“Punjab National Bank
Q1 FY2021-22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Punjab National Bank's Q1 FY2022 post results conference call hosted by Batlivala and 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 conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. Participation in this conference call is by invitation only. Punjab National Bank reserves the right to block access to any person to whom an invitation is not sent. Unauthorized dissemination of the content or the proceedings of the call is strictly prohibited and prior explicit permission and written approval of Punjab National Bank is imperative. Please note that this call is only for investors or analysts. I now hand the conference over to Mr. Bhavik Shah from B&K Securities. Thank you and over to you Sir!

Bhavik Shah: Thanks Steven. Good afternoon everyone and thanks for joining the call. On behalf of Batlivala & Karani Securities, we welcome you all to Punjab National Bank Q1 FY2022 post results conference call. We have with us today the management of Punjab National Bank represented by Mr. CH. S.S. Mallikarjuna Rao – MD and CEO, Mr. Sanjay Kumar – Executive Director, Mr. Vijay Dube – Executive Director; Mr. S.K Saha – Executive Director and other senior officials. I would now request MD & CEO Sir to start the call with his opening remarks on Q1 FY2022 results, post which we can start the Q&A session. Over to you Sir!

CH. S.S. Mallikarjuna Rao: Good afternoon to all of you. The details of our results and presentations are in the public domain. I will just take only few points in brief and then I will open the quorum for questions.

If you look at the results, CASA has grown by 7.34% and the share stood at 45.15%. Retail term deposits have grown by 10.73% and the share of retail term deposit plus CASA stood at around 92% of the overall deposits.

Operating profit has grown YoY by 15.5%, net interest income has grown by 6.6%, global NIM stood at 2.73% which has been an improvement compared to year-on-year, net profit has been Rs. 1023 Crore which is more than three times to last year Net profit and more than 75% of what was booked during Q4 FY21.

Capital adequacy ratio is very comfortably placed at 15.19%, cost to income ratio has been brought down to 43.64% and recovery and upgradation together stood at 8270 Crore during the quarter ended June. If you look at your digital canvas, 60% of the transactions are digital and further 11% through ATM that means 71% of the transactions are outside the branch, 29% comprising branch as well as BC network.

Now coming to areas where we will be looking for improvement in Q2, Q3, Q4 will be gross NPA and net NPA. Though the outstanding remains the same because of credit growth not being very high, the

percentage appears elevated and there is also slippage of Rs. 8241 Crore comprising retail of Rs. 1548 Crore, agriculture of Rs. 2149 Crore, MSME of Rs. 3122 Crore and other category Rs. 1422 Crore. This is because of the collection efficiency that we have achieved in June which is much better otherwise the slippage was little high at the end of May which was brought down considerably at the end of the quarter.

Further, regarding corporate credit growth and RAM growth, RAM growth has been very moderate whereas corporate growth was almost muted or negative. But we are looking at good amount of growth because already we have created a pipeline of sanctions for more than Rs. 50,000 Crore currently, which will to be disbursed over a period of time.

The other area of little more focus will be on collection in terms of SMA accounts and rigorous follow up in terms of NPA accounts particularly in the retail and MSME where we have seen slippage in the last two quarters at a high level. While I am not very much worried about retail piece because majority of the retail we have seen in the June collections have come back normally and we are expecting that in Q2, Q3 the existing retail also will be upgraded and there will not be any further accretion in NPA with respect to retail, sporadically leaving few accounts.

However, in the case of MSME, little stress is still there and we expect the improvement only by March 2022 in respect to upgradation of the accounts. As far as slippage is concerned, it has almost reached maximum. I do not expect any further slippages in the next few quarters in a big number from MSME.

With respect to restructuring under OTR 2, we have done around Rs. 6600 Crore predominantly from retail that is individual borrowers at Rs. 3396 Crore, small business around Rs. 320 Crore together then MSME Rs. 2886 Crore, so total is Rs. 6602 Crore, so may be another Rs. 1500 Crore to Rs. 2000 Crore we can expect before September up to which the window is available, otherwise it has been done very conservatively. We have done because we have gone for recovery first and then only restructuring was done.

Even if you look at the restructuring of OTR 1.0 related to August 6, circular, the figure including the corporate remains at Rs. 6787 Crore which is available in the presentation. Fee based income is one where we are concentrating and more focus will be this time because it has been muted. Reason for the same being the COVID and insurance business also got impacted in the last quarter of the last financial year. We are expecting it to improve where upon even other fee based income avenues will be explored. Every focus will be to get more income on that.

With respect to capital as I have indicated at 15.19%, we are very comfortably placed. So we do not have any thinking at our end to go to the market once again for diluting the capital. However, what we will do is, we will just keep taking approval from the Board, keep an option and we will only see if there is any requirement because generally for our expectation of credit growth between 8% and 10%,

the current capital is more than sufficient. We do not require anything because we have been successful in controlling the risk weighted assets and seeing that the capital is conserved well and this year we are also expecting profit between Rs. 4000 Crore and Rs. 6000 Crore. That also will be added to the capital as a result, I am not expecting that we should be going to the market for capital. Though we will keep options open at our end but we will not be going to the market to raise capital. So, these are my preliminary points and I will be happy to take questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ashoka Ajmera from Ajcon Global Services. Please go ahead.

