"IDBI Bank Q1 FY23 Earnings Conference Call"

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MODERATOR: **MR. RENISH BHUVA – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the IDBI Bank Q1 FY23 earnings conference call hosted by ICICI Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Renish Bhuva from ICICI Securities Limited. Thank you and over to you, Sir.

Renish Bhuva: Hi, hello and good evening to everyone. Welcome to the IDBI Bank Q1 FY23 Earnings Conference Call. From the management team we have with us today Mr. Rakesh Sharma – MD and CEO, Mr. Samuel Joseph – Deputy Managing Director, Mr. Suresh Khatanhar – Deputy Managing Director and Mr. P. Sitaram – ED and CFO.

We will start the call with brief opening remarks We will start the call with brief opening remarks and then we will open the floor for Q&A. On behalf of ICICI Securities I would like to thank the IDBI management team for giving us the opportunity to host the Q1 FY3 Earnings Conference Call.

I will now hand over the call to Mr. Rakesh Sharma for opening remarks. Over to you, Sir.

Rakesh Sharma: Thanks Mr. Renish. Good evening, ladies and gentlemen and welcome to this IDBI Bank analyst call. Thanks for attending the call.

First of all, before I hand over the mic to Mr. Sitaram for making the presentation, I like to give some brief background. The June 2021, the results have to be seen in this context that we had two major recoveries from Kingfisher and Videocon account and as the Rs. 590 crores was credited to interest on recovery, interest income and Rs. 278 crores in two, apart from other recoveries and that quarter we had recoveries of Rs. 1,646 crores. So, this Rs. 868 crores was unusual income.

So, the results have to be seen in that context, so that is why since high one-off income was there in June 2021, so the numbers will have to be seen in Q-o-Q reference March 2022. And overall, we have also recovered around Rs. 1,136 crores recoveries have been made during the current quarter, but these have mostly gone in reversal of provisions. So, the operating profit and the net interest income may not be comparable with June 2021. But Q-o-Q there has been improvement and if we exclude this one-off income from all, base as well as June 2022 numbers also, so the numbers will show substantial improvement.

So, with that I would also like to mention that whatever guidance note we had given previously at the beginning of the year, we have been able to achieve all the targets, rather in some cases we have been able to surpass the targets. So, that you know this is the bank was under PCA up to March 2021, so this is the, now we have started growing both in retail as well as corporate advances. Earlier there were some restrictions about corporate. So, the growth has been 12% YoY, both in retail and corporate and this is a good sign and a good beginning.

Apart from that we have been able to achieve the other targets which I said. ROA of 1.03%, ROE of 14.80%, which are all above the guideline's information. Slippage ratio is 2.5. Credit cost I had given indication that it will be around 1.25. But this time we are improving upon the guidance note. And we feel that since we have been able to control the slippages, the credit cost will be less than 1 and for this quarter it is 0.52. So, we have made some proactive provisioning and with that, in that profit of course despite proactive provisioning there has been good, this net profit there has been increase of 25% Y-o-Y and 10% Q-o-Q. And the capital adequacy is quite comfortable with CET of 17.13 and total capital adequacy of 19.57. The digitalization we have been making some good improvement and 95% of our customers in those transactions are through digital channel only. So, there is good investment in IT expenditure so as to improve further our mobile banking and other areas.

So, with that now I will request Mr. Sitaram to make a brief presentation so that we can take questions and answers after that. Thank you.

P. Sitaram: I am conscious that many of you may have to attend to other calls, so I will be quite brief. I will not run through the presentation as such. One thing, to take up from where MD left off. See, if we exclude the one-offs, the net interest income in Q1 of last year was Rs. 1,727 crores. Then Q4 of last year, Rs. 1,881 crores. And Q1 of this year is Rs. 2,021 crores. So, there has been an improvement steadily over the three period, if we exclude all these one-offs. And in terms of NIM it was 2.8%, 3.09% and 3.26%. So, again there is a steady improvement in all the three.

So, the highlights MD has covered that we have shown improvement in all fronts, the NIM if we exclude this interest on IT refund in this quarter, is 3.73%. Then cost to income we have maintained where we are. ROA, we have crossed 1%. ROE, we have almost touched 15. Net NPA has come down to 1.25 with a PCR of 97.79.

