



“Punjab & Sind Bank Q2 FY-22 Earnings Conference Call”

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Moderator : Good Evening Everyone. Thank You for participating in the Q2 Earnings Call of Punjab & Sind Bank. We have with us Shri S Krishnan, MD & CEO, Shri Kollegal V Raghavendra, Executive Director and Dr Ramjass Yadav, Executive Director. At the moment everyone is in listen only mode. If you have any questions post the presentation, please raise your hand, we will unmute you and you can ask your question. With this I hand over this call to Sh S Krishnan, MD & CEO. Thank you.

S Krishnan : Good Evening and a warm welcome to all. As you all know that today the Q2 results of Bank were announced. I will give a brief and then my CFO will be moving forward on the presentation. I am very happy to state that the bank has posted a net profit of Rs.218 crore. It is 25% above the previous quarter profit of Rs.174 crore. The CRAR of the Bank continues to be very comfortable and it has further increased by 30 bps Q-o-Q, the NIM has improved by 10 bps to 2.60%, the Provision Coverage Ratio has improved from 84.22% to 84.44%, the Cost of Deposit has also improved by 12 bps. The bank has achieved all the Priority Sector targets. The CFO will take you through the presentation which has already been uploaded on the website of the Bank and the website of the Stock Exchanges. But still for the ready reference of my analyst colleagues, my CFO will be taking it forward. The good thing is that the Bank has posted one of the highest net profit that has been made by the Bank. You all know that the Bank had turned around the bad phase in the Q4 of the last fiscal and subsequently in the Q1 of this fiscal and also Q2, not only have we sustained the net profit but we have been able to consistently show the improvement in the profitability of the Bank. As I was telling you in the last quarter, the Bank is committed to have a good balance sheet. You know that the accumulated loss of the Bank have been set off as approved by the shareholders. The Balance Sheet is clean now. Now I will request my CFO to run through the presentation and I will chip in wherever required.

Vinay Kumar Mehrotra : Good Evening everyone. I'm Vinay Kumar Mehrotra, CFO of the Bank. Now i'll take you through the important slides. The CRAR of the Bank has improved by 30 bps from 17.62% to 17.92% Q-o-Q. PCR has improved by 22 bps 84.22% to 84.44% Q-o-Q. NIM has improved by 10 bps from 2.50% to 2.60% Q-o-Q. Our Bank has earned a Net

Profit of Rs.218 crores which is the highest profit which has been earned by the Bank. Net profit has increased by 2529 bps Q-o-Q i.e. from Rs.174 crore in the previous quarter. Our Priority Sector Lending has increased by 343 bps i.e. from Rs.28955 crore in the previous quarter to Rs.29947 crore in the current quarter and our Cost of Deposit has improved by 12 bps from 4.42% in the previous quarter to 4.30% in the current quarter. Our total business has improved by 1.85% Q-o-Q and 15.89% Y-o-Y. Total Deposit has improved by 3.49% Q-o-Q and 20.52% Y-o-Y and advances are almost flat as compared with June Quarter but there is improvement Y-o-Y of 9.53%. The RAM has improved from 44% to 46% and corporate advances has reduced from 52% to 51% Q-o-Q. As MD sir has already said, our Bank has surpassed all mandatory targets with respect to priority sector which stands at 47.37% as compared to minimum required 40%. Due to slippage of 3 accounts, 2 NBFCs and 1 other Government Guaranteed Account, the Gross NPA has increased from 13.33% to 14.54%. Net NPA, has increased from 3.61% to 3.81%. Our PCR has also improved from 84.22% to 84.44%. These are all Q-o-Q figures. Our Slippage ratio has risen to 2.66% from 0.76% due the aforesaid reasons. Regarding our Financial Performance, our Operating Profit has slightly come down from Rs.275 crore to Rs.249 crore Q-o-Q. This is mainly due to providing for Family Pension increase by 30% has been awarded. Further, the NPS contribution has also been increased from 10% to 14% which all inclusive is Rs.43 crores. Had that not been there, it would have been better to Rs.282 crores. There is an increase in Cost to Income Ratio mainly due to this pension impact of Rs.33 crore. Net Interest Income has increased from Rs.579 crore to Rs.617 crore. The Net Interest Margin has improved by 10 bps from 2.50% to 2.60% Q-o-Q. The Net Interest Margin has been calculated on the basis of Average Earning Assets in terms of the recent RBI Circular of 30.08.2021 vide which RBI has advised that for the purpose of uniformity it may be calculated on Average Earning Assets. So even after recasting, our ratio has seen improvement from 2.50% to 2.60% Q-o-Q. Now we will discuss the key financial ratios. The Total Yield on Investment has shown a marginal decline from 8.28% to 8.24% Q-o-Q. However, the yield on funds has increased from 5.69% to 5.72%. The credit cost has increased from -0.14% to 4.08% (annualized) due to slippage of the 3 accounts as already discussed earlier. The slippage ratio

