"Punjab National Bank Q4 and FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Punjab National Bank Q4 and FY2021 Post Results Conference Call hosted by Batlivala and 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 telephone. 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 of Punjab National Bank is imperative. Please note that this call is only for investor or analyst. I would now like to hand the conference over to Mr. Bhavik Shah from Batlivala and Karani Securities. Thank you and over to you Sir!

Bhavik Shah: Thanks Stephen. Good afternoon everyone. Thanks for joining the call. On behalf of Batlivala and Karani Securities, we welcome you all to Punjab National Bank's Q4 and FY2021 post results conference call. We have with us today, the management of Punjab National Bank represented by Mr. CH. S. S. Mallikarjuna Rao, MD & CEO, Mr. Sanjay Kumar, Executive Director, Mr. Vijay Dube, Executive Director, Mr. S. K. Saha, Executive Director and other senior officials. I would now request MD and CEO Sir to start the call with his opening remarks on Q4 and FY2021 results post which we will start the Q&A session. Over to you Sir!

S. S. Mallikarjuna Rao: Once again good afternoon to all of you. The year 2021 has been tough as you are aware across the globe and our country is no exception to that. Tough not only sociologically, but tough even from the economy perspective. Besides the impact of COVID, we also had an additional responsibility related to amalgamation of Oriental Bank of Commerce and United Bank of India into PNB.

Now during the entire year, we have also because of the amalgamation got certain legacy in terms of the composition of balance sheet, where we thought probably there was a requirement for us to rebalance the same effectively. So, in the entire year we have done all these measures, which were required. First, we have finished the technology integration of one Bank by November 2020 and other bank by December 2020. Second, entire organization has been restructured effective from 1st of July, 2020, which is now functional effectively. Third is human integration to the extent it was possible, we have done. Because of the COVID, not many transfers would have taken place. However, later on we have adjusted in such a way that there is no issue at this point of time. Though COVID second wave has come, it can be taken care in the next couple of months. So, on the front of amalgamation, technology integration, human integration and business integration were completed.

Now with respect to carrying the legacy, we were carrying over Rs 50000 Crores in bulk and CD deposits which we decided to reduce. Accordingly, we reduced around Rs 30000 Crores completely from the liability at bulk level. On the contrary, if you look at the increase in CASA, it has been more than 11%, savings around 12% and increase in deposits up to 2 Crores has been 19.5%. So, it has been a very good growth in terms of the liability to the extent it is required because the lending was not taking place in the absence of high demand because of COVID. As such we have balanced our liabilities, the entire book in such a way that the cost of deposit will be reduced and accordingly, you would have seen in the figures that the cost of deposits has come down.

On the credit profile side, we were carrying a high element of pool outstanding in retail as well as MSME. So, the recoveries, which we have received during the pool, we did not want to replenish because the pool during the COVID would have been carrying the stress. So, to the extent of almost Rs 4200 Crores, there was a reduction in pool, where we did not replenish. Then the other way is regarding the corporate credit as well, because of high liquidity available we have seen a good amount of competition in terms of interest rates wherever the line of credit was available and utilization of funds by even AAA rated companies where the tough competition was there.

So, in the domain to the extent where we were comfortable, we have gone otherwise, we did not move further to provide the price. So these are all the consolidating reasons when we come with respect to the assets and liabilities. In terms of assets, our growth in retail has been 9.5%, MSME has been 7.5% and agriculture was around 6%. Within the retail as well, after the pent-up demand started coming from October 2020, we concentrated on personal loans, vehicle loans and mortgage loans. We can see the percentage of increase there. In terms of other loans like loans against deposits or otherwise where people were required to utilize the money, it has come down.

So, overall in the balance sheet, what we have seen is, consolidation we have done and we did not want to carry anything beyond March 2021 with respect to any element of composition which we thought it was not required to be continued.

Now coming to asset quality, the amount of pro-forma NPA at the end of December was Rs 13000 Crores and in the month of March, April, May because of the impact on how we have to go about for restructuring in terms of the window available under OTR 1.0, which was given in the month of August, so we have seen that wherever the accounts restructuring may not show much of benefit we have allowed them to become NPA. As a result by March 2021, the fresh slippage was around Rs 25000 Crores for the entire year which contains majority in retail and MSME. This composition also contains roughly Rs 2000 Crores which would be upgraded because of restructuring. It is a corporate book where restructuring window was invoked prior to December 31. Now it has been done, restructuring is complete, because that is a consortium advance, whereas in March it became NPA but that will be upgraded.

Further out of Rs 25000 Crores already as on today Rs 3000 Crores upgradation has already taken place across the Bank. So roughly around Rs 5000 Crores is upgradable or upgraded as on today out of the Rs 25000 Crores. Now coming to the other factors, if you look at the kind of guidance what we have given last time, when we were declaring the results for March 2020, we predicted that we should get profit in each quarter and our total profit should be around Rs 2000 Crores, and by March 2021 we booked a profit of Rs 2022 Crores.

CRAR minimum we said 12.5% whereas we are standing at 14.32%; however, this will also be added by another 30-basis points because of Rs 1800 Crores what we have taken in the month of May. So, CRAR will become 14.62% and CET-1 will become 11.80%. CASA share we predicted at 45%. Now, we stand at 45.5%. NIM we have given a guidance between 2.5% and 2.75%, we stand at 2.88% in Global NIM, in case of domestic it is 2.99%. In case of credit cost, we gave a guidance between 2.0% and 2.5%, it stands at 2.24%. That is related to what we have done by March 2021.

Now without going into further details, I will be open for the question and answer session now directly. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandeep Agarwal from Naredi Investments. Please go ahead.

Sandeep Agarwal: Sir, my question is regarding PNB Housing Finance. Sir, what is our further plan after this preferential issue? Do you want to remain as a promoter and jointly managed company or are you looking for a more stake sales for a period over medium to long-term?

