“Punjab National Bank’s Q2 & H1 FY24 Earnings Conference Call”

October 26, 2023

MANAGEMENT: **SHRI. ATUL KUMAR GOEL – MD AND CEO**
SHRI. KALYAN KUMAR – EXECUTIVE DIRECTOR
SHRI. BINOD KUMAR – EXECUTIVE DIRECTOR
SHRI. BIBHU PRASAD MAHAPATRA – EXECUTIVE DIRECTOR

MODERATOR: **MR. RAKESH KUMAR – B&K SECURITIES**

Deepak Singh: Good day to all. I am Deepak Singh, looking after Investor Relations. I welcome you to the Punjab National Bank's Earnings Conference Call for the period ended September 30, 2023.

The Bank is represented by Managing Director and CEO – Shri. Atul Kumar Goel and Executive Directors – Shri. Kalyan Kumar, Shri. Binod Kumar and Shri. Bibhu Prasad Mahapatra and other senior members of the top management.

The structure of the con-call will include an opening statement by the MD and CEO sir and then the floor will be opened for interaction.

Before getting into the con-call, I will read out the usual disclaimer statement:

I would like to submit that the statements given herein are not guarantees of future performance, and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Investors are therefore requested to check the information independently before making any investments or other decisions.

Over to MD and CEO sir.

Atul Kumar Goel: Good afternoon to everybody, rather good evening. I welcome all the analysts and the investors in this con-call, which we are having for the Quarter 2 Results of the Financial Year '23-24 quarterly as well as the Half Yearly Results.

I will give my brief opening remarks. Then the floor will be open for the questions of any analysts as well as the investors if they want to ask any question.

This is one of the very wonderful quarters for as far as the Punjab National Bank is concerned. The 3 parameters which really you will be happy to hear the net interest income, whether it is the operating profit, whether it is the net profit, these 3 numbers which we have shown in the current quarter ending September 2023, it is the highest we have achieved first time in the last 14 quarters after the amalgamation.

As far as business is concerned, there is a growth of the gross business at around 11.26%. Last year, this business was Rs. 20.26 lakh crore which has reached Rs. 22.51 lakh crore. In composition of the gross business, there is a growth of around 9.7% in the deposits. Deposits used to be around Rs. 11.93 lakh crore in September 2022, increased to Rs. 13.09 lakh crore. Similarly, in the gross advance, there is a robust growth of 13.43% which used to be around Rs. 8.30 lakh crore in September 2022, increased to Rs. 9.4 lakh crore.

Similarly, there is a growth of around more than 4%, i.e., 4.32%, in the savings which is our main USP of the Punjab National Bank because we have 10,000 branches, 18 crore customers. In CASA also, there is an increase of around 2.36%. In the RAM, which is the focus area of the bank, there is a growth of around 13.41%; and if you see the percentage of the RAM to the total credit, it has also improved to 55.63%. If you see in September 2022, this ratio was 53.45%. Even in the June'23 quarter, this ratio had improved to 54.74%. Further, it has improved to 55.63%.

As far as the profitability number is concerned:

Net interest income, which I just told you, it has improved by around 20%. It was Rs. 8,271 crores which has increased to Rs. 9,923 crores, and it was Rs. 9,504 crores in June 2023. So, there is a YoY growth of around 19.98%. There is quarter-to-quarter growth also. The operating profit, which used to be around Rs. 5,567 crores has increased to more than Rs. 6,000 crores and stood at Rs. 6,216 crores; and there is a growth of around 11.67% YoY, and this number was Rs. 5,968 crores in June 2023. Net profit, which was Rs. 411 crores in September Quarter 2022, has increased to Rs. 1,756 crores, with a growth of around 327.35%, and this number was around Rs. 1,255 crores in June 2023. So, there is a YoY growth of more than 300%. There is a quarter-to-quarter growth also.

Main important major concerns of all the investors and the analysts also are gross NPA and net NPA numbers. There is a substantial reduction in the gross NPA as well as the net NPA quarter to quarter or YoY also. The gross NPA number, which used to be around Rs. 87,000 crores in September 2022, has reduced to Rs. 65,000 crores in September 2023. Similarly, the gross NPA in terms of the percentage which used to be around 10.48% in September 2022, 7.73% in June 2023, reduced to 6.96% by September 2023. Similarly, the net NPA number, which used to be around Rs. 29,000 crores has reduced to around Rs. 13,000 crores. This number was around Rs. 17,000 crores in June 2023. And the Net NPA number, which used to be around 3.8%, has reduced to 1.47% in the current quarter. The current quarter means September 2023.

