



**“Punjab National Bank Q2 FY21 Earnings Conference  
Call hosted by Batlivala & Karani Securities India  
Private Limited”**

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**MODERATOR: MR. BHAVIK SHAH – BATLIVALA & KARANI  
SECURITIES**

**Moderator:** Ladies and Gentlemen, Good day and welcome to Punjab National Bank Q2 FY21 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Bhavik Shah from Batlivala & Karani. Thank you and over to you, sir.

**Bhavik Shah:** Good afternoon everyone and thanks for joining the call. On behalf of Batlivala & Karani Securities we welcome you all to Punjab National Bank Q2 FY21 post result conference call. We have with us today the management of Punjab National Bank represented by Mr. S. S. Mallikarjuna Rao – MD and CEO, Mr. Sanjay Kumar – Executive Director, Mr. Vijay Dube – Executive Director, Mr. A K Azad – Executive Director and other senior officials.

I would now request MD and CEO sir to start the call with his opening remarks for Q2 FY21 results post which we can start the Q&A session. Over to you, sir.

**S. S. Mallikarjuna Rao:** Thank you very much and before I start the small correction Dr. Rajesh Kumar Yaduvanshi has demitted his office on 8<sup>th</sup> of October. So, we have three Executive Directors Mr. Sanjay Kumar, Mr. Dube and Mr. Azad along with me. With respects to the results declared for Punjab National Bank for the Q2 the global business of the bank stood at 17,86,670 crores with a year-on-year growth of 1.06%. Global deposits of the bank grew by 1.37% to 10,69,747 crores. Domestic CASA share improved by 253 basis points year-on-year to 44.10% in September 20. CASA deposit grew by 7.01% on year-on-year basis TO 4,59,477 crores in September 20, savings deposit grew by 9.05%.

Here what I would like to drive away the point for you all is that when we are making the comparison of year-on-year the notational value of the summary of all the three banks in the earlier years, we have taken because those banks were not merged earlier. Suppose we are comparing with the September 2019 figure, the figures of all the three banks were added and accordingly comparison has taken place to have a small element of understanding for the year-on-year comparison. So global credit grew by 0.59% year-on-year to 7,16,924 crores. RAM has grown by 5.73% year-on-year and retail credit has grown by 3.85% of which housing loan has grown by 9.77%. Capital adequacy ratio stood at 12.84% in September 20, an improvement from 12.63% in June 2020 well above the regulatory requirement.

Operating profit grew by 7.1% year-on-year to 5,675 crores. Net profit for the quarter stood at 621 crores as on September 20 as against the net profit 308 crores sequentially in Q1 and 757 crores as on September 19 which is the notational total of all the three banks. Global NIM improved to 3.21% in Q2 FY21 from 2.5% in Q1 FY21 and 2.58% in Q2 FY20. Net NPA stood at 4.75% in September improved by 64 basis points from June 20. Provision coverage ratio improved by 225 basis point to 83% as on September 20.

With respect to domestic deposit increase it is 0.88%, domestic advance has increased by 0.52%, domestic business has increased by 0.73% and agriculture advance has grown by 12.39%, MSME advance has grown by 1.56%. With respect to regulatory requirement the priority sector and all other things we have achieved the target. Related to profitability the net interest income has grown by 29.3% to 8,393 crores in Q2 FY21. Operating profit grew by 4.9% in H1'21. With respect of efficiency ratio, yield on advances has grown to 8.09%, cost of deposits has come down to 4.48% from 5.34% last year, cost-to-income ratio declined to 47.87% from 49.41% in Q1FY'21. Gross NPA stood at 13.43% and provision coverage ratio without TWO improved to 67.90%. Credit cost stood at 2.27%.

These are the main highlights and other than that we are given lot of disclosures in the presentation what we have published in our corporate website. You must have gone through we have given the details related to COVID, details related to moratorium and details related to the credit profile, asset quality all other figures are available in the presentation so we all team will be very happy to what you call take your questions now onwards.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Rakesh Kumar from Systematix Shares. Please go ahead.

**Rakesh Kumar:** Just few questions, firstly sir what is the collection efficiency for September and October month for entire loan book?

**S. S. Mallikarjuna Rao:** What did you say again can you repeat what is the?

**Rakesh Kumar:** Collection efficiency for entire loan book how much it is for September month and October month?

**S. S. Mallikarjuna Rao:** Now when you say collection efficiency are you respect to NPA or even standard.

**Rakesh Kumar:** No sir for the standard loan like whatever demand we have built to our borrowers and how much we have collected out of that demand from our borrowers in September month and October month?

**S. S. Mallikarjuna Rao:** I need to check out the details exactly, but there has been lot of what you call improvement if you look at the moratorium piece what we had indicated to you earlier at 20% where we have considered the people who have taken moratorium when they paid two installments or more. Now we have identified the moratorium at 38.92% where the installments are pending for more than three. So, if you look at there has been a very high collection which has come in retail and MSME segment, but if you are looking at a percentage in terms of the demand and recovery, I will provide the details to you. It has been better in September but much better in October.

