“Lakshmi Vilas Bank Conference Call”

October 12, 2017

MANAGEMENT:

Management: The first thing we did. We took out a lot of things from the branches. It is our endeavor also to take a lot of operations of the branches and make the branches effectively the front base of the bank that deliver will certainly delivery point of the bank, the sales point of the bank. We said that the branches we do three things primarily i.e., CASA, fees businesses, and internal housekeeping to be maintained by the branches. If you have analyzed my second quarter results, you would have seen if anything it is the retail franchise that is done really well this time.

If you look at my operating profit the way things have panned out, my CASA improvement has been significant, I mean it is a matter of great pride for us that to me we can now at least say that we are knocking on the doors of a steady 20% CASA which is something that we could not have imagined earlier.

When I joined the bank again in January 2016 at that time the position was very **like this that** a daily average basis our CASA was in the region of 14%. In the three preceding years, our CASA percentages were 13.89%; 14.12%; 14.24%. After our new strategy was adopted last year, we ended last year with a CASA of about 17.36**.**

Now, my next line is, if you want to give a credit to Modi Ji for it for demonetization, I actually checked our position on CASA as on 7th November. As on 7th November, it was 16.4%. So there was already traction in the right direction.

More importantly, my sense is to me about 75% of the demonetization money has gone outside. At the most about 25% is left. Whatever is left is stabled money, it is likely to remain.

The second quarter on a daily average basis my CASA percentage was 19.32%. On 19th September as a matter of fact CASA was 20.97%. But for the quarter I would not even look at that. I look at the CASA on a daily average basis for the second quarter it was 19.32% compare that with second quarter of last year it was 15.49%, which it is significant that opportunity with the higher side that It is nothing new. At the same time let me also mention. No, it is like this. It is impacted the cost of funds. The way I do it is somewhat similar to that and somewhat similar to that of stats we have done with it, its pointless for me to look at CASA as 4% deposit to the extent at CASA to addition to term deposit breaks up higher than savings rates. Term deposits are also volatile for me. So, I am not defensive about the fact that I pay higher interest rates on my CASA because CASA gets me transaction banking accounts. A customer who puts his CASA balance is with me subsequently transact and does a lot of other business CASA is the first that it will have on the customer. Subsequently I get more perks on those customers.

Participant: So how many will other products you be able to put on those customers?

Management: I would have said that even a year back the one my sense is if I can report a number of about 1.4 I would have done a very good job. So, over time I would imagine a number of 2.5 would be a very good number but that will take time, it does not happen in day. So, to come back to your primary question, we are on track and we have done actually done some very good work on the CASA front. Retail bank is crucial for CASA. Above all, the most important thing is these were the questions that were discussed. At least CASA will now demand less management time. Now the team is there, the momentum is there on CASA. Now, it is the business that will work on CASA. It takes up a little less of my time.

Management: Now, the next question that steps in off course I mentioned the quality of income, net interest income as well as fees. Our net interest income was poor, largely on account of the fact that my cost of funds was high. Poor CASA in account and because of poor CASA I gradually over dependence on some term deposits to that extend higher rate of term deposit. Today my term deposits have come down substantially. We have regulated that quite a bit and quite frankly I am no longer up there in the best buy list this as far as the term deposits are concerned and off course my CASA has improved. So, net interest income has improved and that is before we have seen the numbers. Our focus is shifting the fees also. On fees, we were largely unidimensional. Our fees were largely based on processing fees on credit. So, if I sanction a new credit proposal I get some fees. We were hardly focusing on any other fees as such. Our effort is eventually credit processing fees should not exceed of 15% of the total fees of the bank. The bulk of the piece should come down to transaction banking, day to day bread and butter banking businesses. This is still work in process. It is not an easy job and I know from an experience in my previous job, it takes a lot of time to do this. Currently the building blocks are more or less in place. Now we are planning down across the branches. They are now fairly joined across branches, across businesses talking to the corporate, talking to the MSME side**.**

So building blocks are in place. Now, the effort really is to carrying on the advantage gradually. So, quarter-after-quarter if you continue to observe, you will definitely find that my non credit fees increase. The way I look at fees, the fee portion that we will indicate to you going forward will be credit fees and pure credit processing fees, trading profits from the treasury, other pieces, and other piece will be two parts, retail banking fees and non retail banking fees.

Participant: What is the break-up of the fee as of now?

Management: As of now it was 60% - 70% is credit processing fees normally.

Participant: And this is going to 15% but the rest will be **all transaction banking fees**.

Management: So, you see a lot more on the non-fund based lending will happen like LCs will happen, guarantee commission.

Participant: What is the strategy to get more other businesses or income

Management: What happens to these my own customers take funded units from me and do their non-fund base businesses **elsewhere.** Today, we are making it sure. If you take funding probably you will have to give me all your other businesses.