PCR last time we had told that PCR should be more than 90%. It was 89.83% in June and 83.96% in September 2022. Now, the PCR of the bank is 91.91%. On account of this PCR, I am telling you the requirement of the aging provision in the quarters to come has reduced drastically because as of date, I am sitting only Rs. 13,000 crores in net NPA number. I am having Rs. 6,000 crores more than operating profit. If you will make Rs. 13,000 crores provision, our net NPA will become zero in times to come because now there is no worry because PCR has increased to 91% as far as the movement of the NPA is concerned. So, there is a substantial reduction in the slippage also. Slippage if you see, Rs. 1,826 crores in the quarter ended September 2023. This number used to be around Rs. 6,000 crores in September 2022. In the last quarter, it was Rs. 2,390 crores. Last time in 2022-23, our motto was recovery should be more than the slippage. We have achieved that motto. And this year, we have the motto that our slippage should be half or the recovery should be double the slippage. If you see, Rs. 1,826 crores is the slippage but recovery for the quarter is Rs. 5,500 crores. Whatever we have told, we have already achieved. As far as the credit cost is concerned on the NPA, last time I said that it should be around between 1.5% to 1.75%, but last quarter because Rs. 4,374 crores were the requirement, it was around 1.98%. But in the current quarter, the provision for the NPA has been reduced drastically on account of the increased PCR in the last quarter as well as the current quarter Rs. 3,018 crores which is coming at 1.31% for the September quarter, and half yearly it is around 1.67%. Whatever we are thinking is it should remain within the 1.5% to 1.75%. Easily we will be in a position to achieve because in the quarters to come on account of the increased provision coverage, I am not thinking there will be much requirement of the NPA provision.

As far as the cost of deposit is concerned, it was 4.71% in the June quarter. It has increased to 4.84% because some of the deposits have not been repriced earlier also. Last time I told you that still there will be some of the deposits which have not been repriced. As of September 2023, around 15% of my deposits still have to be repriced because some of the term deposits which they have purchased by us have to be renewed at the time of the maturity. If the amount ballpark number is around Rs. 1 lakh crores, that has to be repriced. This is the reason. The NIM is even we have got 3.11% for the current quarter as against our guidance for 2.9% to 3%, but still we are maintaining our guidance of 2.9% to 3% because some of the deposits have to be repriced.

Also, we are assuring all of you – even I am confident – whatever the NII in the absolute number, I think we will be in a position to maintain the NII in the absolute number or there will be a growth. But NIM in terms of the percentage a little bit may go down. As far as the yield on advances is concerned, it was 8.13% in June. This quarter, it has improved to 8.23%. As far as the NIM movement, I have already told you. For the information to all the analysts as well as the investors, what we have done is – up to last quarter, we were providing around Rs. 280 crores or Rs. 283 crores regarding the wage revision – now we have increased the percentage and this quarter we have provided Rs. 694 crores taking the impact from the November 2022. This is another thing.

As far as the slippage of the Rs. 1,826 crores is concerned, the breakup of the slippage is, in agri it is around Rs. 424 crores, MSME Rs. 683 crores, retail Rs. 420 crores, others Rs. 223 crores, and existing NPA of Rs. 76 crores. It means that it is well diversified. It is not a particular segment that is retail or agri. There is equal balance in whatever the slippage is coming. As far as the increase in the advances is concerned, as I told you 13.43% is the gross advance, more than 40% increase in the retail, agri 4.49%, MSME 6.48%, RAM if you see it is 18.21%.

One more thing I would like to discuss here, last quarter, I had also given the data on how we have taken a lot of initiative for the digital transformation, and we have taken a lot of the initiative for the HR transformation, which are not reflecting in the balance sheet, but they are reflecting in the numbers. Last quarter, I had given the new acquisitions from the first of July 2022 till date. It means 36 + 3 = 39 months' data for the new acquisitions. Last 39 months, Rs. 6.68 lakh crores we have sanctioned, Rs. 5.97 lakh crores we have disbursed, and outstanding in the new acquisitions is Rs. 4.63 lakh crores. Out of this Rs. 4.63 lakh crores, the NPA is hardly Rs. 1,314 crores which is coming around 0.22% of the total advances for new acquisitions. In this, I will give further the segment-wise distribution also. In agri, the NPA is Rs. 197 crores, 0.23%; in retail, it is Rs. 204 crores, 0.18%; in MSME, it is around Rs. 882 crores, which is coming around 1.47% of the outstanding. Others – others mean Corporate – there is hardly Rs. 31 crores slippage which is coming to near zero, it is difficult to calculate in percentage terms. This is the result of the initiatives taken by the bank for how to improve the underwriting standard and how to improve the collection efficiency. This is the reason our slippage has reduced drastically and improvement of the recovery also happened.

