"IDBI Bank's Q1 FY22 Earnings Conference Call hosted by ICICI Securities Limited"

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MANAGEMENT: **MR. RAKESH SHARMA - MANAGING DIRECTOR & CEO, IDBI BANK**
MR. SAMUEL JOSEPH JEBARAJ - DEPUTY MANAGING DIRECTOR, IDBI BANK
MR. SURESH KHATANHAR - DEPUTY MANAGING DIRECTOR, IDBI BANK
MR. P. SITARAM - EXECUTIVE DIRECTOR & CFO, IDBI BANK

MODERATOR: **MR. KUNAL SHAH - ANALYST, ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to IDBI Bank's Q1 FY22 Earnings Conference Call hosted by ICICI Securities 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. I would now like to hand the conference over to Mr. Kunal Shah from ICICI Securities Limited. Thank you and over to you, sir.

Kunal Shah: Thank you, Janice, and good evening everyone present on the call. This is Kunal Shah from ICICI Securities. Today we have with us Mr. Rakesh Sharma – Managing Director & CEO; Mr. Samuel Joseph Jebaraj – Deputy Managing Director; Mr. Suresh Khatanhar – Deputy Managing Director and Mr. P. Sitaram – Executive Director & CFO from IDBI Bank to discuss their Q1 FY22 Earnings. Over to you, sir.

Rakesh Sharma: Thank you very much. We welcome you all. Ladies and gentlemen, the business and financial analyst, I place my sincere thanks to all of you for taking your time out for attending this meet. I must also take this opportunity to place on record the efforts put in by the staff of the bank wherein about 25% of my staff members got affected since the beginning of the pandemic and we had few casualties also, but they had worked relentlessly during this time with 98% of our service outlets, these were functioning even during the second wave. I also convey my deep appreciation through this forum for our customers who stood behind us rock solid in our turbulent time and repost faith in our abilities.

Now, just commencing this, we all commence this financial year 2021-2022 with the challenges of second wave and this second phase was quite intense though the situation is still blurred, I am sure all of us we have an improved movement and certainly a better vision as compared to the year which has gone by. The globe now is better prepared and has been showing its resilience. I am sure our interaction would also draw right perspective with regard to performance of the bank in the prevailing business conditions during the second wave. Now overall economy of course IMS has already projected that the domestic economy would grow at about 9.5% as our domestic market is extremely large and broad based.

With the exit from PCA, the Bank has recalibrated its strategy to avoid its performance metrics with a prudent asset mix. With the 60:40 composition, the Bank envisage to stop degrowth in advances book and reemphasized to grow its advances book around 8% to 10% during financial year 2021-2022. So, in this background, I will just give the main financial parameters and then I will request the CFO to make the presentation.

So, there was a profit after tax of 603 crores during Q1 which is, you know, has been showing the upward trend quarter-over-quarter and the profit before tax of 1,024 crores. There has been improvement in operating profit as well as NII and the net interest margin was also 4.06%, cost-to-net income ratio was 33% and overall CASA which has also been showing good trend has improved to 52.44%. And our net NPA was reduced from 1.97% as on 31st March 2021 to 1.67% and the PCR I think is 97.42. I think it is the highest amongst the banking industry. Capital wise also now we are quite comfortable and the total capital adequacy was 6.23% with Tier-1 capital at 13.64. So overall as I said there has been improvement in the performance over the quarter and we have made adequate provisions for the contingencies like for COVID provisions and other related provisions. Rather I will say that we have been quite proactive in making provisions so that to strengthen the balance sheet and I feel that the Bank's balance sheet is now quite standard.

So, with this I will request the CFO to make the presentation. Thank you very much.

P Sitaram: So, the major highlights for the current quarter have been already highlighted by MD. So, I will just outline it this way that we had won the major one-off that is the recovery from Kingfisher that has profitably impacted the interest income, the NII and the principal portion has impacted the other income. Then the second is that we had the other income realization from government security sale which is also been a significant increase. Third, we have also done provisioning which is again sort of one-off. The provisioning for NPAs, that is the doubtful DA 1 and DA 2 which are one crore and above, we had continued to follow the policy of accelerated provisioning and we have done full 100% provisioning for growth. We have also done as a one-shot provisioning for the SASF securities. So we have made a provision of 902 crores, the balance that is outstanding is represented by the realistic estimate of what the SASF would recover over the next 3 year. That means that we have left no deficit now remaining in the balance sheet and it has been brought down to the net realizable value.

So, coming to the numbers, and we will come to the profit & loss accounts, Slide #5:

So, you will see that the interest income is showing a growth over June 20 and a dip over March 21. The feature here is that March 21 had a one-off also that was on the, you are aware of that, that we had an interest on the front of advanced tax, which was about 1,100 crores. And in this quarter as I said there is a component of interest from Kingfisher that is the 455 crores. So, on the interest expenses there was degrowth mainly because first is the overall deposit portfolio has reduced. Second, the rate of interest overall for the industry has come down, the market rates have come down and third of course our CASA ratio has improved with a corresponding decrease in dependence on bulk deposit.