Participant: What could be the size of those kind of customers where you can actually demand that**.**

Management: All my customers, size is meaning, the small large, the SME's, we are talking of large SME's actually. And incidentally, also that I mean that dealt largely in export and import only **till date** there is a huge amount of that business which we were forgoing I think more out of negligence which we are now aware, the team is now focused.

Participant: This is where we have to offer a **better rates.**

Management: Yes. Actually…

Participant: But it will (Inaudible)9:**26.0** this.

Management: pardon.

Participant: Because anyways were upset **which** does not exists.

Management: Absolutely. I must make a point here. I have to be a disruptor in this point. I am a late comer to this market. It is not as if this business is not happening. Whoever needs an LC gets his LC from us or gets it from someone else. So, for me I have to gate crash there. I had to have a proposition for him. Primary proposition in fact I am lending to I have been foolish in lending not claiming my pound of flesh elsewhere which I am going to do. But to be fair, I need to offer him a better price he wants, to answer your question. That would have to happen. In fact, that is another area when we discuss retail lending that question could be more relevant, we come to that. But clearly, that is something that would happen. So, my sense is fees are increasingly become important. I mentioned in the last time asset quality as stress that we **have** identified**.** So, in the bank what we give to us straightaway that we have decided to identify the stress book, or the book that causes us concern. So, let us go by the March numbers. So, my March books was about Rs. 24,000 crores. As a strategy what we did was, we took the restructure standard, standard restructured book, we took the entire SDR; S4A's; 525's; we put them into the basket. There were many and which were none of these but were simply SME2 accounts, regularly funding into SME to accounts. We put them into the basket also. This basket we initially arrive there was about Rs. 2,500 crores. At the end of Q1, after the slippages that happened, this basket came down to above Rs. 2,200 crores - Rs. 2,300 crores. After the second quarter that basket is today around Rs. 1,700 crores - Rs. 1,750 crores. Those of you who attended the first quarter discussion, you would recollect I had said that my sense is out of this basket and at that time I had indicated Rs. 2,200 crores - Rs. 2,300 crores. About Rs. 1,100 crores to Rs. 1,200 crores I anticipate we could slip over the next one year to two years, this is what I have said. The slippages have been to some extent front end. I know older key processing it is they will sleep when they will sleep, slippages have been more front-ended then I thought. So, a lot of it has happened. My job is to look at the positive here and the positive here is slippages have happened from the basket. They have not happened outside the basket that is a positive and the basket is shrinking that is what it is more important. So, to that extent my that particular basket that I and my colleagues have to watch like a hawk is now slightly smaller basket. So, we are talking of about Rs. 1,700 crores - Rs. 1,750 crores or so. Now, what does it mean, they are going to fall tomorrow or are they going to fall day after**?** I am unable to give you the date.

Participant: Sector break-up?

Management: Again, reasonably while we spread out, the infrastructure proportion is fallen a bit, if the infrastructure proportion is fallen a bit.

Management: Yes. No, so actually the infrastructure segment is fallen bit. Actually, let me put it this way, the falls have been moved from infra and metals you understand. Now, if you are going to push me to the wall, I will probably say another 400 could slip over the next two quarters. Another 400 could slip over next two quarters.

Participant: As of today is there a probability that entire slippages can be recovered?

Management: Next year, no. To answer your question in your term, as of today, no.

Participant: As I understand Rs. 2,200 crores, Rs. 1,100 crores which you indicated last quarter it is going to stay (Inaudible) 15:06**.**7 that reviews it from Rs. 1,100 (Inaudible) 15:11.9

Management: When I said Rs. 1,100 it means this I did not add up. So, a lot of that. So, I could imagine bulk of that. But I cannot be taking because I have specified these are the ones adding up to Rs. 1,100 that was a rough picture I had.

Participant: But from the Rs. 1,100 what you would slip most of it has come**.**

Participant: Sir, any accounts in terms of NCLT which are standard and does not feature in this?

Management: So, now let us talk NCLT for a point, RBI has come out so called it is 12 and 40 two lists. No bank has specifically seen entire list of 52 we would know but RBI has come out with two lists. One of 12 one of 40 RBI has given me two letters, one of B and one of C. So, my list is of 9, all are substandard on my books as of now.

Participant: Post this quarter.

Management: Even actually I think 8 for standard pre this quarter, 9 post this quarter. What is important pace that in terms of aging in the Government course I would have provided less as per the RBI formula I have to provide which has hastened my provisioning, so that is one point there as far as the NCLT. So, none of the NCLT accounts are standard. All the NCLT accounts fallen by basket. So, it is not that we were outside my basket

Participant: Mostly Rs. 1,750 any break-up in terms of number how…

Management: I have to check that, let me start by saying that my original book of about Rs. 2,400 crores consistent of **NCLT** accounts I probably imagine today Rs. 1, 750 would come to about 28 may be 28 there above I mean I would be there about.