Overall, there is a growth in advances. Slight decrease in deposit but if you look at the daily average basis, there is improvement in both savings account as well as retail deposit. And current account is almost the same on a daily average basis. CASA ratio has improved to 55%. We are well capitalized now at 19 and tier one of 17%, more than 17%. And in terms of in the other income we have a one-off. Sorry, in the interest income we have a one-off, that interest on refund of income tax, that is about Rs. 171 crores. And in the other income we have a one-off which is gains on sale of stake in our sell which is about Rs. 141 crores.

The OPEX has been maintained steadily. If you remember in Q4 of last year, we had taken one time hit on family pension and other things which we could have done over a longer period, but we voluntarily decided to take the entire hit. So, if we exclude that affect, we are quite steady. The OPEX is well under control. The cost to income is also well under control at 43%. Overall, there is an improvement in the PAT of 25 and 10% when we compare Y-o-Y or Q-o-Q respectively.

Then quickly, NII already covered. Quickly go over to the provisions. Here, what we had done in provision is that we had taken a look at our restructured book under RF1, RF2 and RF2. We already have mandated provisions slightly above those already. But we had decided to make the anticipatory provision of about Rs. 777 crores. This is for any likely stress that can emanate from this portfolio. So, that's an additional contingency provision that we have made for the restructured portfolio.

I will not dwell on the ratios. These are all there for you. The cost of deposit, everything trending well, reflecting in the NIM. The movement on deposits and the breakup of the deposits are all given in the chart there. Overall, I have already given you the picture. That in a daily average basis there is a good improvement.

Then on even the net advances, there is a growth which MD has already covered. On priority sector we have achieved all targets. There is no deficit. So, the amount of RIDF and other deposits that we have, will keep running off and not likely to be an additional call. Except for some gap in the earlier years which are still remaining uncalled and there is a scope for the RBI to call that.

On the AFS side, the modified duration is quite good at 1.04. Even this quarter we have booked the MTM losses, but they are quite moderate and going forward also we don't expect any unusual shock from that side. For the overall book modified duration is about 4.13. And in terms of PCR, of course, we already talked about 97.79. In terms of slippage, we are at 2.5 annualized. And there was a credit cost we are 0.5 to annualized. So, this well within the guidance that we had given, and MD has already mentioned that.

And in terms of digital I will just make a special mention that we had taken a number of initiatives on digital. We have invested and going forward also we will continue to invest in improving the digital footprint. About 75% of the transactions are from UPI which are customer induced and over 95% of customer induced are through digital media. So, we are progressing well on this. And we also given the status of financial inclusion where we have achievement, I will not dwell on those in detail. What I will do is now I will leave the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Suraj Das from B&K Securities. Please go ahead.

Suraj Das: I have a couple of questions. It looks like the March 2022 has been restated and moreover it is more in the line of other and cash and bank balance. So, could you please let us know, what is the rationale behind restatement, why it is so? That is the first question.

P. Sitaram: That restatement is due to RBI clarification. Earlier they had said that the reverse repo should be included in advance, term reverse repo. So, that whatever was 14 days reverse repo we…now subsequently, recently RBI has clarified that that will be only if it is done through the market mechanism. So, RBI reverse repo is to be route back with cash and bank balance. So, that is the regrouping we have done.

Suraj Das: Understood, sir. And sir, the next question is more on the EL side. So, there is a sharp drop in your yield on advances on **(Inaudible)** (13.23). So, just wanted to know what it looks like and in terms of how many percentages the book is EBLR and MCLR linked and what is the rationale behind the sharp drop.

P. Sitaram: To answer you, first of all the primary reason for that what you say a sharp fall in the yield, is because of the reason which MD mentioned that in Q1 we had a one-time recovery from Kingfisher as well as Videocon mainly. This recovery comprised a large part of interest which was taken to interest income. Likewise, we also have one time likes interest on refund of income tax. So, if I exclude those, based on that then the yield on advances on a daily average basis is 8.56% for June 2021. And for June 2022 it is 7.63. This movement on of about 80 bps is mainly due to the movement in the market rate, that is the repo rate and the policy rates have come down, in line with that this yield has come down. Correspondingly, of course, we have also reduced the cost of deposit. That is how we have managed to maintain and improve our NIM. So, before the question started, I mentioned that the NIM has improved, and I gave the figures also without this one-timer. I hope that answers your question.

