



# “Punjab National Bank Q1 FY-21 Earnings Conference Call”

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**MODERATOR:** **MR. BHAVIK SHAH – BATLIVALA & KARANI  
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**Moderator:** Ladies and gentlemen good day and welcome to the Punjab National Bank Q1 FY21 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. Participation in this conference call 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 from Punjab National Bank is imperative. Please note that this call is only for investor and analyst. I now hand the conference over to Mr. Bhavik Shah from B&K Securities. Thank you and over to you sir.

**Bhavik Shah:** Thanks operator. Good afternoon everyone and thanks for joining the call. On behalf of Batlivala & Karani Securities, we welcome you all to Punjab National Bank 1Q FY21 post results conference call. We have with us today the management of Punjab National Bank represented by Mr. CH S.S. Mallikarjuna Rao – MD and CEO, Dr. R.K. Yaduvanshi – Executive Director, Mr. Sanjay Kumar – Executive Director, Mr. Vijay Dube – Executive Director, Mr. A.K. Azad – Executive Director and other senior officers. I will now request MD & CEO sir to start the call with his opening remarks on 1Q FY21 results, post which we can start the Q&A session. Over to you sir.

**S.S. Mallikarjuna Rao:** Good afternoon once again to all of you. At the outset I would like to welcome on behalf of Punjab National Bank for this conference call involving the analysts. With respect to the results what we have declared for June 2020 while all the details are in the public domain by way of listing details and as well as the presentation, still I would like to take a few minutes by giving you the highlights of the performance and leave the forum open for the questions.

With respect to domestic deposit, there is a growth of 3% moving to Rs 10,44,290 crore domestic advances have grown by 1%, almost flat. Domestic business overall has grown by 2.2%. CRAR stood at 12.63% at the end of June 2020, CASA has grown by 10.1% on year-on-year basis out of which savings itself have grown by 11%, retail credit has grown by 4.2%, housing loan grew by 6.22%, operating profit grew by 2.5%, net profit for the quarter end stood at 308 crores and the noninterest income has grown by 7.9%. If you look at NPA, gross NPA ratio stood at 14.11%, net NPA ratio 5.39%. Provision coverage ratio has moved to 80.75% as at the end of June 2020. These are the major areas of our performance.

With respect to any other queries now I open the forum for discussion.

**Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line of Mahrukh Adajania from Elara Capital.

**Mahrukh Adajania:** I had a few questions, firstly just in terms of slippages and restructuring—I know that it's a volatile environment—but what would be your best guess for full year slippage and for the onetime restructuring for FY21?

**S.S. Mallikarjuna Rao:** Any question further or shall I reply to this question?

**Mahrukh Adajania:** I have other questions on the ECLGS scheme, but I can take that up after this.

**S.S. Mallikarjuna Rao:** So on restructuring and the slippage, both are different because restructuring once you undertake there is no slippage—accounts will not be slipping—so our estimate at this point of time is only guesstimate because we await the outcome of the covenants to be decided by KV Kamath Committee in terms of the accounts which are having 100 crores and above. However, we anticipate that roughly around 5% to 6% of the credit book may be going under restructuring. That is the overall whatever estimate we are having as on today, but it will be crystallized by end of September once we receive the guidelines from them. In terms of MSME, in terms of retail, it is clearly visible to us with respect to restructuring because of the RBI guidelines which are clear. We are also working on identifying them because we may not offer restructuring in terms of personal loans to everybody because majority of the housing loans are personal loans to government employees, specifically to PNB. So, the repayment is already happening, so may not be any requirement of restructuring there. However, they may require moratorium which anyway is available as per RBI guidelines, and they will be paying at the end of the repayment schedule. So that is related to restructuring. The overall estimate is 5% to 6% of the loan book.

With respect to slippage, the slippage what you have seen by June stood at 1917 crores, so roughly could be around 8000 to 10,000 crores slippage what we can anticipate during the year end March 21. This amount covers those accounts which are not permitted for restructuring more importantly, some of the accounts where stress maybe there and some of the accounts in the corporate book because of covenants we may not be able to offer restructuring, there may be possibility of slippage though individual verification will be cleared by September end. We are estimating that there could be anything around 8,000 to 10,000 crores. So that is our estimate for both the things.

**Mahrukh Adajania:** Basically, in terms of restructuring how much of retail do you think would get restructured—I know it's mostly housing—but that again would be 6% to 7% only?

**S.S. Mallikarjuna Rao:** It would be even less than that. Our majority of the housing profile with the moratorium doesn't constitute the restructuring.

**Mahrukh Adajania:** What I'm saying is that you may extend the moratorium after the moratorium ends through the one-time restructuring, so that will be counted as restructured or not?

