

**“Punjab National Bank’s Q3 FY’22 Post Results
Conference Call hosted by Batlivala & Karani
Securities India Private Limited”**

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**MODERATOR: MR. SURAJ DAS – BATLIVALA & KARANI SECURITIES
INDIA PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Punjab National Bank's Q3 FY '22 post results conference call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participants' lines will be in the listen-only mode. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone phone.

Participation in this conference is by invitation only. Punjab National Bank reserves the right to block access to any person to whom an invitation is not sent. Unauthorized dissemination of the content or the proceedings of the call is strictly prohibited and prior explicit permission and written approval of Punjab National Bank is imperative. Please note that this call is only for investors or analysts.

I now hand the conference over to Mr. Suraj Das from Batlivala & Karani Securities India Private Limited. Thank you and over to you.

Suraj Das: Thank you. Good Afternoon everyone and thanks for joining the call. On behalf of Batlivala & Karani Securities, we Welcome you to Punjab National Bank's Q3 FY '22 Post-Result Conference Call.

We have with us today the Management team of Punjab National Bank represented by Mr. CH.S. S. Mallikarjuna Rao – MD & CEO; Mr. Atul Kumar Goel –Officer on Special Duty; Mr. Sanjay Kumar – Executive Director; Mr. Vijay Dube – Executive Director; Mr. S. K. Saha – Executive Director; Mr. Kalyan Kumar – Executive Director; and other senior officers of the Bank.

I would now request MD and CEO Sir to start the call with his opening remarks on Q3 FY '22 results post which we will start the Q&A session. Thank you and over to you, Sir.

S. S. Mallikarjuna Rao: Good Afternoon once again, I am Mallikarjuna Rao here, I have with me Mr. Atul Goel who is the MD designate and will be taking charge from February 1st. Now with respect to the results what we have declared yesterday for the quarter ended December 31st, I would like to just give the key highlights. Our operating profit has improved by 26.24% on quarter-on-quarter basis. Net interest income has increased by 22.8% on quarter-on-quarter basis. Global Net Interest Margin has improved by 54 bps to 2.93% in Q3 FY '22 compared to 2.39% in Q2 FY '22.

Cost to income ratio has also improved by 660 bps to 51.67% in Q3 over Q2. Fee based income has increased by 10.2%. Return on equity improved by 7 basis points. Gross NPA stood at 12.88% that is a reduction of 75 bps sequentially on quarter-on-quarter compared to September '21. Net NPA stood at 4.9% that is a reduction of 59 bps compared to the position as on September '21. Provision Coverage Ratio excluding TWO has improved by 200 basis points to 65.17 in December'21 compared to September'21. Capital adequacy ratio has improved to 14.91%.

Now, here I am using the word clearly improvement, I would like to give a little more clarification here. The capital adequacy ratio stood in September was 15.20%. As you are aware,

the pension liability because of the new guideline earlier for the Bank, RBI has permitted them to amortize over a period of five years. Accordingly, our overall liability has been Rs. 3070 crore out of which one-fifth we have already debited to P&L, remaining amount has been kept for amortization in the next four-five years. However, the entire amount is required to be allocated for the taking the capital adequacy ratio, so roughly around 34 to 35 basis points are given which are allocated here. If you look at in adjusting the figure of 34 basis points to 14.91%, it will be 15.25%. There is an improvement over what was there at the September.

Second, retail credit has grown by 7.7%, Agri (PS) has grown by 6.2%, these are all year-on-year. MSME has grown by 4.1%. Domestic CASA share stood at 45.65%, there is an improvement of 99 basis points on YoY basis Savings has grown by 8.76% year-on-year. CASA has grown by 7.59% year-on-year and further in terms of the efficiency ratio as well, there has been an improvement in terms NIM, in terms of cost fund deposits and other ratios. The growth within the retail also we have seen good amount of growth in the housing loan, vehicle loan, personal loan, and gold loan. Composition of RAM has also increased from 51.8% to 54.3% at the end of the December '21, 250 bps year-on-year basis. In terms of Government related private sector lending all the requirements under regulatory have been met by us. In terms of profitability, the improvements you will observe on quarter-on-quarter basis.

In terms of year-on-year basis, there has been a reduction in terms of net interest income as well as operating profit predominantly because in December '20, NPA identification was not there for a period of nine months, NPA was identified only in the month of March as a result of which the accumulated position because of the interest what you call recognition and other things, the position was elevated at that time, though we have made provision, it was a provision under standard, but income was recognized, so Rs.23,000 crore of NPA has become in March '21 because of that reason, so that if you look at consideration, the comparative position is better represented on quarter-on-quarter basis.