S. S. Mallikarjuna Rao: I will take a minute to properly give you the background before you understand our call. Number one is PNB Housing Finance was requiring the capital for the last one and a half years and originally estimated at Rs 2000 Crores earlier. That is almost one and a half years back. PNB is holding 32.64% stake which is above the regulatory requirement of 30%. So, there was a regulatory conflict. We should have reduced below 30%, the communication was given to us in the year 2017. Well for the first time, we have reduced our stake, got it down to 32.64%, at that time the price was Rs 1600. Now after that the price has gone down as a result, the bank could not dilute to the extent of the required little over 2% or 2.64% so that it could have come below 30%. Initially, that was one background. Second point is in the last one and a half years, while PNB Housing Finance wanted to increase the capital, the first option, they had looked at is the rights issue, because from market, they have already selected four BRLMs who have given opinion that market update may not be very high, particularly COVID was also there, after March. So from October 2019 – November 2019, their endeavor based on the feedback, they initially thought of getting some rights issue contribution which did not happen since PNB could not contribute. Then PNB made it clear that you should go to the market now for getting the money. By this time the COVID impact also happened, as a result, there was an elevated requirement of capital for them. So, under these circumstances from market, they were not able to get the money they have relied on the investors existing for getting the capital. These are the reasons for the investors coming forward and investing. Now from the PNB perspective, we are not diluting any stake. Our stake remains the same, but in percentage terms, it will go down because of the contribution of the capital fund from other investors. The number of shares what we hold will continue. Now with respect to what in future is going to be there? As per the trademark agreement which we have signed recently, earlier trademark agreement was that PNB stake will not go down below 26%. Now if it was not going below 26% the sufficient capital was not or cannot be taken by the company as a result we have gone for a change in the state hold trademark agreement where we put a benchmark of 20%. So we will not go below 20%. Now in the new scenario position expected could be anything around 20.5% or 20.4% it will come out finally. So that would be the figure. So our commitment to the company remains as on today, we will continue to be the promoter for which we are permitted and valuations have also increased which would not have been expected by anyone of us and the company should run affectively post COVID when the demand is coming up for the Housing Finance Company it should have wonderful opportunity for lending. So, it should be a solution in permanence rather than going to the market for capital again and again in the next two three years. These are all the important objectives which were discussed before this call was taken and accordingly this call was taken. To the limited point of your question with respect to what is the PNB's viewpoint, PNB will remain there. We do not have any plan to exit. Already we have taken a decision with respect to CHOICE, Canara HSBC Insurance companies where we have decided to exit. The formalities will take place. It is not a listed company; however, the valuations will be done and accordingly the shareholder agreement, the process will be followed.

Sandeep Agarwal: Thank you Sir. That is all.

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

Mahrukh Adajania: My question is on restructuring. You have given implementing a new restructuring of Rs 2600 Crores and in the last quarter you had indicated a much higher figure especially for corporate restructuring, so the implemented restructuring in the corporate segment is around Rs 5.6 billion whereas last time you had indicated a pipeline of Rs 90 billion. So you did comment that although the Rs 20 billion is probably is restructuring in 1Q but on that Rs 90 billion are there other accounts in the pipeline as well. So, what is the total restructured number for the corporate segment, increase in pipeline?

S. S. Mallikarjuna Rao: See, the restructuring what we indicated in slide 33 of Rs 2372 Crore is a normal course of restructuring and not related to OTR 1.0 as envisaged OTR guidance which came in August 2020. Now out of that figure of restructuring position is, see if you remember our indicated amount was around Rs 9000 Crores in the corporate book, and others together Rs 11000 Crores we indicated. Out of that in the corporate book the restructuring what was done is only the amount of around Rs 500 Crores. Whereas now we have invoked to the value equivalent to Rs 9000 Crores, so out of Rs 9000 Crores, only around Rs 500 Crores was done before March and after March, we have already done Rs 2000 Crores. So, this 2000 Crores has become NPA in the opening remarks I told, which would be upgraded. So, remaining Rs 7000 Crores also will be undertaken before June 30; however, in case of accounts up to around Rs 2000 Crores to 3000 Crores, the response has not been there for undertaking the restructuring as they think that the restructuring was not required and they can continue. So, if I summarize, as against the Rs 11000 Crores, including corporate book of 9000 Crores, Retail and MSME together of Rs 2000 Crores, overall Rs 11000 Crores, we may end up with Rs 9000 Crores overall under the OTR 1.0 before June 30.

Mahrukh Adajania: Thanks Sir. The other question was what is the total interest reversal on NPAs in the fourth quarter?

S. S. Mallikarjuna Rao: Total interest reversal on the?

Mahrukh Adajania: On NPA?

S. S. Mallikarjuna Rao: That is at the end of March?

Mahrukh Adajania: For the fourth quarter? We are in the fourth quarter. Not for the full year, but for the fourth quarter.

S. S. Mallikarjuna Rao: It is Rs 1277 crore because it is a period of seven months. See, pro-forma NPA what we have shown interest reversal of Rs 431 Crores in the provision we have shown. If you go through last time figures, that Rs 431 Crores is included in Rs 1277 crore.

Mahrukh Adajania: Thank you Sir.

Moderator: Thank you. The next question is from the line of Akshay Ashok from Dalal & Broacha Stock Broking. Please go ahead.

Akshay Ashok: The question I had is there is a lot of doubt regarding this restructuring; so restructuring of accounts they need to be standard as on the date of invocation or they should be standard as on March 31, 2021?

S. S. Mallikarjuna Rao: No, as on date of invocation.

Akshay Ashok: That means that will become a problem, right? Because now that the second wave, then there could have been accounts that have slipped in April, May and June, if it is standard, you cannot restructure them.