- S.S. Mallikarjuna Rao:** Absolutely, if we are extending the moratorium it will be restructuring. That profile (overall restructuring) may not be very high. It could be anything around 5% to 6%.
- Mahrukh Adajania:** Under the MSME scheme you will restructure, is it?
- S.S. Mallikarjuna Rao:** Yes, MSME that window is different. As you are aware there has been a window available from RBI for the last one-year and the covenants are also different, standard SMA-012 are all eligible as on 29<sup>th</sup> of February, 2020. So those accounts also we are identifying but then account should be ongoing account. There are certain other factors which verify. But there also it will not be very high because already NPA ratio in MSME is around 14.8% currently. So maybe another 5% to 8% would be the profile where we may undertake restructuring.
- Mahrukh Adajania:** And this is even after the ECLGS Scheme, so even after you have got additional funding or these....
- S.S. Mallikarjuna Rao:** That is the reason why the scope is very limited because whatever the stress they had we already funded them. One is 10% funding we have given initially and then 20% has come by way of government guarantee credit. So naturally the possibility of restructuring in MSME accounts is very-very less.
- Mahrukh Adajania:** Coming back to restructuring again, in corporate we know what sectors have been stressed by COVID like hotel, tourism, airport, aviation. But other than that, do you think other sectors in the corporate segment will also get restructured like earlier before the discount scheme actually came into play people were worried that a few more power accounts could get restructured, is that a risk now any longer?
- S.S. Mallikarjuna Rao:** I don't see, the first thing is that in the aviation sector, there will be an impact but then aviation our exposure is restricted to one standard account of the Government of India, other one is already NPA, Jet Airways, so the question of restructuring does not arise there. The other sectors where PNB will be having little amount would be the hospitality segment, then tourism industry. These are all the areas where probably restructuring is to be undertaken. Aviation we are ruling out, we don't have many bigger accounts, only small account is there, so restructuring is not an issue. Tourism and hospitality segment, further there may be industrial accounts where there could be problem depending upon the dependency on the labor. If it is a high labor intensive industry it may take longer time for coming back. When I say longer time, it may not happen from October but may take another 5 to 6 month's time. So, depending upon the industry we will have to go about it.
- Mahrukh Adajania:** And in the ECLGS Scheme, the government has outlined 3 trillion but as of early August, the sanctions were only 1.5 trillion and they have risen a bit more now. So why is the off-take so weak as in its such a good scheme that banks has zero risk weight, for the borrowers the rates are low to one thought that this entire thing would be used up soon so that the borrowers can

be refinanced at the lower rate so your risk is lower plus you have zero risk weight, so risk adjusted returns are also high.

**S.S. Mallikarjuna Rao:** Correct, the fundamental point is 3 lakh crores estimate was a generic bird's eye view estimate at the government level when it got drilled down to identifying the accounts for example as on 29<sup>th</sup> of February the eligibility is up to 25 crores, 20% of which can be given. Now 25 crores when we estimate at bird's eye view have happened, data collected from the banks. But the same borrower having exposure in multiple banks crossing about 25 crores was not eligible at that point of time. So, in reality when we went ahead for implementation there was lot of change. That is one reason. That is regarding eligibility. Second reason is MSME contains three categories, micro, small and medium. Many of the people have got the sanctions or probably they were not willing to have the sanction. Those who have got the sanction also have not utilized it. The reason is they wanted to wait for the operating cycle to start and then only they wanted to take, so these are the two major reasons. The first reason in order to overcome, the government has enhanced the eligibility to now 50 crores, so up to 50 crores accounts will be eligible now. Again, we are embarking on reaching out to the customers for sanctioning to them. As you rightly said it is a very good scheme where risk weighted assets, risk weight is zero, government guarantee is there, pricing is also very low. We are offering it 7.5%. So, there is no reason why borrower should not take. But there are genuine reasons why borrowers are waiting for availing the money until they get the operating cycle start. So, we expect somewhere from October onwards the availment will start where we have sanctioned, and the further sanctions will be improved since they have increased the amount upto 50 crores.

**Mahrukh Adajania:** What is the total sanction and disbursements right now?

**S.S. Mallikarjuna Rao:** At our end?

**Mahrukh Adajania:** Yes.

**S.S. Mallikarjuna Rao:** It is 10,000 crores and 8000 crores is the disbursement.

**Moderator:** The next question is from Jayant from Credit Suisse.

**Jayant:** I wanted to know on the provisioning, we have taken around Rs. 48 billion this quarter whereas the slippages were lower and the provision coverage QOQ seems not much gone up; can you explain the provisioning this quarter?