With respect to asset quality in absolute terms as well, gross NPA stood at Rs.97,259 crore as against 1,00,291. In case of net NPA as well it has come down to Rs.33,879 crore as against Rs. 36,934 crore besides the reduction in the NPA ratios. We are very confident that the NPA ratios further will be reduced by March 2022 and even March 2023. The current GNPA of 12.88% at even a conservative level, we are very confident it will come down below 12% and in case of NNPA at 4.9%, we are expecting at a very conservative level less than 4.5%. In fact our endeavor has been to bring it below 4% by March '22 itself. In case of March '23, the further improvement will be there because there are many areas which in terms of transfer to NARCL or otherwise, they would have not taken place even if something happens before March it would be only TWO accounts, but in realistic sense more and more accounts could be transferred in the next financial year. There have been lot of initiatives we have take in terms of digitalization as well and even fintech related activities particularly for co-lending, we have entered into arrangement with four companies and as on today, even though traction is not there but we are expecting good amount of traction to move forward because we have done these things very recently. In terms of fintech usage for digital lending, this also we have tested on pilot basis in the last four to five months, and we have reviewed in terms of the parameters determinable for

preapproved lending that also we are expecting the traction to move up much better than the current quarter, but much more visible in the next financial year. These are the what you call preliminary observation from my side. In terms of the quarterly results what we have declared, now I will be open for to take questions from your side.

Moderator: Thank you very much, Sir. We will now begin the question and answer session. We have our first question from the line of Mahrukh Adajania, an analyst. Please go ahead.

Mahrukh Adajania: Sir, my first question is on your credit cost, why has it increased sequentially?

S. S. Mallikarjuna Rao: That is because we have done additional provisioning in some of the NPA accounts.

Mahrukh Adajania: So that is ageing based only?

S. S. Mallikarjuna Rao: No, much more than what is required from the relative perspective. I will be very clear, in one account we have provided very high, that is, SREI account.

Mahrukh Adajania: So you have made extra provisions there?

S. S. Mallikarjuna Rao: Extra provisions is there even though it is not required as per regulatory.

Mahrukh Adajania: Got it Sir, what would be your total provisioning on SREI right now?

S. S. Mallikarjuna Rao: 70%.

Mahrukh Adajania: Sir, the other question is what would be your outlook on loan growth, we have seen good traction this quarter, but going ahead?

S. S. Mallikarjuna Rao: You are absolutely right, if you look at the quarter-on-quarter growth it was at 2.66% which is much better if you compare with any other quarter in the past. This is because last time also if you remember when I have spoken in the analyst meet, we have created a good pipeline and it is just a matter of time for disbursement. In fact, this 2.66% also to certain extent is muted because Air India amount in the last week of December we have received 4000 crores in the standard category what you call repaid. As a result, it is muted to that extent, otherwise the growth would have been little even better and the pipeline is still there. As a result, our confidence is around 6% growth at the end of March '22. By March '23, it could be anything around between 8% to 10%, both we are envisaging.

Mahrukh Adajania: Sir, what is your outlook specifically on MSME, because there are lot of State-owned banks some are becoming again, have lent a lot to the MSME sector again in this quarter and we hear that there were some MSME schemes also, so while COVID would have impacted this sector, why is there a fresh round of lending aggression there again?

S. S. Mallikarjuna Rao: Fresh line of lending if you intrinsically look at that majority is only emergency line of credit. Even in our case also around Rs19,000 crores as on today has been sanctioned in the last one-

and-a-half years under the emergency line of credit to MSME. That is very important input for the MSME because they are going through tough time because of the COVID. With respect to stress in the segment if you look at under OTR-1 and OTR-2, the restructuring profile of our Bank has not been very high, it is together around Rs.18,000 crores and even if we look at understanding whether any amount of slippage has been there, it is also not very high, maximum is Rs.1000 to Rs.1100 crores is the slippage overall. In this quarter, it was only Rs.500 crores from the OTR-1, so majority of lending to MSME incremental has happened through emergency line of credit where Government guarantee is available and not only that they are all for the existing borrowers where the units are working. With respect to normal lending to MSME, there are green shoots where opportunities are there, but it has not been very aggressive as on today. If you look at our growth, it was only 4% growth in MSME 4.1% growth, but it can be much better in the next few quarters to come because investment by the private party in large corporate will also create impetus for ancillary industries and MSME segment.

Mahrukh Adajania: Sir, just in terms of asset quality, you did mention that you received 4000 crores of Air India, so would that be all, is the entire amount now received and how much provision did you reverse there? Even in terms of future that is classified still as SMA-2?

S. S. Mallikarjuna Rao: As far as Air India is concerned Rs. 4000 crores received in December and the residual amount of Rs. 900 crores received during the current month, so now it stands without any outstanding balance, it is zero from Air India side, because they have paid everything, they have taken over the account also from Government of India, so provision reversal has been there to the extent of around Rs. 400 crores in terms of Air India, more so in terms of the interest recognition. Together it is Rs. 1100 crores, provision and interest recovery together impact is around Rs.1100 crores, Rs.400 is interest recognition and remaining is the provision reversal.

Mahrukh Adajania: Sir, what is the status of Future Retail?

S. S. Mallikarjuna Rao: Future Retail it is a standard as on today because it is restructured account, but we are waiting for the situation. Now, they made default in terms of payment, they have approached the court intervention, we will wait and see. If required, that is not a very big huge outstanding, it is around Rs. 980 crores which we can take either way, there will not be any problem. In case if it has to become NPA, we can do that in the month of March and we can even provide adequately, 20% is already there as provision.

Moderator: Thank you. We have our next question from the line of Dev from Horse Power Securities. Please go ahead.

Dev: Good Evening Gentlemen, I want to ask you regarding this increase in gross NPA of around ₹ 4000, Rs 97,000 crores minus Rs. 94,000, if I am not mistaken, so what did lead the increase in this quarter suddenly?