Participant: Sir, you mentioned about the numbers of cases in NCLT what will be quantum sir?

Management: I tell you. I will give you in a moment but meanwhile you can me another question.

Management: So, it is actually we represented about Rs. 580 crores…

Participant: all these nine accounts?

Management: Rs. 580 crores is NCLT accounts.

Participant: Right. These are all substandard?

Management: Substandard.

Participant: So, your outstanding gross NPA was 8.8 million?

Management: Outstanding gross NPA will be exactly more than that, it is Rs. 1,278 crores.

Participant: Rs. 1,280 crores.

Participant: And these are in our books because we were also slightly more aggressively in selling these books to ARC, so these are all yours**?**

Management: These are mine.

Participant: These are all in yours, nothing has been sold to ARC which…

Management: I mean, if it is ARC it would not be different from my numbers.

Participant: So, what will be the provision that we are carrying on this**?**

Management: Let me put it in this way, I would need to provide another about Rs. 140 crores this year on these accounts**.**

Participant: For the NCLT amount.

Participant: And so we have the SR book which is again are in our sides as such. So, we see what happen in case of South Indian Bank?

Management: So, I want to know what sort of system they follow. Our finance team have been this is independently done and finance team ensures that the market-to-market happens regularly. So, we have not seen such I mean I only read about South India, I cannot comment about what they have done. So, my SR books hasn't been giving me too much of a pain.

Participant: Quarterly average advantage of SR book?

Management: May be you can send us an e-mail, we will check.

Management: Basically in South Indian this happened that they had actually sold all the loans in the fourth quarter itself, so this was the first time when actually the valuation happened. So, they have to actually take a big hit.

Management: Our people have instances in last few quarters and we have not done anything with ARCs this quarter.

Participant: So, there what is your sense basically, incrementally you do not need much provisions as such?

Management: No, at this moment we have to be providing for. .

Participant: So, what will be the book value, the gross book value of the loans sold and the net book value that we are carrying in terms of ARC's?

Management: Rs. 266 crores is the gross value. About Rs. 254 crores is the market.

Management: But only thing this is June figure, thereafter I do not think any changes happened in the June figure.

Management: I mean the valuation might have marginally changed, but not much.

Participant: I was just trying to understand in terms of when we sold a loan, so the gross book value will be something that we would have taken some loss and then we have some net book value. So, I just wanted to know the gross book value. How much already we have taken.

Management: So, what you want to know what was the face value of the loan.

Participant: Yes, how much is the security receipt we get?

Management: That would have been Rs. 288 crores loan sold and this would be the original Rs. 56 crores there have been the SR valuation.

Participant: Sir, you have guided for 320 of provision, this is Rs. 140 crores is the same

Management: No, so if you remember I had said that we might reach about Rs. 325 or so. my sense is because of the NCLT now it is getting prepone I cannot see a situation where I will be doing less than Rs. 450 crores this year.

Participant: Sir the book value in the Annual Report was mentioned as 3.5

Management: Rs. 350 crores.

Participant: Rs. 350 crores.

Management: some of it can be redeemed there. Rs. 288 crores was the original value I hold now

Participant: In terms of stress and all the bulky accounts got **reversed?**

Management: No, first of all you will have to appreciate that my bank that instead of bulky it is a reserve. So, various sizes are there. Some people are still there. I mean anything say as far yet now anything about 75 is bulky, in fact above 50 bulk, 75 definitely. So, we would have a few still on our books.

Participant: So, just to understand again on the security receipts, so Rs. 270 crores of security of security receipts are there. And the gross loan was around Rs. 290 crores. So, were that very fresh NPA's that we actually sold off and there was no provision carrying in that.

Management: These have happened over time. Actually in recent times we have not done much. So, I do not have off hand numbers from us, a lot of who have probably done really well sold in the same quarter, so provisions would have been less. a lot of those were education loans and are also sold.

Participant: Apart from the Rs. 1,750 I mean the SMA book will be all separate

Management: No, it is shall we say intersection actually. Let me put it the other way now. My restructured standard could be the region of Rs. 600 crores.

Participant: That is part of the Rs. 1,750 crores, okay.

Management: Restructured S4A and SDR all together will come to about Rs. 800 - 850.

Participant: That is also part of that?

Management: Yes. So, the balance is only SMA2. Clinical asset there has been some other in SMA2 but which do not really come under the list.

Participant: What will be that whole non SME2?

Management: I put it to you in this way, my SME2 in itself widely varies mark-to-mark lately it has come down a bit and actually the great news that I started I shared with you also some of the numbers, my SME2 on 7th October is lower than my SME2 on 30th September. Quarter ends and month ends normally have the lowest SME because a lot of correction takes place. My SME2 on 7th October is lower than SME2, SME1 are lower on 7th October because we now point around day to day basis on recoveries and everything is actually lower. My sense is it was probably in the region of Rs. 12- 1,300 total SME2.