**S.S. Mallikarjuna Rao:** Provisioning has been there this quarter also, provisioning we have shown 4000 crores, the amount of total provisioning what we have done in Q1 of the current financial year, 4836 crores we have done the provisioning in the current year. Now 4836 also includes the provisioning related to fraud of the last one and this one, if you remember last year on the notes on account 766 crores was the amount which was deferred to be provided out of which

704 crores we have done in this quarter, only 59 crores is now deferred to be done in September. Similarly, this quarter we have identified around 1600 crores provisioning is required in the fraud accounts where we have done around 425 crores, remaining we will be doing in the next quarter. So, provision coverage is there. The ratio has improved. If you're looking at quarter-on-quarter, the provision coverage ratio has gone up from 77% to 80%. What was the other question?

**Jayant:** So basically, even if I take this 700 and 400 that will be roughly 1100 crores, still that 4800 crores number is slightly higher or is it ageing provisions kicking in?

**S.S. Mallikarjuna Rao:** Yes, ageing provision is there.

**Jayant:** How much would be ageing provision?

**S.S. Mallikarjuna Rao:** That is almost 2800 crores to 3000 crores.

**Jayant:** Lastly on the net worth, can you just give a little walk through on your net worth during the merger and post, a sickly how is the CET-1 moved from a standalone 10.6 to right now we are at 9.4, so if you can just explain a little walk through, how much was it harmonization and how much was it routed through net worth and P&L?

**S.S. Mallikarjuna Rao:** Before coming to that, there was a provision of 1000 crores held for COVID which is not counted in the provision coverage ratio. Now coming back on the CRAR, CRAR for PNB 1.0 alone stood at 14.04% if you remember for March and as of 1<sup>st</sup> April it has come down to 12.32%. 12.32% because of the accumulated loss has been adjusted and the figure is taken forward. CET-1 as on 1<sup>st</sup> of April has come to 9.17% whereas it was around 10.25%, it was more than 10% in 31<sup>st</sup> March for PNB standalone. Now in June the CRAR has come to 12.63%, there is an increase of 30 basis points, purely because of two reasons. One reason is reduction in risk weighted assets because of reduction in credit outstanding, secondly that 700 crores which was debited in the March to reserves account that the fraud provisioning. Now that is debited to P&L and the reserves have been restored, so there is a 10 basis points increase because of that reason.

**Jayant:** And 4Q the absolute amount that you routed through net worth for harmonization was how much?

**S.S. Mallikarjuna Rao:** I will just come back; you can continue with your other questions.

**Jayant:** This was the last question.

**Moderator:** The next question is from Rahul Nandwani.

- Rahul Nandwani:** If I look at your SMA-2 positioning, from March to June it has declined, so is this due to repayments?
- S.S. Mallikarjuna Rao:** No that is repayment only. The major one was in March Air India was there in SMA-2, now it is SMA-0, so that is where reduction. 17,000 crores were there in March, now it has come down to 10,000 crores. Air India is around 4000 crores.
- Rahul Nandwani:** For Q2 how much do you expect slippages from SMA-2 book?
- S.S. Mallikarjuna Rao:** SMA-2 book could be around 2000 crores, not more than that.
- Rahul Nandwani:** Rest will be repaid?
- S.S. Mallikarjuna Rao:** Yes, I'm expecting roughly 2000 crores per quarter. That is why I gave an estimate of anything between 8000 to 10,000 crores slippage.
- Rahul Nandwani:** And how do you look at the Morat number, it is still high as compared to your private sector banks?
- S.S. Mallikarjuna Rao:** Which number?
- Rahul Nandwani:** Moratorium. So, it's at 29%, on the overall book?
- S.S. Mallikarjuna Rao:** That is at the end of June, whereas by 31<sup>st</sup> July it has come down 20%-21%.
- Rahul Nandwani:** Segment wise it is more or less the same as on June?
- S.S. Mallikarjuna Rao:** Segment wise if you look at MSME, it is around 37%-35%, corporate and others around 25%-26%, in fact in retail it is less and retail it could be around 18% by 31<sup>st</sup> of July, agriculture again around 32% is there.
- Rahul Nandwani:** And inaudible to you see that trend improving further?
- S.S. Mallikarjuna Rao:** Yes, there is an improvement. Mostly in the moratorium book if the things can be settled to a greater extent with the moratorium only, so there won't be requirement of restructuring, only in corporate and MSME we will have to see for restructuring. Retail impact will be very less.
- Rahul Nandwani:** For retail the restructuring would mean only extension of the time period?
- S.S. Mallikarjuna Rao:** Correct but if you are extending beyond six months of moratorium it tantamount to restructuring.
- Rahul Nandwani:** That one year under that scheme which....