On the other income I already mentioned the increase is attributable largely due to the realization from government securities in this quarter. On the OPEX, we have fully provided for the wage settlement which has been arrived at for the 5-year period up to financial year 2022. There is a small provision still remaining to the extent of unpaid dues for certain categories of employees and OPEX has been more or less in control. It is in line with past quarter. So, now under provisions and contingencies, as I mentioned the main items are the accelerated provision on the NPAs, the provisions for SASF, besides that of course we had done provisioning for COVID restructuring. We have maintained those provisions that we had made earlier, plus we also done for the RF2.0 projection that cases have been restructured in this quarter and we also estimated the likely provisioning required for cases that are in the process of restructuring but will be completed by September. So, we have provided an estimated amount from that also. So overall, in addition to all these provisions we have made certain specific standard provision that is, we have identified a corporate group consisting of four exposures where we have seen some weakness emerging in that and proactively we have made provisions for the entire principals of that. There has of course been utilization of the carry forward business loss and DTA reversal of about 420 crores.

Now coming to the breakup of interest income and interest expense:

So those details are because of I have already given you the factors which have affected each of these components. I will not waste time on this. We will go on to the provisions slide. We can see that provision on investments largely due to the depreciation on investment, which is there, 782 crores. Then we have the NPA provision of 199 crores in this quarter for the standardized provision including the standard asset provision for specific cases 353, restructured as I mentioned. We have estimated the likely restructuring in the next quarter in the RF2.0 and we have provided for that also. 421 crores income tax, deferred tax write-off and bad debt is entirely due to settlement and settled recovery**.** There has been no technical write-off and other positions are about 81 crores.

So, overall, there has been improvement in all the yield ratios, cost of funds, cost of deposits, I will not go into each of these ratios. The improvement has been largely aided by 2-3 things. One is that the slippages have been more or less equal to less than the upgrades, so that the standard asset component of the portfolio has remained steady.

The second we have had this not only the regular interest income but also this interest component of recovery from write-off cases, not only from Kingfisher, there are also 2 or 3 other cases that has also added to the interest income and the changing profile of the deposit side has also augmented the market. So overall the cost of deposits has gone below 4% which has similar impact on cost of funds, the yields have improved, start reflecting in the quarterly NIM of about 4%. But the 4% may not repeat every quarter going forward. There are the occasional one-offs given the high level of provisioning we have done for NPAs as well as investments, but this will not occur every quarter. But as and when it occurs there will be a spike in the NIM. Overall, for the financial year, we aim to maintain an NIM of above 3%.

And on the balance sheet, the advances as MD has already mentioned, we are growing in regions, corporate there was constraint till March. So, we are dealing this, but the effects of the reengagement and renewing the relationship will gradually reflect over this financial year. We have put in place conservative, detailed limits, policies and processes to ensure that the corporate portfolio that we now initiate, originate and grow will be of much better quality than what we had faced over the past. So right now, the composition of the retail is more than 60%. It is possible that it is tend towards 60% or maybe slightly less than 60% as we grow. But all these effects will develop gradually. We will not see a drastic change in the mix immediately and therefore the retail components will continue to remain a focus area for us.

Now, we have got a couple of slides from the business performance, the deposit mix. They already spoken about all these things, that is the lesser dependence on bulk. But I would like to emphasize that as we grow, as of now we have sufficient liquidity. We are not constraint for funds, but there will be a stage where credit deposit ratio will increase and that time we will definitely consider, especially if the bulk deposits are available at a rate which may be lower than the retail deposit. We will now continue to remain at this low percentage of bulk deposits. Once it is found economical and it makes to us the sense and to the extent that it is feasible there could be some increase in the bulk deposit ratio also.

And we straightaway come to the priority sector. We had achieved all the requirements of the priority sector of RBI. These have of course been with the help of acquiring CSMCs. But despite that in most of the sectors we have achieved it on our stream. One or two subcategories we have to resort to PSLC. But overall, even that has turned to our advantage. We have been able to make again on the acquisition and the sale of PSLC. Of the treasury, already mentioned that the gains on the sale of government securities, overall duration has remained well, for the AFS it has remained about 1.17. So given the current interest rate scenario we are quite comfortable with that. And then the COVID provisioning details as they have mentioned already, we have aggregated now about 1,347 crores of COVID provisions.

Then coming to the NPA, now the gross NPA percentage had slightly gone up. This quarter we have not done any technical write-off. The increase is mainly due to reduction in gross advances. And even though gross NPAs have come down, but the reduction in gross advances has resulted in a small decimal increase in the gross NPA percentage. Net NPA has come down due to the traditional provisioning and it is stands at 1.67. The accelerated provisions that we have done for Q1 is 447 crores. So, with this now we have got about 80% of our GNPA is fully provided and technically written off and fully provided GNPA aggregate to about 76,800 crores. NPA movement I have mentioned that FTA NPA 1332 plus additions to the existing NPAs is mainly due to Flexi fluctuations as well as some devolvement. That settlement upgradation and write-off, this write-off is actual write-off on settlements. So, this has outpaced slippages so resulting it in overall reduction in the gross NPA. Slippage ratio for the Q1, the cumulative is 1.06 and for the quarter as well it is about 0.63. So, on an annualized basis if you multiply that by 4 it is about 2.4%.