S. S. Mallikarjuna Rao: Listen to me, restructuring window opened by the RBI in the month of August has to two dimensions; one is for corporate through the Kamath Committee recommendations and all other factors are there. Second window was related to retail and MSME. In case of MSME eligibility was different, SMA0 and SMA1 were also eligible in case of retail only SMA0. So, considering all these factors, restructuring was undertaken differently. In case of retail and MSME, there is no question of any invocation and undertaking because there cannot be any time window and it can be implemented immediately. In case of corporate, only you will invoke because it requires RP4 rating and all the consortium members coming, that is the reason why the window is required. So, restructuring related to retail and MSME under the guidelines given in the month of August got closed as of March 31, 2021 and whatever restructuring was required, we have undertaken. Only for corporate segment, we have invoked before December 31, 2020 for the accounts involving an amount of Rs 9000 Crores, against which before March 31, 2021 we could restructure only around Rs 600 Crores and as of today Rs 2000 Crores further have been implemented. However, this Rs 2000 Crores what I am referring has slipped into NPA as on March 31, 2021 but in terms of the Reserve Bank of India guidelines they can be upgraded immediately after implementation and that has already been upgraded. So, the remaining roughly around 7000 Crores in corporate book where invocation is done and the restructuring has to be implemented, will be completed before June 30, 2021. That is related to the restructuring window opened in August. On recent guidelines of restructuring, it is applicable only to MSME, non-MSME small business and other sectors that is individual cases.

Akshay Ashok: That is what Sir, these accounts if they would have slipped in April, May and June, cannot go for restructuring?

S. S. Mallikarjuna Rao: Not April, only by March 31, if they have slipped into NPA, they are not eligible.

Akshay Ashok: Okay, but it should be standard as on date of invocation, right. If they have slipped now you cannot restructure them?

S. S. Mallikarjuna Rao: Again, listen to me, I am clarifying to you, Clause of invocation is applicable only for corporate advances. That window has already closed now by December 31, 2020 regarding invocation. So for all other accounts, now the second window is only MSME, there is no clause of invocation there, RBI's requirement is as on March 31, 2021 the accounts should be standard.

Akshay Ashok: Thank you.

Moderator: Thank you. The next question is from the line of Ashoka Ajmera from Ajcon Global Services. Please go ahead.

Ashoka Ajmera: Good afternoon Sir. My compliments, for overall good performance of the bank, I mean, you have got a very good capital adequacy of 14.32%, good CASA, a very good amount of the NIM in these difficult times, cost to income ratio is just 46.9%, net profit also Rs 586 Crores, some of these parameters you have come really well in spite of all these difficult time and problems, for that please accept my compliment. Sir I have got two data points and some observations. When I went through the result, number one in the case of JSC Tengri bank which has gone for action by the local regulator, the provision in this quarter was Rs 351 Crores and up to September 30, it was Rs341

Crores, so anymore provision is left to be done in this bank, or any chances of any recovery out of that?

S. S. Mallikarjuna Rao: See, first of all there are no provisions further required. I will explain you both the provisions for different. First provision in September what we had undertaken was the capital what we have input in the company. When the company had gone for liquidation, the capital is nullified first. So, that provision 100% we have done. Then there was a liquidity support what we had given. We means our branch in Dubai has given, so that amount is a liquidity support, which needs to be settled when the liquidation process is in progress. So, our claim has already been recognised by the liquidator. No money is to be received; however, as a matter of abundant precaution and prudent measure, we have provided 100% now at the end of March. So, right now there is no provision required; however, the will be amount will be recovered through liquidation proceedings once the process is completed at their end.

Ashoka Ajmera: Point well taken Sir. Sir, in case of this fraud provision of Rs 1013 Crores, will be, now the balance is still pending. So, do you plan to make the provision in this quarter or as per the regulation, what is the regulation say?

S. S. Mallikarjuna Rao: Regulation is one-fourth. 25% you can do in each quarter.

Ashoka Ajmera: Sir, now how much is left for how many quarters?

S. S. Mallikarjuna Rao: See, Rs 1014 Crore is the amount left which we have shown in our notes on accounts, but it is not a big amount, it can be adjusted easily. In the next three quarters it will be nullified. Even we can do it in two quarters as well depending upon the flexibility what we have.

Ashoka Ajmera: Sir, in case of this new bad bank coming, NARCL have you worked out, out of this Rs 84000, 85000 Crores of which has been identified, how much is your spend? Whether it is 100% written off accounts?

S. S. Mallikarjuna Rao: It is Rs 8000 Crores roughly from our side. It is 100% provided. We do not call it as written off.

Ashoka Ajmera: Sir, not written off, but provided, yes you are right.

S. S. Mallikarjuna Rao: 100% provided accounts. Rs 8000 Crores is a rough estimate, Rs 7900 Crores or something is the tranche one.

Ashoka Ajmera: Sir, in the provision there is a provision of Rs 440 Crores in the other provisions. What is this other provisions of Rs 440 Crores?

S. S. Mallikarjuna Rao: Tengri bank and OTR, onetime restructuring provisions.

Ashoka Ajmera: Tengri Bank has been included here in this?

S. S. Mallikarjuna Rao: Yes, Tengri Bank has been included here in this.

Ashoka Ajmera: Sir, when I look at the advances, I mean, the aviation advances of Rs 6353 Crores and tourism advances of Rs 1690 Crores there has been an increase in this year, this advances which are badly affected by COVID, so what kind of advances these are and why there was a need of extending further to the hotel and the aviation?

S. S. Mallikarjuna Rao: Aviation is strictly government guaranteed of Rs 1000 Crores, Central Govt. that too.

Ashoka Ajmera: The entire amount?

S. S. Mallikarjuna Rao: Yes 100% guaranteed by the government.

Moderator: Thank you. The next question is from the line of Sunny Saigal an individual investor. Please go ahead.

Sunny Saigal: Thank you for giving me the opportunity. Sir, I have a couple of questions; the first question is on the slippages side. So, roughly you had Rs 24000 Crores of slippages in 4Q and something around Rs 29000 Crores of slippages in FY2021. If you can give me a broad breakup segment wise, like how much it was in retail, corporate, agriculture and MSME and were there any lumpy accounts in it?

S. S. Mallikarjuna Rao: See, total slippage our fresh addition is Rs 25000 Crores in the entire year and Rs 23185 Crores in the quarter. Now here the majority is in agri, retail and MSME. Agriculture is Rs 5316 Crores, retail is Rs 3441 Crores, MSME Rs 9341 Crores and in other categories it is Rs 5087 Crores and it is not a chunky one, large corporate is not very huge.

Sunny Saigal: Sir, there are no lumpy accounts if I understand correctly?

S. S. Mallikarjuna Rao: No.

Sunny Saigal: The guidance on the recovery side for FY2022, I mean, how much overall recovery you are expecting in this current fiscal and are any major NCLT accounts you were counting for recovery as well?