Management: I think the one thing that has happened there is a collection team that we now have formed in this quarter.

Participant: It was not there earlier?

Management: It was not there in that sense. Now this is a tele calling**.**

Participant: How it helps?

Management: It helps significantly, it has helped us significantly initially. The thing is I think if we are able to talk to a customer right up front and collect his money within the first 30 days, the propensity of that SME1 or SME2 is far lesser.

Participant: But that would apply to your retail portfolio**?**

Management: Yes, of course, sir. SME2 does include SME also. See, we are mostly an SME bank.

Participant: But SME customer also tend to ?

Management: Of course, I will tell you something, a lot of our SME accounts are self-created if I might say so. We might have been careless in the past not following up very early. Our customers are actually and I have made this point earlier to all of you. Our customers use those 90 days as a grace period given to them by RBI because we were not also pushing enough. Now the SME came, the retail came, right from day one the commercial banking operations groups that we have created first day of overdue, they are now getting SMS's also. But people are same or like they are all together different. A lot of new people have been brought to you.

Participant: That is fine. But at the end of the day there is a controlling mechanism at the back end of the**.**

Management: The commercial banking operation….

Participant: That does not change any

Management: The commercial banking operation in this company the new set of people coming

Participant: So, this Rs. 1,700 crores would be from corporate banking rather than commercial banking?

Management: 80% - 90% corporate.

Participant: So, how are you seeing the trend and basically the commercial banking which is SME portfolio largely at SME…

Management: **That is** very long enough in a sense that 1% or so.

Participant: What are the things and changes that you feel that you need to do on the risk side**.** What are the other changes that you feel we should be a part of change?

Management: I think, the first thing is even visibility of what is there on book in terms of publishing a lot of data working closely with this monitoring team, so the EWS set up kind of thing is now coming. Eventually we will have to set up with complete new software system for it. But in meanwhile we are working on it because core banking for change in market side. That information is helping us to go after some of those kind of accounts a little early that is point number one. Point number two is recently we did some kind of an analysis of the aging of the stickier accounts. We find that it is more from let us say may be two years onwards and previous year. So, may be from 2016 onwards the stress seems to be lesser only. Since 2016 definitely our credit standards are increasing and incrementally we seem to be looking at more analysis than taking into consideration so that is one. The other thing is I think I mentioned this last time, when we said equity our exposure should not excess Rs. 50 crores. If it had to exceed then that has to be a strong case mostly we would like to sort of have 75-150 getting to newer sectors will not being into the incrementally our exposures are not there. This is including some NBFC's where some of the short-term **kinds of loans have been given.** Then I mentioned, as I mentioned last time we are focusing on **Retail and MSEM segment** rather than focus on **corporates** so the proportion of those advances in the portfolio is increasing. So, to that extend from a book**,** we feel more comfortable plus I think the fact that there is a risk member in our accounts means there is an independent view of things that comes in. We are also working on getting more information from various credit information bureaus; whether it is CIBIL or something we like to avail like that. We are also in touch with some of this **fintech** companies to try and build us some solution which then offer us a platform that can have similar data and soft of quicker the decision, just because this is in the process, if you are going to delay, customers are not going to come to the bank. So, that is something that we have taken up. We should be there in sometime and that should improve. You need to understand, most interest area where the change is going to come in the banks in the bank's credit culture. In the past we did not have a system of choosing our client's. We could pick-up what came our way. Management would demand from the business growth. We want to see so much of growth in our book that would be the management instruction 10% - 20% - 30% whatever growth we want. Business would therefore now ask for growth. Mostly the simple option was pick-up as if somebody who syndicates a loan, a big bank is syndicating a Rs. 2,000 crores he will be kind enough to offer me a Rs. 100 crores chunk of it. For my base Rs. 100 crores loan picking up straight away it is equivalent to doing 10 or 15 SME proposals or more proposals. So, that is how we picked up accounts and numbers. We had no relationship, my people never even saw the promotors of the companies never even visited that company perhaps **for all I know**. Now, what happened in such a situation is while the economic cycle was good we benefited, we got interest income, we got some commission also. When the cycle turned, we were the last to find out because we have no relationship with these customers. We could not even work with our exit strategies at that time. And so, I am left holding baby zone you say. Today the structure has changed. The bank today chooses which customer wants. We are not organizing unlike in the liability side, on the asset side we do not cater to walk in customer. We have our coverage team of relationship managers who scout for business, they discuss what sort of customers we want internal discuss with them then they go to customers to get such businesses, one. Two, we have separated credit from relationship. So, the credit teams outlook is only portfolio quality and portfolio returns, we are not guided by things like total relationship value, they will tell the RM to jump in the lake if it is a bad proposal. Then we put risk out there added the four Is principle. We seek some judgment separately on the doable**.** And my sense is that maybe you guys can correct me sanctions rate or rejection rate is about 50% of the whole or the proposals that have come in now. Particularly on retail and SME, corporate would be probably the sanction rate would be better.

