



“Indian Bank Q1 FY2022 Conference Call”

July 19, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the Indian Bank Q1 FY2022 conference call hosted by Emkay Global Financial Services Limited. We have with us today, Mrs. Padmaja Chunduru, MD and CEO and the top management team. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference call to Mr. Anand Dama of Emkay Global Financial Services Limited. Thank you, and over to you Sir!

Anand Dama: Thank you. Good evening everyone. We are pleased to have Indian Bank MD and CEO, Mrs. Padmaja Chunduru and the entire top management team including Executive Director, and the CFO. I would first request, Madam to start with the opening remarks where we would want Madam to comment on the first quarter results in brief as well as the recent QIP that the bank has completed. Apart from that we would also want to know from you Madam the outlook on the growth and the asset quality particularly in view of the COVID led disruptions that we have seen post that we can have a Q&A session. Over to you Madam for opening remarks!

Padmaja Chunduru: Thank you Anand. Welcome to all the participants of this analyst call. This Q1 FY2022 of Indian Bank, I think, is a record in one way that within three weeks we could come with these results and that was part of the operational efficiencies that we are joining in the bank. I am very satisfied with the progress being made on a quarter-to-quarter basis, not only in terms of time, but also in terms of bringing the whole thing together to present to you.

Q1 again has been a steady performance so even during a very challenging quarter. As we mentioned last financial year closing and even during the earlier result announcements, I think, the synergies of amalgamation which we have been talking about and also taking up in a phased manner that is coming to a full fruition during the current year and first quarter results are also a reflection of these advantages and the synergies flowing into the bank.

I think before I go into the figures part, I would like to again say that this is because of the combined effort across the board of all the staff of the bank and otherwise this kind of a seamless transition and this kind of results on a sustained basis would not have been positive. Thanks to all our team for that.

Now coming to the quarter under review, we saw that this quarter has been a very challenging one with almost two months more than one and a half months gone in the COVID second wave and even our own staff members across the country, many of them, and their family members were also impacted, so the focus was on maintaining the health and safety of the staff and arranging whatever we could in terms of to help them. Unfortunately, we have also lost quite a few numbers in terms of our colleagues and that is very sad to see. The second wave was very, very intense and impactful in that sense. Despite that, I think, the fact that the bank could perform and also reach the levels that it has reached in the Q1 is very satisfying.

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Overall business growth as you can see from the figures, has been on a year-on-year basis the EBIT has improved 9%, the overall business, the deposits at 10% and advances at 6%, but on a quarter-on-quarter basis, it has been a bit muted. The March quarter was much better in terms of the opening up of the various parts of the country and again with this lockdown in this quarter, this was a bit difficult, so I think this is an industry where phenomenon that the business was a bit muted especially the corporate book has been plateaued. Otherwise, the RAM sector grew by 13% year-on-year and even during the quarter, it has risen too.

The CASA which was 42% last quarter, this quarter has come to 41% which again happened because there was a stronger growth in term deposits at 12% compared to the SB growth of 8% and the current account actually degrew during the quarter. So, this I think is a phenomenon that usually happens in the first quarter and especially the government business that was flowing through the current account has taken a sort of a dip in the current quarter, we expect that this will come back. There are many digital initiatives the bank is taking to get the tie in from the various governments so that this CASA becomes a steady stream for the bank.

In terms of the advances, the RAM sector as I said grew and corporate we expect it would pickup in the current quarter and much more stronger in the coming quarter. In terms of the earnings, the net interest income and the non-interest income, I think, we have the visibility of the various streams that would contribute, and I am very happy that there is a diversification in terms of the sources of income also, if investments for some reasons the investment book is not performing to or the yields have come down, it would be the advances that would come in or some other have the business, or the PSLC commission, so there are various ways of bringing in the income for the bank and we are very aware of various streams that can be channelized.

That said, I think, the operating profit at 3472 Crores is I would like to say it is something that is a steady state. I think this is something which would be given the circumstances today and barring any big whatever black swan events as they call it, I think, this is a figure or this is a level around which the bank should be able to deliver in the coming year.

This again the operating profit I think another major contribution has been the cost saving, the cost optimization. If the cost to income ratio has really come down very substantially that is because of all the rationalization that has happened which has contributed very significantly to the costs coming down, operational expenses, even the staff costs, so last year was a year of amalgamation and quarter-to-quarter there was a lot of volatility and because of the moratorium and because of so many things in the economy. This time, this Q1 is much more in that way there are no external factors that are directing it, except the COVID, which has hit us during the quarter otherwise this is steady, I mean, in terms of the business I think this is quite a steady performance.

The net profit at 1182 Crores also it has significantly improved compared to the last year' first quarter, almost tripled and I think, this is also one figure, which again, it is not just a figure, it is something that the bank has the potential and has the foundation to earn on a quarter-to-quarter

basis. The ROA, ROE all have shown significant improvement going from the higher income levels. The domestic NIM we could maintain at 2.85 though our projection is still to reach 3% and that is a work-in-progress.

The cost of funds has significantly come down year-on-year to 4.08% and this is because of again the CASA and the various other initiatives that have been resulting in the interest expenditure coming down even the term deposits growth has come from the deposits that are taken at a very low interest rates. These are not the high cost account, so whereas the term deposits of CASA the cost of fund has come down for the bank. Expense ratio, as I already mentioned, the operational expenses and actually driving the operational efficiencies through the system through centralization, the reorganization of the bank there are so many initiatives that have been taken as part of the amalgamation and that is now paying off.

I think this is only the starting and this particular flow of synergies will happen during the next two to three years and will fully play out during the current year and the next year. The capital at 15.90% is one of the highest in the industry. It is at 237 BPS improvement over the last year and this has small measures being contributed by the capital gains that has happened in terms of Tier I and Tier II, but more so in terms of the QIP very recently. As you are all aware that the QIP we had done for the 1650 Crores, the subscription was almost double of or more than double of that and we had taken a call that it would be at par and no discount was really offered because we feel the price itself was a big discount to the book value. We would like the share price to reach the book value which is today at Rs.284. So, we are striving towards that.