has increased from 0.76% to 2.66% (Annualised). In cost of deposit there is continuous improvement, it has improved from 4.42% to 4.30% Q-o-Q, Yield on advances has slightly come down from 7.08% to 6.92% Q-o-Q due to slippages. Cost of Funds has improved from 3.74% to 3.69% Q-o-Q and Net Interest Margin has already been discussed earlier. Operating profit, if we see the half yearly figures, the same has increased from Rs.426 crore to Rs.524 crore Y-o-Y, if we see the Q-o-Q figures the same has decreased from Rs.275 crore to Rs.249 crore mainly due to provision for pension impact. Net Profit has improved from Rs.174 crore to Rs.218 crore and the major thing is that in this provision we have taken the recovery from written off accounts as a part of provision and contingencies as a negative item. Earlier it was being shown as other income and was forming part of operating profit. Now we will discuss the capital adequacy. Our total CRAR has improved by 30 bps as I have already told you and this is in spite of the fact that for preparation of quarterly results, profit is not considered as part of capital and there is carry-over of pension liability of Rs.220 crore which has been deferred in view of the RBI circular which is amortized over a period of 5 years commencing from this year 2021-22. Despite taking that hit of Rs.220 crore in capital, our capital adequacy ratio has improved.

Moderator : Thank You very much sir.

S Krishnan : Let me just chip in give a few clarifications and supplement what my CFO has said. He was referring to slippage of 3 accounts, 2 belonging to NBFC's and the other was not a government guaranteed account. All these 3 accounts, the downgrading of the asset was stayed by NLCAT and the other one by Hon'ble Supreme Court of India. Subsequent to lifting of the stay, we have downgraded these accounts. So that amounts to Rs.1333 crore. If you look into the movement of NPA, the fresh slippage during the quarter is around Rs.1566 crore out of which Rs.1333 crore belongs to these 3 accounts which was known even in the earlier quarters. Even if you look into the credit cost which was shown as a high one, we had proactively made some provision in the previous quarter itself. Now we have further enhanced and made aggressive provision on these 3 accounts and if I net out the provision that was made in the previous quarter and work out the credit cost that has hit my P&L, it comes to less than 1%.

So I thought I will give that clarification. The other thing which you may have seen is that the Gross NPA has gone up and the Net NPA has gone up 20 bps. If you see the Gross NPA figure in amount as on June it was Rs.9054 crore and as on September it is around Rs.9800 crore and against these 3 accounts is Rs.1333 crore. So if I factor that, particularly my recovery and upgradations is around Rs.500 crore. This was already shown to everyone so there is no surprise or shock. So that has been factored in the ratio but as I was telling that the Bank management is more concerned on the strength of the Balance Sheet so sufficient provisions have been made to absorb any of the requirements. I don't think that in any of the days to come we will have any issues. Now I will leave to my analyst friends to seek any other clarifications on the results.

Moderator : Thank you very much sir. Now we will move on to the Q & A session. I request any participant who has a question to please raise his hand. We will un-mute you and then you can ask your questions after introducing yourself.

Manoj : Firstly, congratulations to the team for coming out with good net profit numbers. I have a few questions and a compliment. The Net Profit is good, that is a good thing, there is significant improvement and a few issues were there based on the slides in the limited time as you ran through the slides very fast. Although the net profit has gone up, the operating profit has gone down and from your commentary I could find out that Operating profit is down because of some pension provision in the quarter over five years.

S Krishnan : Yes, you are right.