- S.S. Mallikarjuna Rao:** Correct.
- Moderator:** The next question is from Amit Jain from Axis Capital.
- Amit Jain:** I have a question on your borrowings, on 1<sup>st</sup> of April you reported the borrowings of somewhere close to 66,000 whereas in June there has been a sharp decline, so just wanted to understand what is the led to that decline?
- S.S. Mallikarjuna Rao:** 1<sup>st</sup> April what is that we have shown, borrowing?
- Amit Jain:** Yes, I think it was close to 66,000.
- S.S. Mallikarjuna Rao:** I will just check and tell you. Probably it is because of the three interbank transaction amount also, maybe included there because 30<sup>th</sup> June that would have been nullified. I will just check and comeback to you during the time, any other question?
- Amit Jain:** No that's it.
- Moderator:** The next question is from Akshay Ashok from Dalal & Broacha Stock Broking.
- Akshay Ashok:** Are you planning to float any onetime settlement scheme for this current year or are you waiting for all the restructuring, all the modalities and all to be finished? After this amalgamation has it helped in recovery better because now there maybe some common accounts and other things, so has it helped in recovery because the amalgamation is now complete, has the recovery become better and are you looking at any co-origination of loans with some NBFCs going forward?
- S.S. Mallikarjuna Rao:** First question what was that, I missed out? Yes, OTS scheme is already is there with us. In fact, all the OTS approvals what we had given up to 31<sup>st</sup> of March because of COVID we have extended time suo moto in order to give them opportunity to make the payment and we have given time up to 30<sup>th</sup> of September. So, we are expecting recoveries from those OTS proposals we will be following individually. Though the special OTS scheme keeping in mind the current requirement to hasten the process, we are approaching the board by this month end to get the approval so that it will be open from September onwards. And as you rightly said in terms of common accounts, the approach remains the same because effect need not be multiple, it will be only single effect from the PNB 2.0 that is amalgamated entity. There will be definitely tough time for us to move for recovery, it all depends upon the economic recovery and the position of betterment of the stressed assets what they see. However, NCLT cases are there which are in the final stages, some of them, one or two cases are there in the Supreme Court. So, we are expecting from NCLT alone the recovery should be around 8000 crores before the Q4 then we are also expecting other recoveries to be equal amount. So, anything around 15,000 to 16,000 crores is our target to recover but how it pans out we will have to see. We are gearing up because we have already restructured the entire organization



recently and we have created verticals for exclusively recovery down the line up to circle officer, so they have started functioning very recently. So, we expect good amount of results out of these organize restructuring in terms of recoveries.

- Akshay Ashok:** And above this co-origination, are you planning with any NBFCs?
- S.S. Mallikarjuna Rao:** We have plans; we already have arrangement with some company but did not take up because of COVID. We are very focused on that for undertaking co-origination.
- Moderator:** The next question is from Sushil from Indus Equity.
- Sushil:** First question, your outlook on treasury, NIM, cost to income?
- S.S. Mallikarjuna Rao:** Outlook on treasury, if you have seen what we have got the profit was 1308 crores by June and the opportunity if at all it is there it will be there up to only September and because already we have seen bond market firming up. On Friday it has gone up by almost 11 basis points and today again it has gone there. We still have good amount of book where profit can be booked, so our estimate for September will be another 700 to 800 crores apart from what we have booked in June that is 1300 crores, so it would be anything between 2000 to 2100 crores will be H1 profit as far as some treasury is concerned. Whereas in the H2, we don't expect anything more than both quarters together 500 crores. That is the treasury estimate for us. So overall it will be around 2600 crores.
- Sushil:** What is your estimate on NIM?
- S.S. Mallikarjuna Rao:** NIM currently we are at 2.59 and it will be anything between 2.4 to 2.5 because provisioning may increase but NIM will not be impacted. So, the earning capability of the bank in terms of the advances, disbursed or average advances, so remaining moderate as per our estimate we expect NIM to remain between 2.4 to 2.5.
- Sushil:** Where do you see the cost to income stabilize thanks to the merger now?
- S.S. Mallikarjuna Rao:** Cost to income has already come down a little bit if you compare it year-on-year stop so it is around 42%-43% if I remember exactly and it will remain there only because the real impact will start after 6 to 7 months.
- Sushil:** But based on the impact let's assume that it starts from 1<sup>st</sup> October or maybe 1<sup>st</sup> January?
- S.S. Mallikarjuna Rao:** 1<sup>st</sup> January, cost to income ratio now currently we are at 49.41 at this point of time. The benefit will start coming from 1<sup>st</sup> of January.