Now the NPLT summary is there. There is nothing much to talk about that. We have made all the provisions that are required as per RBI guidelines for this NPLT cases. Then on the SMA provision we are in control of the situation. We are using all the tools that RBI has opened up to address the stress in the economy, wherever the borrowers are generally under stress assets and where they are approaching us and where we talk to them and they are willing to avail the window that is available to us, we are giving some facility; we are in the process of implementing.

On capital, as I mentioned we are comfortable now and of course we are aware that this is not, this doesn't include the Q1 profits. So, Tier-1 starts at 13.64 and overall share here is 16.23. This is aided by a small decline in the RWA. Shareholding pattern more or less remain same. The EPS has quadrupled compared to Q1 of last year to Rs. 0.56 from Rs. 0.14. We are continuing to take the steps to enhance the divisional portfolio. So that has reflected in the numbers that we have mentioned here. Specially during this COVID regime, we have updated our internal banking portal, we have made it much more user friendly, we have brought changes, we have brought in changes to our mobile banking app. We have presented several other initiatives to induce the customers, engage much more on the digital channel rather than the physical channel and that is reflected in these numbers that we have given here. We have given the digital footprint such as payment acceptance channel and so now straight away we will go to the initiatives I already mentioned on that, mobile app, the WhatsApp banking which we have, we have tied up with LIC Card Services to launch a cobranded Rupay credit card called Shagun. On the Jan-Dhan accounts, PMJDY**,** we continue to play in the role in improving this account.

On the subsidiaries I just want to mention that all have reported profits for this year and for this quarter. On the way forward, I just want to emphasize, I will not take your time, straightaway that our strategy will be now to reactivate and reengage with the corporate portfolio, continue to grow the retail portfolio, but in those factors, as the COVID scene is changing the stress landscape for different retail sectors with different retail products, we will be keeping track of that and we will be cautiously increasing our exposures in those sectors where the stress is minimal and on the corporate also we will be looking at more granular exposure. We will be engaging with mid corporates, more than the large corporates, we will be looking at spreading our exposure and we will be looking at increasing our exposures to better rated companies. So that is the strategy which we had planned all along, we have talked about. But now that post PCA, this is now activated and the results would be seen going forward. As far as the LIC Synergy is concerned, it continues in full flow. We continue to engage with LIC and explore further opportunities with them, the engagement continues which will reflect not only in terms of fee income for us but also in terms of CASA balances and other benefits. On the CASA front, I just want to add that, even though we engage actively with LIC and the improvement in CASA is not just because of LIC, the LICs contribution is there, maybe to the extent of 3% or 4 % of the CASA. But the remaining growth has happened on the Bank's own stream. Of course, the overall industry has also shown improvement in this due to the COVID thing and we have gained our own share in this overall increase in the CASA from the industry.

Now, I will not say much more. I will stop here and we can take the questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question answer session. The first question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Firstly, in terms of the overall pool of written off accounts and 100% provided GNPAs which is there of 77,000 odd crores, how do we see the recovery coming through from this? There is some recovery in write-off, but overall, what are the expectations over the next 18 months to 24 months? And even if you can highlight in terms of few corporate resolutions which are in the advanced stage and we see them coming through in next couple of quarters, that is some of the larger corporate accounts?

Rakesh Sharma: Now, as you see those recoveries 2019-2020, we had 8700 crores recoveries and then 6000. This year we had targeted around 4000 crores recovery. At the last quarter, when I had presented the results for March 2021, so that time the target was, we have taken for ourselves was 4000 crores. Of course, we were trying for this one good recovery and which has come. So around 700 crores. So, with that I am quite hopeful that this year we will be able to touch recovery of 5000. So, this quarter including that particular account, the recoveries have been 1,600 crores. So, remaining around 3,400 crores recovery should not be the problem. The name of accounts I cannot mention, but yes, 3-4 big corporates also are included in that and each quarter maybe this quarter itself we will be getting one big corporate then next quarter one then listing like this. And apart from that, of course smaller accounts also we are expecting recovery. So total recovery for the full year including this Q1, which was expected to be 4000, now I am revising it upwards to 5000 crores.

Kunal Shah: And secondly in terms of you highlighted that in 3 to 4 odd accounts we have made some additional provisioning looking at the weakness or the vulnerability. So how much would be the cumulative exposure to those accounts?

Rakesh Sharma: It is not much; I think the total including that account will be roughly in the range of 200 to 250 crores.

Kunal Shah: So, our exposure is 250 odd crores towards those accounts.

Rakesh Sharma: You were asking standard only?

Kunal Shah: Yes, standard only. So, you mentioned there was some provisioning which was made. So just trying to gauge in terms of what is the overall exposure in case that…

Rakesh Sharma: 260-270 crores. And 100% provisioning has been made.

Kunal Shah: And in terms of SMA what we have included that thing also largely in terms of the corporate SMAs would be there. So, if we look at less than 5 odd crores would that be a significant chunk because maybe now our retail book is also significantly higher, so how would be the SMA 1 & 2 including less than 5 crores as well?