S. S. Mallikarjuna Rao: In the NCLT cases, not many bigger accounts are left, only DHFL is there, but DHFL also the expected recovery is not very huge, Rs 2827 Crores is our credit outstanding against them, 100% provided, so we are expecting as per the resolution plan around Rs 440 Crores recovery which should be a full write back. Originally we were expecting it to happen before June, but probably because of the litigation it could go and come in the month of, it might not happen in Q1 but it might happen in Q2. So, in Q1 and Q2 together, we are expecting around Rs 1100 Crores of cash recovery where around Rs 6500 Crores of outstanding will be settled and the cash extraction could be around Rs 1100 Crores in Q1 and Q2 together. That is in NCLT. Now we have not estimated our Q3 and Q4 probably after June we will have a better visibility because once the NCLT cases also move further. Then with respect to the other recoveries, in the current quarter we have already received recovery and upgradation of Rs 2300 Crores as of now and we expect another Rs 3000 Crores to 3500 Crores so roughly around Rs 5500 Crores to 6000 Crores we are expecting, the followup is in progress. If you look at the entire year, we will have a better estimate while declaring the results for June, since we are still assessing the COVID impact. Now our approach is as in this quarter, what has to be done immediately we are working on that. Once the COVID recedes, we will have a better estimate in terms of recovery, but majority of recoveries will come in the accounts up to Rs 1 Crores because slippage was there in that and I expect retail to settle down by 30th September and MSME to settle down in Q3 and Q4 because MSME stress will continue for some more time. The exact figures and identification, we will do it once Q1 results are being submitted during next quarter.

Sunny Saigal: Thank you so much. Should I have any followup I will come in the queue.

Moderator: Thank you. The next question is from the line of Jayant Kharote from Credit Suisse. Please go ahead.

Jayant Kharote: Good morning Sir. Sir actually two questions; one is if you can give us the SMA1 number which we had as of December in the QIP document? Second question is basically on the ageing provisions. How much do we expect it during FY2022?

S. S. Mallikarjuna Rao: See, ageing provision, we will have a little amount in the first quarter but in the Q2, Q3, Q4 it will be very less. If I have to give a figure correctly, I will just compile and tell you. We will check it before we conclude. It would be on an average around Rs 1600 Crores to Rs 1700 Crores per quarter. So roughly around Rs 7000 Crores could be the overall provision required in the year.

Jayant Kharote: And the SMA1 number?

S. S. Mallikarjuna Rao: SMA1 number is around Rs 50000 Crores.

Jayant Kharote: Any indications on the stress right now and I know it is little bit early but what are your estimates given we have had, I mean retail and MSME, do you think much of the stress would have gone through or do you see another build around there?

S. S. Mallikarjuna Rao: MSME stress though it is still there, but majority of the accounts we have identified, but still there is an element of restructuring required to be done in the new window opened which I am expecting at around Rs 5000 Crores to Rs 6000 Crores. If you look at the MSME restructuring right from January 01, 2019 till March 31, 2021 where that window was opened, our entire restructuring book is only around Rs 4900 Crores-5000 Crores including Rs 12277 Crores which we have done in OTR 1.0

which came in August. So, MSME book not very high book we have restructured, it is roughly around Rs 5200 Crores out of Rs 127000 Crores of outstanding in the MSME.

Jayant Kharote: And we are expecting another Rs 5000 crore on top of that.

S. S. Mallikarjuna Rao: Another Rs 5000 Crores maximum, Rs 5500 Crores we are identifying the accounts, we are following up but we would like to have recovery rather than restructuring unless it is warranted. Because GECL has also been extended now, so we should look at GECL also if there are eligible accounts other than what we have done, we have already funded Rs 12700 Crores under GECL 1.0 and 2.0 when it is extended up to 50 Crores, further Rs 500 Crores funding we have done. We have extended of the 500 Crores, we could not get many accounts. Now they have removed the cap and added the stressed sector, so there we expect around Rs 500 Crores to 600 Crores of disbursements, So considering the fact that MSME units functioning, we would like to support them by way of additional funding if they are required and looking at working capital rather than bringing under restructuring unless it is warranted. So, we are acessing on that. So, that is why our estimate could be anything around Rs 5000 Crores to 6000 Crores in the restructuring under MSME. Retail I am very confident it will settle down though it appears to be a little high in terms of slippage. For example, our slippage was almost Rs 3345 Crores or odd in terms of retail. So, I expect retail to settle down by September because we are able to reach out to the customers. There are incomes in public sector. Majority of the retail is given to salaried class or where mortgage is available. Only in the housing loan, we find there has been a delay, but we will get the money. So if you ask me straight with respect to the stress, MSME stress is there, but accretion will not be as much as what has happened up to March 2021. We will be able to handle and what has accrued also, we are confident of upgrading some category. So, overall in the year 2021-2022, we will have a control on the MSME in Q3 and Q4. In retail by Q2 itself, there would not be an issue. Coming to increase in NPA, there would not be any further increase in NPA, even if it is coming, it will be offsetting with the recoveries, the slippages will be offsetted against the recoveries. If you observe the outstanding in gross NPA and net NPA, it has been flat compared to March 2020 and March 2021. The percentages is elevated because of the loan book not being high, which contracted by 3% otherwise to the extent of slippages, we have already recovered or we have upgraded.

Jayant Kharote: Thank you Sir. Thank you very much.

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

Abhijeet Sakhare: Sir, going back to the question on MSME restructuring if you could just highlight why is if that the borrowers are not choosing to restructure or use the ECLGS money to a greater extent?