Participant: About 20% sanction.

Management: Yes. So, all this is ensuring that going forward if I can tackle my immediate stress, I am going to do all right. Your next question how the hell are you going to tackle here? Difficult. Next year I got raise capitals here. I will still have operating profit of at least Rs. 800 crores. My corporate is doing well actually. My business front end is doing very well.

Participant: Corporate growth is actually respectable.

Management: It is still quite respectable. I can provide scale and because I am not going to have slippages every time happening in a rush I will be able to smoothen this and handle this, right this out. I have an excellent treasury that has delivered above path performance products. Every paisa I will get my treasury I will utilize for provisioning extra. So, I have to necessary comfort and necessary vision that we can see where we are going. My biggest and what gives me the comfort to talk me confidence is the fact that my retail value is delivering on the liability side but that is the fuel for my growth at this moment. If I can improve my cost of funds I can approach better rated customers.

Participant: So, we have to cut MCLR quite…

Management: You are talking about corporate lending.

Management: For instance the MCLR would have come down about 125 basis points to 150 basis points in the last 12 months. We compare against RP offset if because we are in the South we compare and then we see how the other banks are doing it. We are passing on almost the entire benefit.

Participant: Why do you have to do that?

Management: That is because we want to attract the better customers. If I am talking about a single A borrower he is not going to come at my kind of offerings?

Management: Actually you need to finally look at it at a risk-adjusted basis. My bank normally used to earlier deal with BB's and BBB's. And we are now cracking a different language in the bank. We are saying what 70% will be at least A.

Management: That is what we are aiming for.

Management: That is the focus now on incremental assets that will be done. I will have to compromise our pricing, it will make my pricing the interest rate is not everything. Think of the business I would do with such customers.

Participant: Say in the interim how would it actually impact the profitability in terms of NIM, it can actually squeeze down NIM and the provision payment higher?

Management: It did not squeeze right in the last 12 months and NIM has been very steady. In fact, this quarter you see that small….

Participant: Yes.

Management: So, it seems to be that the cost of deposits is coming down is much more faster than the pace at which let us say the interest rates and advances are going… then the second thing is the mix of advances is slowly changing. We are a predominantly, where you don't have the barging power. So, that particular stream is getting changed because you have more focusing back into the SME, retail and there you have the slightly more advantage with you. So, all those things are coming in play. That is why we are seeing that it is combination of reduction in cost of deposits plus diversification into the retailing space which is actually that your NIMs are really moving up by around 8 basis points.

Participant: How do you see the competition basically the other banks like even KVB of something? They are even talking about tapping the same set of customer base. So, how do you see the competition behaving and growth in that and as well as the margin profile going forward as well?

Management: I will answer that. First of all, this morning I met someone who raised this question to me and he made a very interesting point. He said that he visits and he has invested in KVB and he said that he visits and Chennai and that he talks to SME's also and the complaint SME's has is, that LVB has come away from SME's is exactly the point. We are an SME guy. We were floated by SME's for the purpose of funding SMEs. It is only on the last 10 years we straight from our path and started looking at some of these other assets. But if you go to visit at Coimbatore, Tiruppur, Tirchi, Salem you will find SME's identified with us. I have met so many of them who say that look we have been with you for generation but your bank does not service us these days. SMEs in these places they are extremely passionate about relationships. So, we are now declaiming our relationships.

Participant: So, but is it lost relationship so easy to actually get it back?

Management: I will answer that, it is very simple. Finally, eventually in business it is money that counts. Overall service and quality and so on only those things count. If I were to go and tell them that look I want your business but I will charge you only 25 basis points more than what KVB charges you obviously I may not get that. I will have to make them an offer they cannot refuse.

Participant: So, there will be a price competition.

Participant: So, basically you said that you will may not raise capital this year.

Management: I did not say, I may not raise I say we would even if I did it…. there is a difference. In school they taught us to be very careful about what we say. I said even if I did it that just to give you a number I did not say I will not raise capital.

Participant: So, we will raise, trying raise capital, Tier-I capital?

Management: Yes.

Participant: And how much do we propose now?

Management: The board has actually passed a resolution to look at the rights issuance of about Rs. 800 crores.

Participant: So because of this capital raising why you are not growing faster?

Management: Yes.

Participant: Because given its size and talking about….

Management: We know the huge pipeline of proposals with us on the industry side and even the retail pipeline is growing quite well. I have to be very careful. I cannot be profligate with capital **see to it** as I am. So, we need to be careful at the moment till I actually have the money under my belt.

