"IDBI Bank Limited
Q4 FY2022 Results Call"

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Moderator: Ladies and gentlemen good day and welcome to the IDBI Bank Q4 FY2022 results 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 now hand the conference over to Ms. Divya Purohit from ICICI Securities. Thank you and over to you Madam!

Divya Purohit: Good evening and welcome everyone. On behalf of ICICI Securities, I welcome you all to IDBI Bank cumulative results call. Today from the management, we have with us Shri Rakesh Sharma, Managing Director and CEO, Shri J Samuel Joseph, Deputy Managing Director, Shri Suresh Khatanhar, Deputy Managing Director, Shri P. Sitaram, Executive Director, and Chief Financial Officer. Thank you and over to you Sir.

Rakesh Sharma: Thank you Madam and good evening ladies and gentlemen and welcome to the IDBI Bank Q4 financial year FY2022 and financial year ended March 31, 2022, conference call. I am Rakesh Sharma here. Just to begin with of course the detailed presentation will be made by our CFO Mr. Sitaram. Just want to say some few words. One is that the last two years was affected by COVID as all of us know and as far as IDBI Bank specifically is concerned from May 2017 it was placed under PCA and that PCA was lifted in March in 2021 so that way this last year was the first year when we were out of PCA and though the first half was affected by COVID also that is why performance was affected to some extent, but today when we are out of PCA and we are discussing about the financial results for FY2021-FY2022, I am happy to say that the bank has achieved the turnaround and now the turnaround has really happened. During this four years period when we were under PCA, we have taken lot of measures both financial and nonfinancial. Non financial when I say as far as this organization restructuring, revision of all the policies, credit policies, risk management policies and strengthening the compliance part and strengthening other various measures, follow-up mechanism, collection, recoveries, EWS and all these things, which has helped us achieving the turnaround and which is reflected in the year ended results, which as I said detailed presentation will be made by CFO, but main factors I will like to invite your attention that the bank has achieved net profit for the continuous two years and during the current year the net profit has increased Y-o-Y 79% and the ROA we have been able to achieve 0.8% of ROA and 13.60% of ROE. The main issues during the last four years which we were facing was that our balance sheet was degrowing because we were under PCA, especially because of the corporate advances there was reduction in the advances level, though in retail we were growing at robust space, but the mid corporate and large corporate was showing a decline, but now for the first year we have been able to show growth in all the sectors, retail as well as corporate and the overall growth has been 14%. Retail has grown by 7.06% so that way the growth momentum has started.

Now our emphasis was also on reducing the cost of deposit and cost of funds because we knew that since our the advance side was not growing rather it was degrowing and as a result, it was affecting our aggregate interest income and due to the declining interest rates scenario also the overall aggregate income was affected, but we were able to reduce the cost of deposits substantially by increasing the low-cost deposits. The CASA deposits have increased to 56.77%, which is I think one of the highest in the industry and the cost of deposits also has declined to 3.56% so the save bank and CASA that current account both have shown growth of 14% both in percentage wise and amount wise there is increase. Net NPA which was around 17.30% as on September 30, 2018, it has come down to 1.27% and GNPA also which was 31% as on September 30, 2018, has come down to 19%. Of course I will agree that the GNPA level is high, but the main reason is that we have not been doing technically write off for the last three to four years because of some tax reasons. If we do the technical write off all our 100% provided accounts, my GNPA will also come down below 2%. The provision coverage ratio has increased to 97.63% and the capital adequacy also is quite robust at 19.06%. Tier one is 16.68%. If you see the last time when the LIC and Government of India they had given us capital in September 2019, so after September 2019 now two and a half years except for that QIP of Rs.1435 Crores which we had raised in December 2020, after that we have not raised capital. So whatever the growth improvement in capital adequacy has happened it has happened through internal generation of resources. So we have been quite proactive in making the provisions. The CFO will explain that stress assets stabilization fund, which I have mentioned last year, we had made assessment that how much shortfall is expected to be and accordingly we had made a short provision of Rs.2000 Crores and I can mention that out of Rs.2000 Crores, 1700 provision was did when we were earning profits so otherwise the profit would have been higher by that amount, but now this quarter also, what we have done is that as a proactive measure, whatever is the balance securities that are remaining, those recoveries may happen. We have made the full provision. Although the time to SAFS is up to September 30, 2024, two more years are there, we have made full provision for this outstanding security and whatever recoveries happen in the next two years or if we decided to preclose the SAFS so that the recoveries will add to the bottom line so that way like the number one, proactive provisioning has been made. The balance sheet has been strengthened. Turnaround has happened and now since we have started growing also in the total revenue also you will start seeing the increase from this year onwards. So with that preliminary remarks I will hand it over to Mr. Sitaram, CFO who will give you the detailed presentation. Thank you.