S. S. Mallikarjuna Rao: There is no increase, where is the figure of Rs.94,000, earlier figure was Rs.1 lakh.

- Dev:** Sequentially earlier September quarter?
- S. S. Mallikarjuna Rao:** Rs.1,00,291 and it has come down to Rs. 97,259. Are you looking at year-on-year?
- Dev:** No, I am talking about sequentially, October?
- S. S. Mallikarjuna Rao:** It has come down.
- Dev:** Year-on-year also come down?
- S. S. Mallikarjuna Rao:** No, year-on-year what you are telling Rs.94,479, it is Rs.97,000. You need to be referring to March results where accumulation of nine months NPA identification because of Supreme Court judgment has happened where the NPA accretion was around 28,000 crores, that was the reason, that is why December '20 figures are not comparable. Sequentially, later on if you look at it has been a reversal in NPA.
- Dev:** The extra Rs.500 crores provision you declared on that NPA, you have provided for, this schedule you have provided in notes of accounts, you have shown the breakup that 500 plus crores has been provided excess, so that the excess portion is related to that Supreme Court judgment?
- S. S. Mallikarjuna Rao:** No, Supreme Court judgment has come in March only and that matter is closed there, already NPS has been identified. Extra provisioning is related to different factors for example as I have indicated earlier, we have done extra provisioning in case of SREI account even though the requirement is lower, we have made additional provision, and currently the provision coverage is 70% in terms of that account, so wherever there is a requirement we have provided additionally much more than what is required under regulatory requirement. If you are reading the notes on accounts of December '20, you may be finding this figure, this Rs. 500 crores was extra provided only for the sake of pro forma NPA, but not now, it is not related to December '21.
- Moderator:** Thank you. We have the next question from the line of Manas Pratim. Please go ahead.
- Manas Pratim:** Good Evening everyone, congratulations Sir on the wonderful numbers, what I wanted to ask you is how much of your NPAs have you transferred to NARCL and how much are you planning to in the near future as in by Q4 FY '22 and '23?
- S. S. Mallikarjuna Rao:** So far we have not transferred anything because NARCL is yet to take shape, originally identified was roughly around Rs. 8000 crores out of which more than 7500 crores was totally written off accounts, TWA accounts, however, after scrutiny by the NARCL and discussion IBA had with various banks, this amount will be transferred to them in two or three tranches. First tranche could be anything around Rs. 2200 to Rs. 2300 crores and the next tranche will be little more than Rs. 4000 to Rs. 5000 crores and the remaining out of the Rs. 8000 crores will be transferred in the third tranche. There is a delay in functioning because of anticipation of final approval from RBI. We are also waiting for the same, once it happens the transfers of the money can take place though the amount of transfer will not impact the balance sheet because there are

in the TWA, however, there can be a positive impact on the profitability based on the amount what we receive in the cash component of 15%.

Moderator: Thank you. We have the next question from the line of Aditya Ranjan Patnaik from HCL Capital. Please go ahead.

Aditya Ranjan Patnaik: My question is, how your asset allocation or distribution because currently near about 90% and above are below AAA etc.?

S. S. Mallikarjuna Rao: Rs. 100 crore and above we have given the details in the presentation at Page Number 11 and BBB and above it is 91.92%, and BB and below it is 5.86%, Unrated is 2.22% that is the status which we had been indicated.

Aditya Ranjan Patnaik: BB rated papers are increase in this quarter-on-quarter, do you think that how you increase further or you reduce this?

S. S. Mallikarjuna Rao: Increase that is better rated, 91%. It is because our consciously considering only AAA category and AA category, that is the reason why you will find. In AA margin will increase, AAA also marginal increase, but the better increase was there in AA, the reason is that we have reduced our exposure in BBB and below as a result of which you have found that difference, so there is a qualitative increase in terms of the higher rated advances above Rs. 100 crores and this will improve further as well.

Moderator: Thank you. We have the next question from the line of Sneha from Shubhkam Ventures. Please go ahead.

Sneha: Sir, two questions from my side just wanted to know considering how do we see the overall credit cost year on? Second question is and what is the outlook on the asset quality basically, what is the guidance on the slippages as well as how much we are expecting recoveries and upgrades going ahead?

S. S. Mallikarjuna Rao: Regarding overall credit cost if you look at currently we do not have any bigger stack to become NPA from the corporate segment, only from RAM segment whatever is coming it is coming, however, we wanted to strengthen the balance sheet effectively if there is an opportunity for increase in the provisioning. If you look at technically as well, the credit cost remaining for nine months at 1.72% at the end of December could have been lower as well if you look at provision requirement only compliant to the regulatory position, however, we have done additional provisioning as a result credit cost appears to be high in NPA accounts, but in reality it was within approach of strengthening the balance sheet particularly where I had given SREI, we have increased the provision up to 70% even we will do 100% by March depending upon the availability even at that time it appears to be higher provisioning in the NPA category where our such kind of requirement is there, but overall if you look at our guidance will remain 1.5% because we are very confident that the control on slippages will be there. If you have observed the slippage control, fresh slippage is also from March '21 onwards. In June it was more than

Rs. 8800 crores, in September it was Rs. 6800 crores whereas now it is around Rs. 3800, so there has been a very good improvement in asset quality, collections improvement has been there, so our guidance will remain around 1.5% in terms of the credit cost.