As far as the capital adequacy ratio is concerned, the capital adequacy ratio is 10.23% in CET-I and AT-I is 1.79% as against the norm, 9.5% for the Tier-I; Tier-I is 12%. So, total CET is around 15.09%, and we have got the approval of the board for raising Rs. 12,000 crores in the current financial year. Out of this Rs. 12,000 crores, Rs. 7,000 crores is for AT-I and the remaining Rs. 5,000 crores is for the Tier-II out of which we have already raised Rs. 3,090 crores in the 1st Quarter of the current financial year in, Tier-II; and Tier-1 (AT-1) we have also raised in the last quarter – last quarter means September quarter – Rs 3,000 crores. So, immediately there is not much requirement of the capital. We are well capitalized at 15%. As far as recovery from the NCLT is concerned, the 1st Quarter recovery was Rs. 566 crore, the second quarter it was Rs. 556 crores, and we are hopeful that the current quarter will be good for recovery from the NCLT because some of the accounts are in the lineup. So, around Rs. 2,500 crore we are expecting that recovery should come in the third quarter, but sometimes you don't know because it is the legal process. In the fourth quarter, we are thinking it will be more than Rs. 1,089 crore.

One more thing I would like to tell all the analysts and the investors also is about OTR-1 and OTR-2. In OTR-1, the outstanding is Rs. 327 crore. And in the OTR-2, the outstanding is Rs. 7,108 crores, i.e., in the standard account. As per the regulatory guidance, 10% provision we have to make and 5% we have to make the provision for the MSME. But considering there should be some of the accounts may be standard in times to come because moratorium of the account is going to be over. So, instead of the 10%, we have made it 12.5% provision in all the accounts which are in the standard category in the OTR-1 and OTR-2. On account of the Rs. 267 crores, we have made additional provision on this account. Apart from this, Rs. 308 crores, we have made a provision of the June 2019 circular because as per the circular, if the resolution is not being done in the account, you have to make the provision 20% in the first stage, then after this, you have to increase it to 35%.

These are my initial remarks. I have presented 7 results after taking charge of the PNB. I think this is the best result in my opinion I have presented in this quarter of September. This is on account of the great effort of my team PNB. One lakh employee we are having. They are working day and night for the increase of the business. Whether it is CASA, whether it is growth in the advances, whether it is recovery, whether it is containment of the slippage, they are working day and night. The HR transformation, as I told you, is underway. After that, I think we will be in a position to show better results.

There is support of our board support of the government, and support of the regulator.

With these initial remarks, now I am open to any questions if you want to ask.

Rakesh Kumar: A quite elaborate description of the results. Really it's a very strong set of numbers that PNB has reported. Now we will start the Q&A session. I'll request Mr. Ajmera to go ahead with his questions.

Ashok Ajmera: Congratulations to you, sir – Atulji and the entire team. Definitely one of the best quarters as regards the profitability is concerned, whether it is operating profit or the net profit maybe in the last 3 to 3-1/2 years' time. And the bank is really doing well and trying to reach its glorious heights. After your such an elaborate detailed introductory address on the results, I would ask my first question on the ROA. The ROA of our bank is still, in spite of the best performance, only 0.46 as compared to many of the peer banks which have now started going beyond 1; 1, 1.2, 1.3, 1.4 per quarter if you look at the quarterly results. Of course, it has a lot of story behind it. I would rather put it like whatever episode had happened which had taken this bank down, is there any bearing of that continuing on the operations or the plans of the bank or any regulatory sort of restraint or any such thing or that happening is fully over and overcome by the bank?