P. Sitaram: Good afternoon everyone. If we go to slide #5, the major highlights for the financial year. The profit after tax has improved by 79% to Rs.2439 Crores. Operating profit has increased by 7% to Rs.7495 Crores. NII has also improved by 7% to Rs.9162 Crores. NIM has improved by 35 basis points to 3.73 and if we exclude the impact of this interest on income tax defer the NIM stands at 3.59 for the year which is also a similar improvement in fact a bigger improvement of about 73 basis points over last year. The ROA has gone up to 0.84

and the ROE stands at 13.6. Overall the cost to income is at 45.89. This includes the impact of the entire ammonization that we have taken for family pension up to Rs.66 Crores. If we had restricted ourselves to only the period charge then it would have been lower to about 43%. The capital adequacy is already mentioned is quite comfortable and RWA is controlled. In fact there is a marginal reduction. Overall it stands at about Rs.1,54,000 Crores. Cost of deposit and cost of funds have improved not only in tune with the movement in the market interest rates, but also due to improvement in the composition of funds for us in terms of CASA. Within that both CARA have shown improvement. The CARA has dipped in between due to RBI mandated correction but after that again CARA has also started showing improvement and now SAS has also improved. Overall both in terms of amount and percentage it has reached to 56.77 and that is a growth of about 6.3% compared to last year. The retail corporate is steady at about 63:37. This is more or less where we had targeted it to be and going forward also we are looking at it more or less plus or minus a few basis points here and there it will be on this line. The net NPA has improved significantly to 1.27. GNPA without any technical write off has improved by about 3% to 19% and PCR has further improved by 70 basis points to 97.63.

Coming to the next slide so I think I have covered all this. As I mentioned the family pension effect if you remove then the cost to income would have been even lower than this however we were committed to RBI to maintain a cost to income below 50 and we are well within that.

Now coming to slide #7 here again as I said net NPA, the GNPA and the PCR as already mentioned have shown significant improvement and capital has consolidated to 19%. There is a reduction in the RWA by about 185 basis points year-on-year.

On the slide #10, we have a snapshot of the PL, the improvement if you compare March 2021 to 2022 in the NII there is an improvement of 7%, the total income of about 6% and in the operating profit of about 7%. In these, if we exclude one offs that is Rs.1300 Crores interest on refund of income tax received in Q4 of last year and correspondingly Rs.350 Crores in the Q3 of this year then the improvement is even better and NII has improved by 22%. The net total income is 15% and operating profit has actually gone up by 25%.

Now coming to the next one, a little more detail on the NII. One can see that year-on-year basis there is an improvement in the interest on advances however the interest on investments has come down. This is largely because we have capitalized on the interest rate in the Q1 and we have sold off to record our valuation gains and other interest income there is a reduction that is mainly because of the movement on the interest on refund of income tax. The interest expenses have moved in line with what I have said that is both in line with the market rate as also the change in composition of the liability profit. Overall the NIM percent which is with and without that effect of the interest on the IT refund, we have given here. Whichever way you look at it there has been a meaningful improvement in the performance of the bank.

So the next slide, it gives just a how the buildup has happened both for the PAT for the quarter as well as PAT for the full year. On the PAT for the full year, you can see that the NII there is a reduction in provisions and contingencies have been the major contributors to the 79% improvement in the PAT for the financial year.

We come to slide number #12. This is the breakup for the other income. Again more or less in terms of commission fee and brokerage, we have maintained the trend of the last year and actually our entire post PCA activity commencing towards to the second half of the year we look forward that this contribution from the commission and the exchange and brokerage will come now not only from a growing retail, but also from enhanced activity on the corporate side. Profit on investment as I said we had recorded along with the industry at the time when there was opportune. Now possibly going forward that would be a little muted. On the other things on forex of course recovery from written off cases we have done well this year but going forward there is a number of last ticket cases would be less. Therefore one can expect that recovery from written off cases would taper off a little over the next year, this will maintain around the same level that we have.

On the next slide are the provisions of contingencies. Here the main feature that I would like to point out here is that as MD had pointed out we have made full provisions for the outstanding amount of the bonds representing our interest in the SASF. The reason that we have done this till last quarter what we are doing is estimating the remaining possible recovery for the three years of the residual period and providing for the balance. However we took a call now so that we could have our hands free to decide on the future course of action on what we can do with SASF. With this now we are armed with much more flexibility and it will take much more fragmented decision to ensure that the value which is residing in the SASF, we capitalize on it in the best way possible. We will explore all avenues now that it has been fully provided. We have not done any technical write off in this quarter so whatever bad debts written off is right up to December plus whatever is essentially required on the retail and SMA side. Other than this we have done every provision that is required as per RBI norm both for the nonperforming, the standard assets as well as the restructured assets.