- Sushil:** Now the assets which PNB and OBC have in terms of branches, headquarters, so PNB's headquarters is pretty close to OBC current head-quarter. There are very many assets which may be replicating each other, so what's the plan on those?
- S.S. Mallikarjuna Rao:** No, we have already identified certain assets while specifically OBC head-office we will be retaining but if you are aware in Bhikaji Cama we were having an old head-office that we have already identified for sale and one floor was already sold and other things are in the line. So, we have identified quite a good number of assets worth 500 crores to be this was before 31<sup>st</sup> of March, 2021.
- Sushil:** What about the common ownership and other assets like insurance and other?
- S.S. Mallikarjuna Rao:** No, insurance we have investment in two companies. One is PNB MetLife another is CHOICE, Canara HSBC Oriental Bank of Commerce. IRDA has given approval to hold both the companies. So, we are at this point of time during the current year we don't have any plan to sell any of our investment from these two companies.
- Sushil:** But this holding period is granted forever or it's for a particular...
- S.S. Mallikarjuna Rao:** As on today holding period is without any time limit.
- Sushil:** Now based on the current estimate between rural and urban economy, your presence in rural economy in northern India is far greater than any other bank.
- S.S. Mallikarjuna Rao:** North even East as well, East and Northeast is because of merger.
- Sushil:** So, can you give me some through puts what are you sensing from your customer base, how is that believing compared to the SME and large corporate?
- S.S. Mallikarjuna Rao:** We are expecting the higher demand from MSE rather, agriculture and MSE. We are concentrating on investment credit in agriculture, in terms of agriculture allied activities and food processing units across northern part of the country and eastern and northeastern part of the country. Government also has taken initiatives in terms of animal husbandry, in terms of Agri investment credit, so we are very focused in those areas because we expect good amount of demand from rural segment with respect to agriculture allied activities and investment credit in terms of particularly food processing. Second micro and small enterprises also the demand will increase while the medium enterprises segment will largely depend on how the large corporate segment demand will be moving ahead but micro and small I am expecting good amount of recovery in terms of the demand which again service will happen through rural and semi-urban branches.
- Sushil:** In the earlier question you said that integration between all the three entities, PNB, United and OBC should be over by the year and 2020. The previous call also had also asked you that have

we spent on digitization and some enablers where integration and new technology higher amount thanks to COVID then what we had budgeted?

**S.S. Mallikarjuna Rao:** Yes, actually after amalgamation one is technology integration which is an important thing otherwise business integration we have already done from 1<sup>st</sup> of April and human integration also we have finished in the months of July and August by transferring the people wherever required based on the organization restructuring. Coming to technology integration, simultaneously we have taken initiative in bringing technology in credit underwriting and credit approval. These two are simultaneously taken as an initiative which is in force, 50% of this segment will be covered from 1<sup>st</sup> of October, remaining segment will be covered from 1<sup>st</sup> of January in the quality. Simultaneously the integration of databases of those two branches also will be completed. So by March '21 while all technology related activities will be completed, in the process we have taken initiative in various technological upgradation whether it is related to early warning signal, fraud assessment area, risk assessment area, credit underwriting approval, all the initiatives have been taken which are concurrently running, by 31<sup>st</sup> of December 90% of the activities will be completed. We have also taken initiative in digital for digital lending. So that we are expecting it to start partially from 1<sup>st</sup> of October and effectively from 1<sup>st</sup> of January.

**Sushil:** Thanks for your personal touch-point where OBC was concerned and PNB integration; what are you sensing on human resource based on retirement or any other scheme which you are carrying out where future cost is concerned where human resource of the entire consolidated bank is concerned?

**S.S. Mallikarjuna Rao:** If you look at in the combined entity, our retirements in a year go more than 3000 in number. So, the people who retire, their cost is high at the retirement and the people who enter they enter at a low cost. So earlier also I was indicating cost to income ratio is expected to get moderated. It gets moderated over a period of time from 1<sup>st</sup> of January onwards while the employee strength is required to be maintained because of the business opportunities for the bank but in the next 2-3 years cost to income ratio will go down substantially.

**Sushil:** My last question, you made a new appointment at PNB Housing, Neeraj Vyas handing out to Hardayal and you have decided to infuse equity in the rights, so now do we have commitment from PNB that we would not be selling PNB Housing stake in next 2-3 years or it's a stopgap arrangement?

**S.S. Mallikarjuna Rao:** No I don't say stopgap arrangement, when we have taken a decision from the Board, it is with an object view of showing our commitment and seeing that the real evaluation of the company is much higher than what is being traded at this point of time. In fact, if you look at the results declared at the end of June, the capital adequacy ratio for PNB Housing Finance was almost 18% which is well above 15% mandatory from March '21 whereas as on today 14% is requirement. However, the capacity to garner the capital is also seen as one of the important factors by the analyst. That is the reason why we wanted to give a message to the market

saying that PNB's commitment to PNB Housing Finance is completely full and there is no question of any condition on that. So, we have taken the subject to approval from RBI to contribute around up to 600 crores since we are holding 32.62%. So naturally 1800 crores is the amount of capital the PNB Housing Finance is looking at. We are only waiting for the opportunities to be taken by company because we see that good amount of opportunities there for housing loans in the days to come.

**Sushil:** So, I conclude that PNB current management seems to be a constructive on the PNB price is concerned because in last 2 years various decisions have only destroyed the rise rather than anything else.