Ashoka Ajmera: Good afternoon Sir. My compliment to you and your entire team for the fantastic results, the net profit is more than Rs. 1000 Crore now and the guidance of the whole year of Rs. 4000 Crore to Rs. 6000 Crore is also very encouraging. On other parameters also the bank has performed very well and you said that the even collection efficiency was also good. Having said that, I have got a couple of questions and observations on some information points. In the profit and loss account, other operating expenses have come down from Rs. 2346 Crore in the last quarter to Rs. 1766 Crore which is almost about Rs. 600 Crore reduction in other operating expenses. Is that going to be the same in the next coming quarters or it is only because of certain temporary measures or some temporary component?

S.S. Mallikarjuna Rao: No, it is not temporary. It is going to be controlled at that level even if you look at the Q1 Results of last year. It was only Rs. 1849 Crore and now it is Rs. 1766 Crore. I do agree that sequentially it has come down. There are couple of one-time areas there at that point of time. Overall further important thing is that we are also rationalizing our branch network where already by June end we have merged around 370 to 380 branches. That synergy is also coming up and we are expecting to rationalize around 1000 branches by March 2022. So that synergy also will be taken forward. So there is a reduction in the other operating expenses which will remain at that level only.

Ashoka Ajmera: Great Sir. There is just note number 14 on the account. On this account of fraud, you stated that Rs. 1013 Crore which was earlier debited to the other reserves has been now again considered back in P&L and you have a charge to P&L Rs. 606 Crore and remaining Rs. 406 Crore. I mean carry forward for the future quarter?

S.S. Mallikarjuna Rao: So, how it happens is kindly remember as per the RBI guidelines whenever a fraud account is declared, we are required to make the provision 100%. However, this 100% provision can be spread across 4 quarters, so any fraud account, which was identified somewhere in the quarter of December or September where the provision is deferred to be made every quarter subsequently in between when the year-end comes. In order to properly position the capital what RBI guidelines says is that the deferred provision will be debited to a reserve account and accordingly proper statement of capital will come and later on once the March is over that will be reversed which properly takes care of the distribution in the subsequent quarters, so that is the reason why in the note we have mentioned that.

Ashoka Ajmera: Alright.

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

Mahrukh Adajania: Sir, could you please repeat the slippage figure because I could not note all of them down?

S.S. Mallikarjuna Rao: Slippage was Rs. 8241 Crore, comprising retail at Rs. 1548 Crore, agriculture Rs. 2149 Crore, MSME Rs. 3122 Crore and other category Rs. 1422 Crore.

Mahrukh Adajania: **Rs.** 1422 Crore?

S.S. Mallikarjuna Rao: Correct.

Mahrukh Adajania: Okay and Sir just on the stock of restructured loans, basically you did around Rs. 66 billion in OTR 2 and Rs. 67 billion in OTR 1 and over and above that you have a slide which says that in other schemes, it is Rs. 23 billion, correct? 67+66+23, is that your outstanding restructured?

S.S. Mallikarjuna Rao: I think it is old one, Rs. 23 billion is the general restructuring which comes at Rs. 2300 Crore.

Mahrukh Adajania: Correct but you have to add it, right? So you have 67+66+23 that is your outstanding restructured book?

S.S. Mallikarjuna Rao: Correct, you are right.

Mahrukh Adajania: Sir, from your restructured book how much overlaps with a SMA that you have disclosed?

S.S. Mallikarjuna Rao: There is no overlap. We have already given, if you look at the OTR 1, OTR 2 if you see, MSME loan restructuring as per August 6 circular was Rs. 1099 Crore and as per May 5 RBI circular Rs. 2886 Crore, so they are mutually exclusive, there is no overlap.

Mahrukh Adajania: No, I am saying the SMA loans, the SMA overdue loans that you have shown separately PAT and the overlap with restructuring?

S.S. Mallikarjuna Rao: No, there is no overlap.

Mahrukh Adajania: There is no overlap in special mentioned accounts?

S.S. Mallikarjuna Rao: No, if you see, the SMA you are talking about SMA 2?

Mahrukh Adajania: Yes.

S.S. Mallikarjuna Rao: Yes, so there is no overlap. Both are mutually exclusive.

Mahrukh Adajania: Right and just one clarification that basically, when you say technical write-off, these are accounts that have to be 100% provided as per RBI guidelines and because they are 100% provided, you write them off, is that the correct way?

S.S. Mallikarjuna Rao: Yes, 100% correct.

Mahrukh Adajania: Just one last question, in terms of your slippage, it has been at an elevated level it was 100 billion in Q4 also if you exclude the proforma and then it is 100 billion again, it is because of the wave 2 but where do you see it settling, so assume that there is no wave 3 what should this number come down to by Q2 or Q3?