Just coming to the next slide on the yields ratio. The yield has improved a little for the financial year. If you see that both on quarter-on-quarter and the year-on-year it has improved, however, this trend will reflect the movement in the market rate as we go along and as we improve our corporate book activity. On the NIM we have already mentioned that it has improved to 3.73. It includes the impact of that interest on refund. Without that it is about 3.5 and the cost to income has also improved. As I mentioned it includes the impact of the onetime write off on family pension benefit.

Now coming to the next slide, this is the trend in the cost of funds and cost of deposits. These are figures already known to you. You are tracking the bank. It is in line as I said with the movement in the industry as well as the changing composition of liability profile. Coming on to the balance sheet, this time we have cross Rs.3 lakh Crores as balance sheet size and the advances overall have grown on a net basis by about 7% and gross advances by about 10%. We will discuss the future trend at the end.

Coming to the next slide on the business performance. This again summarizes what the MD and I have stated till now that is the total deposit has grown and the composition in that deposit in terms of current account, in terms of savings account, also in terms of retail term deposit has grown. Overall term deposit seems to have declined from 49% to 43%, but it is bulk now, it has come down from 11% composition from last year to 5%.

Coming to the next slide again quickly I will say that the book of savings, the book of retail, and book of current all of have grown and the contribution to the overall deposit profile has also improved.

Coming on to the subsequent slide, this is the gross advances breakup. More or less as I said that we had stabilized at about mix of corporate and retail and I think that fare will be maintaining plus or minus some 3% to 4% on either side. This will be the trajectory going forward. On the structured resale asset, we continue to be heavy on the home loan, the mortgage, and the secured home loans, but as we had said earlier, we have put in place systems and we are also looking to activate various other products both on the MSME and the Agri and on other retail loans to widen the portfolio base and also enhance the growth from all possible components. Gross advances as I said have grown by about 10% and largely we now have advances booked only in the Gift City branch otherwise it is always domestic.

Coming to the breakup of these advances, you can see that first of all on the corporate and retail as I mentioned now it is fairly steady direction in which it is going. Standard gross advances also more or less the composition has stabilized now so the ratio between corporate to retail is also clean and net advances have shown an improvement of about 7%.

Priority sector which is in the next slide, we have achieved all our targets and overall on the PSLC bottom sold, we are net positive, which has contributed to our PSLC. On the treasury operations, again in terms of modified duration on the AFS book we are well placed to meet the rising interest rate scenario and overall modified duration was also fine. Even in terms of PV01 also we are quite comfortable.

We will go on to the next slide that is slide #26. This is the COVID-19. On this as far as the restructuring is concerned we are maintaining all the required provisions. As per the outstanding balance, we will be maintaining that Rs.415 Crores provision and then in the earlier provisions that we have made out of that two components we had taken out and on that now as I said that we have also made new provisions that I have already described here both in terms of family pension full amortization and also in terms of SASF full provision.

On the asset quality nothing much to add. This is where it stands. We have not done any technical write offs so despite that based on the recovery that we have achieved and other settlements, the gross NPA has improved to 19% and net NPA significantly improved to 1.27.

The next slide is on the NPA movement where we have given our achievements in terms of settlements, upgradation and written off. The advances portfolio includes this time of an amount of about Rs.9000 Crores under reverse term report. This is as per the recent RBI master circular. Therefore we have given some of those figures with and without this so that your people can analyze the way you would prefer to.

Now coming to the NCLT this is the position. More or less I mean NCLT now that things are stabilizing, we can expect that there will be a little more movement in the cases pertaining to NCLT and perhaps some amount of recovery is possible but big-ticket cases are not many there so in terms of volume for us, it will increase but in terms of amount it will be not as significant as it was earlier. On the SMA this is an improvement overall to about 3% of the portfolio now out of which SMA zero is quite small and this is of course taken into accounts that restructuring that we had done under RF1 and RF2. We will be watching that portfolio as we go ahead and as of now it is not possible to say exactly how that portfolio will behave. Definitely it requires to be looked at and watched closely and which we will be monitoring quite closely.