Asset quality is improving and you must have seen in terms of the percentage improvement in gross NPA as well as in net NPA, 12.88% gross NPA we are very confident at the conservative level by March '22 to bring it down below 12.88%, it will be below 12%. In case of net NPA as well currently is at 4.9%, it could be even we can try for below 4% even though the conservative target could be below 4.5% because we are seeing good amount of credit growth, good amount of recovery as a result of which there will be an impact on the gross and net NPA in a downward outstanding. In '22 and '23 also will be very good in terms of controlling the gross and net NPA ratios as well as improving the asset quality.

Sneha: Sir, when you mentioned about the growth, this growth is coming from which segment?

S. S. Mallikarjuna Rao: All segments Madam, generally quarter-to-quarter there may be a shift here and there. Particularly for the December quarter, there has been a shift towards RAM segment that is why the composition of RAM has improved to 54% from 51% year-on-year. In the month of October, we have launched a campaign focusing on segments particularly on RAM segment, retail, MSME, and agriculture by identifying certain clusters for MSME growth, so even though the growth percentage is 4.1%, there has been good amount of recovery as a result of which the fresh sanctions are muted, we have done even emergency line of credit in MSME sanctions. Corporate also we have grown well, we have sanctioned very well, but because of pressure of interest rate, some of the outstanding have been shifted from one Bank to the other and also there has been a recovery during the month of December to the extent of 6000 to 7000 crores expected in terms of the corporate including the Air India, which has little reduced the outstanding of the corporate. Otherwise, as a big Bank, large Bank, we look at every segment to grow that is great delivery to happen in every segment.

Sneha: How do you see the overall treasury income moving considering the yields remain elevated from your?

S. S. Mallikarjuna Rao: It will be reduced definitely, if you look at treasury income has gone down compared to year-on-year, in the current year also it has come down. September '21 it was 1048 crores and December now it is 614 crores, so it will remain. If you even closely observe or rather probably it may not be there in the presentation, as per RBI guidelines from HTM, we can sell up to 5% that is like a available amount which we did not do that. We have only used up to 1.4% still there is a 3.6% available which we will do in the next quarter that is current quarter. Even in March quarter as well we are confident of getting little over 500 to 600 crores in treasury, but in the next few months to come in next financial year, it will be muted, it will not be as high as what we were earning in the last one-and-a-half years because of firming up of the interest rates. Nevertheless, even we will have a control in MTM as well.

Sneha: How do you see the overall margins to be planning out for the current calendar year?

S. S. Mallikarjuna Rao: Margins, net interest margin has been under stress in the last one-and-a-half years because of the high liquidity pushing the interest rates low on credit, commensurate reduction did not take place in the deposit, that is the main reason across the banking industry and PNB is no exceptional. Now, coming for the future if you look at in December, we have improved our NIM to December quarter in isolation to 2.93% for 9M whereas overall it remained at 2.68% globally and domestically 2.75%, so by March also our NIM will be more than 2.75% overall that is at the minimum level what we are looking at, but in the next year definitely there will be an improvement. We would have been very happy to touch around 2.9% to 2.95%, which we can do it in the next year because we had very tough time during the last one-and-a-half years in terms of pressure on interest rates, which is slowly easing out because of RBI's policy of sucking the liquidity and firming up in the market in terms of the rates.

Sneha: Sir, last question is considering the growth, any plans to raise capital going ahead?

S. S. Mallikarjuna Rao: There is no requirement, if you look at our capital at the end of September it was 15.2%. As of March it is 14.91%, but I have given an explanation where upon 34 basis points we had allocated for unamortized figure of our pension liability as a result of which the capital ratio appears 14.91 otherwise in reality it could have been 15.25%. Against the approval what we have taken from the Board for raising Rs.6400 from the market, we have already done that, Rs. 2000 crores from Tier-2 and Rs. 4000 crores from AT1 bonds we have taken from the market, so as of now even for envisaging the credit growth between 8% to 10% during year 2022-23, the capital what we currently have is more than sufficient.

Sneha: Your view on any expectations from the budget?

S. S. Mallikarjuna Rao: Budget, I do not think capital allocation is one area that is probably if one or two banks require because of particularly the zero coupon capital what they had given where RBI has come out by reducing the net present value as a result of which capital adequacy has come down to couple of banks, in those cases probably Government may support, that is from the capital perspective. From otherwise banking perspective, I do not think any specific announcement could be there in the budget, but budget should what we expect is might continue on the declarations what they had done in the earlier budget related to allocation for infrastructure in terms of port segment, aviation segment, and road segment and also there are green shoots where probably private investment could come in industries, which did not happen even after tax reforms that can come from October 1, 2019, so these will give opportunity for increase the investment in industry and a result ancillary and MSME as a result job creation, so the challenge in front of the Government I believe which is even eloquently discussed in the public domain is job creation, probably they will be concentrating more on that area during this budget.

Sneha: Any worry on the restructured book that some of the accounts can slip into the NPA?