- Rakesh Kumar:** What will be the proportion of total loan against which we have not collected anything during the moratorium time or may be during the September month?
- S. S. Mallikarjuna Rao:** No up to September 25% of the moratorium profile what is available to you not a single installment is received.
- Rakesh Kumar:** Up to 25% of the loan.
- S. S. Mallikarjuna Rao:** Moratorium piece what we have published to you that is 38.92% we have given on 2,39,000. So in that 25% of the component up to 30<sup>th</sup> of September I am indicating to you that not a single installment is received that means roughly it comes to 60,000 whereas in that 60,000 again we have received the installment now it has come down to 48,000 so it is going continued that is why I said October recovery has been much better and of outstanding which would have become NPA, but for the Supreme Court judgment is 3,400 crores that also we have indicated in our what you call presentation.
- Rakesh Kumar:** And sir what is our own like estimate on restructuring and slippage in coming quarter in December quarter?
- S. S. Mallikarjuna Rao:** Slippage we still stand by the estimate what we had given last time overall for the year it will be around 10,000 crores maximum. Gross slippage if you look at currently the slippage what you call 4,384 is the fresh addition you must have observed at the end of September for the half year.
- Rakesh Kumar:** But in the second half?
- S. S. Mallikarjuna Rao:** Second half I am expecting around 5,600 to 5,700. So overall it will need not be more than 10,000 crores as far as the slippage is concerned. Now coming to restructuring estimate originally in the August when the circular came, we estimated at around 40,000 crores overall including the corporate book, but surprisingly we had not received much of a request as far as the restructuring is concerned. As on today if you look at by September, we have done restructuring of retail and MSME together only for 42 crores and further we have 32 crores amount of value accounts are received for restructuring in terms of retail and MSME. In terms of corporate, 15 accounts we have received the request amounting to 2,022 crores as on today. Now if you compare with the SMA 2 figure what we have published of 19,000 crores which comprises roughly 6,600 crores in MSME category, so we are expecting the MSME category restructuring to happen anything between 4,000 to 6,000 apart from the corporate. So overall now we have reviewed our estimate. Originally what was there 40,000 now we estimate that it maybe not more than even 20,000 crores. But the realistic figure will be known during this month and December because 31<sup>st</sup> December is the last date for invocation.
- Moderator:** Thank you very much. Next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

- Mahrukh Adajania:** Sir, my first question is on margin sir for you margin have expanded a lot in the second quarter and that has been the case with many other PSU Bank as well, so how will you position yourself now, would you like to enjoy excess margins or would you like to use it to compete aggressively for more volumes because that way you can expand market share and how sustainable are these margins?
- S. S. Mallikarjuna Rao:** You are talking about NIM.
- Mahrukh Adajania:** Yes sir.
- S. S. Mallikarjuna Rao:** See if you have seen our guidance our guidance remains at around 2.75%, it will be a little bit more 2.75%. Our NIM in September has been little exceptional at 3.21%. Now here there are two, three reasons. One reason is we have not identified any NPA. For example we have given in our presentation in slide number 45, 3,400 crores would become NPA wherein an interest recognition of 85 crores was there. So that is one area. Second, we have also adopted a change in what you call income recognition in case of recoveries which are adjusted in NPA accounts. So, these adjustments have given a little amount of increase in the NIM, but we will be definitely managing anything between 2.75% to 2.8% overall for the year. The guidance which we had given earlier at the same level this will continue. Other measures what we had taken are controlling the high cost deposits Rs 27,000 crores of high cost deposit comprising Rs 16,000 crores deposit and Rs 11,000 CDs we have shed in the month of May and June last, the benefit of which we have accrued in this current quarter. In terms of reduction in interest paid on deposit which you can observe in the slides presentation what we had given so these are all the contributory reasons.
- Mahrukh Adajania:** Sir this change in recognition in recovery that has contributed to much in margins?
- S. S. Mallikarjuna Rao:** Net profit is 271 crores and out of which even if you remove the tax it is 180 crores. So net profit wise there is no change because that 180 crores we have made the provision for a prudential requirement of COVID. So, net-to-net there is no increase in the net profit because of that adjustment, but income wise there is a difference of around 500 crores.
- Mahrukh Adajania:** Sir my other question was on restructuring the corporate restructuring that you are talking about you said you have received 15 request so you think that is the all or there will be more request and are these the corporate who are under moratorium or they are outside of the moratorium?
- S. S. Mallikarjuna Rao:** By way of extending moratorium we have given to everybody except NBFC, Only NBFC on cash-to-cash basis we have extended. So, naturally even corporate also has been extended moratorium but not many accounts, very few accounts. So, with respect to restructuring we have received the request out of which we have finalized for 15 accounts amounting to 2,022. We are anticipating some more request to come to us because we are in touch with other banks as well. Majority of the accounts are in consortium, so we expect the things to come up further.

However one important point, kindly keep it in mind what we understand from the corporate world is that if they undertake the restructuring their ratings will be under stress in spite of their performance, probably the rating upgrades may not take place or ratings may be downgraded. This is the apprehension that is the reason why they are able to manage with the available resources at their end and they are not coming for the restructuring in the way what we had anticipated earlier.

**Mahrukh Adajania:** But my question was that these corporates which are coming forward to restructure was there corporate that enjoys moratorium whether under moratorium as well?

**S. S. Mallikarjuna Rao:** I think of 15 cases probably couple of cases, three cases are there where the moratorium is given to them. Three cases are there where moratorium is also availed by them.

**Mahrukh Adajania:** Sir, what are the structures and we very big accounts or small sized accounts any color, size and sector of these accounts that are coming up for restructuring?