Manoj : So I would like to know on Y-o-Y basis, that what is a change Delta in operating profit so that we can have understanding of the performance. Second thing, I found the credit cost very high. Credit cost in the last quarter had come down significantly. I think the credit cost is now 3 or 4%. Which is very high compared to any other PSU or private bank. And, in fact, I would compare your performance with other good quality PSUs. So in that comparison, like SBI, Canara Bank etc. Another thing I saw from the slides the slippage has gone up significantly. I want to understand why this slippage has gone up this quarter. What is the sustainable slippage and what is the

guidance on Credit costs for the full financial year 2022-23 because this, obviously, the credit cost of 4% and slippage of over 2.5% is not acceptable to the management or the stakeholders like us. Also you mentioned about 2 NBFCs and 1 Government Guaranteed account if you can shed some more light on it uh who are the two NBFCs on what reasons it happened and what is recovery progress in that and was it a 1 off for kind of a thing which will be recovered this quarter, or we have to forget about it. It will be having a deep impact on it, which we are not able to make out. 2 NBFCs and the government account, we need more clarity to understand the sustainable basis otherwise, apparently from the number is although the net profit is up Credit cost of 4% and slippage of over 2 and a half percent is raising a lot of red flags to people like us who have been quite positive on Punjab & Sind Bank because of it's brand value since multiple decades. I would like to come to a specific questions. A couple of quarters back we have been discussing and the management had said on strong thrust on technology and digital, commitment was done and you had said you are expanding team of digital and will be among the best banks in the digital in the PSU space. What is the progress so far? You had said you'll be sharing the progress in digital every quarter. I did not find the slide on digital. Actually digital transformation slide should be in the forefront of our presentations. Why that is missing? Is there any slow back? In digital, what is the progress? What is the size of the team in digital, how much investment spent in digital and how much we had mentioned about an app also that will be coming soon and the App will drive a lot of digital transactions. I would like to know what is the progress on the app how much percentage of transaction are in digital mode. What is a number of customers putting deposits in digital, transaction in digital, and also the time of loan sanction in digital. That will give us a good idea about the bank. Another point which I saw the credit growth is apparently very negligible. You had shown the slides but the slides were run through very fast. I could not make out. In segments such as agriculture growth was mentioned. So, we have seen through many banks, come out with excellent credit card numbers like IDFC First bank. Excellent Credit growth and CASA. So, if they can do it why we are not having sufficient credit growth and what is the target. We should be growing at over, you know, 10 to 15% minimum and and credit growth in retail should be over 25 or 30%. So, what is happening on credit growth in different

segment, is it deliberate or is it a well thought out deliberate strategy because of pandemic or has it happened because of slack demand in pandemic or the nature of customers we have got. If you can share detail answer in this respect, I can come out with a rejoinder subsequently.

S Krishnan

: Thank you Mr Manoj. It is always a pleasure for me to discuss with you. You have raised a lot of things which we will address. Now the 1st question was an operating profit, on equal footing, how it is comparable year on year. I can tell that September' 2020 that is the previous year i.e. Q2 my operating profit was Rs.207 crore and this Q2 my operating profit is 249, despite the fact that I have made a one-off provision for the new family pension and also the enhance contribution for the new pension scheme as approved by the Government of India which amounts to around Rs.33 crore. So, if we really look into. Even after factoring the one-off, my operating profit is substantially improved Y-o-Y. Number 2 your question was on credit cost. Let's say if one looks into the credit cost, one will be really surprised. As you were telling that it is 4.08%. In fact, after the CFO made a presentation, I also gave supplementary information and at the cost of repetition I will repeat, which will address your 3rd question. As your 3rd question is on the high slippage. Both have got a inter-relationship. So let me tell you to look into the movement of NPA. My slippage during the current quarter is Rs.1566 crore. Out of that Rs.1333 crore related these 3 big accounts. Out of these 3 accounts, 2 belong to NBFC group and another is not a government guaranteed. As I had corrected when my CFO presented. About NBFC accounts, the entire country knows which are those 2 accounts, you know, better than me. The downgradation of those accounts were stalled by the NCLAT last quarter, because of which we were to maintain it as standard. But we know that it is going to be an NPA. The moment the NCLAT order was withdrawn we downgraded the asset. Similarly the other one is also not a government guaranteed but it was stalled by the Hon'ble Supreme Court of India in downgradation as an interim order. Subsequently, Hon'ble Supreme Court has given the final verdict in favour of the company. The company has to get the payment from a government company. They have given the order. Since the order was given, the interim order is vacated, so we have downgraded. This was also known to us earlier. These 3 accounts constitutes around Rs.1333 crore against