The capital side I have nothing to add. We already discussed it. Shareholding pattern again there is nothing much to mention. It is more or less the same. This is just a bit about digital footprints that we are having. So in financial year FY2021, out of the customer induced financial transactions about 91% was digitally routed and in this year it has improved by 3% to 94% and you can see that out of that the large share has been taken by UPI, which is no surprise. There have been no many paper reports on this phenomenon.

Now coming to the next slide, this is the overall digital footprint of the bank which is improving. Now that we have come out of PCA and everything we do have much more freedom now and we will be working a lot more to improve this footprint through various other emerging means to engage the customer and improve our business. A snapshot of all the distal products that we have introduced and are introducing and you will continue to see some more announcements and actions on this side as we go forward into this year.

On the financial inclusion, I think we need not spend too much time on this. Both the Mudra our achievements and so on. We will come down the subsidiaries all have reported profits and improved profitability. Just on the last slide on the guidance. Going forward just next year we are looking at a growth rate of about 10% to 12% and as I said that 63:37 can go to even 60:40 a little here and there but this is the balance that we would like to maintain. The credit cost and net slippage we expect the credit cost to improve to about 1.5% and slippage also we expect it to improve to about 2.5%. This 2.5% is also because of that RF1 and RF2 book that we have which we have to see how that plays out. On the ROA, we expect now to cross 1% next year. We are poised to do that and ROE of course above 14% and CRER we will definitely maintain about 50%. On the GNPA one is of course there is a possible transfer to NAFCL that and plus recovery all together I think we will be looking to bring down the GNPA to about 14% and on NIM we will be looking to maintain at least 3.25%. On the retail of course as I mentioned we are much detail the color given by the MD but we will be working on many fronts to improve and broaden our retail portfolio. Cost to income we want to maintain below 48% and that is it as far as the coming year in concerned. These are some of the highlights that I wanted to mention. I will stop here and we can have question and answers.

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

Chintan Shah: Thank you for the opportunity. Sir one question largely on the recoveries front so given that the momentum has been strong on the recovery front so any guidance what we are expecting recoveries for FY2023?

Rakesh Sharma: Now this like last year as you know we had made a target of Rs.4000 Crores. As against that we have been able to recover Rs.5320 Crores so this Rs.5320 Crores includes everything recovery in cash and then recovery in PW account and some part which has gone to interest so this year again because now most of the big accounts mostly have been settled, there are small accounts are there, but still we are expecting total recovery of Rs.4000 Crores during 2022-2023.

Chintan Shah: Got it and probably Sir this might even break on the higher side but chances of breaking on the lower side is less right?

Rakesh Sharma: Yes.

Chintan Shah: It can even be more than four?

Rakesh Sharma: So far if you have seen last year whatever guidance note we had given, we had given 0.7 up to 0.7 but we are 0.8 for most of the part.

Chintan Shah: I think on most of the parameters we have overshooted the guidance?

Rakesh Sharma: We have shown the better performance.

Chintan Shah: This is likely to sustain in the coming year as well right?

Rakesh Sharma: Yes.

Chintan Shah: Sir just one thing largely on the macro part so throughout the year of bankers saying that growth is likely to come back and capex is likely to drive growth back so just wanted to get your thoughts on when are you expecting the capex cycle to kick in and whether it will be driven by government or by private capex or who will take the lead and any guidance on when it can start? If we look at the data the macro data is not that strong on the industry? The credit book is not strong for the industry? It is growing on the retail front, but industry growth is not picking up?

P. Sitaram: Chintan you are right. The private sector investment cycle which was expected to kick start in 2021 has got delayed for various reasons. COVID to begin with and later on some uncertainties around the war but given the push on infrastructure by the government and also the PLI scheme approvals given by the government for various sectors, we expect the private sector capex cycle to restart because there has been a hiatus of around four to five years on private sector capex and capacity expansion also, but we are already seeing green shoots. If you are aware in Q4 certain marquee projects have already gone funded. They were funded in no time at all like the Navi Mumbai Airport or the coastal road project so we are seeing green shoots in private sector capex investments so to say, but other than that as a bank we will take a very calibrated approach on such large infrastructure projects because our book already has a slight concentration on these large infrastructure projects, but our concentration will be on **audio cut 31:39** sector which we expect to revise the capex cycle and also manufacturing like Pharmaceutical, auto components and so on and so forth but another point for in favor of corporate credits growth will also be the working capital drawdowns which we are already seeing drawdowns increasing in Q4 itself. For instance highly rated corporate which were barely drawing fund base working capital limits from the banking sector as a whole. This is for the sector as a whole. We are seeing drawdowns increase in Q4 mainly because of the input costs going up. For instance, a lot of these core sector companies import coal or stock coal. Coal prices have gone up so the working capital holding has gone up and drawdowns have happened. In fact we are seeing even requests for enchantment in sanction limits happening so overall we estimate 2022-2023, the banking sector will see a pickup in the corporate sector credit overall that should happen in 2022-2023.