Suraj Das: On asset **(Inaudible)** 15:00 side if you can just let us know what is the amount of total restructured book, the restructured provision you have mentioned 777 crores. Is it above the COVID restructured provision which is about 476 crores?

Management: Under COVID the slide number 26 will have given the COVID restructuring provisions which is 476 that is existing which includes the mandated RBI the provision, to that we have added this 777. So, we have about 1,240 crores against a book of about 3,100 crores. We consider this to be quite adequate. We are not seeing really the high level of stress emanating from that, but since we are only in Q1, entire industry wants to see the remaining three quarters also to go by, to be able to assess exactly what will be the stress. I think most likely this will be more than enough, there will be extra provision here.

Management: In fact, the restructuring book as you had asked it has come down March '22 it was 3.42% of our standard advances book. Now as on June '22 it is 2.98% of the advances book. In corporate of course 356 crores, because one of the group accounts was there retail, that has moved to NPA as all of you know, the remaining retail more or less either accounts have been out of the restructuring book or some reduction is there about 200 and some base has also increased, so that's why the restructuring book percentagewise is now 2.98% of the standard growth advances.

Moderator: The next question is from the line of Pranav from Rare Enterprises, please go ahead.

Pranav: First of all, thank you for actually ramping presentation and advances slide correctly and thanks for noting that from the lost call. Second thing is also you have included other income but has also solved our problems a lot. I have just two doubts to start with, first of all the 777 crores provisions that you have done on the restructured book that you were mentioning in notes to accounts, where in the P&L it has hit because you have also given in the subsequent slides the provisions and in that there is no figure standing out as 777…

Management: I know that is the accounting presentation. We had made anticipated provision on cases like future, in March itself before they slipped. Now when they slip it will move out of standard asset provision to NPA provisions. Likewise, there are movements in and out of standard asset provision and what is reflected in account is the net of all this accounting debits and credits. So, this additional provision that is made 777 is also included in that, but he will not see the figure straight away because of all the various other movements which are there.

Pranav: So, it is some are clubbed in that split of provisions that you have given?

Management: Yes.

Pranav: In that case can you just specify, what is the actual restructured book in terms of amount, COVID and non-COVID because I remember that previous quarter it was around 7,931 crores combined COVID and non-COVID?

Management: COVID is 3,422 crores, sorry put all 983 crores and the remaining is S4A 91 crores, 5/25 306 crores and others 684. So, total restructured standard book is 4,064 crores. As indicated earlier it is 2.98% of standard gross advances as on June 2022.

Pranav: 4,064 crores is the total book?

Management: Including all, including earlier S4A, 5/25.

Pranav: On that you have 770 crores restructured provision that you have done this quarter and plus restructured provisions from the last quarter.

Management: This 777 crores plus 460 crores is only against 2900 which MD mentioned after restructure. The remaining 5/25, S4A all that they have their own provisions as mandated by Reserve Bank of India.

Pranav: Second question is that can you just mention a little bit in a slow speed exact NIM for the last quarter.

Management: Sure. I will repeat the figures, June '21, first I'm reading out the NII in calendar sequence. 1727,1881 and 2021. Now NIM again calendar sequence 2.80, 3.09 and 3.26.

Pranav: On this core NIM what is the guidance, like what could be the core NIM for us.

Management: We have been like last year are also indicated core NIM will be above 3.25%, we will maintain above that, and June quarter core is 3.26, I think we have been able to achieve the target.

Pranav: For the quarter the slippage is there anything coming out of the ex-restructured book, that is also contributed to the slippages in this quarter?

Management: No, this corporate book like NPAs if you see the slippage breakup, out of 964 crores, 443 crores is from corporate. Out of that 443 crores, 356 crores is coming out of what I had mentioned.

Management: Future cases are all restructured.

Management: 356 crores, the remaining all is only one account, show only three accounts were there, two from Future group and one from others. That's why this restructured book has also come down in corporate.

Pranav: So only 356 crores was…

Management: from corporate and a little bit is there from retail. Not much.

Pranav: So, 356 is from the restructured book previously.

Management: Yes.

Moderator: The next question is from the line of Renish Guha from ICICI Securities, please go ahead.

Renish Guha: I have couple of questions, one is on the slippage side, our total slippages how much of the slippages has flown from the standard restructured book this quarter?