S. S. Mallikarjuna Rao: No, we do not have a worry, if you look at the restructured book itself is very low in our Bank compared to our debt outstanding. It is around Rs. 18,000 crores both together OTR-1 and OTR-2, and so far cumulatively, there has been a slippage of Rs. 1200 crores and in this quarter it is

only around Rs. 500 crores. We do not have very large concern in that area, collections have improved, ULIPs are doing well.

Moderator: Thank you. We have the next question from the line of Shashank Verma from Axis Mutual Fund. Please go ahead.

Shashank Verma: Sir, I had a couple of questions, first on this SMA-2 what will be the number for less than ₹ 5 crore account?

S. S. Mallikarjuna Rao: It is around Rs. 14,000 crores.

Shashank Verma: Okay, because last quarter this number used to be I think Rs. 7500 crores?

S. S. Mallikarjuna Rao: No, it was high, that was also last time Rs. 7500 is more than 5 crores. Today, it is less than Rs. 3000 crores. Last time we indicated Air India was there.

Shashank Verma: One thing Sir on your notes to account, there is this restructuring of MSME advances under that Feb '20 circular, the amount seems to have reduced from Rs. 2700 odd crores to Rs. 1200 odd crores, what will this reduction be on account of?

S. S. Mallikarjuna Rao: Some of the amount could be because of identification in NPA and some of them we have invoked, but then not implemented.

Shashank Verma: This amount either would have slipped or would be included in, this would have slipped right or it would have come back is what you are saying?

S. S. Mallikarjuna Rao: Not entire amount, if you are looking at an MSME what you call perspective, the slippage overall has been only Rs. 765 crores in the entire year. If you look at for the current quarter, it is around what you call 300 crores.

Shashank Verma: Sir, one last question from my side, on this ECLGS, so last you said that the number is Rs. 19,000 odd crores today, I think this was and correct me if I am wrong this was Rs. 14,000 crores last quarter, is it done now or is there something else which needs to be pending for implementation etc.?

S. S. Mallikarjuna Rao: There is no question of any implementation because in GECL, it is a matter of sanction and disbursement, so Rs. 19,000 crores overall disbursement is around Rs. 16,000 crores and the sanction is Rs. 19,114 crores, so recently if you look at various industry representatives have represented to RBI for extension of this time, we will have to wait and see. Otherwise, there is a good profile existing accounts where units are running, they needed the support which we have extended. As you rightly said, last time it was Rs. 14,000 crores.

Moderator: Thank you. We have the next question from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

- Abhijeet Sakhare:** Sir, first one is again a clarification on SMA-2, if I recall you said ex-Air India that number was Rs. 12,000 crores as of second quarter and you just said that number is now 14,000 crores, so has it actually increased excluding Air India?
- S. S. Mallikarjuna Rao:** It has decreased. The amount was high, last time also when we have given to you, it was above Rs.5 crores, including Air India it was almost Rs.7000 or 8000 crores at that time.
- Abhijeet Sakhare:** I was talking about the account including accounts less than 5 crores?
- S. S. Mallikarjuna Rao:** I do agree that is what I am saying, there is no increase, there is reduction, earlier it was much higher figure. SMA-2 December '21 is Rs.19,537 including everything that is put together 5 crore and above and 5 crore below, and whereas in September it was Rs.27,000 crores, there is a reduction of 8000 crores. There also where the collections have improved, if you look at the real slippage it was very low at the end of December, so going forward by March, this figure will be further reduced.
- Abhijeet Sakhare:** Sir, second question is on lending rates, we have an exhibit on the breakup across MCLR repo linked loans, so what would be average lending rates across these different benchmarks?
- S. S. Mallikarjuna Rao:** That data I will have to check and give it you properly. Overall we know, but then we can come back to you on this, we will look at in each category for example BPLR, MCLR, RLLR, these categories.
- Abhijeet Sakhare:** We are at 7.1% on an overall basis.
- S. S. Mallikarjuna Rao:** Correct.
- Abhijeet Sakhare:** What I was looking for is let us say how much higher is MCLR versus let us say repo, some of the other rates?
- S. S. Mallikarjuna Rao:** The only thing is you can have just guess on weighted average basis regarding the composition, but then we will calculate and then come back to you because if you look at the percentage, it is very high in terms of the MCLR at 44.7% in composition.
- Abhijeet Sakhare:** Sir, on this one is it possible to know what is the incremental lending rate that we are doing on the corporate side last couple of quarters?
- S. S. Mallikarjuna Rao:** Incremental lending rate at the corporate side is very low at this point of time, so at least it is better in the last one month because in December where RBI started VRRR, the price at which we were getting the rate when we are putting money with RBI was 3.97%, so that has bettered the position. Now, still lot of improvement is required, we are expecting that beyond after February, there would be a better improvement in the minimum level of lending for the incremental towards the corporate.

Abhijeet Sakhare: But do you expect that the transition away from MCLR would still put pressure on the overall lending rates even if the overall system level rates continue to go up?

S. S. Mallikarjuna Rao: It will be, the problem is high liquidity has got very unhealthy competition and shift towards other benchmark even other than RLLR, for example, G-SEC based and then treasury bill based, those rates are lower compared to the rates offered in MCLR and RLLR, so the shift towards that has been high if you compare even from March '21 onwards, so I expect this to continue for some more time. When the liquidity gets reduced all those things will get affected, then we will also be very careful in offering the rates under TB linked and then G-SEC linked.