S.S. Mallikarjuna Rao: No, now it is because by June onwards the collection efficiency has increased, March, April, May it was impacted by the COVID second wave. In fact our slippage up to May end was almost Rs. 15000 Crore which was brought down to around Rs. 8000 Crore because of the collection efficiency during the month of June. So this is the figure which is the highest which I am looking at. Even if you look at the credit cost, it was around 1.76%. Now this credit cost will moderate and go down. So slippages will be lower than that, when we look for the next three quarters.

Mahrukh Adajania: Okay, so it will be lower than 100%, but would there be any quantification like will it be Rs. 5000 Crore, Rs. 6000 Crore any rough guess?

S.S. Mallikarjuna Rao: Rs. 6500 Crore we are expecting per quarter you mean to say?

Mahrukh Adajania: Yes, for quarter only.

S.S. Mallikarjuna Rao: So, overall, I am expecting anything Rs. 18000 Crore to 20000 Crore including this Rs. 8241 Crore, so average could be around Rs. 3500 Crore to Rs. 4000 Crore.

Mahrukh Adajania: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sneha from Subhkam Ventures. Please go ahead. As there is no response from the current participant, we move to the next question from the line of Tejas Parekh from Citi Bank. Please go ahead.

Tejas Parekh: Sir, similar to the breakup that you provided for slippages, if you could provide that the same for OTR as well?

S.S. Mallikarjuna Rao: OTR you can note it down. Under for OTR 1.0 as per the August 6 circular of RBI, the amount of personal loans is Rs. 757 Crore and corporate exposure is Rs. 4931 Crore, MSME loans is Rs. 1099

Crore, so together total Rs. 6787 Crore. Coming to OTR 2.0 as per the RBI May 5 circular, individual borrowers is Rs. 3396 Crore, small business Rs. 320 Crore, MSME is Rs. 2886 Crore and total is Rs. 6602 Crore.

Tejas Parekh: Thank you.

Moderator: Thank you. The next question is from the line of Jayakanth K from Credit Suisse. Please go ahead.

Jayakanth K: Can you just explain this upgrade, are there any lumpy A/Cs in this Rs. 4300 Crore?

S.S. Mallikarjuna Rao: Which one?

Jayakanth K: Upgrades for the quarter?

S.S. Mallikarjuna Rao: Upgrades for the quarter, no, if the couple of accounts are related to only restructuring which have fallen NPA only during the month of March, for example, Future Retail is one account where it was invoked for restructuring but before implementation of restructuring it has become NPA, so that got upgraded. That is around Rs. 700 Crore then another account of such type is MMTC which is around Rs. 500 Crore, so these are the major accounts.

Jayakanth K: Only these two lumpy ones, the rest would be smaller accounts?

S.S. Mallikarjuna Rao: Yes, rest is smaller accounts.

Jayakanth K: On the pipeline of restructuring, you mentioned Rs. 1500 Crore to Rs. 2000 Crore that would be retail or which segment would that be?

S.S. Mallikarjuna Rao: It could be a combination of retail and MSME but the number in retail could be lower.

Jayakanth K: Lower, so MSME essentially you are expecting more pain in coming months?

S.S. Mallikarjuna Rao: MSME actually if you look at restructuring Rs. 3716 Crore and further slippage also Rs. 3122 Crore is there but the slippage of Rs. 3122 Crore, only there will be a conversion to restructuring.

Jayakanth K: Okay and Sir this ECLGS also you have done?

S.S. Mallikarjuna Rao: What I wanted to say is that in MSME we have reached out to the people, we need certain information and discussion before we undertake the restructuring, so the piece of MSME will be out of this slippage only.

Jayakanth K: Okay and the ECLGS exposure. How do you see that playing out we have Rs. 12000 Crore of disbursals, so the exposure to those accounts would be also Rs. 40000 Crore to Rs. 45000 Crore. So do you think some of that also could come under pressure?

S.S. Mallikarjuna Rao: No because all these accounts were standard as on February 29, 2020 that were eligible for this ECLGS. We have sanctioned around Rs. 13000 Crore and disbursement is around Rs. 12000 Crore and when we have disbursed Rs. 12000 Crore you can say roughly the book will be around Rs. 60,000 Crore, five times because 20% we have given, so this is a standard book, there is no problem on that. We have not seen delinquency in that as on today.

Jayakanth K: You guided that you are essentially seeing normalization only in FY2022 for MSME. So even if there are some of the slippages that get restructured then where do you see the next half of the year essentially contributing to the pain?

S.S. Mallikarjuna Rao: If you look the overall figure Rs 121134 Crore is our total book in MSME. Of this Rs 60,000 Crore is the piece where we have given ECLGS, so remaining is around another Rs 61000 Crore, out of that there is a standard category already. 22% - 23% is NPA in the remaining Rs 61000 Crore. I mean the overall Rs. 1.21 lakh Crore, even 24%-25% if you take, it is around 31000 Crore-32000 Crore, So 60+31 around 90, so the other piece is only Rs. 30,000 where again 4000 Crore is restructured, so the fees wherever ultimately is a standard fees as on even March 31 2021, so I am not foreseeing much of impact.