**S. S. Mallikarjuna Rao:** There is only one bigger account out of the entire 2022.

**Mahrukh Adajania:** This Shapoorji is it?

**S. S. Mallikarjuna Rao:** No.

**Mahrukh Adajania:** Sir what sector?

**S. S. Mallikarjuna Rao:** It is with retail sector.

**Mahrukh Adajania:** Other are small account and there will be impacted sectors like hotels and all or everywhere?

**S. S. Mallikarjuna Rao:** Smaller in the retail sector only majority of them.

**Moderator:** Thank you very much. Next participant is Jayant Kharote from Credit Suisse. Please go ahead.

**Jayant Kharote:** Sir actually I wanted two questions one is on the moratorium piece if you could breakdown the 2.4 lakh crores into how many I have given one, two and three EMI and secondly a little bit on the disbursements and growth how do you give that into second half and what are the disbursements trend like in the September and October month?

**S. S. Mallikarjuna Rao:** See in the entire 2,40,000 of the moratorium the important area of our close monitoring is restricted to only 48,000 crores. Remaining are all on safer what you call domain because they have taken the moratorium, but they are paying the installment after the moratorium that means installment starts from September onwards so we do not have a much of a concern there 48,000 the area where we are closely monitoring there is improvement continuously and we are confident that what you call control those category as well. There is one more piece I think

you must be aware FITL is given in case of CC accounts. Our FITL is Rs 3,778 crore which we need to recover before 31<sup>st</sup> of March 2021 as per the RBI guideline so that is also one area where we are continuously what you call monitoring for getting the recovery though there is no amount is due now, but we have still many of the people coming back and paying money because they did not want interest-on-interest to happen. On that whatever FITL is created some of the accounts have already closed down. The FITL whereby the risk that account to become NPA is completely removed if amount is not made by 31<sup>st</sup> of March 2021. So, from our side these are the two components where close monitoring is happening. Now coming back to credit offtake there is a good growth which we are projecting in retail and MSME at this point of time. Already MSME has been positive year-on-year more than 1.1% otherwise traditionally we have seen MSME there has been negative growth. Retail also has grown at 3.75% where what you call housing has grown by 9.77%. The growth has been good so far and we are expecting much more to come because of the festive season. With respect to corporate what we have seen is the demand is coming for HAM projects road infrastructure. Any new bigger investment so far, we have not touched. There are only few cases which are coming. We anticipate demand to come in terms of cement industry, steel industry and then pharmaceutical industry and then healthcare industry. Though we are getting sporadically few accounts we had to see. Now coming to line of credit where we are given involving various government agencies, it is around 50,000 to 60,000 crores which we are confident that the amount will be disbursed in the next few days or next few months that is the current status as far as the credit is concerned.

**Jayant Kharote:**

So, you and mentioned that 2.4 lakh crores is the amount where you have received less than three EMIs up to three EMIs have not paid?

**S. S. Mallikarjuna Rao:**

No, see what we have done is earlier two EMIs if somebody has paid, we consider them as the people who have not availed the moratorium. However, finally when we have extended the moratorium those who have not paid anything, but even though they paid up to what you call four or five installments still we have extended the moratorium that is the reason why the books appears to be 2,40,000 crores out of that more than three installments pending earlier it was 60,000 crores now it has come down to 48,000 crores. So, these 48,000 crores are a component where from December onwards if nothing is paid it may become NPA because three months installments for September, October and November will be satisfied if somebody has paid three and he has to pay further installments. So, like that we have carried out the figure where we need to move ahead for monitoring.

**Jayant Kharote:**

Sir, just to summarize what you said so out of these 48,000 crores you roughly expect 20 to go into restructuring and another 5.5 to slip and then the rest will be recovered?

**S. S. Mallikarjuna Rao:**

Even 20 it may not be 20 but I am anticipating 20, but 5.5 is the expected what you call slip down this 48 includes that 3,400 what we have indicated.

- Jayant Kharote:** Would be our credit cost guidance for next year would these accounts then possess I mean give us credit cost the lower interest?
- S. S. Mallikarjuna Rao:** Credit cost will remain at 2.5 because roughly the reason is now what you call aging provision is getting eased out. Aging provision is not going to be there, so it will be only fresh NPA provisioning. Even currently also when we have shown credit cost at 2.27, the 3,400 crores related provisioning of around 500 and odd amount if you consider that as a provision in the what you call NPA, the credit cost would have been around 2.5. So, 2.5 average credit cost will continue even up to March 2021.
- Moderator:** Thank you very much. Next question is from the line of Vaibhav Divekar from Edelweiss Financial Services. Please go ahead.
- Vaibhav Divekar:** Sir, why other income is less by 1,200 crores in this quarter?
- S. S. Mallikarjuna Rao:** No in other income if you look at even treasury has gone down and even the fee-based income has gone down because of the pandemic. We are expecting the improvement to come. Further the processing charges and everything we are not debiting the customers because of the pandemic these are the main reasons otherwise regularly we levy processing fee and other commissions which we have not done during the moratorium otherwise what would happen this charges would have created the problem if it is not recovered to make the accounts as NPA. So, we will be levying from this Q3 onwards.
- Moderator:** Thank you. Next question is from the line of Rohit Jain from Tara Capital Partners. Please go ahead.
- Rohit Jain:** I am actually a bit confused by the moratorium discussion that just happened out of the 2.4 lakh in moratorium you said 48,000 has not paid a single installment or have they paid three installments still now?
- S. S. Mallikarjuna Rao:** No, 48,000 is up to three installments.
- Rohit Jain:** And so, the remaining 2 lakh crores what have they paid even if they have not paid a single installment you have classified that as moratorium is it?
- S. S. Mallikarjuna Rao:** No, listen to me those who have not paid six installments so I will give more clarity. Those who have not paid six installments they have all been given moratorium so 2,40,000 crores roughly include those who have paid installments up to five. Now in that piece 60,000 is the one where not a single installment has been paid as on 30<sup>th</sup> of September. Now at this point of time the amount where installments are due are paid only up to three or 48,000 crores.
- Rohit Jain:** Can you tell me what is the amount or what is the total value of people who have not paid even a single installment till now?