Other than that I think the asset quality is another area, which is of a big concern to everyone and while the gross NPAs were reduced so the net NPA inched up by 10 BPS and that is I think expected in this quarter and I would feel that out of the slippages that have happened, the MSME book really was the vulnerable one, and that is expected. The restructuring that is in the offing maybe part of it maybe some 400 Crores or 500 Crores we expect will be upgraded in the quarter to come because we have time up to September, but that said, I think wherever there was low viability or the unit itself was not in existence, we have taken a call not to extend and go on. It would be better to book the loss. So, that was the call taken on SME.

The other part is retail and agriculture I think are performing quite well and corporate also. So, since the corporate book is sort of stabilized and there are no grey substances in the offing, we feel that this asset quality is manageable and we still would work towards reducing the slippage ratio below 3% and keeping it below 3% and also the credit cost below 2%. This is the figures that we had earlier given, and we have the working for this for the current year also again barring the one-off event, I think, the bank is poised to reach those levels.

In terms of growth as I mentioned the corporate book is expected to grow after the second quarter partly during the second quarter also, and we have approvals in place to disburse, once the documentation and other formalities are completed these would be disbursed during the current quarter and the quarters to come so we expect that this year again the corporate book will

contribute to the growth and so we do anticipate a 10% minimum growth on the advances side given all the way it is functioning.

Agriculture has been a good contributor in terms of business growth especially in the agriculture KCC. This time we want to focus also on the investment credit for agriculture since we have this RMPCs and all the structure in place, it is now left to us to leverage. There is as part of our amalgamation, we have also submitted a strategic plan to the board, a five-year plan, which we monitor every quarter and we go to the Board with what is this strategic initiatives being taken and what is the progress made on them. There is also a synergy like a dashboard that captures all the cost benefits that are coming or even the expenditure that is being made, so that gives us a very good visibility about where we are versus where we want to be. So, I think, in a very tightly board controlled set up we are leveraging the full benefit of this merger.

Yes, there are headwinds in terms of the COVID and the fears about the uncertainty around third wave, but I think, given the vaccination drive and the fact that even in the bank and among the families, everyone has been vaccinated, everyone eligible has been vaccinated. I expect that we would be able to handle the disruption even if it comes unless it is a very major one.

I think the bank is again I repeat myself when I say the bank is a steady performer and quarter-on-quarter we are proving back and that I think would tone the bank very strong in terms of balance sheet resilience, in terms of capital, in terms of asset quality, arresting slippages, we have been saying and we have been doing what we see. So, I think that is what will hold the banks at a higher level in the quarters to come. So that would be my opening remarks and we would welcome any questions from all of you. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Thank you for the opportunity. Can you just mention about the collection efficiency in Q1 and how it is currently even in 15-19 days in July and how do you see, let us say if there is no third wave, how do you see the asset quality going forward?

Padmaja Chundurur: Thank you. I think, as you mentioned the collection efficiency took a dip during May and June definitely, but it has started improving in the last week of May and now in July it is showing a better uptick. In terms of the month-on-month collection efficiency, I think, in June retail was around 85% and agri 88%, MSME was the worst hit with and obviously the most impacted. It was at 78% and corporate remained at 97%. But these figures are inching up in the month of July and maybe towards the end of July again we think it would be back to above 90% on a cumulative basis also. So, in terms of that as I said, and as you also mentioned barring a third wave or whatever advance after that I think, we should be able to register a good recovery and good upgradation in the quarters to come, not much of field work could happen in this quarter obviously people could not go out and nor were the borrowers ready to give information and discuss and all that so where the restructuring to the extent that it was anticipated to happen

except in retail, because that was more like just a request and getting impacted, home loans and all that, but in MSME it is an issue that we need to engage with them. So that should happen in the current quarter. So, we expect some upgrades there, so as I said, I think, we are taking this as a temporary phenomenon and we will work towards resolving this in the current quarter, so we should be back to as I mentioned a slippage ratio of less than 3% by March 2022. So, even given the visibility during this year, I think that is something we can be sanguine about. That was the issue about the asset quality.

Dixit Doshi: So, barring if there is no third wave, you feel that the upgradation and recoveries would be better going forward and therefore you do not expect much deterioration in terms of gross NPA from here onwards?

Padmaja Chundururu: Yes because we monitor it almost on a very weekly basis at the ED level also and that is actually giving us a very good insight to what to expect and what we see and what we are projecting more or less it is okay and another factor was the KCC the renewals that were there, the agriculture slippages have come down very, very significantly and I think that would again help the bank and that is a big portfolio, almost 80000 Crores and if that performs to its fullest, I think, there is enough diversification in the book, to take care of even if the MSME is vulnerable to a certain extent.

Dixit Doshi: Madam, third question was just a clarification, you mentioned that this 3470 Crores of operating profit there is no major one-off in this and you mentioned that it is more like a sustainable operating profit we can expect going forward?

Padmaja Chundururu: Yes, I will ask, our ED Mr. Shenoy to give the components and explain.

V.V. Shenoy: It is not one-off component. It is normally one quarter the income revenue will be more than the other quarter, in this case, patency, wherein almost we have booked around 225 Crores to 230 Crores again we expect during the next quarter also a couple of quarters, even in this case of the investment pocket, we were at least around 40% in the first quarter and the second quarter we do not see it, but hopefully, what we feel is presently whatever the results are there, we are deploying it at a very cheap rate. Once the scenario improves as the economy improves, we will be able to fetch at a higher rate, so I do not think there is any one off items are there, but there are compensating items are there.

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

Deepak Poddar: Thank you very much for the opportunity. Madam, my question relates to your credit cost; now you did mention in your opening remarks that we are looking at credit below 2% for this year. Now this first quarter I think our credit cost was more than 2.5%. So, for that to achieve, we need credit cost of 1.8% around for the remaining nine months. So, is that what we are looking at?