Abhijeet Sakhare: Sir, last question is, are we expecting any sizeable recoveries on the corporate side in the next few quarters?

S. S. Mallikarjuna Rao: Not very bigger accounts are there except that SREI where our exposure is around Rs. 2300 crores, but we do not know when it will take some time, again Sintex is one case where we are expecting recovery, our exposure is roughly around Rs.1200 crores in that account and we can get good amount of recovery which is in the final stages. Our anticipation on NCLT is roughly around Rs.1000 crores recovery before March and non-NCLT, mid-corporate segment around Rs.2000 crores, and general recovery involving RAM and other things Rs.750 crores, so overall Rs.5000 crores recovery we are expecting by March '22 that is in Q4.

Moderator: Thank you. We have the next question from the line of Rahul Jain. Please go ahead.

Rahul Jain: Thank you for the opportunity, Sir I have two questions, so one what will be your outstanding non-specific provision as on December? Second is on the restructuring, so what is the outstanding restructure book including COVID 1.0, 2.0, MSME, and any other restructuring? Also on the slippages front, can you give us a breakup of segmental slippages, in the PPT you have show the fresh slippages break up, but overall including the debit in existing NPA account what is the total segmental breakup?

S. S. Mallikarjuna Rao: Coming to non-specific provisioning, it is not very high because whatever provisioning in standard advances and restructured standard advances and standard advances where the resolution is yet to take place in terms of RBI guidelines provisioning is required, we have done all the provision. If at all there is a provision excess done other than regulatory requirement, it is in NPA what we have done like I have already indicated in case, SREI we have increased the provisioning. There are couple of other accounts where we have increased the provision much more than required so that we can protect the balance sheet in a better manner in terms of the recoveries which we forth come in those accounts, so non-NPA category's specific provision other than this categories is not there. Restructured book is already I have indicated to you Rs.17,854 crore including OTR-1 and OTR-2. OTR-1 is Rs.5892 crore and OTR-2 is Rs.11,862 crore.

Moderator: Thank you. We have the next question from the line of Ankit Bans. Please go ahead.

Ankit Bansi: Good Afternoon Sir, my question is what are your targets of net NPA and gross NPA for Q4 and for the whole year?

S. S. Mallikarjuna Rao: Q4 it should be less than 12 for gross NPA and for net NPA very aggressively less than 4%.

Ankit Bansi: Sir, my next question will be I am seeing your results and seeing overall growth, but the shareholder value is not increasing, Sir what steps are you taking to increase the shareholder value, their positivity, how would keep the faith in the Company, how could you keep the positivity of the shareholders in the PNB?

S. S. Mallikarjuna Rao: See 50% of the answer to your question lies with you only and 50% with me, the reason is the more and more analytical understanding of our results and the kind of confidence shown by the analysts will get percolated into the market for any impetus on positivity to be created. Second reason was the public sector space share market has been topsy-turvy in the last so many months more than one-two years expect probably there are three scripts, State Bank of India, Bank of Baroda, and Canara Bank in the last one-and-a-half years there has been some stability in terms of the price frankly admitting before you. Now, coming to the role of ours, we will be working very hard henceforth because it is not that we have not worked very hard, there were occasions where our price has moderated very well, even it has gone cross ₹ 50 at some point of time in the last six months but again it has come down, so the kind of negative legacy which we have inherited from 2017-18 onwards, we are working towards shedding that very consciously, but it is taking time. Now if you clearly analyze the balance sheet, we do not have many skeletons in the board and large corporate segment, we are not seeing any slippages. Growth has been very steady. Capital we have improved over a period of time. Now, we have the capability to lend even to grow at 8% to 10%, so I expect that 2022-23 the growth is expected, the share market price also would improve.

The most important thing is when you talk about higher NPA at the same time it is an advantage for us that we can show good amount of recovery with 82% of provision coverage ratio including TWO and more than 60%, the recoveries will go towards increasing the profitability, so strong areas we would like to embark on talking to the people by showing the results, so that we can improve the market price. If you look at the guidance what we had given in the last one-and-a-half years in terms of profitability and other areas, we have achieved that. 20-21 we gave a guidance of Rs.2000 crores we have done, 21-22 we gave a guidance of profitability, profit between Rs.4000 to Rs.5000 crores already for nine months we have achieved Rs.3250 and our profit could be even more than Rs.4000 crores and touching Rs.5000 crores by March, so we are achieving what we are giving the guidance, it is just a matter of analytical understanding of our balance sheet and positivity coming into the market, 50% or more on the analyst side and on our side as well whatever responsibility is there, we will take it forward.