fresh slippage of Rs.1566 crore. If we knock off this, which was known already, my fresh slippage during the current quarter is not much. That is what I want to tell. Now coming to the credit cost. Now, the credit cost to say, it looks very high at a 4.08%. But what we did, even the last quarter, you may recollect, when I was presenting. That as a prudence we had made provisions for this. So, if you look into the provisions what we have made in the last quarter. Yes we have made aggressive provisions in these 2 NBFC accounts so it comes to this. If I knock off the provisions which I made in the last quarter, which is carried out now and now the asset has been shifted from standard to NPA. So, if you knock off that amount and look into only the additional provision what I have made, the credit cost comes to less than 1% more precisely 0.99%. I thank you very much that you said that you had been comparing my bank with the best in the country and this also is comparable. 4<sup>th</sup> question was pertaining to NBFCs and government guaranteed accounts for which I have clarified that is not a government guaranteed account and regarding 2 NBFC accounts you are already aware of the accounts. Regarding the digital, you were asking that why there was not a slide? If you have looked at the overall presentation that has been posted in our website and also on the Stock Exchange, there is a slide on that. But let me give you a flavor of what we have done on the digital. You may recall that last time I told you that we are undertaking a lot of digital and technology transformation and there was also a question as to what is the investment made by you. I'm happy to tell that we have now rolled out an OMNI channel that is both the mobile and net banking channel. We are expanding it in a graded manner. You know well that any new product before we open it to the entire user, it needs to be done on a graded manner so as to ensure that it's the stability and other behavior. I'm happy to tell you that we have rolled out this about 2 weeks back. The performance is extremely good. I'm happy to tell you that today if any person wants to open an account with Punjab & Sind Bank, he need not visit the branch. They can sit at the place of his convenience and open a digital account with Punjab & Sind Bank. This app is one of the best one and very shortly I'll be expanding the users. Now, this is made available to the retail. The corporate is almost complete, which will be rolled out shortly. So, in a very short period, this app will be available to my customers in particular. So the Bank is committed on giving enhanced digital experience comfort to

the customers as committed by the management. The management is also trying its best to honour its other commitments. The last question you were asking was about the credit growth that you are not able to see much growth while the other banks have grown substantially, particularly you are referring to IDFC bank. Let me tell that growth in my advances year on year is 9.53%. I think that during this pandemic time 9.53% is reasonably good. As I was telling last time also, the bank, as a strategy, we are shifting the main focus from the corporate to the retail (RAM segment). Again that does not mean that the corporate is shut. I will be choosing in the corporate, expanding in the corporate. So towards that if you look into my RAM segment it has grown by about 2% Q-o-Q from 44% to 46% and Corporate has come down by 1% or so. If you look into the sector wise growth Y-o-Y also, I have grown everywhere. Agriculture growth Y-o-Y is about 5%, MSME is around 8%, corporate is around 17%, other retail is around 3%, overall RAM segment growth is around 8%. This is the growth history of the Bank. Hence there is good growth Y-o-Y basis. Now, the next question is that what is the guidance that you will be able to give? I feel that we may be able to show a credit growth Y-o-Y at the end of the fiscal of around 10%. I hope that I have covered all of your points and I will be more than happy to get any rejoinder which you were telling so that I can clarify it.

Manoj

: Thanks for the detailed answer. Now 2 points. You gave a detailed guidance on the credit growth of 10%, which is okay. What about the guidance on the credit cost and the slippages for the current year and next year because next year we won't be having these 3 accounts and also there was 1 other point on the cost to income ratio that is going up. Normally it should come down below 50% but in the quarter that has gone up, if you can respond to that also.