- Padmaja Chunduru:** Credit cost in the first quarter has been high that is because the major chunk has and the slippages were high and so the provisions naturally happened in this quarter, but I think, again as I mentioned this is not a typical quarter for the bank in terms of slippages. Whatever we used to do in terms of recovery, cost recovery, and all, we could not do this quarter and going forward I think that would help us improve arresting the slippages part and we do not see a similar situation going forward and there would also be upgradations and recovery which we are focusing on and which we have some visibility about quarter-on-quarter basis. So, we predict that working as a backdrop only talking about the credit cost of less than 2%.
- Deepak Poddar:** Fair enough. Madam a little on the medium term, is there any kind of thought process on kind of credit cost of 1%, is that something or any kind of aspirational numbers, in terms of when the things stabilises and we are off this pandemic. So any kind of thought process on that would be helpful?
- Padmaja Chunduru:** Definitely, we would like to bring it down to below 1%. Yes, we have given some projections, but I think for now, we will stick to less than 2% this year, going forward yes, I think, it can come below that, but I would hazard a projection beyond this year maybe next two or three years, it might come below 1.5%. I think our ED wants to add something.
- V.V. Shenoy:** Credit cost normally, we do not think, we will be able to bring below 2% for a couple of years because our ultimate aim is to bring the net NPA below 2%, so our focus is first on bringing up the net NPA to below 2%. So, hopefully we can see the provisions so that is with a pitch, the credit cost may not be okay, post that we should be able to see better credit cost.
- Deepak Poddar:** Ideally, your PCR will keep on inching up, right?
- V.V. Shenoy:** It is almost the same when compared to the last quarter.
- Deepak Poddar:** That is it from my side. All the very best.
- Moderator:** Thank you. The next question is from the line of Rishikesh Oza from Dolat Capital. Please go ahead.
- Rishikesh Ojha:** My question was related to that provision for taxes. Is it going to continue for the next coming quarters also? Can you guide us on the same?
- Padmaja Chunduru:** The CFO will answer about the taxes part.
- Arun Kumar Bansal:** Mr. Ojha that taxation earlier, we used to do that DTA investment at the end of the year, during the Q4 only we used to do it. So, now in line with other banks we have shifted it to quarterly. Now henceforth, we would see that this amount will be evened out and we will be having quarterly basis only this DTA provisions will be there. So far my tax liability is there, earlier also we had pointed out since there were accumulated losses in the yearly balance sheet still around Rs.26000 Crores is there which is on the negative side and set off benefits are available, so tax

liability for the next two, two and a half years we do not foresee anything on that part. We will be aggressively rolling it, we will be able to get some liquidities. DTAs is on the higher side due to that excess provisions made in this that Sir had already pointed out we endeavor to bring our net NPA to 2% so we are making provisions aggressively. So part of that goes to the DTA.

Rishikesh Ojha: Thank you Sir.

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

Jai Mundhra: Good afternoon Madam. First on slippages this quarter the slippages from MSME has been the key driver of slippages and if I see the collection efficiency for the month of June has also trended lower at the same time, MSME, SMA-II, and SMA-I is also on the higher side. So, how should one look at the MSME slippages going ahead and within your 83% kind of a number for full year, I mean, are you assuming that the most of the pain would be driven by MSME or how should one look at it?

Padmaja Chundururu: I think as I mentioned earlier, this quarter MSME was high and it is again because of the way the external factors were working. I think I will ask our GM Credit to give the details about what is the projections there.

Maya Nagarajan V: As you rightly pointed out, we agree that the slippages were on the higher side, the SMA-II are a little higher 3% or nearly more and collection efficiency has dropped nearly by 2% to 3%. At the same time, it is now only the lockdowns have been liberalized and we are able to approach the borrowers and they are able to give us the financial, we can have unit visits done and the restructuring part of it is yet to actually gain momentum and the other RP 2.0 scheme under MSME segment and even the ones which have slipped into NPA there is possibility to do a restructuring because there is good stock there also, so with all these combined factors, we have done under MSME considerably less only and the retail has been good. We are seeing the signals of good signs there happening in the following months before September. So, we are confident that we can have the regular range of having it below 10% maximum, within that. Usually it is in that range, but now our SMA-0 follow up has also been tightened, so we hope to have the collection efficiencies bruised up and also bring it back to normalcy.

Jai Mundhra: Congratulations on the detailed disclosure on this collection efficiency and restructuring slide also, but just if I were to read this restructuring slide #34, what we are saying is that RP 1.0 let us say if we for example retail the amount was 320 Crores, RP 2.0 is 2483 and the third table, how do I read the third table, is this the sum or because then 2053 number what is this number, is it the sum of first table and second table or is this the outstanding which includes everything? How do I read that, the third table or the total restructuring?

Arun Kumar Bansal: I think the first table is only RP 1.0 wherein which is being invoked, implemented as of March 31, and June 30. The second table is RP 2.0 which is again invoked and implemented and the

third table indicates all the risks and adjustments done including the CDR, NPR, 5/25 and the present transfer and all these, that is the third table, this is as of up to date, June 30.

Jai Mundhra: But if I were to total let us say table I and table II then it should be let us say for example, retail 320 plus 2483 is not matching with retail of 2053. So, I was a bit confused as to is this the addition or what is the peak you think?

Maya Nagarajan V: That is actually eligible or what is expected to be restructured and what has happened as on date and the time limit is still available in RP 2.0 till September. As far as RP 1.0 is concerned the time period for invocation is over, but implementation time period is still available. That is why we have depicted both.

Arun Kumar Bansal: The question is implemented, implemented for RP 1.0, RP 2.0. It is not totaling the other table. Implemented is 320 in the case of RP 1.0, second is 2483?