Jayakanth K: Thank you Sir. That is it.

Moderator: Thank you. The next question is from the line of Prakhar Agarwal from Edelweiss. Please go ahead.

Prakhar Agarwal: Just two-three questions, to start with what is happening around PNB Housing? What is the thought process regarding the same now?

S.S. Mallikarjuna Rao: Actually judgement is expected from SAT. So we avoid the judgement and then take it forward whatever judgement comes.

Prakhar Agarwal: Initially our thought process is that we are okay with losing control in terms of initial shareholding that we said. We are okay with that thought process or we have changed that thought process now?

S.S. Mallikarjuna Rao: I do not know what you call about control. I do not understand because in PNB Housing Finance our stake is only 32.59% and 32.2% is held by Carlyle, 9.9% is General Atlantic, another 9.9% is held another company, so FDIs are holding more than 50%, I do not know what do you mean by control and in terms of regulation act and RBI guidelines, we should not hold more than 30%, so that is one more

important factor. It was earlier long back 100% subsidiary later on stake was reduced quite some time back, so this we are holding since 2018 or 2017 stakes are 32.2%.

Prakhar Agarwal: Any indications when the judgement could be expected?

S.S. Mallikarjuna Rao: No, it is difficult to say because they have reserved the judgement, so we have to wait and see how when it comes.

Prakhar Agarwal: Secondly, when I look at your NPA, not more from an active number perspective but from a percentage perspective. When I look at your retail NPA and within that when I look at your housing which is in line what you have reported at 5.24% in terms of gross NPA level which is similar to what CA portfolio is happening and probably 2x what personal loan is having in terms of NPA percentage and why is such a behavior is expected in the housing portfolio?

S.S. Mallikarjuna Rao: Predominantly, if you look at in the public sector domain, retail portfolio is given towards the salaried sector, so whether in the housing or car loan or personal loan, personal loan of course we have pensioners also who are getting regular income, so it is a regular incomes stream which predominantly covers the entire retail sector in PNB. In PNB that is the position. So, as a result if COVID has impacted some of the cash flows with them that is why collections were impacted on two tranches, one was up to October. Last year it was impacted in October and November. December was much better and then again March, April, May it got impacted now. So it is a phenomenon which can be attributed to only COVID and also because not many people have lost the job or salary reduction but they are holding back only for unforeseen circumstances. So that is why we have seen a behavior of collection efficiency improving very well in the month of June and in the month of July. As such, the NPA position of around 5.24% in housing, I am expecting it to go down in the next two quarters through rigorous follow up for recoveries.

Prakhar Agarwal: Just last thing, in terms of MSME portfolio I just had that Rs. 1,21,000 Crore portfolio that you have 23% is already NPA then probably another Rs. 60,000 Crore you have given under that scheme and then another Rs 4000 Crore in terms of restructure, so when I look at that pool the stress quantum is relatively is much higher than what we have for another bank. Any particular reason as you why you are saying so much of stress in this segment vis-à-vis what are other guys are saying?

S.S. Mallikarjuna Rao: See if you look at even in a legacy also the NPA in MSME has been high in PNB, number one. Number two, MSME has been passing through tough time in our country since January 2019 or even a late 2018 that is the reason why RBI has opened a window for restructuring effective from January, 1, 2019. COVID only has aggravated that. Some of the units are coming back based on the economy however it is moving back in some of the sectors, so even today if you assess some sectors may do well, some sectors may take longer time for coming back to normalcy that is why we are seeing impact on MSME. Second, MSMEs will not have inbuilt capability to take care of unforeseen circumstances that is why

they get exposed. So, these are the reasons why the stress in MSMEs high across the banking industry but of course in PNB it is at least 3% to 4% more than the average peer group industry. We are very consciously working on that even if you look at the piece related to restructuring also, it is considerable amount. We expect that by Q4 that means during the next nine months we will have a high level of concentration and focus to see how it can be handled. Even recently Government of India has brought the prepack for MSMEs. That is also a good measure particularly to take care of the chronic units they are running but they are chronically either in NPA or SMA2 category because of the burden of debt on them not able to service out of their operational activities. So all these things I believe should be useful when we look at controlling the MSME profile in NPA by March 2022. So that is the one area where stress is there though there will not be any additional accretion as I have indicated to you even if you do restructuring, it will only be from slippage what has happened because we have seen most of the accounts being identified where stress is there but then improvement will be there only by March 2022. In retail category, in the next two quarters, there will be lot of improvement particularly in housing loans. There is stress since there is a halt on the SARFAESI action. That is also one of the reasons why we are not able to take actions against some of the accounts which have become NPA but all these things will get moderated in the next couple of quarters. Retail will do better, we will be doing recovery also in the NPA but MSME stress will persist for some more time.

Prakhar Agarwal: Sure Sir. Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Rakesh from Systematix Group. Please go ahead.

Rakesh: Good afternoon, Sir. Just one question that is pertaining to SMA number that we have disclosed for more than Rs.5 Crore, so could you give some input on that. So could we get zero, one, two cumulative numbers for the bank?