- S. S. Mallikarjuna Rao:** Out of 48 it is a subset of 48,000 crores. It will be around 30,000, 28,000 crores out of 48,000 now who have not paid anything.
- Rohit Jain:** So you said that you expect only 20,000 to come up for restructuring and the rest to be recovered, so my question is if 30,000 people have not paid a single installment in the last seven or eight months what gives you the confidence that these have not let us say the higher stress accounts with almost a certainty of them turning into NPA because it has been only seven months now?
- S. S. Mallikarjuna Rao:** The only point is out of that amount when I say what you call probably I need to correct myself and I am indicating to you the amount as on 30<sup>th</sup> of September nothing is paid but it has to become NPA is only 3,400 crores and now when they have not paid installment in the account as of 31<sup>st</sup> August the demand is still zero.
- Rohit Jain:** I understand that rule wise there is no need to classify them as NPA, but my question is that if a consumer has not been able to pay a single installment in the last seven months then what gives you the confidence that they will eventually honor that commitment?
- S. S. Mallikarjuna Rao:** There are two dimensions one is that people have taken moratorium. Second, I mentioned is based on the what you call business coming back to normalcy they are paying the money. So, we are getting recovery already from September onwards and we are following up each account wise. So, when we are seeing the recovery, we find that the amounts will come in these cases as well because the window is available up to almost a December because three months. Even if somebody has not paid anything from 1<sup>st</sup> of September, I calculate September, October and November end by December they account has to become NPA, but we already started getting the recovery. The quantum was very high earlier which has come down drastically. So, this is coming down with the follow up that is what you call kind of an estimate what we are having.
- Rohit Jain:** And you said that for FY21 till March 2021 you expect credit cost of 2.5%, what would be the credit cost expectation for FY22 based on the current trends?
- S. S. Mallikarjuna Rao:** It would be very difficult to estimate at this point of time because the credit cost when I am estimating 2.5 for FY21 the provision required to be made for restructuring also I am including as if it is a NPA provisioning that is the reason why I continue to what you call estimate 2.5 credit cost during year 20 and 21. Regarding 21, 22 only we will be able to assess probably after Q3 because we need to look at what is the piece we are getting for restructuring and how this moratorium accounts are getting the recoveries so these two factors we will be defining that.
- Rohit Jain:** And last question what would be your exposure to let us say the highest stress sectors like tourism, school bus operators and restaurants and all of that?

- S. S. Mallikarjuna Rao:** 939 crores we have indicated to you in the presentation it is given. What we have mentioned is additionally last time it was not there this time additionally we have shown that figure it is 950 crores.
- Moderator:** Thank you very much. Next question is from the line of Jay Mundra. Please go ahead.
- Jay Mundra:** Sir based on this you have a significant market share now I mean after merger the bank is a reasonably large size bank what would be your expectation for the system level slippage for this year I mean if you want to make a broad range also what would that number be sir roughly?
- S. S. Mallikarjuna Rao:** See RBI is estimated between 2% to 4% when they had come out with the financial stability reporting the month of June, July depending upon the pandemic if you remember properly. Now our gross NPA has gone down it has come down to 13.43 at this point of time. We are looking at that we should be continuing below 14% at the gross level and below 4% at the net level.
- Jay Mundra:** No so actually wanted to check on the system level so RBI said 4%, but that is the net number because they are saying gross-to-gross?
- S. S. Mallikarjuna Rao:** 1% to 1.25% it could be in the system because the major difference of estimate comes from the perspective of restructuring. We though many people will come for restructuring not many of them are coming and they are paying the installment and some of them have taken moratorium it is sufficient for them to take care of the requirements. So, as a result the system NPA increase even though RBI estimated anything between 2% to 4% it could be around 1% to 1.25% that is at the gross level.
- Jay Mundra:** And second on this 15 accounts where we have got restructuring request what would be their overall exposure to banking industry I mean because some of the banks that they have reported results they have given the number but I mean you are the last one I mean you are the latest so that 15 accounts roughly would amount of how much at systematic debt?
- S. S. Mallikarjuna Rao:** See out of 15 accounts except one account remaining all accounts are smaller accounts I do not expect anything to be bigger amount only that one account might have around 25,000 to 30,000 crores.
- Jay Mundra:** Apart from that all should be in three-digit kind of a number?
- S. S. Mallikarjuna Rao:** Yeah correct three digit only not more than that. Out of 15 accounts what we have approved for the restructuring 11 are sole banking accounts where the amounts are very small not very high. There are only four accounts involving consortium out of that one account is a bigger account.