Chintan Shah: Sir basically your discussion with the bank means your client that this capex is likely to start but are there any reasons that why it can be deferred further from hereon, so for example due to some macroeconomic issues or geopolitical concerns lenders are deferring form doing the capex? Is that the case or now they are ready okay now we will go ahead and do the capex?

P. Sitaram: Lenders are not deferring. There was so push back from the lenders, but private sector was not investing in the last couple of years for reasons of lower growth?

Chintan Shah: I mean private sector so now is the private sector still deferring the same or now they are ready to invest?

P. Sitaram: They are ready to invest now. There are still uncertainties in the macroeconomic front especially on the global front on the war and other measures. There could be unforeseen things which could develop in the capex front also because wherever there is uncertainty private sector will defer their capex plans, but as of now we see projects taking off from the drawing board stage and coming to the bank for financing so we are seeing that trend already.

Chintan Shah: Got it and Sir one thing on this housing loan dilemma so if I look at our housing loan portfolio it has grown roughly 10% during the year and if you look at the RBI housing loan data so that is also showing roughly 9% to 10% growth for the housing loan but Sir in case of some banks, some private sector banks they are reporting a very high number growth in housing loan, where is the confusion? I think each and every player is reporting 10% above so who is under growing in terms of housing loan? Any clue on that or why RBI data is showing only 9%? Should it be higher?

Rakesh Sharma: So Chintan there is a complete liquidity play in this market so all those banks who are flushed with the liquidity have lowered their rates and they mostly they are using it in this business that is transfer happening so overall if you see there is a growth of about 9% to 10% and our growth is also in line with that for home loan product so there are some few banks where because of the liquidity and the interest rate play this shifting is there in some pockets otherwise the overall economic growth is like this.

Chintan Shah: Sure got it. That is it from my side. I will come back in the queue for a follow-up. Thank you very much and wish you all the best.

Moderator: Thank you. The next question is from the line of Bunty Chawla from IDBI Capital. Please go ahead.

Bunty Chawla: Thank you Sir. Thank you for giving the opportunity? Just one query as we see the provisioning and line item as we have shared on the slide #13 so it seems there has been a high depreciation on the investment part and we go a reversal in the provisioning on the NPA as well as the standard assets? How one should see this number because I believe still there has been a Q-o-Q stability in the loan book so why there is a decline or reversal in the standard assets on the provisioning part?

P. Sitaram: The decline in the stand asset provision as I mentioned we held COVID provisions in the slide that which we gave. We did utilize those provisions as and when the stress came whether from COVID or from other sources. We continued to make provision from that directly charging it to PL. So this from March now we have taken a recording now that in terms of the RBI circular has also the status of the COVID. We have retained that extra provision that we had made up about 116 Crores and the remaining thing is what we have taken back to PL that is why you will see some amount of credit on the provision. On the investment side, the additional provision is coming because of the item that I explained that is the full provision for the securities representing our interest in stressed assets stabilization fund. So that is the main aspect of that movement there.

Rakesh Sharma: But that whatever provision has been utilized has been used for additional provisioning on SASF and the family pension and other areas. So in fact that has not, the profit coming from the operations only.

P. Sitaram: So this is effective provision that we have made is more than that what we have taken out as that 266 Crores additional write-off it will reflect in Opex. So that also you can take into account that. So overall for the quarter we have done the additional provisioning.

Bunty Chawla: So in short can we say there is no COVID provisioning as of FY2022 already all the COVID provisioning has been completely utilized.

P. Sitaram: No, first of all there is a provision of about 415 Crores that is the provision mandated for resolutions framework 1 and resolution framework 2 as per the 2%, 3% that RBI has mentioned in the respective circulars. For the assets that have been restructured under those two frameworks. Over and above that we had made certain additional provisions which are cautious again it starts off with the RBI circular so the first one that we had made 116 Crores was what based on that RBI circular but we continued to add to that on a voluntary basis which are related to about 833 Crores. Out of that which was not against any specific Capex, we have retained the 116 Crores and the remaining amount is what we had taken out. So we do have COVID provisions still 415 Crores for the restructured assets and 116 Crores which we have continued to hold against the initial COVID provision.

Bunty Chawla: Okay Sir thank you for the answers.