S. S. Mallikarjuna Rao: See, ECLGS money I think reasonably we have given. All the outstanding as on February 29, 20% of the amount outstanding were eligible and we have given to them that is why Rs 12700 Crores lending we have done exclusively up to Rs 25 Crores. There are some people who did not want. There were some people who were eligible only for smaller amounts, so they did not go ahead. But there was a good chunk of people whose outstanding was not there, who were having limits, but credit balance they maintained. They were not eligible, but there we are helping them differently by way of any increase in limit if required, because they are in a better position and the account is standard. So, GECL funding has happened reasonably, so I do not think somebody has not used. Only question is when we were doing the restructuring, eligibility is unit should run, unit should have the capability with the availability, so those sectors were seen. And in some of the factor appearing to us that it may not be viable then we have allowed those accounts to become NPA. And we can deal them separately, if the unit is still running and order book is available we can still fund even if it is NPA. Instead of restructuring only for a brief period and then again it is coming into problem. Like what we have seen now the COVID second wave has impacted those which are restructured also. So, there we have to again handle them more properly. So that was the reason why restructuring book compared to other banks has been smaller one vis-à-vis the loans outstanding. In the restructured guidelines 2.0, which are standard accounts as of March 31, 2021, we are identifying. As I have indicated maybe around Rs 5000 Crores to 6000 Crores will be under restructuring because they have already withstood the COVID one wave and continue to be standard. So, where the visibility of restructuring and in terms of the capability to come out of this problem will be much higher.

Abhijeet Sakhare: Sir, second one a clarification on slide slide 14, where you have the rating wise mix of loan book. There was about Rs 9000 Crores of loans which is rated D but still standard.

S. S. Mallikarjuna Rao: Which one, #14 slide? This is some of the government accounts and couple of accounts restructured book standard, where rating will continue to be D.

Abhijeet Sakhare: Second one was a clarification on slide 37 on the exposure to top 10 groups where we see a 500-basis points jump quarter-on-quarter.

S. S. Mallikarjuna Rao: Actually there is a mistake. Actually the figure is 12.93. We will correct and put it immediately. It is not 18.73. It is 12.93 now we have corrected and put up on the website.

Abhijeet Sakhare: Sir, just final one on the NARCL sale that will happen. Do you expect to get 15% cash upfront on the fully provided NPLs?

S. S. Mallikarjuna Rao: Actually what happens, our identified book is around Rs 8000 Crores which is 100% provided. Now the extraction amount we have to see. It is not an 8000 Crores; you will get 15%. What is the extraction? On an average if you look at the extraction it is between 25% and 30% going by what IBC and everything happened, even though real auction will take place by NARCL through AMC. So initially based on the each assets, a figure will be arrived at, it would be a reasonable figure, but could be anything around 25% and 30%. Suppose, we get 25% as our theoretical understanding. For Rs 8000 Crores, 25% will be 2000 Crores. Out of 2000 Crores, 15% will be the cash that means Rs 300 Crores will be the cash which can be directly go to P&L and 85% will be given to us as SR which is expected to be guaranteed by Government of India.

Abhijeet Sakhare: Last one, what is the DTA outstanding as of March 31, 2021?

S. S. Mallikarjuna Rao: Rs 27000 Crores. This year, we have reduced Rs 1400 Crores you must have seen in the balance sheet.

Abhijeet Sakhare: Thanks a lot.

Moderator: Thank you. The next question is from the line of Manish Shukla from Citigroup. Please go ahead.

Manish Shukla: Good afternoon. Thank you for the opportunity. The proforma stress as of December was about Rs 13000 Crores and for the last quarter you have reported Rs 23000 Crores. That means addition of Rs 10000 Crores for the March quarter over and above what was the situation as of December? Is that correct?

S. S. Mallikarjuna Rao: Correct. You are correct.

Manish Shukla: So could you give a colour on this incremental Rs 10000 Crores where it has come from?

S. S. Mallikarjuna Rao: That is from retail, MSME and agriculture.

Manish Shukla: And within retail how much would be secured and unsecured?

S. S. Mallikarjuna Rao: Completely secured. We do not have retail unsecured even if it is a personal loans, given to only employees, salaried class.

Manish Shukla: I am just curious because Rs 10000 Crores across retail, MSME, it does imply that a very large number of account have slipped into NPA after December. I am just trying to understand what exactly is going out here?

S. S. Mallikarjuna Rao: I do agree with you. It is only because of the collections not coming. There is no element of unsecured position problem here. That is why I was indicating retail will settle down by next quarter itself, by September the slippages will be reduced and the upgradations will be much higher. We will have to deal with only MSME.

Manish Shukla: Sir, given the lockdowns which have happened in April and May is it correct to assume that the number in the current quarter can be meaningfully higher than this?

S. S. Mallikarjuna Rao: It will not be higher because the collection efficiency in April was 84% and in May it was 91% currently and June also we are pursuing very well though the stress is there. Like we have already given the figure SMA2 which was around 32000 Crores which we have indicated, it has come down substantially as on today and we are working on that. So, I do not expect the slippage to be more than what has happened in March, not even more, it will be much lower than that.

Manish Shukla: Sorry Sir, you said May was 91%.

S. S. Mallikarjuna Rao: May was 91% correct, collections.

Manish Shukla: Compared to March what would it be in March?

S. S. Mallikarjuna Rao: March was also around 84%.

Manish Shukla: So May higher than even March.

S. S. Mallikarjuna Rao: Correct. October, November and December were better, then January was moderate, January and February, March it has come down a little again April and May it has increased.

Manish Shukla: On the NARCL, how are these Rs 8000 Crores identified, if you could just explain what are the nature of these assets?

S. S. Mallikarjuna Rao: See all the assets, for which there is a value and 100% provided, and not declared as a fraud.

Manish Shukla: Because you are saying that the recovery is likely to be about 25%, 30%, so I am just curious this is the best in that sense is it the best out of the size book that you have?

S. S. Mallikarjuna Rao: No, I have just given a mathematical example. In one case it could be 40%- 50%, in one case it could be 10%- 15%. So what we have identified is predominantly not being fraud account, second is 100% provided and where all other banks are there. See, first what we have done is above Rs 500 Crores, exposure in each bank there is multiple banks involvement in the public sector space, not being declared as a fraud, 100% provided. So, these conditionalities we have applied.

Manish Shukla: Here is the last question what is your expectation on net interest margin?`

S. S. Mallikarjuna Rao: NIM our domestic stood at 2.99%, global stood at 2.88% and it will not be lower than 2.75% during the current year.

Manish Shukla: Thank you. Those were all my questions.