Maya Nagarajan V: That is because of certain recoveries and closures which have happened that it has got reduced. It is fully implemented. As far as retail and MSME is concerned, it is fully implemented, but the numbers are reduced of certain closures or because of recoveries.

Arun Kumar Bansal: If any issues are there, we will take it separately.

Jai Mundhra: The two data points this ECLGS if you can have the number handy for 1, 2, 3, 4 or the total, if you have any breakup there.

Arun Kumar Bansal: The table 3 is complete. The table 3 indicates the entire restructured book of the bank as of June 30, 11837, 17138 was done of which NPAs done the net is 11837, but that RP 1.0 and RP 2.0 RP 1.0 is again correct, RP 2.0 will be the clarification, whether how much is implemented and if there is a case, we will take is separately.

Jai Mundhra: Actually, I was asking on ECLGS or GECLS if you have the outstanding number sanctioned disbursed under the ECLGS scheme?

Arun Kumar Bansal: If you can repeat?

Jai Mundhra: Sir, ECLGS disbursement, Emergency Credit Line Guaranteed Scheme, if you have the number what is the outstanding sanction or outstanding disbursement?

Sudhakara Rao K S: I am Sudhakar Rao, GM MSME. Regarding ECLGS 1.0 the disbursement was 5330 Crores and under the additional one that is another 10% additional, they have given, there it is sanctioned and disbursed is small amount, it is only 9 Crores. It is under progress.

Jai Mundhra: Anything on 2, 3, 4 Sir? I mean what is the total number if you have?

- Sudhakara Rao K S:** Under 3, eligible are 288 Crores, so far we have sanctioned 20 Crores and disbursed 16 Crores, still time is there, under subordinate debt also, we have sanctioned 14 Crores and the entire thing has been disbursed. 2745 Crores has been disbursed.
- Jai Mundhra:** Thank you Madam. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Anand Ladha from HDFC Mutual Fund. Please go ahead.
- Anand Ladha:** Hello Madam. Madam, I just understand that you guided for a 3% slippages for the full year, if you can also give some colour on what sort of recoveries and upgrades we are looking out in the current year and also recovery from return of assets?
- Padmaja Chunduru:** Recovery we have projected 5000 Crores this year including NCLT and non-NCLT and upgradation of assets 4500 Crores. So, I will ask our ED Mr. Imran to give the details.
- Imran Amin Siddiqui:** For this year, we have projected recoveries of 5000 Crores and another upgradation of 2500 Crores out of which 2000 Crores recovery will come from accounts less than 1 Crores and 3000 Crores from accounts more than 1 Crores. Upgradation will be 500 Crores from the less than 1 Crores and 2000 will be from more than 1 Crores. Expected recoveries from NCLT for the full year, is 1205 Crores. Non-NCLT accounts the income is around 3797 Crores.
- Anand Ladha:** Sir, the NCLT recovery would be the accounts which we have not provided 100%?
- Imran Amin Siddiqui:** Our NCLT provision is 99%, so it is almost 100%.
- Anand Ladha:** If I have to put up of the 5000 Crores of recovery, we expect, how much we are expecting from accounts where we have made 100% provision or the return off accounts?
- Imran Amin Siddiqui:** NCLT, I told, we are expecting 1205 Crores and almost 100% provided only.
- Anand Ladha:** And on the tax side, if you can give us some colour like how much of deferred taxes that we are carrying so that we can set it off against the probable of profit, we are expecting?
- Arun Kumar Bansal:** The deferrals we have created for this quarter 1400 Crores apart from that we were having around 2800 Crores at the year beginning. On that deferred assets this 330 is what we have taken the x amount on that part. So, now in our books, we are having 3175 Crores.
- Anand Ladha:** Sir, by when we can utilize this? So, when we are expected to move to the new tax regime?
- Arun Kumar Bansal:** We are already in the new tax regime from December 2020 onwards. So, at this time also, the reversal happened. The DTA reversal is an ongoing process, creation and reversal. This time also there was a reversal of around 90 Crores quarterly, so as and when it is due, timelines are over,

we are doing a reversal part also. So, both are there. The amount outstanding of DTAs is 3175 Crores.

Anand Ladha: Thank you Sir. That is all from my side.

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

Mahrukh Adajania: Probably in upgrades there is an amount of, in the NPAs and upgrades, the amount shown is of future retail and this would be the upgrades of the retail account?

Maya Nagarajan V: Future retail is included there.

Mahrukh Adajania: That will be a major portion, right of upgrades?

Maya Nagarajan V: That is the major portion, there is also MMTC it is about 200 Crores.

Mahrukh Adajania: This time also, there was a corporate slippage of 600 Crores, so which sectors, was it just one or two accounts or just one account and if you could specify that sector?

Padmaja Chunduru: There were two, three. One account of 200 Crores out of that of about 150 Crores, so these are the majors, the rest are the smaller accounts. One jeweller account of 200 Crores and then another steel account of 150 Crores, there were two road assets which together are about 250 Crores and the rest are about very small account.

Mahrukh Adajania: Got it. The other question, I wanted to check is, can I repeat the ECLGS amounts that you mentioned between 1, 2, 3, 4 and 5, the disbursements? You said 5330 was ECLGS 1.

Arun Kumar Bansal: 1.0 we have disbursed 5330 Crores, in 3.0 that is 15 Crores disbursed, then recently announced additional 10% that is 8.50 Crores, and the subdebt for stressed MSMEs that is 13 Crores and 4.0 we are yet to do that because it was recently announced, so before 30th we are yet to do, and the 2.0 my colleague will tell you Sir.

Sudhakara Rao K S: As far as the corporate is concerned, the total sanction amount is 1041 Crores, ECLGS 2.0 and out of this disbursed is 741 Crores. Sanctions 1041 Crores and disbursed 741 Crores.

Mahrukh Adajania: Madam in the health infrastructure scheme how much have you lent?

Padmaja Chunduru: Health infrastructure you are asking?