Rakesh Sharma: Now you see, what SMA figure we give in this paper, the presentation, the total SMA level is given 7000, it includes all accounts. We are not giving more than 5 crores. We are giving all accounts. So, this all accounts if you see my total SMA, percentage is around 5.7%. So roughly that you know the collection efficiency, which was there at pre-COVID level, so that has been there at the post COVID more or less we have been able to achieve that. The SMA 2 level is only 1.95%. So, what I want to reiterate is that this number which we are giving this is for all accounts including less than 5 crores also and that way the SMA levels are under control and the corporate if you see the bifurcation wise, out of that 7007 crores, around 6000 crores is in this thing retail and 1000 only in corporate. So corporate is quite small.

Kunal Shah: And in terms of restructuring, we have created 484 odd crores provisioning, so if you can just suggest in terms of what is the overall exposure, what is the pipeline that we think and given that again on retail, our growth has been slightly higher over last one year. We have been doing larger part into retail, so how has been the behavior of that under second wave?

Rakesh Sharma: Now, like this total restructuring if you see, I have this resolution one and two, it was around 2% of my total portfolio, standard advances portfolio and that this new restructuring, it is not much. It is around only 0.25%. So, the total restructuring and which we, even in September if something more is coming, so it will be within 2.5%. So that much only restructuring has happened, out of that as I said 2% is in resolution 1 and resolution 2 combined and only 0.5% in the resolution 3.

Kunal Shah: And in terms of the nature, if we have to just look at it in terms of the split how much would be retail MSME and maybe the corporate within this retail and corporate?

Rakesh Sharma: Now, retail if you see, total structured rated assets and in SRA this resolution 1 framework it was 700 crores and in 2, 825 crores. So almost 1500 crores. So as against my portfolio of 60,000 crores, so it is 1500, so around 2.5% portfolio. Remaining around 1000 crores is in MSME category. So total 2500 crores. So, it is like not very much, it is as I said more or less it is spread same 2.5% in all retail, SME and like.

Kunal Shah: And anything in pipeline which we can expect or maybe within the larger part of it is done in by September we will not…

Rakesh Sharma: Pipeline, as I said already the total restructuring that includes pipeline also, 0.5% which I said and one good positive point is that the partially restructuring which has to be completed by 30th September, that additional provision which will be required for making this that will be around

120 crores, up to 30th June we have already made actual provision. 120 crores additional provision which will be required for the balance provisioning that also we have made advance for it. So, no further provisioning will be required.

P Sitaram: We expect restructuring of about 1000 crores to be completed in the next part of this year.

Kunal Shah: Sorry, restructuring of about?

P Sitaram: 1000 crores. Which we have made 120 which MD mentioned.

Kunal Shah: And overall, on retail fees, how are we seeing the competition and how are we now positioning because housing is getting extremely competitive and significant part of our retail pool is in housing, so how are we looking at this? So, maybe even housing and auto both of them are extremely competitive. So maybe either in terms of sourcing from say the agents or at the branch level, how are we positioning and maybe if you can just get, because when we broadly look at it, obviously the underlying circumstances were not great but otherwise our book has been more or less flat. So just want to get the strategy on the retail side.

P Sitaram: On the retail front while the margins are low, but the opportunities for cross sell and other fee income is also significantly high given the large volume of the borrowers, this is one. Second, the model is robust and it is put in place and today if the housing component is high, that is the profile of the book is so high that it is more secured**.** Mortgages are 92%-93% of the total book, so that gives a resilience to the overall portfolio. The third thing is, we also have plans of diversifying the portfolio, includes the credit card foray which we have started. You must have seen we have launched even gift card in another joint venture coming with LIC. This is one. Fourth thing is, we started gold loan last year, where we did a substantial improvisation and that is a consistent stable portfolio and very secured portfolio. So that is also giving an additional source of diversification. So that way we have planned going forward and to substantiate the goal, we have put the very proper off structure also which includes the separate vertical for collection and recovery which is a core team of the entire Indian banking operations.

Kunal Shah: And in terms of sourcing, would that be largely, if you have to look at in terms of maybe in-house and maybe through third party?

P Sitaram: So yes, sourcing we have been following an outsource model which we call the outbound sales team. So, for the deposit base we have outbound sales team which generate the need for us and which is converted back and stuff. Similarly on the retail asset front we have a DSA**,** DSP model which is working very fine and they are only sourcing, generating the lead. The underwriting is done by the bank staff. So that is been placed for a longer time and it is working with brand sourcing. Let brand sourcing continues to grow as we move forward. And plus the digital channels are getting active more and more. So that I also another source of origination**.**

Kunal Shah: And in terms of payouts, any change you have seen in the market to DSAs, given such a competition to get…?

P Sitaram: Payouts are in the range of the industry only, in line with the industry. Of course, the productivity norms are separate which we monitor closely.

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

Neha: Just 2 to 3 questions from my end. First, wanted to know what is the outlook on the credit cost from here on? Any target for the PCR you would like to give? Second question, any run rate of this slippages from here on would you like to guide? And third question is targeted NIMs from here on?