**S.S. Mallikarjuna Rao:** No, I don't like to say anything on that. But the kind of explanation I have given you which indicates because all the companies where PNB subsidiaries are there, PNB name is there, they're all brand is very critical and PNB brand is only driving them besides their capability to run the unit. So, we would like to see that all the companies go to a position where they are really valued.

**Moderator:** The next question is from Mahrukh Adajania from Elara Capital.

**Mahrukh Adajania:** When you were discussing your estimate or guesstimate for slippage, you did mention some weak NBFCs. So those would be the small ones or are there any big ones now?

**S.S. Mallikarjuna Rao:** No, big ones are not there, small ones only.

**Mahrukh Adajania:** Small ones as in I mean....

**S.S. Mallikarjuna Rao:** Of course there will be few smaller accounts where you see NBFCs as smaller segment and MFI; they don't have that much of capability to see the market position because they have extend a moratorium to their clientele whereas they are not permitted to have any restructuring. When they are not permitted to have the restructuring it is only matter of asset liability mismatch. Banks have come forward under the government guarantee scheme also to subscribe to their bonds. So, while all these measures are available to ensure liquidity at adequate level with these NBFCs one or two odd cases may come up. That is the reason why I indicated like that.

**Mahrukh Adajania:** So, these are MFI segments?

**S.S. Mallikarjuna Rao:** Maybe NBFCs as well. I'm not specifically saying unless we identify but we have only taken an estimate as to how the impact can happen.

**Mahrukh Adajania:** The breakdown of moratorium you gave was for June or July?

**S.S. Mallikarjuna Rao:** June, that is as of 30<sup>th</sup> June its 29.2% what we have given in the presentation, by July 31<sup>st</sup> it has come down to 20%.

**Moderator:** The next question is from Shashank Verma from Axis Capital Mutual Fund.

**Shashank Verma:** On this moratorium, do we segregate it on the basis of EMI received versus June? For instance when we say 20% at the end of July will these customers be who haven't paid any single EMI of the last 5 months?

**S.S. Mallikarjuna Rao:** Absolutely.

**Moderator:** The next question is from Deepak Kumar, an Individual Investor.

**Deepak Kumar:** What is the watch list for the bank and what is the adjusted book value if you take 50% of watch list as a NPA?

**S.S. Mallikarjuna Rao:** Watch list if you ask me in this year, I don't think you will find anything bigger than what SMA-2 we have mentioned that is 10,000 crores and not we have shown under SMA-2 10,641. Now only thing is we will have to wait and see up to September and once the Kamath Committee report comes, whether they are excluding any sectors which are under stress for restructuring and how it is going to pan out. Otherwise as on today if you ask me the estimate it is only 10,641 crores out of that major amount is in if you see agriculture 4595, MSME 3130 so the percentage in retail and other accounts, corporate is only 1900 so it is less. In MSME we may undertake restructuring but may not be entire amount so entire watch list hovers around 10,000 crores. That's why I estimated around 2000 crores to be slippage for Q2 and similar lines for Q3 and Q4.

**Deepak Kumar:** What is the adjusted book value as on today?

**S.S. Mallikarjuna Rao:** Adjusted book value for what?

**Deepak Kumar:** Suppose if I remove these 10,000 crores so you have given in the analyst presentation the book value as Rs. 83.

**S.S. Mallikarjuna Rao:** No, 83 is wrong actually. That was wrongly mentioned. It is Rs. 52. Adjusted net worth problem was there. Then again, we have published, corrected figure was published immediately. Probably that is why you would have got the... Now it is 53.18 correct figure is 53.18.

**Moderator:** Next question is from Jai Mundhra.

**Jai Mundhra:** First is on moratorium because lot of banks have different moratorium practices. So just wanted to understand even someone had asked that does this mean that all the moratorium

number that we have presented in the presentation, they have not paid any single EMI or if someone has taken moratorium but he keeps on paying something. Is that included in that number as well?

**S.S. Mallikarjuna Rao:** Anybody who has paid less than 2 installments, we have considered as person who has taken moratorium.

**Jai Mundhra:** And this is as of June sure sir?

**S.S. Mallikarjuna Rao:** Correct.

**Jai Mundhra:** How do you account for working capital moratorium?

**S.S. Mallikarjuna Rao:** That FITL, RBI has permitted to create Funded Interest Term Loan FITL which will have to be paid before 31<sup>st</sup> of March 2021. So, we will be carving out during the month of September. Up to 31<sup>st</sup> of August whatever interest is debited in the CC account where demand cannot be risen will be carved out separately so that outstanding will be under the limit and account can be operated effectively.

**Jai Mundhra:** No, I am asking this data of 29% is mainly for terms loan only, right?

**S.S. Mallikarjuna Rao:** Yes, it includes CC also; working capital also, overall book.

**Jai Mundhra:** Your guidance of 2% to 2.5% credit cost which roughly translates to 14,000 to 17,000 crores. Now does this include this 10% restructuring provision because...