- Jay Mundra:** And these three accounts sir if you can tell the sector these three-consortium account?
- S. S. Mallikarjuna Rao:** Retail trading two accounts and one is manufacturing.
- Jay Mundra:** So far there is not much request anyway so do you suspect any bottleneck in terms of going through Kamath committee report or is there any pipeline as such?
- S. S. Mallikarjuna Rao:** See there are two ways of looking at one I will tell you the other way round Kamath committee recommendations have been very good because the ratios also they have specified as per the industry is concerned and customers that is industries and corporate are also if they take the restructuring their rating maybe impacted and even if do well in future because of the restructuring being there for at least a minimum period of two years their rating will not be upgraded so these are the concerns what we are looking at. The other way around is initially when the recommendation came the kind of discussion what was happening is that whether the two years moratorium is sufficient initially in the restructuring. For an account to be viable you need to get RP4 rating. For RP4 rating to come sustainable debt has to be what you call identified. Now with two years moratorium will it be sufficient. These are the main points of discussion probably we may have to wait for some more time to understand the behavior from the corporate. As on today even I have checked with other banks as well we are not seeing much of a request coming to the banks for the request of restructuring.
- Jay Mundra:** And sir coming back to our disclosures on moratorium because it is slightly different from other banks, so what other banks are saying that we do not keep track of moratorium period that is over what we are concerned with is if they are paying in September or October or no. So, if I want to look at your bank what would be the amount which either they were in erstwhile moratorium or no, but which have failed to make September dues or October dues?
- S. S. Mallikarjuna Rao:** See that is what I have indicated to you we have transparently given you the sheet I do not know by giving these details whether we have created more confusion among the analyst it was with an intention of showing you the transparency the disclosure. All the accounts where we have identified and given the moratorium we have marked in our system and we have carried out the data and that data we have presented before you involving all the categories of agriculture, retail MSME and corporate and others. Now all these accounts out of the entire 2,39,000 the only amount that would have NPA as of 30<sup>th</sup> of September is 3,400 crores which has not become NPA but for this what you call Supreme Court judgment. So that 3,400 we have made a provision is equivalent to 15%. So that is over now remaining amount the due the 3,400 is those accounts where were SMA 2 as on 29<sup>th</sup> of February and money has not been received. If you remember the SMA 2 as on February 29<sup>th</sup> for PNB was around 6,900 crores. Out of that this is the only component where no money is received which others would have become NPA. Now remaining all accounts, the demand is not there up to 31<sup>st</sup> of August. So whatever demand is there demand is created from September onwards. Now September onwards the demand is created, and we have to pay the money. Now in that we have bifurcated in such a way that those who have paid installment only up to three installment that amount as

on September was around roughly 60,000 crores above 60,000 crores, they were carrying installment paid for more than 3. So, there is no threat for them to become NPA in the next four to five months' time. So, this 60,000 has become 48,000 as on today and further recoveries are in progress. These accounts also will not become NPA immediately even if Supreme Court judgment is lifted tomorrow or day after tomorrow. The window is available for another three months September, October and November and December because if one installment is received for the December then it will not become NPA. So, we are monitoring very closely to see that the component will not become NPA. So out of this composition only some may be restructured which I am expecting up to roughly 20,000 crores as on today the earlier estimate was 40,000 now it is 20,000 and account slipping around 5,000 crores, I am expecting slippages to happen up to March 21. So whatever figures will come 20,000 or 5,000 will come from this 48,000 as on today, but that is also expected to be reduced with the recoveries which are forthcoming.

**Jay Mundra:** Sir, just to make it very clear I mean out of these 2,40,000 crores 1,92,000 crores let us say which is 240,000 minus 48,000. You already have received three EMI so even if let us say if they may want to pay they you anyway have the three months standard track record because they have already paid where that divide was not there and hopefully in the three month they will become standard and they will resume even if let us say they are lost.

**S. S. Mallikarjuna Rao:** Yeah, they will resume the payments already I have resumed now we can call them standard only because there is no demand up to 31<sup>st</sup> of August.

**Jay Mundra:** Last thing sir if you have this ECLGS disbursement how much have we made and what in your expectation what is the use I mean are the people repaying the earlier debt or they are funding loss or they are using there to sort of restart the business, any qualitative thing?

**S. S. Mallikarjuna Rao:** 90% to 95% is only for restarting the business. Restarting business includes handling the fixed cost expenses that is what we have sanctioned is 11,000 crores to be exact 10,957 crores in emergency line credit extended to MSME. So, 90% to 95% it is only for restarting of the business by maintaining payment to the fixed cost. So, this piece since it is given those categories of advances, we are not expecting them to have any trouble in terms of what you call restructuring requirements.

**Moderator:** Thank you very much. Next question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

**Mahrukh Adajania:** I had a few follow up questions first is that my first question is that you mentioned that other sectors level the earlier estimates as 2% to 4% on GNPA now it will be 1.25% incremental. So, it is lower because collections have improved better than expected or it is lower because there will be some amount of restructuring also or in general, we are cautious while making the first assessment?