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

- Jai Mundhra:** Sir, I have couple of questions, first is on ECLGS, so the quantum has increased by around if I look at quarter-on-quarter it has increased rather sharply by around 30% to this number that we have shown in presentation, is it fair to assume that you have given loans to the people because the scheme was liberalized, so ECLGS 1.0, it was extended by one more year and could have disbursed additionally 10%, so a large proportion would have gone there, is this is the right understanding?
- S. S. Mallikarjuna Rao:** No, I do not like to subscribe to the view that it was liberalized, it is more canvas has been increased, more coverage has come. Earlier some of the people genuinely requiring the GECL were not eligible. If you look at successfully GECL 1.0, 2.0, 3.0, 4.0, it is more of covering more and more MSME borrowers rather than liberalizing the determining factors for selecting them, so that way the amount of sanction what we have increased is more attributable to what GECL canvas increase in covering more accounts, for example, this tourism industry and then other industry and even amount beyond going Rs.50 crores, Rs. 00 crores, these are all the reasons why we have increased, quality is very good, absolutely there is no problem.
- Jai Mundhra:** Second Sir, you had given the total of restructuring book of around Rs.17,850 crores, if you have the breakup into corporate, retail, agri, and MSME maybe, if you have that breakup?
- S. S. Mallikarjuna Rao:** In OTR-1, it was Rs.5892 overall, which comprises Rs.652 crores from MSME category and corporate category is Rs.4777, personal loan Rs.459 crores, and others are Rs.4 crores, that is related to OTR-1. In terms of OTR-2, it is personal Rs.4933 crores, small business Rs.1056, MSME 5873, whereas corporate was not there in OTR-2, so total OTR-2 was Rs.11,862 crores, OTR-1 was Rs.5892 crores. If you want a combined figure, corporate remains Rs.4777 crores, MSME is Rs.6400 crores, personal segment is Rs.5400 crores, small business is around Rs.1100 crores, that is the position.
- Jai Mundhra:** Sir, if I were to include this MSME the earlier scheme of MSME, it is over and above this, right?
- S. S. Mallikarjuna Rao:** Absolutely, that was Rs.4500 crores. Before OTR-1, the restructuring what we have done under MSME if I remember exactly it is Rs.4500 crores.
- Jai Mundhra:** Right, but that number has come down?
- S. S. Mallikarjuna Rao:** That has come down, correct, you are right.
- Jai Mundhra:** So whatever is the outstanding, I should be just adding on top of this number?
- S. S. Mallikarjuna Rao:** Correct.
- Jai Mundhra:** There is no erstwhile SDR or those accounts right?
- S. S. Mallikarjuna Rao:** No, nothing is there.
- Jai Mundhra:** Sir, have you completed the divergence exercise for previous financial year?

- S. S. Mallikarjuna Rao:** March '21 they are yet to give the report, but March '20 it is already done. We do not expect anything, even in case of one account where non-funded facility also we have done the provisioning.
- Jai Mundhra:** One Bank had showed, IDBI had showed some divergence, they have reported some NPA in their divergence?
- S. S. Mallikarjuna Rao:** They must have received the report.
- Jai Mundhra:** Sir, do you have the breakup of the slippages like Rs.3000 crores or Rs.3400 crores kind of a slippages?
- S. S. Mallikarjuna Rao:** Retail Rs.704 crores, agriculture Rs.903 crores, MSME Rs.1480 crores, and others Rs.344 crores.
- Jai Mundhra:** Sir, last question if I see your AFS duration, in the presentation it looks like your AFS duration has gone up versus last quarter, so just wanted to check probably likely hardening yield environment, why do you want to position that way, it looks like or is this right reading or no?
- Management:** Currently, investment profile TV01 is around Rs.10 crores. Every 1 bps hike in the interest rate, the impact would be around 10 crores.
- Jai Mundhra:** If I look at Slide 14 wherein you have the given the AFS and HFT duration from 2.38% it has become 2.71%, and your AFS has also increased slightly, so would this be a very aggressive treasury stance in case depending on whatever happens to the rate, you have made your portfolio more aggressive in that sense, whichever way cycle turns?
- S. S. Mallikarjuna Rao:** If you look at here, there is one difference, for example when the interest deduction scenario, when you are booking the profits, you may not be acquiring the assets at that point of time considering that it may not be viable, whereas when the rates are firming up you may look at an opportunity for acquiring so it could be a balance factor which would have come to represent the position of 2.71% from 2.38%, but it is not a trend, what I would like to say is it is not a trend.
- Moderator:** Thank you. We have the next question from the line of Ashok Ajmera from Ajcon Global Services. Please go ahead.
- Ashok Ajmera:** Thank you for giving me this opportunity and congratulations and compliments to you Mr. Mallikarjuna, as a signing off you have given the excellent of the numbers as we were very much disappointed during the last quarter I think the results were not up to the expectation, but this time, there is a lot of improvement on the overall operating profit side, net profit side, provisioning, improvement in the asset quality, so my compliments to you, and we Welcome the new MD and CEO coming in from February 1st Atulji and all the best to you.
- S. S. Mallikarjuna Rao:** Thank you.