Mahrukh Adajania: Yes.

Padmaja Chunduru: Right now we have done something below 100 Crores, but there are proposals in the pipeline this is for the hospitals or the oxygen plant, so above 300 Crores to 400 Crores proposals will be

probably going through this month. On the individual health support to the individuals for their medical expenses and hospitalization expenses that has been upped to 500 Crores, 580 Crores that has been disbursed so far. This is the COVID portfolio that we are building.

Mahrukh Adajania: Was there any slippage in the ECLGS so far, I mean, either the ECLGS or the base loans slipping? Was there any slippage in MSME?

Maya Nagarajan V: No slippage so far.

Mahrukh Adajania: Madam, one last question on MSME collection efficiency, why has it trended down in June because of course May was peak and then June at least in the second half there was opening up, so why has the collection efficiency declined in June over May?

Padmaja Chunduru: I think as soon as the lockdown was lifted, the unit does not start getting cash. It needs to stabilise and we also saw how difficult it was for people to even move out or take any services or any purchases, so I think, we need to give the MSME, and I expect that in July it is picking up, so end June not every city was up and running, so I think there was a slight hesitation in terms of opening up also. So, I think, we can give that benefit of doubt about June for MSME especially and even in the banks, the staff, the way they have been impacted, it takes time for people to feel confident into the field and do their routine jobs, so I think July will be and we have already seen the first fortnight of July the collection efficiency picking up. I think that would auger well for the coming quarters.

Mahrukh Adajania: Madam, any time during the call, could you give a breakdown of slippage for FY2021? We have 4Q but for the fuller FY2021 if you could give the breakdown?

Padmaja Chunduru: We will give you. I think that was probably there in the last, but we will definitely give you.

Mahrukh Adajania: 4Q for the full year FY2021 quarter?

Padmaja Chunduru: Yes, we will give you the full year FY2021 slippages.

Arun Kumar Bansal: You want the full year March 2021?

Padmaja Chunduru: Yes she wants full year.

Mahrukh Adajania: Full year.

Arun Kumar Bansal: Total full year was 9429 on 55 Crores and recovery was 3860 Crores.

Mahrukh Adajania: Breakdown of slippage into agri, retail, MSME?

Arun Kumar Bansal: That Maya will give separately.



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- Mahrukh Adajania:** Thank you.
- Sudhakara Rao K S:** FY2021 retail was 1113 Crores, agri 1348 Crores, MSME 2924 Crores and corporate sector is 3430 Crores.
- Mahrukh Adajania:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Aman Elahi from Investec India. Please go ahead.
- Aman Elahi:** Firstly, with respect to the MSME again, so you have given collection efficiency as of June so just wanted to understand how is that number vis-à-vis the collection efficiency in March, which would be the numbers from where you started seeing a decline?
- Maya Nagarajan V:** As of now it is 78%. We are seeing that it will definitely improved over the coming period and you wanted it by March, is it?
- Padmaja Chunduru:** He wants from March 2021 going back?
- Maya Nagarajan V:** MSME in March 2021 90% it was.
- Padmaja Chunduru:** Between April, May and June it...
- Maya Nagarajan V:** It tapered, from 85 it was around 85. MSME was 90% and it has come in April 85 and slowly it has been tapering down, but we hope that it will be restored soon and we hope that it will come back to at least 88% to 89% before September definitely, 90%.
- Padmaja Chunduru:** Receivables were also stuck everywhere so that is why we could not come back with the collection efficiency and restructuring model is available so we are making use of that mode.
- Aman Elahi:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Mehendale from RoboCapital. Please go ahead.
- Amit Mehendale:** Thank you for the opportunity. I wanted to understand if you report interest reversal for this quarter. If I remember the last quarter the interest reversal was about 1200 and prior to that we were doing about 10000 Crores of interest income for the quarter which has now dropped to 9600 Crores. So, just wanted to know a little bit more on this?
- Arun Kumar Bansal:** The interest income the accounts which are kept standard, wherever we are charging the interest there is reversal there, it is about 200 Crores because three four accounts because other things are kept standard, so whatever the interests are being charged each and every quarter we are

reversing it and providing it fully, but actually the yields on advance have also come down when compared to the last year and the overall interest income is low.

Amit Mehendale: Sure, any guidance on the loan book growth for next three quarters?

Padmaja Chunduru: As I already mentioned, given that we expect the corporate book to grow, in this current year, we are looking at 10% growth in the current year. Earlier, we had projected a higher growth, but I think we will take it as the economy opens up and RAM especially I think is growing at a good cliff and overall between 10% and 12% is what we expect?

Amit Mehendale: Thanks a lot.

Moderator: Thank you. The next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Good evening Madam. My first question is pertaining from the corporate account, is the infra NBFC still standard in your books, SREI Infra?

Arun Kumar Bansal: SREI Infra is standard in the book is because of the NCLT order but we have already provided 20%, so 400 Crores is provided as we said.

Mona Khetan: The recoveries from DHFL that is likely to come in Q2?

Arun Kumar Bansal: Hopefully, Q2 we expect it or maybe latest by Q3. We are going to fully provide.

Mona Khetan: What is your exposure on DHFL?

Padmaja Chunduru: 1300 Crores.

Mona Khetan: On the tax write back, while you did give some details on the DTA that you already carry, what sort of tax rate could on expect over the next two years given the deferred tax assets that we have?

Arun Kumar Bansal: As we have already told we have in the new tax regime only, it is 25.135% and we have already informed that seeing the cumulative losses and set off, and there is no tax liability for the next two to three years period.

Mona Khetan: Thanks. Lastly if you could share the breakup of slippages for this quarter, the 44100 slippages into corporate and MSME and retail? Thank you.

Padmaja Chunduru: I think the overall slippages 4204 Crores of which agri is 375 Crores, retail is 627 Crores, MSME 2456 Crores and corporate 745 Crores.

Mona Khetan: Thank you.