Management: We mentioned the COVID restructured, so if you remove that… From the standard restructured book hardly, anything is there. So, when you say standard restructured other than COVID's restructured, we have this 5/25 and S4A and other restructuring, hardly any cases have slipped from that. In fact, I will probably say zero.

Renish Guha: From COVID restructuring pool?

Management: That is what we mentioned, the Future 356 crores in corporate and 92 in retail. Otherwise, all accounts or running fine.

Renish Guha: Secondly more or less on the industry level, maybe we are seeing this the corporate credit has been gathering from the last 4-5 months, after almost 4-5 years of muted credit growth, what is your experience in the corporate segment, you also see sort of see that corporate demand is picking up and it will sustain going ahead?

Management: I think two or three factors in place, one as you said after 4-5 years of muted investment cycle growth, investment cycle is back on the table. But that is not contributed to the growth so far, that is still in the process of being tied up and disbursements on new investments are yet to happen. But if you look at working capital drawings until whereas increased in the utilization of working capital one, there is capacity utilization in India corporate, there is a cost push inflation which has increased the value of the inventory and the drawing power or the utilization under working capital limits already sanctioned and has also increased. The third one is there is a lot of borrowing from the bond market and money market has come back to the loan market now, because the interest rate from the bond and the money market have moved up much faster than the MCLR of the bank. This is a multifactor play which we are seeing from push in the credit offtake.

Renish Guha: Just a follow-up on that, on the last point about the rate transmission which is bit faster on the money market side. Would you put it under the seasonality, or do you feel this trend will continue given there is more rate hike likely?

Management: I think this will continue at least for this full year '23 after that we will have to see where the interest rate stabilizes**.**

Moderator: The next question is from the line of Pranav from Rare Enterprises, please go ahead.

Pranav: Can you highlight what are the steps now taken for divestment of government stake, there was news in the media that the government is asking something from RBI which will ease the process?

Management: Actually, as you are aware that this entire process of disinvestment is being held by DIPAM and they are basically they are the owner of the bank like 45% share with Government of India and the 49% with LIC. So, the entire process is, since it is being handled by them, they are only running the process, I think they will be in a better position to answer this disinvestment question because we are only aware whatever is coming to media, otherwise as such they will be the best persons to answer this question.

Pranav: In terms of cost of employees, is it safe to assume that now this quarterly run rate of around 717 crores will continue and the general will be a nominal inflation of 10%?

Management: We have to account for DA change that is one, plus also you have to remember that we have not done any major recruitment for nearly 4 years mainly because we are under PCA. Now as the business expands and of course we are pushing on digital, but still, we will require as staff complement also. So, some amount of addition to staff will happen and that will also raise the staff cost a little, but I believe that it will increase but it will increase by a small amount. We are not anticipating too much on the AS15 till this interest regime actually has a different impact.

Pranav: Can you upgrade the recoveries will be much more than what you had guided previously of 4000 crores because this quarter itself it was very good? IBC is still to catch full steam; can we expect that recoveries and upgradations will be much higher than 4000 crores for the year?

Management: We are maintaining our guidance at 4000 crores.

Management: 4000 crores we have estimated for the full year, although pro-rata almost 1136 we have been able to recover. So let us see we will review the position at the end of the second quarter, but as of now we are retaining the target at around 4000 crores only.

Pranav: There was one FK Energy or KF Power in Odisha which was recovered this quarter, do we have any exposure to that?

Management: I don't think so. No.

Pranav: Last question from my side, In the IBC pipeline are there any big accounts that you see on the anvil for dissolution, where we have considerable exposure in this year?

Management: We have Videocon coming up, but we will have to wait and see.

Pranav: What is the exposure that we have for this account?

Management: Videocon we have around 4500 crores.

Pranav: And we have fully provided for it?

Management: Yes, we have fully provided.

Pranav: What is the expected recovery, like it will be 20-30%?

Management: It is too early, because last week for receiving…we are still in the process.

Moderator: As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Management: Thank you very much for attending this conference, we are aware of as Mr. Sitaram said that we have to join some RBI conference also. Thank you very much, despite the busy schedule you have stated time and thanks to ICICI Securities also for organizing this call very nicely. Thank you.

Moderator: Ladies and gentlemen, on behalf of ICICI Securities Ltd that concludes this conference call. Thank you for joining us and you may now disconnect your lines.