Rakesh Sharma: The first is, you have asked about the credit cost. So last quarter also I have mentioned that my credit cost we will be limiting below 1.5%. So, if we see during the current quarter, that the credit cost for the quarter was 0.57 but it includes accelerated credit cost and if we exclude annualized portion, it is 1.13, much below 1.5. And that also we had clarified and I maintain this position that our PCR now is around 97%. So given the, before giving the final number then just let me also mention about the slippage. So, slippage we had mentioned that it will below 2%, but as you have seen in case of other banks also, our banks in COVID situation, so during this current quarter these slippages have been slightly higher like in case 1332 crores was there, but then upgradations are also there 1009. If we net off, that is on the same account which has slipped during the quarter and upgraded also because some by way of recovery and some by way of restructuring because it was special quarter for COVID affected quarter. So, this net slippages for the quarter work out to 0.63% which annualize if we make it 2.52. So, it is slightly higher than my estimate. But hoping that this COVID situation will stabilize now and with that I am quite hopeful that we will be able to maintain the slippages between the 2%, particularly in case even on the worse side it will not be more than 2.5% even if the position continues like this. Now, taking this 2.5, now the credit cost if we count, it will be around say roughly 0.6%-0.7% and ageing provision will be there, some accelerated provision, that is why we are taking it as 1.5%. So, these two questions, I have been able to reply. And third, NIM, I think CFO had clarified that presently for the current quarter our NIM was 4.06%, but yes there was some spike because one-off recovery was there. Partially this recovery had gone towards interest, but still, I think for the entire quarter, for the entire full year, we will be maintaining the NIM above 3%, minimum above 3%, more if it happens that is good due to such spikes, but in any case, it will not go below 3%. That is our target.

Moderator: Thank you. As there is no response from the current participant, we take the next question from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh: Just two questions from my side. One is on the restructuring that you have done on the retail and MSME, could you just give us an indication as to what has been the kind of restructuring that you have offered to the customers?

Rakesh Sharma: This is as per the new scheme of Reserve Bank of India which was announced in the month of April**.** This is a normal restructuring. We have given some moratorium and existing moratorium where it was given less than 2 years has been extended wherever necessary. First, we have identified actually the COVID impacted borrower and based on their cash flow requirement the restructuring has been done.

M.B. Mahesh: Let us say, for a housing loan, what would be the typical restructuring you would have offered in terms of moratorium?

Rakesh Sharma: Some EMIs would be postponed, that would be added to the later on EMIs.

M.B. Mahesh: Would you say that it is around 6 months to one year or is it going to be longer than that?

Rakesh Sharma: It is in the range of one year totally because somewhere there is a loss of job etc. it could be more than one year. But generally, it is 6 months to one year.

M.B. Mahesh: And the same for MSME? How the restructuring work there?

Rakesh Sharma: MSME is also accordingly them. Their if some are shops are closed or some units are closed, there the moratorium period is little longer. But otherwise, if the cash flows are impacted and the return of the business which is already showing green shoots from the June month there it is shorter.

M.B. Mahesh: Second question, sir. The answer that you have given to Kunal, with respect to 5000 crores of recovery for the year, this includes both recovery from written off accounts, as well as the underlying gross NPL pool or this is just from the written off book?

Rakesh Sharma: No, these 5000 crores when we say recovery, it includes everything, partly it will go into the recovery cash, recovery portion partly from written off account and might be slight AOD also, assignment of debt to ARC. So that will be full total recovery. But of course, it does not include the assignment which may do to the NARC, the national asset reconstruction cell is coming, so that does not include, that whatever we transfer the assets to NARC, that will be over and above. But this 5000 it includes everything, written of recovery, interest, part recovery or like that, but not upgradation, upgradation is separate.

M.B. Mahesh: And my last question on the same one which you have anyway highlighted, what is your expectation of the assets which will be transferred and its impact on NPAs?

Rakesh Sharma: Of course, assets, partly some discussion is going on. But as you know that so far it has not come in place, but some round of discussions have been going on amongst the bank. So, we also have initially identified certain assets in the first phase. So, it will what we have identified around 11,000 crores to 12,000 crores. Out of that around 7000 crores to 8000 crores is in my live ledger, so will help in reducing my gross NPAs by almost 5% and the other is around 3500 crores to 4000 crores in the already written off book. So that may not affect by growth NPA level because it has already been written off, but yes, certain recoveries will come.

M.B. Mahesh: Sorry, just one additional question. Is there a P&L impact because of the NARCL transfer?

Rakesh Sharma: Yes, because most of my accounts like as you see my PCR is 97%, of course partly they will be giving in cash, partly in SR, so whatever it comes in the form of cash that will have if it fully provided and it is coming over and above. So, either if it is in TW directly it will go into other income. So, P&L impact will be there. If it is not written off, then it will go towards provision reversal, then also P&L impact will be here. So, both of them P&L impact will be there.

M.B. Mahesh: But the SR would have a government guarantee? Is that clarified or not yet?

P Sitaram: If you got yourself government guarantee, RBI norms continue which says that you cannot recognize the SR above the book value which was there at the time of transfer. So, where there is a fully provided account or a technically written off account, the book value is either zero or one rupee. So therefore, we cannot recognize the SR at more than that. So that now will continue.