Participant: And what is our ROE projection for this year and next year given the condition that we are in?

Management: At this moment, I would not make a projection for this year because it is entirely a function of when the capital comes in and so on. So, I would be a bit vague but I will stick to my projects for 2020 and I will repeat that to you. 1.2% for ROA and 12% for ROE for 2020.

Participant: Sir, capital may not affect your ROA in this?

Management: No, my growth will be affected. Capital indirectly affects because unless I have my growth coming in I cannot get you numbers.

Participant: But that will really make much difference because if you will get capital you will grow at what 17% - 18%; 84% more.

Management: That is not growth. My sense is this year if I report a 15% growth overall, I should be happy. Considering that I have been hawkish in the past.

Participant: So, capital or no capital? I think you will not grow beyond 15%?

Management: It is like this. I cannot assure you that I will not throw a little further if I will have the capital. I do have an option of looking at inorganic growth of the book also. I do have that option and at the appropriate time I can exercise that option. Let me put it to you in this way. The entire bank recognizes that growth is in that indeed of immense importance. We have not grown for some time, we need to grow. If it is possible for me to grow I will grow.

Participant: The problem with us is that we have had bounce of growth and that is the….

Management: I will not answer for what has happened in the past. But the way I am seeing, the way we have focused and I have already indicated in previous statements, we have broadened up our vision for up to 10 years growth and then steady growth. We have actually looked at a CAGR of roughly about 23% growth for 10 years. There I have also mentioned that though it is 23%, small base given opportunities that do arise from time-to-time the growth would even be better. At all times, we will be extremely conscious about utilizing capital. Capital is scarce commodity for people like us. Till such time I have got onto an auto-pilot situation that the large institution has I would have to be extremely careful. In our planning we are making capital raise for 2018, 2020, 2023, and then 2026 is what we have said. So, keeping that calendar in mind, we need to be appropriately growing.

Participant: This figure of Rs. 800 crores is based on we look at a little over I mean that Rs. 800 crores will have more than 30% dilution.

Management: Of the existing capital base. Yes, but it is rights. Having not been rights then you would have looked at us smaller tenure because its rights, we are dealing with the same shareholder.

Participant: Assumption of 250 crores, not sure if someone has taken up, I was late but with impact of India….

Management: On this date we do not expect any major issues. We did this for the September andsubmitted We did not find any expected loss issues. There was some equipment loss issues which cropped up but it was not much considering the size of the value chain, etc., that we will carry completely. So, going ahead we do not expect any major impact to come on the retails where the expected loss has come in. As on 30th June, we are supposed to do it. So, we will do based on 31st March and 30th June that is work under process. But we are reasonably confident that the risk profile has not changed substantially from what it was as of 30th September which we saw if you want the number as a detail 30th September was somewhere around Rs. 12 crores.

Participant: Sir, in just terms of credit cost, we are expecting something Rs. 450 crores this year what is expectation for the next year and what kind of provision coverage we are building in?

Management: It is like this, I have given a prediction that originally, I have said in fact, we will achieve about Rs. 325 crores this year almost similar number next year and then slightly equally. What I have said was in five years I will be down to 60 basis points. Now what has changed is the trajectory of the graph has changed, the end point has not changed. Up-fronting has happened. So, earlier the expectation was the graph could go like this and then gradually taper down. Now, it has sharply spiked up, it has sharply come down. I have said in five year we continue to maintain that in five years we have to bring it down to 60 basis points. This year obviously the credit cost will be higher. Hoping next year it will be considerably be lower than this year I will put it that way.

Participant: Since you have the projected the credit cost, so why is it really difficult for you to project the ROA percentage? I mean that is big moving part.

Management: You will appreciate management just now got the report, you have to give me a little time to just do that I have not done it.

Participant: So, this was a basic big surprise.

Management: No, the numbers obviously it is not that I was watching slippages have been happening. So, the numbers have to work out, prior to work out my projections for the year I believe.

Participant: You will not take more time to…..

Management: Yes. It is obviously I will have to work harder. So, I use to lean upon being quite a bit actually, so if I did not feel like working on a particular day and I would leave it to him, so now I have to do a little more work. We will handle it.

Participant: So, we have found a replacement.

Management: We will find one.

Participant: Sir, why is that we still have that gap of like your people giving and finding replacement?

Management: I will assume that we are pretty scarce commodity. You have to give us some credit. I would be very disappointed if they do replace us very quickly, I will be very disappointed actually. So, I think you must grant us this much.

Participant: Because this has been the issue for every particular norm. Even if we do not address that now and what has really changed look in this way.

Management: So, when I join this Bank, you told us and everyone told me, I was the fourth CEO and five years. Already the average has improved. So, at least if I run my course the average will improve quite a bit. With time we will set up our systems. We are creating a new brand with all these things includes bench strengths. HR is today working on even creating heat maps for each position including let us say CRO, Head (Retail Banking); Head (Treasury) we are trying to identify that for each person and if he were to go who will take over, we are trying to create that. Give us a little time, 1.5 years is not enough. You have to give us time, we will do it.