S.S. Mallikarjuna Rao: That is around Rs.8000 Crore.

Rakesh: That is SMA 0 and SMA 1?

S.S. Mallikarjuna Rao: No, I am sorry. I thought you are asking for less than Rs.5 Crore. So, above Rs.5 Crore bifurcation I do not have SMA 0, see above Rs.5 Crore what figure we have given is only SMA-2 that is around Rs.12,000 Crore.

Rakesh: Yes, 3.5%?

S.S. Mallikarjuna Rao: Correct.

Rakesh: But 0 and 1 Sir?

S.S. Mallikarjuna Rao: 0 and 1 I will have to take 1 is again around Rs.6600 Crore.

Rakesh: Okay, and below Rs.5 Crore ticket size?

S.S. Mallikarjuna Rao: Below Rs. 5 Crore I have indicated it is around Rs.7,800 Crore – Rs.8000 Crore.

Rakesh: That is SMA-2 numbers?

S.S. Mallikarjuna Rao: SMA-1 also what figure I have told is overall, it is not above Rs.5 Crore. SMA-1 is what I have told you around Rs.6000 Crore is overall. So, if you want to calculate how it will come is, around Rs.26000 Crore will come entirely SMA-1 and SMA-2. Full that means in totality from zero to above zero like that. Out of that around Rs.8000 Crore is only two accounts and one is guaranteed by Government of India.

Rakesh: So, how big that number is Sir?

S.S. Mallikarjuna Rao: Rs.4000 Crore. Another account is also as per the NCLT blockage. So, if you look at the SMA-1 and SMA-2 in totality also if you look at it, it is around Rs.20000 Crore for even lower than Rs.25000 Crore.

Rakesh: Sir, another thing on the fee income side, basically the LC/BG numbers are coming down and that is also reflecting in the market risk number. So, market risk number also has come down market risk weight actually. So, how much time do you think like obviously the credit demand has to come and before that this non-funded demand would come but how much time do you think it would take or are we participating in the PSU entities demand on the non-funded side?

S.S. Mallikarjuna Rao: No, we are participating. In the non-fund typically, there is a change in the modeling across the country, For example in the last couple of years, in the absence of new investment by private sector, new avenues for any non-funded facility in the manufacturing sector is diminished. Second, the road projects have migrated from EPC contract stage to HAM model. In HAM model, mobilization advance and other sectors are there where the requirement of non-funded facility is also little reduced compared to what non-funded facility this EPC contractors used to take. These are the main reasons why the non-funded has gone across in the banking system in the last two– three years. With respect to public sector space specifically many of the non-funded which were there in such accounts have got invoked and accordingly it has got converted into debt. So, in the absence of any new manufacturing industry or any other industry coming up the avenues for non-funded is currently muted. However, I am seeing that there will be good amount of traction in corporate credit coming up from end of Q2 or Q3 onwards. This is in anticipation that there are good numbers of industries for example, steel is doing extremely well, and we look at that many of companies are going to enhance their capacity utilization by going for further investment. Similarly, there are industries in the logistics segment whether it is warehousing or even cold storage there are lot of opportunities coming up. So, the improvement more and more when it comes from end of Q2 or Q3 then we can see non-funded facility also slowly moving up.

Rakesh: Got it. Thanks a lot, and all the best.

Moderator: Thank you. The next question is a follow up from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: Sir, basically this Rs.26000 Crore of SMA that you said is below Rs.5 Crore included as well, right?

S.S. Mallikarjuna Rao: Yes, everything i.e., zero and above SMA-1 and SMA-2.

Mahrukh Adajania: SMA-1 and SMA-2, okay?

S.S. Mallikarjuna Rao: Out of that I have indicated that around Rs.8000 Crore comprising two accounts one of them is guaranteed by government so if you eliminate that it comes to around Rs.18000 Crore to Rs.19000 Crore.

Mahrukh Adajania: Got it Sir. Sir, and of your total retail loans not agri and MSME but pure retail loan how much would be salaried, government, and how much would be government employees and how much will be non-government and others?

S.S. Mallikarjuna Rao: That bifurcation I do not have. We have to take it but both together it will be more than 85% to 90% because we do not give loans to others. Even more than 90% can be salaried class. All are salaried class only but bifurcation among government and non-government we do not have it. Government is predominantly high, government and pensioners. Non-government is restricted to only the IT companies' employees where the salaries are high. We have very stringent eligibility criteria that is the reason why it will be not given to private employment with a lower salary.

Mahrukh Adajania: Okay, just largely IT only private, right because there are lot of state banks say that most of their salaried loans, I mean loans to salaried have to cover government., that is why I was asking, Sir?

S.S. Mallikarjuna Rao: No, even ours is also government only, other than government it is only IT.

Mahrukh Adajania: Got it. The other question I had is obviously you have a good recovery pipeline and now with collection efficiency improving there could be some roll back or your slippages also or upgrades to your Q1 Slippages also. But in case there is a third wave and say net NPA crosses 6% then would it mean an automatic PCA or there is no such thing?