Rakesh Sharma: But currently that government has indicated, but of course finally we have to see…

P Sitaram: Finally, we want to see the final shape of the guarantee, how it comes and what it will cover? We have not yet seen that. But even as of now the RBI norm is, it doesn't make any distinguishing whether there is a guarantee or not, or whether there is a government guarantee.

M.B. Mahesh: But there will be a capital release if you go with that, right, Sitaram, sir?

P Sitaram: Capital in the sense that if there is a RW**,** in the phase of TW so there is no release**.**

Moderator: Thank you. The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: My question is related to the question that Mahesh asked about the NARCL. So, you said about 11,000 odd crores is going to be transferred to NARCL. So, is that particularly in the phase 1 and is there additional amount which will be transferred under the phase 2?

Rakesh Sharma: Once they started, so this is initially we have identified, so then because they have also certain quota. So finally, if there is some vacancy, further details like selling your assets to ARC. So here the benefit is that it been managed by this NARC there some government guarantee SRs will be there and upside also will be coming. So, all bankers will be participating in the equity. So those benefits are there and they will be following the very transparent process also. So that is why there maybe second phase also, but so far, we have identified this many of assets.

Anand Dama: But there is a possibility that in the phase 2 you could have additional accounts moving to any of that?

Rakesh Sharma: There is a possibility, it will depend how much they have been able to do aggregation and then what is their total requirement. So, if there is a gap then further the accounts maybe identified by all the banks. So, it will be, what they are saying is whenever they are taking the account, they will take from full 100%, not that partly some banks will transfer, some not. So, wherever agreement is there that all the lenders are agreeable to transfer. So those effects will go. So that will depend, the amounts we have not so far identified.

Anand Dama: Sir, does that mean that even if any corporate basically there the private bank has an exposure. So even private banks were transferring their exposure to the NARCL, right?

Rakesh Sharma: Now, initially like that has been the endeavor and that is why some specified accounts will go there because that will make their task easy. Because when the resolution will become faster, that is the purpose.

Anand Dama: So, private banks have agreed more or less at least on the accounts which were listed out earlier on?

Rakesh Sharma: Wherever there is agreement, then only all the accounts will be transferred.

Anand Dama: And sir, secondly that you also have your own SASF fund, stressed assets stabilization fund, can you provide some details on what is the amount which is outstanding to the SASF fund and I believe that somewhere in 2023 that whatever that we are not able to recover, we will have to write it up and what is the key difference that you see between this SASF fund and the NARCL, that if you can highlight and talk about, it would be great.

Rakesh Sharma: To answer your question, earlier I have questioned in my presentation, that as of now the recovery estimated through SASF is about 750 crores. So, the recognized security is now at this value and the difference we have already provided in this quarter, quarter remaining balance of that. So, we have made a provision of 902 crores this quarter to SSA account. So the outstanding balance reflected as investment in SASF security is now equal to the expected recovery through SASF which will be over a period of the remaining 3 years of the life of the SASF.

Anand Dama: And what is that amount, sir?

Rakesh Sharma: 750 crores.

P Sitaram: 750 crores. So that is the recovery and so now we are not required to provide any add in, there will be no further shortfall. So whatever shortfall is expected we have fully provided, that is number one. The end period for that is around 30th September 2024. So, by that time they will recover the amount and then they will be liquidated. Now your difference between, you know what is the difference between SASF and NARCL, right?

Management: SASF is one lender transfer. First difference, so it is just IDBI exposure we got transferred. They didn't aggregate in any respect. So only the cause of action shifted from IDBI to SASF. Second SASF is a government transfer, it is not like an ARC. So lot of those empowerments, regulations don't apply to SASF and they apply to ARC. They are just like any other lender in that respect. They are not an ARC. So now as a government trust it has been given the power to pursue in DRP, in through Sarfaesi action, all those amendments have been done, but all these empowerments are accessed by the lender, as if it was a financial lender. So, whereas NARCL is different. The whole objective is that there are large ticket undissolved cases lying for a long term and one of the reasons why they remain unresolved is because aggregation has not happened and therefore a constructed action has become difficult and the existing ARC, they have found it difficult because of the large size. It is required a larger amount of capital to be able to aggregate and acquire this item. So, to address these issues, the NARCL has been there. Therefore, I think there is a huge difference, in fact there is actually no comparison between the two entitlements.

Anand Dama: Sir, in that case, whether the NARCL, whatever assets that you transfer if they are not able to resolve those assets, something similar to the ways we have been doing in case of SASF where we marked down our investments. Similar treatment is going to be happening with NARCL or basically because there is a government guarantee, you don't have to provision anything on the investment group at all?

P Sitaram: we have to see, as I said the actual color of what the government guarantee will be what it say, but definitely going by what has been told so far, there is a period guarantee. That is, I think up to first 5 years is what has been mentioned. So, at the end of the 5 years now there is a guarantee that whatever is the remaining value of the unrealized assets which are lying in the pool, yes, I mean I think there could be a question where the cases are settled in the course of the 5 years, but less than what NARCL has budgeted. So, there could be a deficit arising because of that also. We have to work out all these details, not every part of that roadmap is known completely. It will be known shortly within 2-3 months we will be having a very clear picture of all this. But yes, to that extent it is not like SASF that everything will come back to, there is a guarantee and the guarantee will have some meaning. To what extent will it cover and in what contingencies it will cover is something which we have to be very clear about.