**S.S. Mallikarjuna Rao:** Yes, I include that only because practically even though it is a provision under standard, we would like to include that as well. Considering that only I told otherwise above 8000 crores, whatever slippages will be there, those provisions may not be that much higher.

**Jai Mundhra:** And corollary to that if you would have calculated the ageing provisions assuming nothing happens let's say no recovery happens then what would be the ageing provisions that you would be required for the next 3 quarters?

**S.S. Mallikarjuna Rao:** The fraud provision itself is around 1200 crores is still pending which is to be done in the next few quarters. In notes on accounts we have already given in the 1600 crores, we have provided for 25 fresh accounts and remaining is there and ageing provision will also be there in the next few quarters to come. That could be anything around 1500 to 2000 crores per quarter.

**Jai Mundhra:** And last clarification, thanks for a lot of clarification, lot of data points in this presentation. The BB and below book that we have showed in the slide #16 right, these 22,006 crores; this is the breakup of standard loans only, right? BB and below 40,000?

- S.S. Mallikarjuna Rao:** Correct.
- Jai Mundhra:** It does not include NPA, right because those would have been taken out of this book anyway?
- S.S. Mallikarjuna Rao:** Correct.
- Moderator:** Next question is from Upvan Gupta, Individual Investor.
- Upvan Gupta:** My point is that in the month of July a fraud account was declared in respect of Dewan Housing Finance Limited. The issue is why is this declaration was deferred since all the relevant information was already available on record and even some other public sector banks had already declared this is fraud account kind of much before our own bank?
- S.S. Mallikarjuna Rao:** Yes. What is your question?
- Upvan Gupta:** My question is that declaration was made in month of July that Dewan Housing Finance is a fraud account 3500 crores.
- S.S. Mallikarjuna Rao:** Correct.
- Upvan Gupta:** While this declaration was deferred since all the relevant information was already available on record and even for the public sector banks?
- S.S. Mallikarjuna Rao:** There is a procedure to be followed. One is RFA has been noted down by various banks including our bank then the next level is to undertake the investigation internally by every bank. We don't declare just because other bank has declared. We have to complete the process of investigation and other factors. That was the one of the reasons because if you look at even Dewan Housing if I remember exactly the earliest was only in February or January 2020 when the fraud was declared, and the other banks have started declaring continuously later on that. So, we declared in the beginning of the month of July.
- Upvan Gupta:** So, we were of the kind of latest on that?
- S.S. Mallikarjuna Rao:** What happened?
- Upvan Gupta:** My point is we were latest on that?
- S.S. Mallikarjuna Rao:** Latest means? Late, you mean to say late?
- Upvan Gupta:** Right.
- S.S. Mallikarjuna Rao:** Delayed?
- Upvan Gupta:** Right.

- S.S. Mallikarjuna Rao:** That is because of the internal process to be completed in all the three banks.
- Upvan Gupta:** Probably the books and accounts for the financial year '19-20, the Quarter 4 results they were not kind of fair in depicting this point, which was already available on the books, but it was depicted a bit late?
- S.S. Mallikarjuna Rao:** No even if we had taken that figure, the provision RBI gives the dispensation. We were already holding as an NPA account provision up to 45% at that point of time when we declared the fraud. Even if it was required to make the further provisioning there would not have been much of an impact on the balance sheet.
- Upvan Gupta:** Not on the balance sheet but from a perspective point of view it would have made a difference because fraud is obviously at a much higher degree than a provision?
- S.S. Mallikarjuna Rao:** I don't think because ultimately you have to complete every process before you declare. So, we had to complete the process in all the three banks together and accordingly we declared the vertical fraud.
- Upvan Gupta:** Can you assure us that in future these kinds of frauds or probably like the Modi case or something; the systems are in place to keep a check on all this and this may not happen in future?
- S.S. Mallikarjuna Rao:** You have seen whatever Modi case you are referring; it is a one odd case. Definitely we agree that there was a procedural lapse which has contributed to this happening but since then if you have seen there has been constant effort by the bank to improve upon the internal processes and tightening the position to see that such kind of operational lapses do not occur. So, what as a CEO of the bank I can assure you that bank is in that direction. We have already put lot of checks and balances in the system to see that these are identified. Now if you are linking the case of delay in DHFL and to Nirav Modi I don't think both are completely different. In case of DHFL we are aware of that when the administrator was appointed in the November-December then it was PNB 1.0 we have started investigation, then we have also completed with respect to other two banks. After some of the banks have declared fraud our process also got completed and we have done that. So, to assure you what you are expecting yes bank has taken a lot of measures to position lot of checks and balances in the system to control such kind of things including technological upgradations.
- Upvan Gupta:** Just the last point. Do you think that's obviously kind of as available on record there was some kind of mis-appropriation or operational lapses in case of the Modi scam? Do you think the auditors were also involved because we can't see anything on that in the audit report at that time?
- S.S. Mallikarjuna Rao:** No at this point of time I cannot comment. It is actually some of the cases are in the judicial stage which are running but incidentally...