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

Mahrukh Adajania: Sir, just a few clarifications; so in NARCL, in the first phase itself by June you will transfer Rs 1000 Crores right along which the recovery will be 25% as in that the net asset value or the valuation may be 25% to 30% and of which you will bear 15% in there. That is correct Sir?

S. S. Mallikarjuna Rao: No. Listen to me. NARCL while transferring the net book value concept will not come because net book value as per the RBI guidelines is the outstanding minus provision. So, here in every case it will be zero only. So it is not the criteria. The criteria is what kind of recovery we can get when we sell through auction. NARCL advantage will be aggregation of debt from all the banks at one location and the person who will be bidding through the tender process will have visibility in getting control of the assets immediately, protection of the value of the assets. These are the advantages. So I had only given an example, that in case of each asset, based on the position, the amount recoverable will be assessed. Though ultimately it will go for Swiss challenge and then only you will get the money, so I gave you an example that if 25% is the amount out of that 15% will be cash, 85% will be SR.

Mahrukh Adajania: Sir, and you have said that there is Rs 1100 Crores of recovery in first and second quarter and that is across two accounts. Is that correct?

S. S. Mallikarjuna Rao: Not two accounts; there are 17 accounts where outstanding will be reduced to the extent of Rs 6500 Crores and cash recovery expected would be Rs 1100 Crores.

Mahrukh Adajania: And they are all NCLT accounts?

S. S. Mallikarjuna Rao: They are all NCLT. I am giving you NCLT details only.

Mahrukh Adajania: Got it. Sir my other question was that what is your recovery from Bhushan Power?

S. S. Mallikarjuna Rao: Rs 3000 Crores, 3017 Crores to be exact.

Mahrukh Adajania: Rs 3017 Crores and it is taken through recovery in written off assets, right?

S. S. Mallikarjuna Rao: It is not fully written off. It is actually recovery only. It is not written off because it was there in the books of accounts.

Mahrukh Adajania: But it was 100% provided, right?

S. S. Mallikarjuna Rao: It has been provided, but not written off.

Mahrukh Adajania: Okay, it is going through the provisioning line, is it or through?

S. S. Mallikarjuna Rao: Yes.

Mahrukh Adajania: The provisions were lower by Rs 3000 Crores, correct?

S. S. Mallikarjuna Rao: But we have diverted provision to other areas. Correct. It is a provision write back.

Mahrukh Adajania: Thank you.

Moderator: Thank you. The next question is from the line of Sneha from Subhkam Ventures. Please go ahead.

Sneha: First question is just wanted to know what the outlook on the credit cost for the next fiscal year is. Secondly are we seeing the overall credit cost considering the stress is coming down on both in retail &MSME as well as Corporates, SMA and the profits. So what will be your guidance on the credit growth? If possible can you guide us how would be the slippages trend going ahead for this next fiscal?

S. S. Mallikarjuna Rao: Before coming to the economy related, I will first come to credit cost. Credit cost our year ended March stood at 2.24% where our guidance was anything between 2.25% and 2.5%. Similarly last time when I spoke after the December results, I was indicating to you that the credit cost in 2021-2022 could be anything between 1.25% and 1.5%. Now at that time the COVID second wave was not there. Even now what we would like to stick is probably if credit cost could hover around 1.5% in the financial year 2021-2022.

Sneha: Outlook on the credit growth?

S. S. Mallikarjuna Rao: Credit growth I am expecting at a conservative level 8% because Q1 has already gone and even though Q1 has already gone the RBI estimated GDP growth of 9.5% very recently and the new investments are not yet visible in the system. In the last one and a half years we have not seen new units coming up or new industries coming up, as a result last year also we were not having lot of opportunities in terms of lending except existing people were competing for the interest rates. Even today, we see road projects, some of them have come up, where we have given the sanctions. In aviation industry we have also seen a few requests for Tier 2 or Tier 3 central airports, where we have given in principal sanctions not much, but then we have given in four, five cases. So, unless the investments come into the system, it would be very difficult to visualize at this point of time except those sectors like cement, steel and pharmaceutical, biotech industry where they are growing but pharmaceutical industry is flushed with funds, cash rich they are. So, opportunity what we can see is what they have declared in the budget regarding the infrastructure push. Ports where government is looking for investment, it should come up. Aviation industry what government is looking up it should come up, then we can see large amount of demand. Otherwise, demand will be there, but then supply will be very high. Currently, supply side is very high.

Sneha: Any plans to sell any of our subsidiaries?

S. S. Mallikarjuna Rao: We have already come into the public domain related to CHOICE that is Canara HSBC Oriental Bank of Commerce Insurance Company. We are having ownership in two companies. As per IRDA guidelines we have to have ownership in the second company only to the extent of 10%. So currently we own 30% in PNB Metlife, 23% in CHOICE. So that forbearance was available to us up to March 31, 2021 and then we have taken a strategic call to exit Canara HSBC. It will take time. It is not a listed company. So, we will be going through valuations and other things. There is also a shareholder agreement related to right of refusal. So these things will be taken care and we are expecting in the next 12 to 18 months, this amount can be received and it could happen earlier than that, but we are putting this on horizon. We have already sold 3% stake in UTI AMC in October where we have booked a profit of Rs 160 Crores. We will be selling our stake in ARCIL around Rs 60 Crores to 70 Crores we are expecting profits. There is one more company where another Rs 50 Crores we are expecting. So, these are the plans at this point of time.

Sneha: Sir, all this recent raising of the capital any plans to raise further going ahead, I mean, in the next calendar year or at the end of the financial year?

S. S. Mallikarjuna Rao: As on today, if you look at our capital is at 14.32% and if you add another 30-basis points for Rs 1800 Crores which we got through QIP in the month of May, CRAR will stand at 14.62% and Tier I capital will be 11.8%, which is sufficient even if you look at 2% of worst-case scenario as in terms of RBI assessment, still we are sufficiently capitalized. So we still have the headroom for AT1 capital of Rs 2500 Crores, which we can raise anytime. We have not raised because of the market conditions where because of the SEBI guidelines the prices have gone up. So, we have that headroom available. We will assess the position after June quarter results are declared. Otherwise, as per my assessment, we do not require any capital during the capital year even for taking care of the growth requirement.