Anand Dama: And sir, lastly, we have kick started basically the privatization process. I don't know how much involvement basically the bank management having, but anything, any update on that about appointing merchant bankers and how basically that privatization process is going to be?

Rakesh Sharma: Like you know, this entire process is being held, handled by DIPAM. So, they will handle the process and of course we also come to know through whatever is in the media or on the public domain. So, what we understand that you know they had plotted RC for appointment of transaction advisors and legal advisors and now DIPAM will assess, I think some applications have been received, they will handle and choose and then based on that they will take up the process. Now our decision part will be handled by DIPAM and if LIC is involved by them because they have the honors, so they will be handling it independently.

Anand Dama: Sir, your independent view on this basically. Whether there could be large private banks which could be interested into a bank like IDBI Bank or there could be non-bankers who could be interested?

Rakesh Sharma: No, ultimately whosoever is interested, so finally that fit and proper RBI has to approve the norm, that is number one. Number two, as far as we are concerned, we have to focus on the performance, I have always been saying that. Once we focus on the performance, improve the performance, so there will be some interest from the prospective investors. So that interest will come. Now, as you know so far during the last 3 years, we have been able to clean the balance sheet. Now all that, whatever issues were there more or less have been resolved. Even the issue, which is likely to come on 30th September 2024, that SASF, that also as of now, 3 years before we have resolved it. Whatever shortfall is there we have provided. So, all that issue that way we have strengthened the balance sheet, we are holding adequate provision, our PCR is 97%, net NPA has been brought down to 1.67%. So, if the balance sheet is healthy and we are able to remove the uncertainties, then certainly there will be interest that generally I can comment. But finally, who comes that will be seen only after the process is done.

Moderator: Thank you. The next question is from the line of Niraj from Prospero Tree. Please go ahead.

Niraj: Sir, our operating profit for Q1 is 2788 crores, our provision is 1753 crores. It means 62% of operating profits provide for provisions, right? Is it not on very high side?

P Sitaram: We have given the reasons, right? One, we have provided for SASF that is one-off. We also made accelerated provisioning for NPAs in the doubtful category above one crores, again that was the voluntary provision, but we have done it as a conservative measure because we don't know now how the landscape post COVID 2, whether there will be a third wave and what will be the impact. We felt it that it is better that we now take some buffer into the balance sheet. The third of course we had done specific standard asset provisions for a group of company where we felt that there could be future vulnerability emerging in that. So that is also again an anticipatory provision that we have made in advance of maybe actual stress may or may not arise, but still we felt that it is the right thing to do. So given all this, that is why the provisioning is higher. In fact, the COVID also we had done provisioning for the next quarter, that is the cases which are in the process but will be implemented in the second quarter. For that also we already done the provisioning for it.

Niraj: When these provisions come to a normal level?

P Sitaram: See, if you look at next quarter, if some vulnerability emerges in the large corporates, we don't have much of large corporates now. In fact, there are hardly any, there are no fund based outstanding above 1000 crores and all in the standard assets. There are very few between 500 to 1000. So even if some perceived stress that emerge in any large corporate cases, it will not have that sort of impact that we had in this anticipatory provisioning that we did in this quarter. Similarly, if COVID 3 doesn't happen and the third wave doesn't happen or even if it happens, it is not so bad as some people make of. Then also then the need for restructuring will be much less and accordingly the provisioning also will be much less. At an NPA side we are already at a very high PCR, so the ageing provisions on the slippages that have happened in this quarter, they are mostly in retail. There may not be much, but if wherever required we will make that. So, considering all this and SASF anyway we have caught up with it fully. So, I will say from Q2 onwards we will have more or less normal rate of provisioning. But as the subject to fluctuations arising due to either COVID or due to any other sudden factors because if there is economy has not yet the growth is stage where we can say that this is at a stable or this is now at a stage where we can reliantly make projections about its future behaviors. We need to see the next 6 months or maybe 9 months and if the recovery path is steady from 6 months, then we can also credit with much more certainty about what will be the normal rate of provisioning. However, as I said, Q1 has been one of due to these reasons and there are provisioning which has been done in this quarter which will not repeat.

Rakesh Sharma: Which will not be repeated and I think we can expect some much better performance during the coming quarters.

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

Mahrukh Adajania: Sir, my first question is, of the total transfer expected of 11,000 to NARCL, how much is already written off in your book?

Rakesh Sharma: As I said, out of that around, now finally as I said 3,500 to 4000 will be probably written off book. And 7000 crores to 8000 crores will be from the live ledger.

Mahrukh Adajania: And sir, just in terms of, if anything hop on this again, but just in terms of SR valuation as it stands today of course there could be a government guarantee and then valuation norms could change. But as it stands today if it is a Rs. 100 asset that is transferred, if you say the valuation of the asset is 100 and you get Rs. 15 in cash and Rs. 85 in SR. So that Rs. 15 comes through the P&L and then Rs. 85 gets marked down to one or how does it work?