Moderator: Thank you. Our next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Hi! Thanks a lot Sir. Sir, just a query, so in your slippages data or in the movement of asset quality data you have said that there is a 160 Crores write-off, but in provisions data the bad debts written-off is 529 Crores. So can you just reconcile two because I think that the bad debts written-off provisions should be less than the loans written-off during the quarter, so is there something else there.

P. Sitaram: This 160 is for the quarter four.

Pranav Tendulkar: Right.

P. Sitaram: As against 160 you are referring to our PL.

Pranav Tendulkar: Correct in the provisions, in the PL, the bad debts written-off provisions is higher number. It is around 529 Crores for quarter ended March 2022 on slide I think page #13 or slide #14.

P. Sitaram: Yes, so that 529 write-off change that includes settlements so that is technically is not a write-off. So what we do voluntarily is what we are shown as write-off in the NPA moment, but in terms of accounting even if the 100% provided case I recover something what I do is I have to show on gross basis that the entire principle has gone off or to the extent not recover I have to show it as a gross write-off and correspondingly there is a gross reversal of provision held against that also.

Pranav Tendulkar: So that will be in the standard assets or provision for NPAs in the P&L.

P. Sitaram: In the P&L in the provision for NPA.

Pranav Tendulkar: Sir also can you just guide on net interest margin going forward.

P. Sitaram: We are expecting to maintain at least 3.25% that is the guidance we are giving this is without one offs, I mean, I am comparing with that 3.5 that we achieved for the year.

Pranav Tendulkar: Also any monetization from the subsidiaries or and if you take that withhold.

P. Sitaram: Yes, MD will answer.

Rakesh Sharma: Now as you have seen our capital advocacy ratio is quite comfortable, we are at 19% and even tier one is 16.68% so as such for raising capital or for strengthening capital we do not need any monetization now but at the same time for some legal statutory requirements so this ARCIL we are in the process because NARCL now we have invested so that ARCIL we will be doing partly so this may materialize during the current financial year same way that our IDBI Mutual Fund because LIC is also our holding company they are holding 49% and they also have mutual funds so that is why as per SEBI requirement both of us we cannot have mutual fund. So that also is under process, so then third one is that this NSDL we are holding 26% share, but now as per SEBI requirements we cannot hold more than

15%, so 11% we will have to dilute there is a time limit for that so that only we will be monetizing and the last one is that Asia's Federal Life Insurance where we had earlier diluted 23% that time was there, but at the same time the AGRs the other our joint venture partner they had opted for that call option. So whenever they exercise that call option so that remaining 25% will be monetized. So these are basically like for these type of requirements so these subsidiaries we may monetize during the current financial year.

Pranav Tendulkar: Perfect thanks a lot Sir.

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

Jay Mundra: Good evening Sir, I have couple of questions one is on your write-off policy so we have 22500 Crores of loss assets which are 100% provided and this of course moves the reported write-off as a much higher number and in this quarter we have done a very miniscule write-off. So wanted to check what is the write-off policy these assets are already loss assets 100% provided so what stops you from writing-off these assets and bringing down your GNPA and what is your thought process there.

P. Sitaram: The thought there is that we are carrying certain amount of deferred tax asset which is significant and the component there of course the larger component is towards the provision, but we also have business loss there. So any technical write-off that we do will move the deferred tax asset from the provision to the business loss category. As you know that the business loss category has a limited life whereas the provision has got an unlimited life. So any call that we take here will have an effect on the average life of that to utilize this asset. So that is the main consideration which is there.

Jay Mundra: And I at least have understood some portion of it and like you said that there is some accumulated losses that we are carrying we may have set it off against the securities premium from dividend perspective. But we are still carrying some business losses right but we are still paying income tax. So for this year we have paid around 1100 Crores of at least tax provisions. So why are we still paying tax I mean how does this work.

P. Sitaram: Two things, one is that set-off has not yet happened it is subject to NCLT that is yet to come but yes the proposal is at the final stage. Second on the provision for income tax it is basically a reversal of DTA, so we are utilizing the DTA so if you see the balance sheet side also the DTA drawdown has been reflected.

Jay Mundra: This is actually a DTL.

P. Sitaram: Yes, DTA. So there is a small amount of provision of course that is because some earlier years as and when appeals and further appeals get settled so sometimes we have to reverse the provision, sometimes we have to make marginal additional provisions so those cannot be set off against DTA for that we have to make a small provisions, but those are minor mainly it is a DTA utilization which is happening not a fresh payment or anything.