Sneha: Sir, any number you would like to share on the recovery front if possible? Have you shared the numbers on the recovery front that you are expecting?

S. S. Mallikarjuna Rao: Recoveries Madam I said, Rs 1100 Crores in NCLT in H1 and our general recovery generally will be around Rs 3000 Crores minimum in every quarter. So, we would like to maximise on that because slippages have been very high. So, I will have a better estimate when we declare the results for June because still we are in COVID where we are coming out of the problem of the collections issues now only slowly collections are increasing. So, any estimate as on today would not be appropriate mathematically, so June declaration when we come with the results we will have a proper estimate. Otherwise, generally, Rs 3000 Crores recovery comes in normal accounts and NCLT this time compared to last year not many accounts are there even including DHFL our recovery is expected to be Rs 1100 Crores in cash whereas debt reduction will be around Rs 6000 Crores, 6500 Crores.

Sneha: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Just two followup questions; one is on the national ARC that you talked about just in your example of the Rs 8000 Crores this will get knocked out completely from NPA or it is the amount from NPA reduction would be lower than Rs 8000 Crores and if I understood you right, Sir, you would get Rs 300 Crores cash and the rest will be written down against which you will hold security receipt worth Rs 1700 Crores, in the example that you gave. Is that understanding correct?

S. S. Mallikarjuna Rao: I will split that example into two parts. Rs 8000 could be some part is written off some part is not written off, which is the written off there is no discussion on that because it is completely written off in the provision. So, whatever 15% comes it will go to my P&L directly. There is no further commitment on this. We will hold the SRs but in the SR since there is no outstanding there is no provision required. SR also will be without any book entry; however, even if we create the book entry the amount will be carved to the SR as a provision since it is a written off account. With respect to the amount outstanding in the book, so once the cash recovery comes, cash recovery will go there, but SR is also 100% provided, SR will be having the provision which is there against that. So, technically we will have SR with 100% provided. Since all these accounts are 100% provided accounts. Is it clear or do you require any more details?

Dhaval Gada: I understand. Approximately out of this Rs 8000 Crores how much is written off approximately?

S. S. Mallikarjuna Rao: So, majority is written off, Rs 7500 Crores.

Dhaval Gada: Got it. Second one on the collection part, did you say that May was better than April and is it because of restructuring the collection book better or the actual underlying collections and recovery that we are seeing right now because actually system as a whole we have been seeing May to be worse than April, so just trying to understand why is the difference?

S. S. Mallikarjuna Rao: No, it is only because of followup only. Otherwise, it has been very tough for us. When April was not very good, then immediately we started following up little intensively that is why we got. In fact, if you compare with the other banks also, our position in slippage was a little worse because of geographies as well. If you look at our geographical presence it is more in north, particularly Punjab, Haryana and again West Bengal and Northeast. These are the places which are badly impacted in terms of COVID and the agitation of farmers and agitation of other factors have led to collection being impacted in Punjab and Haryana and again in West Bengal as well the COVID has been very high whereas in other areas our collection has been much better. So May has been better only because of the followup and we are expecting it to improve even in the month of June.

Dhaval Gada: Thank you Sir. All the best.

Moderator: Thank you. The next question is from the line of Sushil from Indus Equity. Please go ahead.

Sushil: Good afternoon Sir. Sir, I have a simple question and most of the questions you answered. We realize this is the best result that you got out of the PNB Housing. We already analyzed this Canara HSBC OBC. Will PNB Gilts possibly?

S. S. Mallikarjuna Rao: PNB Housing or Gilts you are talking about?

Sushil: No, PNB Housing despite the results which has been so positively taken the market, you already highlighted in Canara HSBC, you have a compulsion to sell as per the regulation. PNB Metlife I am sure you will hold 30%, PNB Gilts is another candidate where there is a possibility because India is an equity charged market, debt market is yet to develop and you have such a big retail franchise, the potential to grow that market, currently Gilts may not be able to do it but rules and norms can change over a period of time. So, can we look at that?

S. S. Mallikarjuna Rao: At the first level, I appreciate your in-depth understanding. PNB Gilts currently we have not thought of doing anything. We hold 74% as on today and 26% is held by the market and because of the changes and the kind of decisions what we have taken in the recent times the market has positively reacted to PNB Housing Finance and PNB Gilts as well. Gilts, however, has improved in the market price. Frankly, there is no discussion with respect to PNB Gilts as on today and if at all if we discuss it is related to how they can do the business in the market in the days to come by increasing the variant in terms of doing the business. So, only after the strategic discussion, that we will look at, otherwise, as on today we do not have any plan for selling stake in the PNB Gilts.

Sushil: Looking at your performance and selecting a nice partner, and market rewarding on the stock price, the bank current management took decisions on the potential of PNB and PNB entities, how do they tap the market and how you can be rewarded with the current market capitalization? To reap the reward over a period of next two, three years, there are any other thought processes or any of the divisions of PNB other than subsidiaries to do something dramatically different than public sector banks should be doing?

S. S. Mallikarjuna Rao: There are quite a few initiatives we have taken in the last one year though we may not have discussed in the public domain, for example we have started a credit card company separately. Now if there are two ways of looking at the discussion; one is already credit card market has matured in our country because the SBI started in 1998. Prior to that very few companies was there. After 1998 tremendous maturity has come in credit card as such. If you ask me so you can also say that where the demand for credit card is. However, currently if you look at our credit card base is very low for PNB. For a franchise of 18 Crores customers, a 3 lakh or 3.5 lakh credit card base is so low, but within the existing I can improve upon with the credit card subsidiary. So that is our target which we are going there where our income from other sources can increase. Second the MetLife Insurance which we can take it forward aggressively where the other income from the insurance business can increase because COVID has brought about a high element of awareness in terms of the insurance policies in the country. Then digitalization completely going away from the branch aspect of operational working so these initiatives are in line with what is taking place, what kind of changes are taking place in the banking industry. PNB is frankly little behind in terms of comparison with our peers itself. If I want to compare with Bank of Baroda probably we are not able to match in terms of the initiatives what they have taken in the three four years. So we are looking at to what you can catch up with them, move ahead so that on other income basis our contribution should be much higher so that the dependency on NIM is reduced that is dependency on interest income on loans and handling the liability is reduced to greater extent that would give a wonderful opportunity for the bank of our size in the years to come.

