30%, is what we are focusing?

Parthasarathi M: SME today would be in closer to I think 40% today that will go to 60% on a larger book.

Deepak Poddar: Basically how is the ROA different basically on this retail SME book versus your corporate banking book?

Parthasarathi M: It depends.

Deepak Poddar: ROAs?

Parthasarathi M: I am coming to that, so because we are completely changing the way we do business so my sense is the ROAs will not be very significantly different between the SME book and the corporate book because the idea today is to fan-out across customers and to grab a larger share of the customer's wallet and my sense is while perhaps processing fees will be significantly better in case of corporates the FX income and the other incomes coming from the SMEs will be quite compensatory. The idea is very clear the relationship managers today in the bank whether they are in corporate or on the SME side they carry a wide range of targets and their idea is to cover the corporate end-to-end.

Deepak Poddar: My final thing is like the way you have mentioned on ROE is there any similar kind of vision for ROA that we want to achieve?

Parthasarathi M: My eventual target is 1.5 but it takes a bit of time for me I have given myself about 5 to 6 years for the bank.

Deepak Poddar: Okay 5 to 6 years for 1.5 kind of ROAs?

Parthasarathi M: We are doing even better than that possibly now but this is as you know somewhat special.

Deepak Poddar: That is it from my side and all the very best.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was our last question. I would now hand the conference over to Mr. Aalok Shah for closing comments. Thanks you and over to you Mr. Shah.

Aalok Shah: Thank you all for joining in this concall. Thank you Sir for your time and we wish you all the very best.

Parthasarathi M: Thank you Aalok and thank you ladies and gentlemen.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Centrum Broking Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.