Atul Kumar Goel: Ajmeraji, as far as your question is concerned, I may clarify to all that there is no issue. There is no obstacle from the regulator's side, there is no obstacle from the government's side; there is no issue at all. Everybody is thinking how we can improve the working of the bank. If you see the last year, the ROA was around 1.7%. If you look at the current quarter, it is 0.46%. We are also thinking about how we will be in a position to achieve the 1% number. And within the exit of 2024-25, I think definitely we will be in a position to achieve or we will also try it before the exit. But what was the issue really that is not the issue that on account of the episode which you are telling, there is no issue from the staff side. Issue is because on account of the legacy issue, our NPA book is still on the very higher side. I am having technical written off accounts of Rs. 90,000 crores and Rs. 65,000 crores is the NPA. If you add both, around Rs. 1.5 lakh crores is the NPA where I am not earning anything. If I earn 8% or 7% out of this, then you can imagine what will be my operating profit. Rs. 9,000 crores to Rs. 10,000 will be gradually. Last year, we set a target of Rs. 32,000 crores against which we have recovered Rs. 29,000 crores. This year, we have a target of recovery of Rs. 22,000 crores, and Rs. 11,000 crores we have achieved in the first half. So, we are on track. The time will come definitely where we will be in a position to achieve whatever you are thinking, the ROA. There is no issue from any side. This I may confirm. Everybody is working whatever best they can do for the growth of the bank.

Ashok Ajmera: Sir, my second question is, do you have about 5 subsidiaries and 5 associate companies with you. Can you give a little color on the entire operations of the subsidiaries or associates and how much they are adding to the bottom line of the bank in any way, or any plans to monetize?

Atul Kumar Goel: As far as the plan of monetization, there is no plan as on date I am telling you because last time also I have explained we were thinking to monetize our investment in the Canara-HSBC because we are already having the stake in the MetLife, because this Canara-HSBC has come on account of the merger of the OBC. As per the regulatory guidelines, we were required to bring our holding less than 10%, which we were having 23%. Last time, although we had started a plan of disinvestment, but in the meantime, IRDA had already changed their regulations. In the second insurance company, you can be as an investor category, not as the promoter category, up to 25%. Since we were having 23%, we have changed our plan of disinvestment in this. As on date, as far as monetization is concerned, there is no monetization plan because my PNB Housing Finance is doing wonderful. Last time, because as per the regulatory guidance, we had to bring our holding to less than 30%. That we have already brought around 28.15%. So, that is not an issue as on date. And last time, whatever the shares which were available to us on account of the right, we have renounced. We have made some money by selling the renounced. So, in PNB Housing Finance, there is no issue. In PNB Cards & Services Limited, we have already got the approval from the regulator. So, the DSA model we will be implementing. This will be one of the sources of the lead either from the liability side or on the asset side. PNB Gilts and all my subsidiaries are working well. All are in profit. There is no issue. So, I think there is no challenge in any subsidiary. Also, there is no plan as of date, Ajmeraji.

Ashok Ajmera: Sir, if you look at the rating slide, slide #13, the AAA has come down from 45.6% to 44%, AA has come down from 26.83% to 25.87%. A has a little bit gone up but BBB has increased from 4.8% to 5.7%. Is it because of some payments by the AAA and AA companies' repayment or something or is it the downgrade of the rating of some of these companies? Because, our conscious decision is to increase our quality of the book to AAA, AA, or A. Was there any kind of analysis done on this in percentage terms?

Atul Kumar Goel: Yes, we have made a full analysis of this. If you see, around 94% in the investment grade, and if you see the composition, it is 44% in the AAA. So, there is no downgrade, not a single account. I have given you the data of the last 3 years of the Corporates. There is only Rs. 31 crores NPA. There is no downgrade. The AAA is very rate sensitive. We are not giving a rate which doesn't suit us. That is the only reason because outstanding has gone down. Otherwise, there is no issue. AA is also the same thing. If we are not matching the rate of our choice, because you are aware there is an increase of more than 200% in the last 1 year. But all these types of AAA or AA, they want less than my cost. That is the only reason. Otherwise, there is no issue. BBB in a size of Rs. 9.4 lakh crores advance, 10,000 branches, BBB, Rs.1800 crore. Then, we give loans to the MSMEs. In this, a major portion will be the MSMEs. Normally, in MSME, it is very difficult to get a rating more than BBB. In the Rs. 2,000 crore, 4.89 to 5.79, because they are yielding a good return for the bank. Otherwise, even BBB also, we are very sensitive that there should not be any credit risk. The rating may be BBB, but credit risk should not be there.

Rakesh Kumar: I will request Mahrukh to go ahead and ask the question.