Sushil: Sir seeing that you have 180 million customers in the bank, why is the retail customer base not giving you sufficient business or branches inactive in COVID but the home loans we have not even grown by their minimum of Rs 1000 Crores, 1500 Crores per annum?

S. S. Mallikarjuna Rao: I do agree with you whereas the growth was much better earlier six months back because of COVID it got impacted. However, we have completely revamped the organization in the month of July. Now it is working well. We are very confident of increasing the retail and MSME and particularly the housing segment in the days to come. Already proposals are in the pipeline. We have already implemented even application software where automatic processing, automatic means uniform processing of credit underwriting up to 25 Crores is implemented now across the country through all the outlets.

Sushil: I am thankful for your frankness on accepting wherever PNB lags. I wish you best of luck.

Moderator: Thank you. The next question is from the line of Harsh from Reliance General Insurance. Please go ahead.

Harsh: Thank you. My question has been answered.

Moderator: Thank you. The next question is from the line of Ankit Bansal. Please go ahead.

Ankit Bansal: Sir I want to know that you are in a media saying Rs 6000 Crores profit in FY2023. How come you reach; can you elaborate on this?

S. S. Mallikarjuna Rao: See one important thing is, if you have observed about the provision requirement that we have done up to March, which were even quite high. Now we are not expecting that much of provisions to be there because NPA accretion in corporate is reduced and ageing provision is also not very high currently required, that is one area. Then in our slide if you observe even though our credit growth has been negative by 3%, our average credit has grown by 2.5% positively. How it could happen is we have removed the just like bumps across during the periods and now we have consistency in credit outstanding. We have taken various measures internally with respect to interest rate optimization, in terms of liability in terms of assets. So balance sheet what it required after amalgamation with legacy, the kind of rationalization it required, that we have completed by March 2021. Now if at all there is a legacy, it is only one DTA because we have not shifted to new tax structure. State Bank of India and Bank of Baroda has shifted in the public sector domain and some of the private sector banks have shifted. That is the only one which is left as a matter of legacy for us for which there is no mandatory requirement as on today otherwise the capacity of our balance sheet in terms of credit has got good potential for earning the profit. On basis of these factors only, I have mentioned confidently that our profit during the current year should be around Rs 6000 Crores.

Moderator: Thank you. The next question is from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni: Sir at last quarter you have mentioned about the opportunities from the sale of some real estate assets. So what is the status of this?

S. S. Mallikarjuna Rao: There were property which was there in the domain under tendering, but fructification has not taken place so far in the real estate assets. In terms of branch rationalization, we have already merged 420 branches as on today. So which was a target up to 500 up to June which we have already done 420 and I am confident of doing that. Regarding real estate we are yet to get the amounts.

Mangesh Kulkarni: Thank you very much.

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

Jai Mundra: I had just two things one is I think you had given the slippages breakup of Rs 25000 Crores but I mean if you can repeat I think the total is not adding up because agri Rs 5300?

S. S. Mallikarjuna Rao: No. I had given only Rs 23185 Crores for Q4. For overall Rs 25000 Crores you can note it down agri is Rs 5460 Crores, retail Rs 3345 Crores, MSME Rs 9817 Crores, and others is Rs 6380 Crores.

Jai Mundra: Your MSME is the highest chunk right?

S. S. Mallikarjuna Rao: Correct, MSME is the highest chunk and we are working on that. In the other category Rs 6380 Crores, Rs 2000 Crores has already been upgraded. That is under restructuring category.

Jai Mundra: Do you suspect MSME once you restructure maybe under restructuring 2.0 or maybe you do ECLGS do, let us say the recent tweak which Finance Ministry and IBA has approved do you see there is the case for some of the upgrades to standard out of this Rs 9800 Crores slippages?

S. S. Mallikarjuna Rao: Rs 9800 Crores is not eligible for restructuring. It is only recovery upgradation or if the unit is running additional funding but it will continue to be NPA even after additional funding until the improvement comes for the recovery. So technically this Rs 9817 ECLGS will remain NPA. We will be following-up for recoveries or if there is any requirement we can do additional funding not through GECL, GECL eligibility is different and restructuring current window 2.0 is covering only accounts which are standard around March 31, 2021.

Jai Mundra: The second question is now the merger has been complete and I think we have mentioned also that it is a very quick in terms of timeline. So now how should one look at it the cost synergies maybe for FY2022 so you have rationalized quite a few branches and ATM etc., and maybe the headcount also. So what could be the cost savings for FY2022?

S. S. Mallikarjuna Rao: See FY2021 already we realized around Rs 950 Crores and FY2022 we will be realizing around Rs 1200 Crores because branches itself we have closed around 430 branches will complete 500 by this month end and another 500 will be completed by March 2022.

Jai Mundra: In terms of Sir your cost growth salary plus non-salary opex growth, could we see so this year we have seen on a YoY basis it was a clear decline. Could we see there is more or less the similar trajectory, I mean, let us say Rs 20000 Crores of opex expenses how should it trend in FY2022?

S. S. Mallikarjuna Rao: See main thing is if you look at cost to income ratio which has gone down very heavily, there was an exceptional case in the month of March 2020 when three banks were being merged. In fact these figures are as of April 1, 2021 after the merger balance sheet was prepared because of harmonizing the policy on AS15, that is for funding to pension and other related issues, there was a requirement of higher provision to be made by the merging banks. As a result the amount was very high that is why you observe that percentage wise there is larger difference. However, at 46% of the cost to income ratio, it is sustainable even if you see in December it was 47% and 46% which is sustainable and during the current year, the level will be same what you are indicating to me.

Jai Mundra: Thank you Sir. Thank you so much and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Bhavik Shah for closing comments. Over to you Sir!

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

S. S. Mallikarjuna Rao: Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference. We thank you all for joining us. You may now disconnect your lines.