- Ashok Ajmera:** Sir, having said that I have got some, one is that small data number calculation, if you look at our advance figures it is Rs.692,807 crores in the balance sheet and your advances total is Rs.755,306 crore, so if you take out the non-provided figures the gap between the gross NPA and net NPA, then there is a difference of RS. 880 crores, can I know in which account this Rs.880 crores is lying or?
- S. S. Mallikarjuna Rao:** How you are calculating Rs.692 crores, our advances figure is Rs.755,306 crores.
- Ashok Ajmera:** Yes, what I am telling that Rs.692,807 crores is your balance sheet advances figure, the difference between the gross NPA and net NPA Rs. 63,379 crores, so it becomes total of Rs.756,186 crores which should have been your advances number, but it is Rs.755,306 crores, so there is a gap of Rs. 880 crores?
- S. S. Mallikarjuna Rao:** I am not able to get the point, however, we will look at. What calculation we have done we will just verify that, how it could be gap of Rs.880 crores.
- Ashok Ajmera:** Okay Sir, because point is very clear, the gap between the gross NPA and net NPA and the balance sheet advances to be added and that should be your advances figure, global advance, this is I will leave it for the calculation and coming back somebody CFO, Mr. D.K. Jain, can come back to me on that. Sir, I have also an observation that when the amortization of the revision of the family pension, you have done as per the RBI rule of only providing Rs.619 crores and leaving the balance of Rs.2475 crores, what was the need for the auditor to put it as an emphasis matter because that way there are many circulars of RBI and if they are provided for properly, the provisions are followed there is no need of any emphasis on that particular point?
- S. S. Mallikarjuna Rao:** What happens generally these people follow how the results are declared for other banks? If at any other Bank they show as an emphasis matter, they will also insist. It is like innocuous observation because it is as per the dispensation given by the RBI.
- Ashok Ajmera:** Yes of course, some banks like Canara Bank has provided for the entire five years in this year only, this quarter only, so that is a different thing, but even if you have followed, anyway this is also another point for the CFO.
- S. S. Mallikarjuna Rao:** I have taken note of this, in fact what you call a better, what we have decided this time is to provide for NPA accounts in a higher level rather than required that is what we have done, but in the days to come or months to come, quarters to come if it permits we may do aggressively what you call allocation from the even dispensation liability though we may not keep for five years as dispensation given by RBI.
- Ashok Ajmera:** Sir, I have no problem with your providing as per RBI, when you have followed something as per RBI circular, there is no need for emphasis on that particular point, that is what is my point.
- S. S. Mallikarjuna Rao:** Correct.

- Ashok Ajmera:** My another point is Sir NPA to a transfer of Rs.2421 crores where you have done the reversal of the provision of Rs.860 crores, what is the total reversal in this quarter overall of the provisions on any such accounts?
- S. S. Mallikarjuna Rao:** We have not transferred to NARCL.
- Ashok Ajmera:** Sir, there is a drop in the aviation advances from I think Rs. 6462 crores to Rs.1883, this drop is...?
- S. S. Mallikarjuna Rao:** Air India Rs.4000 crores has been paid.
- Ashok Ajmera:** Sir, looking at your advances growth trend, advances of the NBFCs are growing Rs.89,000 crore to Rs.92,000 crore and also you are growing into the, I think little bit of a real estate sector, whether this trend is going to continue, you have still out of your sectoral allocation is still available for NBFCs to be given?
- S. S. Mallikarjuna Rao:** NBFC, our growth has been strictly in AAA and AA category, whatever incremental we have given from Rs.89,000 crore to Rs. 92,000 crores it is in AAA and AA category, we were very conscious of that. In NBFC always potential is available that we are very carefully moving in terms of the exposure. Our loan book is overall increasing the percentage wise NBFC also increases. There are other segments where we are looking for opportunity for lending, which will happen.
- Ashok Ajmera:** Point well taken, Sir in SREI you have done I think provision for almost about 70% now, 40 plus 30, is there any specific reason because do you feel that the recoveries will not be even 30%-40% or 50%, why you are not so aggressive?
- S. S. Mallikarjuna Rao:** That is not the reason, the reason is providing is once it is settled we will get the write back. If you look at many of the accounts where we do provide 100% instead of waiting for the RBI ageing process, we have done earlier than that, it is nothing to do with the expected recovery in the account. We always want to have write back once the settlement takes place.
- Ashok Ajmera:** Sir, next is on the SR, Rs.1767 crores of SR under the various categories and rated and finally some figure is non-rated because beyond certain year, you do not require rating, how much provision have we made against this SR?
- Management:** 90% is the provision, 2017 onwards entire SRs have been fully provided for and earlier to that close to 80% have been provided for, overall it comes to 90%.
- Ashok Ajmera:** Sir, on the profitability front on the segment wise if you see, your treasury has given the profit of Rs.2023 crores the treasury income and the trading profit is Rs.614 crores and even if you take even the last quarter also of Rs.2441 crores and Rs.1049 crores of dealing trading profits, it only amounts to about 2.77% to 3.37% on the amount invested on the treasury, which is Rs.379,761 crore, so do you feel that this kind of between 2.75 to 3.3 from the treasury is a good enough amount and the money to remain invested into the treasury asset?

Management: Mr. Ajmera you have to take into account the interest on investment also, interest on investment and the trading profit both taken you have to arrive at the return on the investment, you are taking the trading profit in isolation.

Ashok Ajmera: No and also the income from treasury?

Management: Yes, you have to add out of some interest income, you should take interest on investment and then...

Ashok Ajmera: What could be the total on this Rs.379,000 crore ?

Management: The return on treasury is 6.24%.

Moderator: Thank you. Ladies and Gentlemen, that was our last question. I now hand the conference over to Mr. Suraj Das for closing comments.

Suraj Das: Thank you. On behalf of Batlivala & Karani Securities, we thank Punjab National Bank Management for giving us the opportunity to host the call. Thank you everyone and have a good day.

Moderator: Thank you. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.