S Krishnan

: Cost to income ratio has gone up again basically because of the one off expense which was provided during this quarter amounting to about Rs.33 crore. That has really impacted my Cost to Income Ratio which has increased it. Having said that, you are absolutely right that my Cost to income ratio is higher than that of the industry. We are working on that. You would have seen that we are trying to bring it down. Last quarter we were able to bring it down marginally. This time, unfortunately because of this cost

has gone up, but my efforts are going on to improve by enhancing the numerator and also the denominator i.e. decreasing the cost and also increasing the income so that in the days to come, we will be able to break down the cost income ratio consistently. Regarding the credit cost, I can say that the credit costs will be what we have seen now which is around 1% or so. By and large it will be at this level because I can tell you that we have made enough provision in the Balance Sheet to strengthen it. I don't foresee much slippages. My slippages in the next two quarters will be overtaken by recovery and upgradation. Touch wood there should not be any unforeseen situations like the pandemic and other things. The economy is looking up and hopefully the credit off take will also take place in the days to come as we expect. The credit cost I don't expect much increase. This is a one off so 4.08% should not be taken as I explained.

Manoj : You have given a positive note on recovery and upgradation with a growth target of 10% and credit cost of 1%. I wish you all the best and I look forward to a much deeper and wider focus on digital and sharing the same with our stakeholders in the quarter.

Moderator : The next question is from Mr.Mahesh.

Mr.Mahesh : NBFCs, the sequential increase is from about Rs.1900 crore to about Rs.2700 crore. Now, one would have assumed that one of the NBFCs got upgraded this quarter. So, what would explain such a large increase even if you assume that 2 large NBFCs got added to this quarter.

S Krishnan : 2 large NBFCs added to this quarter and in Diwan I got some recovery. Net of these two has only contributed whatever you have seen.

Mr.Mahesh : If I look at your cash recoveries, it shows approximately Rs.500 crore which has come in. So even if you add everything to Diwan the exposure to SREI seems to be extremely high.

S Krishnan : For you information, my entire Rs.500 crore is not out of Diwan. From Diwan it is around Rs.320 crore. The rest is as you have said, I have very high exposure.

- Mr. Mahesh : Second sir, in the second half of this year where do you see your recoveries in your corporate NPA which is almost finalized or where you have visibility that it could get upgraded. In the same slide that you have in exhibit 14, what is your estimation of the recovery that you can get on the NPA pool outside of the NARCL.
- S Krishnan : NARCL is also a resolution process. When I say the resolution process that is also a way of recovery. Now if you say other than the NARCL, then NCLT I don't know, which will be resolved. But I expect that it will be good. In fact, 1 of the accounts which we have downgraded where the Hon'ble supreme court has given now the order for making the payment. This payment has to be made by the government company. And I'm sure that this will be honoured and we'll be getting the realization. So, like this there are a few cases where I expect recovery other than the NARCL. NARCL transfer will happen in phases. In phase 1 around 5 accounts will be given by us. So I expect, as I said in the remaining 2 quarters, I do not foresee any other major corporates, which will be giving me the pains but for unforeseen circumstances. Otherwise my recovery and upgradation is fully geared up. If you look into these 3 accounts which I was telling, which alone is Rs.1333 crore within the overall slippage of Rs.1566 crore. In spite of this my increase in Gross NPA is only Rs.800 crore. It shows that there is good recovery and upgradation.
- Mr.Mahesh : In the SMA slide which is in exhibit 17 there is 1 exposure which is government guaranteed of Rs.1560 crore. What is this and when it will be resolved. Very shortly?
- S Krishnan : That is Aviation Sector and resolution is around the corner.
- Mr.Mahesh : Perfect Sir, this is very useful. Thanks a lot. Thank you.
- Moderator : Anyone who would like to ask question. Request you to please raise your hand accordingly. We will unmute you and you can unmute yourself and go ahead and ask a question. We will give it a few seconds. Anyone who has a query can please raise your hands. So, I believe there are no more queries. So I will hand it over to you sir for your closing remarks.

S Krishnan

: Thank you very much. I thank all the analysts who have spared the time to come here. I strongly believe that the presentations are made available and also the analysts are fully satisfied and that that is why I'm not seeing much of questions. I look forward to engage with you in the days to come. We can work together and see that whatever information you need on the Banks performance, myself, and also both of my executive directors will be more than happy to provide. I thank once again for sparing the time. I Wish a Happy Diwali to everyone of you.

Moderator

: Thank you everyone for participating at the earnings call of Punjab & Sind Bank. Looking forward to seeing you next quarter for the earnings call as well. Have a great evening. Thank you sirs.