Mahrukh Adajania: Sir, I had a couple of questions. Firstly, on credit costs, they have come down very well. Do we see them stabilizing here? Because most of the PSUs are probably running slightly higher than this current level of yours. So, do we see credit costs stabilizing here or falling further? And likewise for slippages. Including addition to the existing accounts, we saw around 19 billion slippages which is of course at a low which we haven't seen for many years. Does it stabilize here now, or will that be volatile over the quarters?

Atul Kumar Goel: Mahrukh, as far as credit cost is concerned, as I elaborated in my opening remarks, we have crossed 91%. On account of this 91% PCR, our aging requirement has reduced drastically. So, whatever the credit cost, which was Rs. 4,300+ crore in the 1st Quarter, has reduced drastically to Rs. 3,000 crores and I am hopeful because there is no more slippages. I think there will not be further increase in the credit cost because last time, we had given 1.5 to 1.75, but 1st Quarter it was 1.98. And I assured and promised all of you that it will be within the range of 1.5 to 1.75%.

If you see my half yearly credit cost, it is 1.75%. I am hopeful it will further decrease because where will I make the provision? If there is no requirement, 91% already I have made a provision, Rs. 13,000 crore is my net NPA, and Rs. 6,000 crores I am sitting on the operating profit. I think we should further reduce slippage. As you have told Rs. 1,800 crore number even we are hopeful and quite confident quarter by quarter, this slippage should be reduced further because if you see my SMA of more than Rs. 5 crore, it is hardly Rs. 1,448 crore SMA2 only, which used to be around Rs. 1,758 crores. Even in the account of Rs. 1,448 crores, we have already shown more than Rs. 5 crore. In Corporate segment only Rs. 14 crores is there. So, we are very confident we have controlled over slippages. We have taken a lot of initiatives to increase the underwriting standards as well as the collection efficiency. I have already given the data, I am not repeating. New acquisition of the last 3 years; that will give you the color that slippages will not happen.

Mahrukh Adajania: Sir, in terms of employee expenses, what is the rate of hike now that you are assuming? You almost doubled the provision.

Atul Kumar Goel: Madam, I am the Chairman of the IB also. What I am telling you, I will give just answer of your question. Because, last time 15% settlement was done. We are providing 10% from November 2022 to June. We don't know how we will be in a position to settle it. So, we have increased. Now, I can assure you that we have provided adequately.

Mahrukh Adajania: So, you would have provided 12% or 15% or you don't want to talk about it?

Atul Kumar Goel: I will tell you we have provided adequately. Please try to understand. I have told you also because that will not be a good intent if I will give the percentage.

Mahrukh Adajania: And just one last clarification. You said that around 1 trillion deposits are yet to reprice. What was the figure you gave?

Atul Kumar Goel: Around 15%. I have a total deposit of around Rs. 13 lakh crores, out of which around Rs. 7 lakh crores I am having as term deposits. So 15% is you can think around Rs. 1 lakh crores is still to be repriced.

Rakesh Kumar: I would request Anusha to go ahead with her questions.

Anusha: Sir, I would want to know how much exit ROA that you are expecting for the current fiscal and say for FY25 and what will drive the number.

Atul Kumar Goel: Anusha, as far as my ROA is concerned, it has reached to 0.46%. If you will take for the half year, already we have crossed around Rs. 3,000 crores net profit and I am hopeful whatever the guidance we have given, the same I think we will be in a position to maintain in the next half year also. So, you can calculate it will be around 0.4% because last time it was 0.17%. Then we had given the guidance that it will be double of whatever the ROA we have achieved in the last year. So, it will be further better. And as far as 1% ROA is concerned, which normally the analysts ask when you will be in a position to achieve 1%. I think by the exit of 2024-25, we will be in a position to achieve the 1% ROA.

Anusha: 24 or 25?

Atul Kumar Goel: 2024-25, i.e., at the exit of 2025.

Anusha: What is the wage revision provisions that you need to make for this? How much you have done in the first half and what will be for the full year wage revision provisions?

Atul Kumar Goel: Rs. 283 crore we have provided in the June quarter and Rs. 694 crore we have provided in the September quarter. So, around Rs. 1,000 crores, Rs. 950 crores we have already provided in the current half year.

Anusha: Why there was an increase in this Q2?

Atul Kumar Goel: As I explained to the question of Mahrukh also that last time settlement was done around 15%, but we are providing around 10%. This is the reason we have increased the provision for wage revision.

Rakesh Kumar: Could I request Mr. Saurav to go ahead with the questions?

Saurav: When would you expect your net NPA to fall below 1% given your slippages are low?