Participant: In terms of growth which has come the 14% what are the reasons for the growth and what where does it come from? Is it corporate, is it SME, Retail?

Management: It is partly non-lending growth, you see because I have been careful about capital, I was not wanting to commit to my capital for long-term till I have adequate visibility. So, what we are doing, we are keeping our short-term assets, mostly on the corporate side. SME growth is slow but steady, it is very slow growth, retail growth again is slow but steady, retail is only just, we are daily now monitoring dispersals and so on, the growth is slow yet. So, dg that you have seen is largely on the corporate side short-term assets three months - six months assets.

Participant: Sir, what is our loan break, you do not give guidance in the Presentation.

Management: 48% is corporate; 24% is SME; 18% Agri; and about 9% is retail.

Participant: Sir, one suggestion on that after the results comes we come to know about the Presentation, etc.. We can improve our communication.

Management: We have not put up the Presentation yet? 1

Participant: No, have done late today. Hemant, you also just take care of that?

Management: He is outside. He is carrying the Presentation.

Participant: Today it is uploaded but the only thing is a lot of details that we look at it is actually missing in those Presentation like…

Participant: You said that CASA has improved. We do not know what is your CASA.

Management: The Presentation does not have basic moves like break-up of loans…..

Management: I have already a template**.**

Management: Sir, they have given us of KVB and…..

Management: He is carrying the Presentation we will just circulate it. Same day Presentation gets uploaded on the website.

Management: We have upload that today, they have also downloaded. They are saying the information is….

Participant: In terms of your investment book also that seem to have jump from year end to now and entirely come back by borrowing. So, just want to get a sense on that?

Management: Borrowing I will dispute actually, the right word is it is funded, I mean I do not blame you, it is funded against CBLO, CBLO is actually self-funding sort of.

Management: Happy to explain that it is an arbitrage play and net interest income that the credit growth is now happening so moving to these three segments, said self-finance so if you give some securities and somewhere that move somewhere around 6.75% to 7% and funded out of let us say CBLOs are going around 6%. So, you add around 100 basis points to the NII for the we don't want risk to sort of run there is a market to which had come in. But the market to being planned because of the short-term nature of the instruments which are there. So, there is a duration instrument which is being there based on that we will be able to do the arbitrage today.

Participant: Because you have a lot of these the re-financers who do for SMEs.

Management: We have taken NABARD re-finance and NHB is not available, NABARD has already kicked-in.

Participant: When NABARD will be again for the agri, right? The SME do you have any refinancing?

Management: SME we have not taken but NABARD we have taken.

Participant: Why we have not taken?

Management: It does not suit because sometime my yield was a little, tenor and cost of funds…..

Management: No, the refinancing cost say from CP for SME could be higher whereas I can actually fund it out of my deposit which is lower or from a market borrowing which is lower. So if that is the case why should I go and do a re-financing at this stage and it actually pulls out my NIM if we are looking at it from that angle. So it is better to do it through the market borrowings what we do or my deposit because the cost of deposit in any case is falling down because of the relation cost is at a much lower rate and that is why the thing we are as a strategy looking at refinancing very-very selective, we are trying to say I will make that re-financing provided it comes to me at the market value at a later date because these are all financing institution like NABARD and all those people who have their own view of how to set their rates which may not match with what we want to take, that is one. May be if you look at the IFC or somebody else where they are able to give you at a lower rates because of their **currency management**

and all that is a different model. But our portfolio is not that to that some extent that you move into a IFC. So, it depends on essentially the SEBI requirements.

Participant: So, how this loan portfolio shape-up in next two to three years for 8% corporate and

Management: Two years difference will be less of course but five-year target SME 30%, Retail 30%, agri 18%, corporate about 20%-22%.

Participant: So, what will drive this retail 9% to 30%?

Management: I have 1.7 million retail liabilities customers today, I do not lend to them. Does it mean they do not borrow? They take home loans, they take car loans, elsewhere.

Participant: So, product diagnostic.

Management: They take from whoever lends to them LVB does not bother to approach them, so they never cover to LVB. They do not even know whether LVB lends the loan. What we have done, we have started using business analytics in a very big way. So, our business analytics grew throws us from our data base very rich data of our customers who are paying home loan EMIs to others, car loan EMIs to others, who are making insurance payments, credit card payments and so on. This is extremely rich data for us because this not only gives us a list of prospective borrowers, prospective good borrowers because this is people who are paying every month. Our consumer lending group is now preparing propositions for such people offering reaching out to them saying sir why do not borrow from your own bank because you maintain a liability relationship here you have our entitlement to a better rate also. Our expectation is that our retail book eventually a part of steady statement we one-third from own references, data base own customers one-third from DSS and one-third from references from dealers and others that is how it is.