- Moderator:** Thank you. The next question is from the line of Antariksha Banerjee from ICICI Prudential Asset Management Company. Please go ahead.
- Antariksha Banerjee:** Two questions; one is in the MSME can you tell me what percentage of your collections would involve the physical person or hiring cash?
- Padmaja Chundurur:** I did not get your question. What did you ask about recovery in MSME?
- Antariksha Banerjee:** What percentage of your book, the collections have been physically. I mean, there is manual involvement.
- Padmaja Chundurur:** Collection in MSME does it happen physically manually or does it happen by remitting or phone calls and all that?
- Maya Nagarajan V:** Collections is by both Sir. We do by call centres, we do by our PCs, our personal contacts and it is remitted physically also or if they come and remit physically also, or they do it online also. It is a mixed way.
- Antariksha Banerjee:** The reason I was asking Madam is because during this lockdown the physical collections would have been more difficult compared to remitting directly. So, is the physical collection a big chunk of the book and that is contributing to this elevated stress?
- Padmaja Chundurur:** I do not think the physical part is, yes, part of it is physical, but assuming that stress has the money to pay. If MSME units are not functioning because of various factors impacting them, then the cash flows are impacted, so the repayments are not coming in is also because of the unit not able to generate the cash to pay. So, I think, it is both the physical part is part of it but the more important one is whether they are able to earn to pay the banks so that is why this restructuring and all this schemes.
- Sudhakara Rao K S:** Secondly whatever the receivables are coming, they get credited to the current account or the stressed account reserve and then the balance is available, we recover it is good. If the collections are there, there should not be easy asset.
- Antariksha Banerjee:** Second is of the new amalgamated entity what percentage of the book currently live is out, the reason I am asking is because south, very broadly speaking entered into the lockdown and restrictions later compared to the north and west and that somehow reflecting your collection numbers as well because in the retail SME, although the collections were lower in June versus May. So, jus the non-south and south split is that a massive, do we have a number?
- Padmaja Chundurur:** I do not think, yes, to some extent that is true, but in the south again, most of the places were impacted and there was a lockdown as you mentioned somewhat later, but I think it is more about the impact from the industry itself, so this is evenly spread across, I feel, especially in MSME that one sector is paying or one geography is paying is not the case, I think it is evenly distributed

but we should get into that kind of granularity. It is good you asked the question, we will get this data covered.

Antariksha Banerjee: Thank you Madam. That is all from me.

Moderator: Thank you. The next question is from the line of Mahesh from Kotak Securities. Please go ahead.

Mahesh M.B: Madam, just a couple of questions; one, in terms of the 2600 Crores odd of restructuring which happened on the corporate side, could you give us some colour on which sectors and segments which have taken this restructuring?

Arun Kumar Bansal: I can say that we do one Riken Group is there in Mumbai and there is one power group is there. So it mainly comprises of seven accounts.

Mahesh M.B: The second question is in your QIP document, you had indicated that Bhushan Power and Steel was still an impaired in the books as of March 31, why was this not upgraded and have you upgraded it in this quarter?

Arun Kumar Bansal: What we have done is actually in case of Bhushan Power and Steel, it is subject to it is a constrict payment. So, what we have done is to the extent of the recoveries, we have taken to our internal account, and while this amount was outstanding as of March that is fully provided 100%, this quarter we have technically written it off.

Mahesh M.B: So, it was not an upgrade?

Arun Kumar Bansal: It is not an upgrade. Technically, it is pure recovery that we have taken to our income, we did the provision and taken to its income account, this quarter the balance amount we have written it off technically, so as and when any directions or decisions from the court, we will take a view accordingly how to handle it.

Mahesh M.B: There are some other accounts like Chanani and SREI and all, have you seen resolution from the accounts as well?

Arun Kumar Bansal: In these particular accounts, the collections are coming which is driving the SB account but because of that the order they have not risen the payment, but Chanani Machines at least we are hopeful to bringing substantial recovery in that and even they are trying to sell that to Qube. I think one of the APE funds.

Mahesh M.B: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sai Karthik from Investec. Please go ahead.

- Sai Karthik:** Thank you. Madam, there are several disclosures on the restructured book. I just wanted to know if there is any overlap between the three four disclosures that we have given and what is the non-overlap outstanding restructured advances as of Q1?
- Padmaja Chunduru:** Overlap between what, restructured and SMA?
- Sai Karthik:** Yes, there are RP 1.0, there is RP 2.0 and then you also have another disclosure which sort of gives the total restructured at 17138 of which 11837 is standard. So, is the 11837 be cumulative amount of the total restructuring that has happened?
- Padmaja Chunduru:** Overall, restructured book of the bank, which is standard.
- Sudhakara Rao K S:** What do we mean by standard, SMA0, 1 or 2. But it will be in the standard SMA0 or 1 or 2. Mainly for the 90% it is standard in SMA0, maybe a little bit which is under SMA1 and 2.
- Sai Karthik:** From your SMA disclosure that is the special mentioned account disclosure, about 22% of your MSME book is currently in overdue position, but that is actually sounding a very, very high number, traditionally I wanted to get how high this number went up to?
- Maya Nagarajan V:** Normally, our SMA portfolio will be totally around 70000 of which talk about MSME only. In MSME the general trend is to have about 30% to 40% in total SMA which actually if we compare with May 31, 2021 the MSME totally has come down the SMA part of it. It is more on the SMA0 and it has come up a little high on the SMA2. SMA1 is in fact has come down to 29% from 33% and normally the range is 50% moves from SMA0 to SMA1 then 20% it moves. But now because of these factors, it is moving in this direction.
- Sai Karthik:** Do you anticipate a high level of slippages from this 12000 Crores odd amount in MSME for the next two three quarters?
- Maya Nagarajan V:** No, we are expecting a decline only, a phased decline.
- Sai Karthik:** The SMA book I understand, but would there be a significant slippages from this 12200 Crores or as you said, there could be restructured and probably in the moratorium period and hence no risk of default yet?
- Padmaja Chunduru:** Definitely there would be an uptick in the slippages from MSME, but when we calculated the overall slippage ratio we have taken the other segments into account even in MSME I think restructuring will bring in certain level of upgradation and these figures are again very typical to this quarter. So, going forward we do not see such a high percentage there, but definitely compared to the pre-COVID times, this time the MSME book is going to be more vulnerable and there would be slightly higher 10 BPS to 12 BPS higher slippage in MSME definitely.
- Sai Karthik:** Thank you.