- S. S. Mallikarjuna Rao:** It is the combination of both in June in RBI in the month of July when RBI has come out with the financial stability report at that time the visibility related to the economy how fast it will come back was not available whereas today if you see rural economy has come back very fast. Semi urban economies looking very nice now only urban economy has to come back which is dependent on various linkages in the supply chain, logistics and other areas. So, and festive season is also creating good amount of an impact for the economy to come back. So these are the reasons why the estimate of gross NPA to go higher between 2% to 4% can be reworked though there is no official estimate from RBI neither from any other source, but it is only my understanding based on the discussions what we undertake among the various bank MDs that the gross could be higher anything between 1.25%. So, one reason is the coming back of economy. Second the efficiency in terms of the collection when I say efficiency it is more related to the intent to pay rather than the bank sufficiency. The reason is people have seen two moratoriums three months and three months and they have realized whatever money they held back anticipating unforeseen circumstances now they are clear about the unlocking period and economy coming back so people started paying. The collection we have seen in a better manner from what you call September onwards those people who have already money in terms of personal loans and other things. They started paying during Moratorium itself. However, those who held back they started paying from September, so these are the two reasons. One is collections more than anticipated level to be there and second economy coming back better than what was anticipated in the month of July.
- Mahrukh Adajania:** But to this NPA we also have to include the restructuring number because some of them which would potentially slip can be restructured?
- S. S. Mallikarjuna Rao:** See if you look at the restructuring eligibility other than MSME, only SMA 0 was eligible. SMA 0 being eligible it is a running unit. So, we do not expect the slippage out of the restructured profile if we understand the restructuring properly. If you may face technical difficulty only in those industries where probably deep restructuring is required going beyond two years for the moratorium we do not see much of an impact in those areas. If at all the issues come up may come, they may come in hospitality industry, they may come in tourism industry. As far as PNB is concerned out outstanding is only 969 crores as on today.
- Mahrukh Adajania:** Sir just coming back on the ECLGS so earlier when the government launched the scheme the impression was that it would be huge to pay up existing loans so for what you said that is not the case is it?
- S. S. Mallikarjuna Rao:** No, it was not for the purpose of existing loan to be paid. It was for the purpose of managing their business for their fixed cost. More importantly it was fixed expenditure they have to manage during the moratorium business that was shutdown. So that was the main purpose that is why government has given guarantee to those accounts. So as on 29<sup>th</sup> of February all the outstanding up to 25 crores initially it was given later on it was extended to 50 crores. In fact, lot of people have taken the sanction initially and they have not taken the money. They told that we will take the money only when it is required whenever unit start. The disbursement

has started more effectively only after September that is after 1<sup>st</sup> of September. Once the moratorium has ended and they started seeing the economy coming back the disbursements have started though we have sanctioned 11,000 crores initially the disbursement was only 60%, 65% whereas today now it is around 96%, 97%.

**Moderator:** We move on to the next participant. Next question is from the line of Deepak Kumar an Individual Investor. Please go ahead.

**Deepak Kumar:** Sir, I just want to know that if we calculate the book value from the reserves and surplus in the balance sheet it comes to around Rs. 91 or in the investor presentation it is Rs. 54 while such a big difference sir?

**S. S. Mallikarjuna Rao:** So, we need to check it out I am also surprised it is Rs. 54 only as per our calculation.

**Deepak Kumar:** In balance sheet like in reserves and surplus if you add to that

**S. S. Mallikarjuna Rao:** We reduce the DTA deferred tax assets we calculate by reducing.

**Deepak Kumar:** Where we have to check the DTA?

**S. S. Mallikarjuna Rao:** It is available in the balance sheet otherwise part of other assets probably you may not be knowing exactly so it is part of other assets in the DTA that amount we reduce and calculate.

**Deepak Kumar:** For all the banks if I check other bank balance sheet also has to reduce the DTA?

**S. S. Mallikarjuna Rao:** Yeah, our bank balance sheet also will be like that only.

**Deepak Kumar:** It will be in the assets?

**S. S. Mallikarjuna Rao:** Yeah correct other assets.

**Moderator:** Thank you. Next question is from the line of Abhijit S from Kotak Mutual Fund. Please go ahead.

**Abhijit S:** Sir, first question is you could explain the reasons for higher recoveries during the quarter any big accounts or salary?

**S. S. Mallikarjuna Rao:** It is not very high recovery it is only ,3400.

**Abhijit S:** No, the jump that you have seen over the previous year anything specific for this quarter let us know?

**S. S. Mallikarjuna Rao:** No there is a NCLT related around 180 crores or something we received. See if you look at overall the recovery if you look at cash recovery it has been 2,281 crores in September that is

Q2 Q1 it is 1,069. 2,281 comprises of roughly around 217 crores where we have received recovery in NCLT cases, and all are smaller accounts actually these even NPA also in smaller accounts through the follow up the recovery came these are all very small accounts.

**Abhijit S:** And what is the expectation for second half?

**S. S. Mallikarjuna Rao:** Second half expectation is two dimensions one is in NCLT we are expecting a reduction of around 8,000 crores in NPA through the settlement of Bhushan Power and other accounts. Bhushan Power itself we are having an outstanding of 6,000 crores out of which we are expecting cash recovery of 3,800 crores. So, if you look at cash recovery from NCLT our expectation is roughly 4,800 crores whereas reduction will be 8,000 crores. Other than NCLT we are expecting overall in the year 8,000 crores against which we already received a recovery of what you call 3,200 crores. So, another 4,800 crores we are expecting recovery during the H2. So, if you look at overall 4,800 from other than NCLT and 4,800 from NCLT cash recovery together 9,600 reduction will be much higher than that.

**Abhijit S:** Second question sorry if you have to repeat this could you explain the difference and then what are definition between June and September?