Participant: Sir, product wise any sense like you know which product basically we are driving?

Management: I am increasingly risk averse actually. So, what we are doing is on the retail book, we are going to start with the lowest risk product which is homes loans is what we are doing, gradually we will like move on to a two-wheeler, four-wheeler financing and eventually when we have adequate comfort with our collection systems and our underwriting capabilities and so on and my sense is say in about four years to five years we will get into personal loans at which point we might have our own credit card.

Participant: This year we have been at 1200 crores of that is just repayment. So next year that we are not looking for any further slippages coming? What is your expectation because our old expectation was over 10 years so how can that be….

Management: Clearly, I have anticipated that 1100 to 1200 more slippage over two years. It appears that that slippage what happened in the first year itself I cannot swear to you that there will be no slippage next year but some sense that it will be smaller ones. I would be extremely happy if I can ensure that the slippages are from this basket itself.

Participant: I had just a question is one is I think on the fee side there are some low-hanging fruit like bancassurance, etc., so just looking at some data so your client base if you continue to have what Axis had about 10 years back it was a similar branch network like that of Axis' customers or tenth of what we will have to take and if we look at the per branch what you are generating that is one low-hanging fruit you can easily grab and we can see some action over here.

Management: I will take you that to my opening statements clearly the intention is to leave in this matter to use the branch network very strongly as the same sound fit. In the past my branch network was hobbled by the fact they were having two hundred branches, we have now streamlined their business focus considerably saying that they do not have to drag it not only drag it once you do that credit you have to monitor that credit, you have to recover that credit and so on. Frankly that took up the bulk of their retention so there was a little that is happening. We changed that. Today the position is that branches are largely focused on the sales. Every day is the day this could be insurance day, this would-be CA day, SA day so on. There is a constant pressure on sales and on different products. They have an activity calendar which is actually quite mind-boggling experience everyday there is something new is there. This will again come back to the point he asked me so how many products per customer? So idea is to maximize the number of products per customer that we will have. You are absolutely right that this is a lot easier for us than it was for Axis in those days. The issue is really that consciousness coming through the operating staff that is happening overtime. I am absolutely certain that in year this bank will be a completely new bank in terms of its sales profile, its approach to sales and so on. You will see things would start moving and not simply easier low-hanging fruits. Yes, they are indeed low-hanging fruit but nevertheless they are still hanging.

Participant: If you do network capital raise why cannot you turn up the growth rate? Are you confident of turning of the growth rate?

Management: This year to be frank additional growth would come from inorganic.

Participant: What is riding now a day?

Management: Acquisition we could. It would be selectively done. We would scan every particular component of that portfolio but there are people we have been in discussion just to keep the things warm, MSME and Retail both. So SME portfolio also of for the same case so that would be there. Next year it is the internal engine that is to run.

Participant: Sir what would be our comfortable zone for SME lending in terms of the ticket size that would be….

Management: Mr. Sridhar mentioned actually. It is like this if you ask me for a SME lending number in the region of 25s I will be quite okay sort of SMEs and we are talking of. 25-50 frankly it should be toppish for me. I should not focus I mean take that easy option of picking up a 200 and say that 73 people to four accounts and I am done for the day or something. I think 50 should be toppish for us. Even that should not be the rule of the day.

Participant: Tying up with the B2B lender or someone else?

Management: Nothing at this moment. We are examining, we are talking, we are taking presentation but there is nothing at this moment. Some other initiatives are there. First on the retail side. Two major initiatives we have taken. We have set up two personal banking branches one in Chennai and one in Bangalore so these are basically to service our HNI customers because there is a huge HNI focus also now in the retail team. Separately we have set up two retail assets centers also which once they get going we will churn out retail book for us again in Chennai and Bangalore. Separately on the corporate side we have set up the commercial banking branch in Chennai and a few more are coming up in other centers so we are taking away the operations completely from the network branches letting them now the run the bank's business. We are trying to speed up our savings banks and current account opening process. Hopefully, by November you will find that customer will get customize debit card, cheque book, and everything on day 4. And he will activate his account with his internet banking, mobile banking everything. A lot of these initiatives will work hopefully.

Participant: In terms of provisional coverage ratio what is your target?

Management: My immediate target is 60,000 crores. 60% with technical write-offs and then eventually we can head towards somewhere between 65-70. Our target is 60 immediately. I need a little time to recoup this.

Participant: 65 by what by 2019?

Management: I think I can do in less than 5 years but I will tell you 5 years. But I will do in less than 5 years.

Participant: What will be the fresh slippages?

Management: About 630 odd. But what was heartening this quarter we recovered 140 crores also. And we are reasonably stringent recovery targets for the next two quarters also.