- Moderator:** Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.
- Jai Mundhra:** Two questions; one on this retail collection efficiency you told the slippage one in May it went up, and then in June counterintuitively it looks like it has gone down which is slightly counterintuitive. So any reason Madam, why this is the case that the retail collection efficiency has gone down?
- Padmaja Chunduru:** You can see it has gone down in retail sector mainly under mortgage loan and educational loan primarily the mortgage loan part of it is with the business and MSME segment only, who are facing stress now due to the lockdown and second wave and all, and educational loan borrowers are also in stress because either due to loss of employment or salary cut or difficulties in securing an employment, so the collection efficiency dropped down for these reasons only in retail segment. So we are picking up now. Both retail and MSME now July beginning on the first part, we see it picking up not drastically, but it is picking up.
- Jai Mundhra:** The last thing on BB and below we have given additional disclosure this quarter as well, but if you look at the slide 21 where we have given 14455 Crores of corporates which are below BB and below and having more than 100 Crores exposure these corporates are definitely not there in SMA1 or SMA2 because that number is very small, so as to say, or at least the SMA2 I small, SMA1 is slightly higher at 4000, but how to look at this numbers, which are not sovereign having BB and below rating, how to look at this number 14400 Crores in terms of risk? Thank you.
- Padmaja Chunduru:** We did as much analysis as possible on BB and below. I think this quarter what you are asking is about 14455 Crores?
- Jai Mundhra:** Right Madam. Is there any embedded riskiness because while the SMA2 number in corporate is small, SMA1 number is reasonable, but it looks like within corporate this is the most riskiest thing, how do you assess the riskiness?
- Padmaja Chunduru:** Some of these MSMEs the reason is they are good, companies with good collateral, they would still not get BBB rating. So, we have many of those companies and then of course government we have given separately. Even this corporate includes the SREI figure. That itself is 2000 Crores. So, I think more or less when we do the breakup, further breakup, there BB or B also but many of these are hospitals, educational institutions, CRE, LRD exposures, so we have security and collateral and the cash flows are good enough and the bank has a very good relationship with many of these companies. So, from the breakup I see at least another 5000 Crores to 6000 Crores of very good accounts, yes they may not get a BBB rating for whatever reason, but for the bank they are well established customers and I do not see any unusual risk in that portfolio.
- Jai Mundhra:** The recently upgraded future will also be sitting here, right or that will be outside of this?

- Sudhakara Rao K S:** Future is also sitting there, even SREI is sitting there, RKM is sitting there and we have Delhi Metro expense sitting there.
- Jai Mundhra:** The last thing Sir, on restructuring if you can give a range as to by September how much are you expecting the total restructuring? It looks like you have given fairly good details as on today, but what this number could be by as this close? Thank you.
- Maya Nagarajan V:** We had originally predicted an expected amount of 9000 Crores which will be somewhere around 2.5% to 3% of the standard advances, so far we have already done under the RP 2.0 scheme 3575 Crores and as on date it has nearly touched 4300 Crores. So, I think, we will be within that 3% maximum.
- Jai Mundhra:** So 3% for RP 2.0, right?
- Maya Nagarajan V:** Yes. 3% for our standard advances, which may come up to about nearly 6000 Crores to 6500 Crores.
- Jai Mundhra:** So, 6000 Crores to 6500 Crores of which let us say 3600 Crores, almost is already done, so additional let us say 2500 Crores o 3000 Crores, is that what you are implying Madam?
- Maya Nagarajan V:** Yes.
- Jai Mundhra:** Thank you so much Madam. All the best.
- Sudhakara Rao K S:** One more thing, we would like to tell you in the case of BB and below B one thing is even the companies having liquidity only a BBB and above the other maybe BB then what we do is we have taken the lows of the BB. So, this was fully to the extent of 7000 Crores including government guarantee and corporates also. So, we have taken the loans of guarantee and this funds about 1000 Crores.
- Moderator:** Thank you. The next question is from the line of Sushil from Indus Equity. Please go ahead.
- Sushil:** Congratulations for stable numbers Madam. I have small questions; in your outlook on treasury, cost of funds.
- Sudhakara Rao K S:** As far as the cost of funds is concerned, 408 but again all are waiting and seeing whether the third wave will come or not, even RBI though you are aware that in the case of the new series the rate has gone up, so in case, the economy picks up, the cash will come ahead, the cost of funds are bound to go up. Same will be the yield on advances. So, I think it is a balancing figure, both liabilities and assets we will be ranging it.
- Sushil:** Will it be rightly to take major benefit of RBI supporting these from the book or you are happy with the deposit rate and the growth rate what they are concluding right now in our vision of 10% growth?