**S. S. Mallikarjuna Rao:** Which one moratorium.

**Abhijit S:** Yeah, the definition of moratorium.

**S. S. Mallikarjuna Rao:** No, it is not the definition what we have shown is when we were indicating the figures regarding the people who have taken moratorium we considered all those people who have paid two installments or more those people we have considered them as people who have taken the moratorium. When at the time of crystallizing as on 31<sup>st</sup> of August we have permitted the moratorium to everyone who have paid only up to five installments. Can I repeat again two installments paid people were not considered as people who have taken moratorium when we had given earlier figures that is the intent of the people to pay the money during the moratorium period, but when the moratorium ended as on 31<sup>st</sup> of August we have extended the moratorium since we have given of opt-incategory that means somebody who does not want moratorium has to tell that he does not want moratorium. So, everybody has extended so while extending this has been extended to all the borrowers who have paid up to five installments. If somebody had paid six that is where no moratorium is given. So up to five installment the composition comes to 2,39,000 crores roughly around 2,40,000 crores. So, these 2,40,000 crores within that if you bifurcate again those who have paid up to only three installments that category is 48,000 crores as on today. So that means remaining all amount they have paid more than three installments.

**Abhijit S:** On the SMA you have indicated about 5,000 to 6,000 crores of restructuring just trying to understand qualitatively why have these customers not used the ECLGS scheme or any other

scheme and secondly there was anyways a scheme that was running before COVID, so why have these customers not been able to utilize the existing schemes?

**S. S. Mallikarjuna Rao:** No there are two reason the ECL also we have given 11,000 crores as I have indicated to you if you see the SMA 2 category published by us 19, 137 crores out of which MSME comprises 6,668. So that is our estimate that out of that probably around 4,000 to 6,000 crores could go into restructuring, but for them also the first benefit will be given in terms of lending under the government guaranteed scheme already we have covered many of them. We are reaching out to the people some of them have not come. These SMA 2 does not mean the unit is running or they are not having money. It is only because of the moratorium the unit was what you call not functioning that is the reason the account has become come into SMA 2 category. Now as far as the eligibility for SME what you call lending these government lending is concerned there is a difference between the account to be eligible what you call restructuring and for emergency credit. For restructuring and MSME even if it is SMA 2, they are eligible for other than MSME for restructuring only SMA 0. Coming back to additional lending to be given they are to be given only for standard and SMA 0. So, there is a difference in the eligibility that is the reason why that gap is coming.

**Abhishek S:** No, I was trying to understand because the SMA 2 in the MSME has gone up over the last one year.

**S. S. Mallikarjuna Rao:** Yeah at 6,668.

**Abhishek S:** It was not SMA 2 few quarters back?

**S. S. Mallikarjuna Rao:** That is the reason why finer gap between being eligible for additional lending and eligible for restructuring that is the gap roughly around 3,000 to 4,000 Crore we anticipate

**Moderator:** Thank you very much. Next participant is Amit Jain from Axis Capital. Please go ahead.

**Amit Jain:** Sir is it fair to assume that these 48,000 crores which you believe is currently under stress for large part would we say SME or corporate?

**S. S. Mallikarjuna Rao:** No, corporate is also there MSME and corporate yeah you can assume because retail is less.

**Amit Jain:** So, retail portion would be very less?

**S. S. Mallikarjuna Rao:** Very less correct.

**Amit Jain:** And sir in terms of COVID provisioning or overall contingency provision could you tell us what is the outstanding number?

- S. S. Mallikarjuna Rao:** One is that we have bifurcated 3,400 crores which otherwise would have become NPA but for the Supreme Court judgment in that we have derecognized the interest of 85 crores and also provided 15% which comprises around 580 crores that is one component then additional we are holding 595 crores for the amount of 7,000 crores which was SME 2 as on 29<sup>th</sup> February later on it has come down to 6,900 crores originally it was 7,900 it was 6,900. Though there is an overlap between the two, but we hold additional provision to the extent of 350 crores as on today which is not marked to any account.
- Amit Jain:** You would have from standard asset another contingency provision as, well right?
- S. S. Mallikarjuna Rao:** Yeah correct that is what I am saying it is around 400 which is visible there. See all the provision what I told 580 is only standard provision there is not NPA provision. So, if you look at standard provision overall 595 plus 580 that is 1,185 is the amount which we are holding under standard category provision only ad hoc provision for COVID-19.
- Amit Jain:** So, this entire 1,175 would be for COVID right?
- S. S. Mallikarjuna Rao:** Yeah correct this is for the COVID related.
- Moderator:** Thank you. Next question is from Ankit Bansal Individual Investor. Please go ahead.
- Ankit Bansal:** Sir for FY21 gross NPA and net NPA what will be the target and one more question where you are seeing yourself in the place of private banks competition?
- S. S. Mallikarjuna Rao:** First question I have understood that gross NPA our estimate is that it will be around 14 till 21<sup>st</sup> and net NPA we should try to keep it below 5.
- Ankit Bansal:** I am saying where does PNB think themselves in comparison to private player like HDFC, Axis?
- S. S. Mallikarjuna Rao:** Like if you see PNB balance sheet size and if you will the size of the bank that is the second largest in the public sector space it is around 1,05,000 of 10,930 branches it is there in talk around the world. Now the thing comes where we see ourselves in comparison to them. See business model private banking and PNB they are completely different. If we compared from the HDFC their business model it is different. They can be choosy in terms of the sectors it does not mean we are not choosy, but it means that our commitment to the infrastructure is much higher in terms of the public sector. If you see in infrastructure lending energy sector, road sector the major three sectors in that funding HDFC Bank and another private bank it is very less public sector is more. In future also in road sector where potential demand where we can see there also participation public sector will be more that is why business model, I do not compare with HDFC Bank or another bank. Our intention is that PNB if you look at there are two kinds of legacies. One legacy is the brand image got impacted because of biggest fraud what has happened, and we have far from that. Second in the balance sheet the impact which