S.S. Mallikarjuna Rao: No, I would like to categorically say that we will never cross 6% because 5.8% ratio is only because credit growth has not been there. Otherwise if you look at the outstanding level, whether it is gross NPA or net NPA, it has remained at the same level in the year-on-year with only marginal difference and already we have created a book of sanctions to the extent of around Rs.50000 Crore currently. So I am expecting that the traction for disbursement will be there by September as well as by December. So, I

do not see any reason why our net NPA ratio cannot be lower than 5% in fact, by March 2022 it would be much lower than 5%.

Mahrukh Adajania: Sir, the numbers you gave for Future and MMTC is Rs. 700 Crore and MMTC I did not catch. What was it?

S.S. Mallikarjuna Rao: Rs. 500 Crore.

Mahrukh Adajania: Sorry?

S.S. Mallikarjuna Rao: Rs. 500 Crore MMTC.

Mahrukh Adajania: Okay, Sir and just one last if you could highlight what recoveries you are expecting through the year?

S.S. Mallikarjuna Rao: Recoveries there are totally Rs.12000 Crore we have identified outstanding in NCLT category where we expect the cash recovery of Rs.5200 Crore. So, Rs.5200 Crore the cash recovery will reduce our debt outstanding by Rs.12000 Crore other than that we generally get a recovery minimum of Rs.3000 Crore every quarter. So, if you calculate like that Rs.9000 Crore and Rs.5000 Rs.14000 Crore cash recovery or more than Rs.22000 Crore reduction in debt we are expecting.

Mahrukh Adajania: That is very helpful. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: Sir, first question is clarification on NPL recognition. Do we follow daily tagging norm for classifying the results?

S.S. Mallikarjuna Rao: Yes, we are following daily.

Abhijeet Sakhare: Okay, on automatic basis?

S.S. Mallikarjuna Rao: Yes.

Abhijeet Sakhare: Okay, the second clarification to kind of come back on the SMA -2 numbers the last quarter we gave a number of Rs.33000 Crore for SMA-2 that has gone down to Rs.26000 Crore including SMA-1 and SMA-2 as of June?

S.S. Mallikarjuna Rao: Correct. SMA-2 only if you take, we have given you above Rs.5 Crore of Rs.12000 Crore and below Rs.5 Crore is Rs.8000 Crore that comes to around Rs.20000 Crore in SMA-2 and SMA-1 and SMA-2 together it comes around Rs.26600 Crore or Rs.26700 Crore. Now, this also if you look at there is an

amount of Rs.7000 Crore and odd Rs.7500 Crore – Rs.7600 Crore comprising two accounts, one is central government guaranteed another one is which has not become NPA because of NCLT. So, if you remove that remaining are all the others, we have given the vertical bifurcation also.

Abhijeet Sakhare: Second one is, why has there been a slower sanction under the ECLGS window given that the SME pain has continued this year as well?

S.S. Mallikarjuna Rao: No, there is no slower sanction. Actually, if you look at when the ECLGS 1.0 came, all the accounts up to Rs.25 Crore were eligible which were standard as on February 29, 2020, afterwards in 2.0 they have enhanced up to Rs.50 Crore, 3.0 they have taken up to Rs.500 Crore, now 4.0 without any limit. So, originally, we have sanctioned Rs.12000 Crore later on again another Rs.1500 Crore we have added in the other categories. So, Rs.13500 Crore is the eligible category where we have done the sanction and disbursement is little over Rs.12000 Crore in those accounts. So, this itself comprises around Rs.65000 Crore of the composition out of Rs.121000 Crore of MSME.

Abhijeet Sakhare: Sir last one is that there is a sharp increase in the AS 15 cost this quarter compared to March any specific reasons for that?

S.S. Mallikarjuna Rao: There is no specific reason. It is only a normal accretion. What has happened is at the end March we have done the residual figure of the estimates what we have done for the year 2021. Now, it is a fresh estimate that is why we have taken it will be more than what was there last quarter.

Abhijeet Sakhare: Thanks a lot.

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

Jay Mundra: Sir, couple of questions, one is on your credit cost, assuming for example in the worst case let us say no significant recovery comes what would be your ageing provision requirement for full year FY2022 there would be the outer limit, because during the year you would have some recovery and upgrade. But assuming there is no recovery what could be the let us say ageing provisions for the full year 2022 or maybe for the next nine months?

S.S. Mallikarjuna Rao: Next nine months it will be around Rs.4000 Crore.

Jay Mundra: If you go by IRAC that is all you need to provide?

S.S. Mallikarjuna Rao: Correct.

Jay Mundra: Second Sir, on your growth so now you have probably all-time high CET-1, and your cost of funds is also, if I see the slide then it shows cost of deposit around 4% and cost of funds at around 3.5%. What

is the kind of growth that you envisage and any particular sector where want to become more focused on?