Jay Mundra: And on your CET1 so in absolute terms this quarter CET1 has increased from 21000 roughly to 25700, 25800. So around 4400, 4500 kind of an increase I think you had mentioned that there is some portion coming out of revel and of course you would have had full layer profit into this, but if you can still explain that what are the moving parts here so how much has come from revel how much has come from PAT and is there any other third portion here.

P. Sitaram: No, revel will contribute only marginally in the tier two. So the main increase is because till December we cannot recognize the year-to-date profit that can be taken into account only when we reach the year asset. So as on March now the entire year's profit have got added to the tier one. So I had mentioned in December also in September that the capital adequacy that we are reporting is without taking into account the year-to-date profits.

Jay Mundra: No but so even if I were to add the profit it will add around 2500 Crores.

P. Sitaram: Yes, that is the utilization of DTA, now DTA there is a slightly complex formula some part of it is reduced from tier one and some is left as residual as a risk weighted asset at about whatever that 625% or 325%. So what happens is as we utilize the DTA, the amount of deduction from tier one keeps reducing. So that augments the tier one straight away.

Jay Mundra: So the DTA unwinding is helping capital increase. Thirdly on your guidance so I do not know it does not look very coherent in the sense that we are saying that credit cost will be below 1.5% and slippages will also come down but this year we have a credit cost of around 89 basis point this is what you have reported in your presentation and you are saying that it will be below 1.5% you are saying that this year we have done 5300 Crores of recovery and next year we will do 4000 Crores despite the fact if I were to take GNPA plus two this is like 70000 Crores worth of stock of NPA. So it does not look very coherent so you may say that you are sort of under promising but still wanted to get your thoughts here on why are you saying that credit cost would be below 1.5% but this year you have done only 89 basis points.

P. Sitaram: Yes that 89 is a net of the COVID provision reversal that we have done so we should look at it from that perspective and secondly of course now we have to monitor that RF1 and RF2 book.

Rakesh Sharma: Actually you are right that it is quite conservative that we are saying that it will be below 1.5 see if the credit slippage level is around 2.5% technically the initial first year the provision should be 15% so that should be around 4.4 or something and then some hedging provisions there but at the same time we are also saying in our guidance that our provision coverage ratio will continue to be above 95%, 96%. So that is why like some accelerated provision we may make that is why this we are showing 1.5, but technically if you go you are right it should be somewhere around 0.75, 0.5 further we are adding because of some may be accelerated provisioning as you know over the years, last four years you have seen we have been doing quite aggressive provisioning so that is why it is there but technically yes it will be around 0.75%.

Jay Mundra: And if you can detail what is the restructured assets outstanding I could not get that number including COVID in an earlier SDR 525 everything.

Rakesh Sharma: Yes, if that effectively total restructured assets including COVID and the old that S4A 525 and everything total for both retail corporate it is 4620 Crores which amounts to 3.16% of our standard gross advances which is around 146000 Crores so it is quite reasonable and we have made provision also for that like you see as against 4620 we have made provision of 697 Crores and if you see the SMA level because your question can be that there what is the stress level if you see the SMA level it was 5.08% in March 2021 and when I am saying SMA level because some of the banks are reporting only more than 5 Crores but we are reporting all each and every account whatever is in SMA and if it is in SMA not only fund-based but non fund-based outstanding is also added. Despite that my SMA level was 5.08 as on March 31, 2021, which has now come down to 3.12%. So I do not see much stress in that, but yes that is why despite the fact that my quarter four slippage if you see has come down quite substantially but I am keeping my slippage ratio conservatively at 2.5% but it is likely to be much below.

Jay Mundra: On restructuring I think the last quarter the number was from 7900 Crores so is it the right like-to-like number so 7900 Crores has come down to 4600 Crores.

Rakesh Sharma: 7900 is the number of accounts.

Jay Mundra: So what was the quantum last quarter if you have just for?

Rakesh Sharma: I think it was in this same range only, I remember I had mentioned the percentage is almost 3%, 3.25% or something so it was in the same range only because after that I think to some roughly it was if I remember correctly it was 4200 or something so around 300, 400 Crores has been added because of that extended provisioning part, extended restructuring Otherwise it has not gone up drastically it is only maybe around 300, 400 has been added and now this 4620 Crores is an exact number.

Jay Mundra: Actually the other banks have seen a drop in the restructuring because Shapoorji Pallonji has been upgraded or has been repaid. So I was thinking if you have also got benefited.

Rakesh Sharma: We had a very small fund-based exposure so it did not impact our books in fact it is very, very small the double digit. In fact if you see out of that 4620 if we take a breakup my LCG restructuring is corporate is basically 1200 only LCG 1000 and mid corporate 220, so 1200. So 3000 is coming from retail but what I have seen in other bank I should not comment but percentage wise in the same ratio. So my corporate restructuring is not much it is only 1266 Crores.