was there because of that fraud and other frauds which have been declared later only it is not related to PNB in the banking industry. PNB relation is that the fraud was there it was very big and to overcome from this we have to handle the balance sheet that is our intention. We have the confidence that 21<sup>st</sup> March balance sheet should come in good shape, increase the internal strength, increase the provision coverage ratio currently it is more than 83% and it will be go beyond 85 and if we normalize the impact of COVID 22-23 will be a spring mode for increasing the business for Punjab National Bank.

**Ankit Bansal:**

Sir I have one more question the answer which you have given I am satisfied, and your investor are getting affected what do you like to say about that?

**S. S. Mallikarjuna Rao:**

What I was telling is if you will see the capital structure of PNB 85.5% government holding is there and the remaining 14.5% if you bifurcate that critical mass available for the retailer to trade regularly it is very less. So, till when the trade lot will be not more according to our performance market trade will not increase then market sell and purchase it will not rise. So what should be our motive to come in the market by way of QIP or follow on public offer or rights issues and right issues will not be there because government holding is 85.5 and FPO or QIP if you are able to bring at least 20% to the extent retail segment or other than government then you will find more difference in terms of the trading of the share price and increase in the share price based on the performance. If today or tomorrow if any negative news come impacting the public sector space rate may decrease and to increase it is very difficult because the kind of trading or the kind of volume which is required it is not happening that is the major reason. It is not exactly reflecting the intrinsic value of the bank not only PNB, but majority of the public sector bank except may be State Bank of India because there is a different animal it has already taken public shareholding to a larger extend or may be one or two banks. So, this is the position so unless we come out of this issue of cycle the investors will not have a better what you call visibility related to the trading of the share of the Punjab National Bank that is my understanding.

**Moderator:**

Thank you very much. Next question is from the line of Prabal Gandhi from Antique Stock Broking. Please go ahead.

**Prabal Gandhi:**

Sir my question is on the capital raise sir so our T2 bond is low at 9.5% and given the restructuring pipeline of 20,000 crores and expected slippages, are we planning to raise any capital in the near future?

**S. S. Mallikarjuna Rao:**

We have already taken the board approval for 14,000 crores out of 14,000 Tier-2 is 4,000 crores AT-1 bonds are 3,000 crores and QIP is 7,000 crores. As against 4,000 crores of Tier-2 bonds we have raised 994 crore in the month of July, 1,500 crores in the month of October. Now another 1,500 crores in Tier-2 bonds and AT-1 bonds of 3,000 crores we are confident of raising in the end of November from the market. So that will conclude 7,000 crores together Tier-1 and Tier-2. Another 7,000 crores equity we have already initiated the process we are planning to come to the market somewhere in the second or third week of December provided

everything goes well because we are finalizing the BRLM to be selected in the next couple of days. So with this our capital estimate will be anything between 12.5% to 13% in the worst case scenario after considering 20,000 restructuring and 10,000 slippage if it is going to be lesser than that we may even touch more than 13% in the CRAR position as at the end of March 2021.

**Prabal Gandhi:** And sir in this capital raise of 7,000 crores once again we should look on that, is the government also going to participate in that?

**S. S. Mallikarjuna Rao:** QIP government will not participate.

**Prabal Gandhi:** So basically, it will be dilutive?

**S. S. Mallikarjuna Rao:** So ideally speaking I do not want government to be at 85.5% only because the market appetite we have to see for raising the QIP otherwise it does not give me any comfort if I go on taking the money from government of India where this stake will increase and there would not be any retail stake available for trading in the market.

**Moderator:** Thank you very much. Next question is from the line of Rohit Jain from Tara Capital Partners. Please go ahead.

**Rohit Jain:** I just have one follow up question you said that the COVID provision that you have contingency provision is about 1,108 crores which is I think around 10 to 20 bps of your loan book now I want to understand when some of the other private sector banks who generally have had a better history in terms of NPA they are holding the COVID provisions of anywhere between 1% to 1.5%, so why is that we have provision only so less as a contingency measure for COVID?

**S. S. Mallikarjuna Rao:** No, it is not less it is calculated mathematically because the entire SMA 2 book as on 29<sup>th</sup> of February where some of the accounts have slipped already suppose we have given in our presentation there is a 429 crores which has already become NPA out of that composition. Now what remains as on today is 6,091. So again that 10% provision we have kept aside. Now again additionally we have made 400 crores and another 180 crores provisioning so overall provisioning is 1,175 in our understanding it is sufficient to take care of the requirement and if any restructuring goes even if 20,000 crores is restructured what you require is only 2,000 crores provisioning. Every quarter we are able to make provision of anything between 3,800 crores to 4,000 crores based on our operating income. So, we are confident of handling this in Q3 and Q4 more effectively with the provisioning what we have done.

**Moderator:** Thank you very much. Ladies and gentlemen that was the last question for today. I will now hand the conference over to Mr. Bhavik Shah.



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

**Moderator:** Thank you very much. On behalf of Batlivala & Karani Securities India Private Limited that concludes this conference. Thank you for joining us you may now disconnect your lines.