S.S. Mallikarjuna Rao: See 8% minimum growth we would like to target. Number two the sectors are anyway road projects are coming up. We are participating in road project in a very moderate level that means we are not crossing in any project more than Rs.300 Crore, around Rs.200 Crore – Rs.250 Crore we are taking. Most projects are coming under Bharat Mala under HAM model. So that is one segment. Second, we are looking at even warehousing and cold storage. We have already identified some of the accounts and then even other activities. Even in steel also we have seen some of the companies coming up for enhancing their capacity and investing. Further there also we have seen the opportunity. In refineries also, a good amount of opportunity is there. Even in the gas pipeline domestic gas pipeline opportunities are also there, even though it is at very small level but then not less than Rs.200 Crore to Rs.300 Crore at participation level. So, these are all the areas where we are expecting good amount of traction to come.

Jay Mundra: But the 8% is give or take what is the current system rate maybe 1% higher, so at best you would be matching system growth rate, is that the implication?

S.S. Mallikarjuna Rao: I can say that because what happens is the Q1 has not been very high in terms of the credit growth. So if you remove one quarter out of 8% per year effectively it becomes 10% for me for the next three months. So, that is an estimate which we would like to achieve. If you look at what RBI has estimated by March 2021, the credit growths have been around 6% to 6.2% in the commercial banking i.e., scheduled banking sector. If the GDP grows by 9.5%, we can expect credit growth at 10% overall in the year. But for majority of the banks Q1 has been very muted one, I have not seen any public sector bank or majority of the banks showing a great growth in the credit overall because retail and MSME or RAM has grown but corporate credit has been very muted or been even negative. So, considering these factors even if you take 10% divided by 4 multiplied by 3, and everything you have to bring it in net, so you require around 12% to 13% growth in nine months in order to get a growth of 10% overall in the year. So, it appears to me definitely very challenging growth required for the banking industry even for PNB.

Jay Mundra: Understood Sir, and on your agri slippages, it is very controlled let us say Rs.2150 Crore. Just wanted to get your perspective on what is happening in Punjab, Haryana etc., on this farmer agitation etc., so have you seen any impact, or do you think that at least from banking side that may not have any impact at all apart from some amount here and there or that is a risk?

S.S. Mallikarjuna Rao: No, if you look at the cropping pattern, getting the money back, I do not think impact will be very high in terms of the farmer agitation. Because, even if the farmers are participating in agitation their agriculture activity will progress. The only challenge could be getting the people at right time for renewal of limits and ensuring that the amount is received and again they have used for the sake of crop

is only timing. So, there could be a timing differential, but I am not seeing very high level of impact where the accounts will become NPA. So, even if you look at Rs.2149 Crore is not a small amount wherein one quarter we have added but in the next three quarters, I do not think that kind of agriculture NPA will become.

Jay Mundra: Right, so I am saying there should not be any material impacts from whatever is going on in terms of agitation especially in Punjab?

S.S. Mallikarjuna Rao: Correct unless some political statement that we revive the agriculture lending otherwise nothing will happen on that side.

Jay Mundra: Understood, and just two more questions Sir, on your SMA-2 number, so this lumpy accounts are already there in the SMA-2 number, right that is how your corporate and others is fixed Rs8600 Crore, they are sitting in SMA-2 and these two lumpy accounts?

S.S. Mallikarjuna Rao: Out of the SMA-2, out of that Rs.8600 Crore as I indicated to you Rs.7000 Crore is only two accounts. So, one is central government guaranteed another is because of the NCLT it is remaining there.

Jay Mundra: What is the provisioning that you have made on that NCLT stay account, Sir?

S.S. Mallikarjuna Rao: As on today it is standard only.

Jay Mundra: Right, but Sir most of the other banks they have started making provisions on that account?

S.S. Mallikarjuna Rao: Correct, we have also done that. In order to create cushion, we have done that.

Jay Mundra: So, what is the provisioning that you are carrying on that?

S.S. Mallikarjuna Rao: No, it will not be very high. Initially the asset becomes substandard so to that level we have done.

Jay Mundra: At least 15% around?

S.S. Mallikarjuna Rao: Yes, up to that level it is not very high.

Jay Mundra: No, Sir 15% is also decent. This is what maybe other banks would have taken.

S.S. Mallikarjuna Rao: Actually, we have done around 10% but we will be adding another 5% by the next year so like that we are moving.

Jay Mundra: Sure and last question on your tax side, so you will also have accumulated losses from erstwhile United Bank and OBC. So, what is stopping you from using those accumulated losses and not paying any tax?

S.S. Mallikarjuna Rao: We are doing that. Whatever we have shown as a tax payment, it is in fact adjusted against the accumulated losses. DTA is also effectively reduced.

Jay Mundra: Okay, so this actually goes in deduction of DTA right?

S.S. Mallikarjuna Rao: Correct.

Jay Mundra: What is the outstanding DTA if you have that number handy, or you would not have moved materially from last quarter?

S.S. Mallikarjuna Rao: Around Rs.20000 Crore.

Jay Mundra: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Sushil Choksey from Indus Equity. Please go ahead.