Jay Mundra: And so this is slightly a clarification. So in the provisioning slide we are showing provision MTM and then there is another negative line item in the other income 48 Crores profit loss on revaluation of investment. So just wanted to check what is that I mean I thought all standard assets MTM you either run it through other income or you provide in provisions as earlier but you have mentioned that subject to RBI I mean consequent to RBI direction change you have put in something in other income. So what is that 48 Crores.

Rakesh Sharma: See simple, the matter is if there is a performing investment if you have to do mark-to-market. The mark-to-market if there is appreciation RBI says you cannot take into account. If there is an appreciation then you have to provide for that. So what we show in other income as valuation loss is the MTM which comes on performing investment.

Jay Mundra: So this is not GSEC right this is some corporate investment.

Rakesh Sharma: It can add, it can include the GSEC also, it can include any treasury investments that we have, that have to be passed through a mark-to-mark formula as required by Reserve Bank.

Jay Mundra: So entire standard assets, standard provisions MTM will be rooted through other income that is what the policy is.

Rakesh Sharma: Yes, we do not use the word standard because again further confusion will come I mean what is required just as an MTM valuation is there in the other income but where it is required as per a prudential norm due to some whatever the trigger that RBI is specified then that comes under provisions and contingencies.

Jay Mundra: No, so just hypothetically does this include MTM on GSEC. So let us say if you have.

Rakesh Sharma: Yes, it includes MTM on GSEC.

Jay Mundra: So if you can tell me the quantum there. The reason why I am asking is I remember you have already IFR at above 2% so I was wondering why were you do MTM through this line item versus using RBI leeway in setting it off from IFR.

Rakesh Sharma: So what is wrong in doing that.

Jay Mundra: Nothing wrong, but you are one of the few banks which already have 2% plus IFR.

Rakesh Sharma: I will take that as a compliment.

Jay Mundra: But in going ahead if you have let us say MTM but theoretically you can adjust in IFR without rooting it through P&L right.

Rakesh Sharma: But anyway we are not considered that we would like to be the traditional IDBI that we are.

Jay Mundra: Okay Sir I have one more question if you want I can ask right now or I can come back in the queue.

Rakesh Sharma: Go ahead.

Jay Mundra: On NIM right, so we have mentioned the margins, but somehow on quarterly basis it becomes very volatile because of the NPA recovery that we include here in NIM, NII right. The NPA recovery you would be adding it principal fee or in interest income if you were to do only business NII if you have that number maybe for full year that adjusting it.

P. Sitaram: That is 2.53 for the full year business NII and that is the improvement of about 70 basis points over last year 2.8 business NII last year.

Jay Mundra: No but that business NII will also include the normal recovery from NPA that you would be going through interest income is that right.

P. Sitaram: It will knock off this one, yes, if we take out large ticket recovery then there is the NIM excluding all this both the interest on income tax refund as well as the major recoveries is 2.79% last year.

Jay Mundra: Last year FY2022 right.

P. Sitaram: FY2021 2.79% against that this year on the same parity 3.26% so that is why 3.25% we have given the guidance. That is why we are saying anyway you look at we have achieved an improvement in the four NII.

Jay Mundra: Correct great Sir and last thing just a small clarification when you report your data to RBI on monthly basis I mean the data which comes out in sectoral deployment of credit do your report gross number or do you report net number because for you I mean I just wanted to understand because for you there is a large difference in gross advances and net advances so what is the number that goes to RBI in sectoral data.

P. Sitaram: As far as I remember, sorry, I cannot effectively say that but I am sure that somewhere or the other RBI is collecting both data and it is up to them to utilize the way they desire. So we do not know exactly what goes into it but both the gross as well as the set offs are available to RBI.

Jay Mundra: No so there is a large difference in your net advances growth and gross advances growth. So I was just checking from RBI the data that RBI gives is that gross or net or is there any way to kind of get it.

P. Sitaram: The 70% confidence I will say RBI is using net advances, but I will need to recheck again to make it very sure.

Jay Mundra: Great Sir thanks a lot for answering all these questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was our last question for today. I now hand the conference over the management for their closing comments. Thank you and over to you.

Rakesh Sharma: Thank you very much ladies and gentlemen for attending this conference. After this also if you have any questions, the entire top management and the CFO will be available for answering any specific queries or any other questions. So thank you very much for attending this conference and thanks ICICI Securities for arranging this conference.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities we now conclude this conference. Thank you all for joining us and you may now disconnect your lines.