- Upvan Gupta:** But they are the watchdogs of the bank while they are auditing the books.
- S.S. Mallikarjuna Rao:** Listen to me, internally we have completed our process of self-accountability and taken action against all those who are involved in the exercise. So, the auditor related issues we have already flagged the issues to the relevant areas now it is for their domain to look at.
- Moderator:** Next question is from Jayant from Credit Suisse.
- Jayant:** I had another question on the employee provisions. How much did we take on the wage settlement this quarter and how much is left now overall employee provision?
- S.S. Mallikarjuna Rao:** This quarter in the loans and accounts we have mentioned here is more than 200 crores that we have taken the provisioning in this current quarter and I don't think it will have an impact because we have been doing the provisioning more than 10%. Looking at more than 10% increase this quarter we have done 206.19 and similar two provisions as on today what we are holding is 1572 crores at this point of time. So, it is sufficient to take care of the requirement.
- Moderator:** Next question is from Atul Kumar from Quantum Asset Management.
- Atul Kumar:** One question was related to credit growth. How are you looking for the current year and if you can mention it separately by the retail corporate etc.?
- S.S. Mallikarjuna Rao:** Credit growth if you ask me what estimate we had indicated to while declaring the results of the March, we are as on today sticking to that estimate of 4% to 6%. We will review only by October. Out of the 4% to 6% we are expecting the growth in RAM segment that is more importantly retail and MSME, anything around 6% to 8% because the corporate book increase depends upon utilizing the existing limits and also depends upon the new demand coming up in terms of the investment. So, these two are very critical factors. If you look at even our case more than 50,000 to 60,000 crores approvals and sanctions are there but utilization has not taken up, various vertical accounts are there, NBFCs are there, government owned companies are there. So, it all depends upon the requirement but still we expect that the growth compared to March position of our credit book which was around 760 we are expecting anything around 4% to 6% of the growth of which 8% growth could come from retail and MSME segment.
- Atul Kumar:** And in terms of disbursement specially on the retail side or RAM side as compared to what you were on a pre-COVID level to right now that would be like what's the level of those kinds of level?
- S.S. Mallikarjuna Rao:** Pre-COVID if you look at by March retail, we have grown almost by 15% last year. So, when I am saying 8% growth roughly in the residual part of the financial year, the effect to annualization will be around 16% so it is on the same line.

**Atul Kumar:** And finally, on the NCLT side also you mentioned that after whatever your recovery expectations roughly about 8000 crores coming from the NCLT account and as we hear that recently the courts etc. are not functioning then if you could just elaborate?

**S.S. Mallikarjuna Rao:** In fact, the 8000 crores actually is the recovery and the reduction that means reduction in the lending area. Even though our real recovery other than NCLT could be further another 8000 crores what we are expecting. In NCLT because one account itself is there where Supreme Court cases hearing is going on, where our stake is almost 6500 crores out of which our expectation of recovery will be almost 4000 crores. So that is the reason why we are estimating that there are few more accounts which are in the final stage because of COVID they got delayed. So, we are confident of getting that much of recovery.

**Moderator:** Thank you very much. Ladies and gentlemen that was the last question for today. I will now hand the conference over to Mr. Bhavik Shah for closing comments.

**Bhavik Shah:** On behalf of Bativala & Karani Securities we thank Punjab National Bank management for giving us this opportunity to host the call. Thank you everyone and have a good day. May I request the MD sir to kindly give the closing comments? Thank you.

**S.S. Mallikarjuna Rao:** Once again thank you B & K Securities for handling this. Like when we conducted the analyst meet in the month of February this year by declaring the results of December, we promised the analyst based on the feedback given by them that we will be more transparent or we will bring more disclosures in our presentation. Accordingly, we attempted in March, now also we have shown. We will be very happy to receive further feedback from you people so that if there is any furthermore clarity required in terms of disclosures, we can bring in that. Our objective is to reach out to the analyst as frequently as possible, not definitely only at the time of declaration of results so any opportunity in future as well we are open. Bank is also planning for going to the market for QIP. At that point of time again we will be in touch with the analysts. Thank you very much for the opportunity given to us to showcase before you all. Probably we tried our best to give clarifications to all your queries. There were two queries which were left which we will share with you very shortly, with the B & K Securities you can pass on to them. Thank you very much once again for conducting the analyst meet.

**Moderator:** Thank you very much. On behalf Bativala & Karani Securities India Private Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.