P Sitaram: That you are right. 85 gets marked down to one, because the…

Mahrukh Adajania: On the first day you take a mark-to-market hit.

P Sitaram: There is no mark-to-market gain unless as you said the valuation norms change. If RBI guidelines change and they say that we can consider government guarantee and some valuation formula is worked for that, then yes, we can. But as of now there is no such provision.

Management: But these are all fully provided accounts. So, there will no hit on this.

P Sitaram: There is no hit, it is only cash recovery is the gain.

Management: Cash recovery is the gain, hit there will not be there, whether there is a mark-to-market gain that will depend on…

P Sitaram: Changing norms within.

Mahrukh Adajania: Sir, and just in terms of SASF, what was the original value of asset transferred?

P Sitaram: We have transferred net book value of about 9000 crores and gross book value was about 11,000 crores.

Mahrukh Adajania: And sir one more thing, just in terms of recoveries, you said that there was one large recovery and that went through NII as well. So that was Kingfisher, is it?

P Sitaram: That was Kingfisher.

Mahrukh Adajania: But why did it go through NII?

P Sitaram: Because the amount that we recovered is more than principal. So the amount attributable to principal goes to other income because it is the recovery of written off principal and the excess over principal is recovery of interest and that goes to interest income.

Mahrukh Adajania: Sir, what was your total principal exposure and you recovered what?

P Sitaram: I think these are all accounting details. So we have recovered about 733 crores and we had taken about 455 crores through interest income and the remaining has gone to other income as recovery of principal.

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

Jay Mundra: First on NARCL, sir. The proposals, it would require cabinet approval, right? Because it looks like the structure is ready and the sponsor banks all are ready. So how soon can NARC be formed and how quickly can you sort of monetize this entire GNP?

P Sitaram: As far as cabinet approval is concerned, on the issuance of guarantee perhaps, I am not very clear about the profits which happens in government. But I think to issue a central government guarantee it would require a cabinet clearance. Even on the timeline the government is working to expedite that. The work is going on and as I said more stagnant, everyone is set for this. We would expect something from the government in the next 2-3 months.

Jay Mundra: Once the cabinet approves, then most of the formalities are already in place and there should not be too much of a time. Is that right or even if cabinet approves there could be some procedural delay, in the set up and transferring of all these assets.

P Sitaram: So I am not expert on that, but definitely there will be some internal processes, it cannot be just that post cabinet approval, there would be some internal departmental and minister level processes which have to be completed. I am sure the government is keen on; it has been supporting the proposal therefore it will continue to support by taking expeditious decisions and actions.

Jay Mundra: And the last question is, technically now that we are a private bank, so in the last, maybe one or two years since we have changed to private banks, has that changed anything in terms of the banks functioning? Have you been able to hire anyone laterally, have you revised the compensation structure? Are you out of 3Cs? Has anything changed on that front?

Rakesh Sharma: As far as lateral recruitment is there, yes, we have done some lateral recruitment. We have also done some campus recruitment also. So, recruitment wise there are no issues. So we have been doing that and as far as this compensation packages are there, that of course we are working on this, but yes, presently most of our that old stock is on IBA package and we were part of that IBA settlement. Some of the private banks even otherwise are on our own IBA packages, not that the private banks are not there. So it is that service structure is there, so it will like for lateral recruitment yes we are giving market related salary. But as far as other issues are there because you know still LIC and government they hold almost 94% of our shareholding. So certain restrictions are applicable. So let us hope once the government is divesting the stake, so then those restrictions will also go away.

Jay Mundra: And sir, just to recall, what is the timeline for LIC to reduce its stake, I mean that is, is that contingent on something or that has not much bearing on the, let us say, further stake dilution from government?

Rakesh Sharma: That of course they will decide, but RBI has given them 10 years' – 12 years' time, so that was there. When originally, they had given the permission to take 51% stake. So that time this 12 years' time was given to reduce the stake up to 40%. So that was the timeline given. Now later on of course whatever RBI, the government and LIC decide on divestment in consultation with RBI, that will prevail, but as of now we should not try to predict or somehow guess on those questions. Because whatever situation is there that is like this, the remaining what happens, let us see, all of our we will witness that.

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

Mahrukh Adajania: Sir, I just needed clarity on a previous figure that you mentioned. What is the recovery expected from SASF?

P Sitaram: It is about 750 crores. That will be over the next 3 years, it has to terminate by September 24. So, this is the recovery expected over that horizon of 3 years.

Mahrukh Adajania: And how much have you recovered already till date?

P Sitaram: 6500.

Mahrukh Adajania: So, you already recovered 6500 and now you will recover 750 by 24?

P Sitaram: Yes.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Kunal Shah for closing comments. Over to you.

Kunal Shah: Thank you, the entire senior management team of IDBI Bank for such a clarification and explanation to every question. And thanks, all participants for participating on the call. Thank you.

Rakesh Sharma: Thank you very much. Thanks again for participating in the conference. I hope we have been able to clarify the question. But in any case, after that also if you need certain clarifications, you can send email to CFO. We will be happy to clarify it. Thank you very much.

Moderator: Thank you. On behalf of ICICI Securities Ltd. we conclude today's conference. Thank you all for joining. You may now disconnect your lines.