Sushil Choksey: Thank you for taking my question. Sir, with your CASA nearing 45% and you have indicated on advances that you may go as per system at around 8%. Your advances are already at Rs. 726036 Crore and unavailed or sanctioned pipeline is Rs.50000 Crore. So, your CD ratio still will remain as on 65% only?

S.S. Mallikarjuna Rao: So, CD ratio can go up to 69% by March 2022.

Sushil Choksey: So, that is your indicative guidance that you sanction 69%?

S.S. Mallikarjuna Rao: Yes, we would like to take up to 69% roughly.

Sushil Choksey: Based on the CD ratio and you are not expecting much slippage. What is your guidance on credit cost, Sir?

S.S. Mallikarjuna Rao: At the end of Q1 it was at 1.76% so the guidance what we had given last year we remain i.e., 1.25% to 1.5%.

Sushil Choksey: So, that you are very comfortable with?

S.S. Mallikarjuna Rao: Yes, because it was only 1.76% and that also with a slippage of Rs.8241 Crore I am expecting it to moderate down in the next three quarters where on credit cost will go down and it should hover around 1.5%.

Sushil Choksey: So, what is your digital expenditure plan for entire bank as a system?

S.S. Mallikarjuna Rao: Digital expenditure, it is very difficult to say because it comprises two three dimensions, one dimension is the entire hardware where we pay the AMC, for such a huge bank there is a good cost, suppose that AMC cost we remove and tag it as a technology cost, and we segregate digital separately definitely we have lot of initiatives taken to move in that direction. But I do not look at as a cost, for example digital branches, we are inaugurating on pilot basis we have opened around three branches as on today. It is a self-driven branch banking customer acquisition is there, then preapproved loan disbursement also automatically happens in the branch besides using the channels, which are available there, there will be only one person who will be the facilitator. So, on pilot we have done three branches now we will be increasing this number to roughly around 200 by March 2022. So, there it is not the cost which is important it is the driving away the transaction cost from the branch also digital. So, I am not looking at digital as a cost it is a business unit for me on the contrary it gives me more advantage and profit.

Sushil Choksey: Sir, do you estimate the retail loans and then SMA loans would be fully digitized in next 12 months to 24 months?

S.S. Mallikarjuna Rao: It will be very, very challenging statement. We have only started with baby steps now in terms of end-to-end digital lending in personal loans and Mudra loans. Personal loans we have already pilot tested and now we are going for full blown position and in terms of Mudra we are doing pilot and by this month end we will go for full implementation. However, if you look at the nomenclature of public sector banking space the kind of customer base, they are having I do not think we would have converted fully but our target is at least if we are able to cover 50% to 60% of the personal loans in new personal loans, it will be a great achievement for us in the next 12 months.

Sushil Choksey: Then you mean digitization what kind of TAT are we looking at?

S.S. Mallikarjuna Rao: First of all, current category what we have started is only preapproved. We have done some logic in drawing accounts for identification to be given loan and we have communicated to them so, anytime even by sitting in their house through the system they can connect, and the loan will be automatically credited within maximum 30 minutes to 45 minutes because he is already preapproved number one. Number two, already documentation, e-file everything is provided, and he is guided through the system. So, if it is a preapproved account maximum 30 minutes to 45 minutes for giving amount to him, it gets credited to his savings account.

Sushil Choksey: To stay in competition and if you have to digitize housing loans, auto loans or tractor loans or any personal loans, what kind of TAT can we assume on overall experience?

S.S. Mallikarjuna Rao: See auto loans we are finding very, very challenging. Currently even when we are trying very aggressively, we are able to achieve in three days or something like that but whereas in private sector they are doing across the counter maybe maximum within one day of turnaround time. We are working very hard in that dimension but with respect tractor and housing loans, maybe if you are able to achieve

by four to five working days provided all the documents are ready. The question of time what it takes is the legal opinion and then such reports what we obtain for the documents. In private sector what happens they completely project they underwrite, and they do the entire working of the project, entire building and all the housing loans are sanctioned within maybe two working days or three working days. So, these gaps are there we are trying to work out on that.

Sushil Choksey: Thank you and all the best. But only last thing, this all the models will be integrated on the system or there will be standalone separate model?

S.S. Mallikarjuna Rao: Which module you are talking about?

Sushil Choksey: Digitization models?

S.S. Mallikarjuna Rao: No, it will not be standalone otherwise how within 45 minutes it will happen. It is connected to CBS and even the loans sanction and underwriting also we implemented technology. I think if you remember last time, I had told that we are implementing this and now we have completed up to Rs.25 Crore across the country uniform process of appraisal, sanction and underwriting is done up to Rs.25 Crore. So, up to Rs.25 Crore 95% of my number of accounts are covered. So, above Rs.25 Crore the number is less which is handled through corporate branches and bigger branches.

Sushil Choksey: Thank you. All the best Sir.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Bhavik Shah for closing comments. Over to you Sir!

Bhavik Shah: On behalf of Batlivala and 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. Ladies and gentlemen, on behalf of Batlivala and Karani Securities that concludes this conference. Thank you all for joining us. You may now disconnect your lines.