- Sudhakara Rao K S:** Readily we will allow that all the banks are having excess liquidity and there is no scope for investment so either it is getting invested in sub-6% or maybe sub-5% also, for short-term duration and keep it, once the economy picks up, the demand for credit all this should be shifted to the loan growth so that will be a comforting factor. So whatever the additional margin from the advances, they make up for the interest income and loss in the credit treasury gains.
- Sushil:** Second thing is what percentage of agricultural loans are backed by gold? Agricultural loans are backed by gold?
- Padmaja Chunduru:** 50% actually, 41 out of 82.
- Sushil:** So 41000 Crores is backed by gold loan.
- Padmaja Chunduru:** It is about 50% is backed by gold.
- Sushil:** Agricultural advances are 80000 Crores, so I am assuming 40000 Crores.
- Padmaja Chunduru:** 41000 Crores is the gold, agricultural loan book, am I right Sudhakara?
- Sudhakara Rao K S:** Yes.
- Sushil:** My last question as this is a vision on the last slide, which is showing about the strategy and focus area what kind of initiatives and expenses are you taking up for digitization and leveraging the balance sheet with all the data points which you have highlighted on strategies and focus areas and what are the initiatives you have already started and how much can we think that the bank would take to reach that?
- Padmaja Chunduru:** There are a lot of initiatives we are taking on digitization. I would request our GM in-charge of this transformation of this to give you the details.
- Mahesh Kumar Bajaj:** In fact, we got this strategy initiatives approved in the board meeting in November. In that mainly there are 24 high level initiatives and 150 may be at lower level. In fact, we are going in with four core areas; one is digital transformation then operating model and then we have PMS and the LDP leadership development plan. These are the four core areas where we are going ahead with the initiatives. Initially we are going with a consultant and then maybe going forward the expansion and all we will be able to do, but initially we are going with a consultant only. As of now, the figures and all, we have not yet decided, how much we are going to spend, but initially, we are going with the consultant route.
- Sushil:** So, we have to make a roadmap or you will...
- Padmaja Chunduru:** Yes. As Mr. Bajaj mentioned actually as part of the amalgamation when we did the organization itself, we had planned two three things, we did. One is the IT architecture itself had the software and everything, we had a relook and now what we have taken licenses for or what has been or

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used the ones that were there, it is now the state-of-the-art. So, more than 1000 Crores was invested in IT itself to reap the benefits over the next four to five years. So, it was a onetime investment as part of the amalgamation. That includes the digital infrastructure because we need to have this digital on lending platform and also the back end, end to end digitization. All these initiatives have already been initiatives. We have the board approvals. We have the approvals to incur the amount. The implementation of the loan, LOS is already on for the MSME we have completed and for retail also it is going on. In September it will be completed. Already digital model, analytics, we are using to pre-sanction loans so this is because of the amalgamation, it took some doing to first get the CDS integrated, but once that is done, this is a ready platform to take off and as he mentioned the digital initiatives have all been put up to the board for broad in principle approval. We have those approvals. We are working the RFP and very soon we will have this rolling out but simultaneously the work is already going on, on these initiatives because we believe that now it has to transform itself fully into physical because we cannot leave the physical mode where we are very strong in some of the areas, but also the digital has to come in a big way. I think the returns will be seen from the quarter starting maybe December once the rollout is complete, but yes this is a huge expenditure and also a huge investment for the bank. So, I hope I have answered your question.

Sushil: That is what I needed to know.

Padmaja Chunduru: We can send you the details about the project.

Sushil: I will speak to you offline if required for further details. Second thing is this business network, thanks to amalgamation, you are concentrated on east, central and south with almost 4500 branches whereas the western and northern are limited by branch, but your business volume maybe large. What kind of initiatives because you remain in the strategic five or six banks which government will resume. What initiatives you are taking to becoming a pan India with more balanced approach for west and north?

Padmaja Chunduru: Your observation is correct. I think, yes the concentration has been in the south area, but now it is pan India and today also east and even UP we have a big presence in UP. So, it is not as big, but yes north and to some extent western, western Mumbai, again all the corporate accounts are there, so it gets a big share of the business but in terms of the spread of branches, across Maharashtra and Gujarat there is still a lot of area to cover. So I think we will open. We have plans to open branches in those areas where the potential is there to take. Also the other alternative presence whether it is a kiosk, whether it is a BC, I think we will be and we have a plan to make the presence there, whether, which model and which works for the bank better will be worked on a case to case basis, but the plan is also to roll out more BCs and whether it is a BC or a kiosk to have connect with the rural and the semi-urban areas like some other private banks are doing right now.

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



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- Mahrukh Adajania:** Thank you. Madam, I have a couple of followup questions; firstly you said that you have one power account was also restructured, was there a power account in the restructuring pipeline vis-à-vis there was only a few state owned accounts, which were not later restructured?
- Sudhakara Rao K S:** Power asset was there. This was belonging to a big group that was there. It was only restricted. The payment extension, nothing more than that.
- Mahrukh Adajania:** Sorry.
- Sudhakara Rao K S:** There is no other pipeline. See, in the case of corporate, whatever was there that is completed and June 30 there is no more accounts in the corporate book, you can be quite reassured.
- Mahrukh Adajania:** But there was a power account as well is what you said?
- Sudhakara Rao K S:** Yes, there was a power asset that we restructured in the last quarter.
- Padmaja Chunduru:** That restructuring was only the extension of the repayment, there was no NCB loss or anything like that. It was a big group.
- Mahrukh Adajania:** Madam, for the future resolution is being delayed, how much time, we had because of the account slipped into NPL? Because the resolution, this Reliance is important for the account to see standard, right so that is why I am asking.
- Padmaja Chunduru:** GM Credit, Gayathri to answer.
- Gayathri S:** This is a plan where Reliance deal is not taken. This is not taking into account the Reliance deal and the Amazon issues. Without that the company had to survive for that only the lenders have worked out a plan. Basically it is there on internal cash accruals.
- Mahrukh Adajania:** Madam, did you have any recovery from **(inaudible) 01:16:14**? Did you have exposure to these accounts?
- Padmaja Chunduru:** We do not have.
- Mahrukh Adajania:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen, as there are no further question I would now like to hand over the conference over to the management for closing comments.
- Padmaja Chunduru:** Thank you very much. We enjoyed the interaction. Actually your questions make us more granular into the details and we found it very interesting. Thank you very much. We hope and we are confident that whatever projections we are giving we have the visibility of those working out. We hope to see you again soon. Thank you very much.



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Moderator: Thank you. On behalf of Emkay Global Financial Services Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.