Atul Kumar Goel: March 2024. We have already given guidance for the net NPA below 1%. I am fully confident it will be below 1% by March 2024.

Saurav: Sir, then your guidance on ROA seems conservative because then you will start fiscal ‘25 with a normalized P&L if I can so call it. What would you attribute the additional provisions to for your guidance for Q4 of fiscal ‘25?

Atul Kumar Goel: You are very much right, Saurav. As on date, we are thinking that we will be in a position to achieve the ROA of 1% by the exit of 2024-25, but we will see. If you see the last quarter, June, we have given the guidance that our gross NPA will be less than 7% in March 2024, but since we have already achieved 7.73% in June, we will revise that it will be 6%. Similarly, the net NPA we had guided for 2%. Since we have already achieved less than 2% in the last quarter itself, we have revised it to 1%. As on date, my guidance is that we should be in a position to achieve the ROA of 1% by the exit of 2024-25, but we will see. We are working hard so that we are in a position to achieve much below also.

Saurav: Okay sir, you seem conservative. The second question, sir, is on your deposits, what will be the on-book term deposit cost versus the incremental? I am just trying to figure out the differential right now.

Atul Kumar Goel: As far as my cost of deposits is concerned, it is 4.84%. As on date, even I have one product where I am giving 7.25% for 444 days. Normally you can think because whatever the deposit has not been repriced, as on date, my cost on the term deposit should be around between 6.75% to 7.10%.

Saurav: And your on-book will be about what? 6 odd percent average term deposit cost?

Atul Kumar Goel: Yes, it will be on the same lines.

Rakesh Kumar: I would request Jai to go ahead with the questions.

Jai Mundhra: Sir, the first question is on your interest income. Of course, the bank has done phenomenally well on recovery being 2x of slippages. I think that also has some positive implication on the interest income. I wanted to check what is the interest income that has come from NPA recovery that may have….?

Atul Kumar Goel: Around Rs. 500 crores quarterly is coming in the interest income by way of the recovery on the NPA account. Sometimes plus or minus but normally we are achieving the number of Rs. 500 crores.

Jai Mundhra: That is only limited till Rs. 500 crores, right?

Atul Kumar Goel: Yes, please.

Jai Mundhra: Sir, going ahead, the recovery if they were to moderate because most of the large-ticket NCLT cases are almost drying up, could that have some implication on your NII apart from change in the interest rate cycle?

Atul Kumar Goel: It cannot be on account of one reason. There are so many factors for improvement of NII. First, how your deposit is behaving – whether you are in a position to improve your CASA, whether improvement in the savings account, whether improvement in the current account. Second, in the asset quality. Forget about the asset quality. First, whether you are in a position to improve your yield on the advances, which for the new acquisitions. I have given the data for the new acquisitions where we have seen only 0.24 is the NPA. That is also helping for the NII. Third is the recovery from the NPA. So, it is a combination of them all. As I told you it is not that only this quarter has come Rs. 400 crores to Rs. 500 crore. The Rs. 400 crore increase in the current quarter on the NII is not only on account of recovery, even in the earlier quarter, we were getting sometimes Rs. 100 crores plus or minus is there. Since we are making the recovery as the focus area, some of the amount is coming in the interest income and some is coming in the technical written-off account. So, it is a combination of all. To your specific question about the NCLT, in NCLT then we have to see how much we have to do the write-off and what is the amount of the recovery we are making in that particular account. If we are making the recovery, normally you are aware. That is the published data that shows how much we are in a position to percentage of the recovery in the NCLT account. In the NCLT account, at the time of the recovery, there is no booking of the income. That is not under the plan which has been approved by the NCLT, but definitely whatever recovery we are making, either the normal recovery of the NCLT, that definitely will improve my NII because as on date, I am not earning anything out of it. The moment I make the recovery, that recovery will start yielding around 7% to 8%.

Jai Mundhra: What would be your deferred tax assets and is there any plan to move to the new tax regime in the near term?

Atul Kumar Goel: Mundhra, as on date, we have not decided. Definitely we are working on it. We are under discussion with our tax consultant also. As on date, we have not decided, but definitely in times to come, we will think and with the help of our income tax consultant, as on date, around Rs. 25,000 crores is the DTA.

Jai Mundhra: And sir, what could be the quarterly absorption of this DTA? Assuming you keep the similar amount of PPOP (operating profit), by when this DTA will come to a manageable level?

Atul Kumar Goel: It is a very large number as on date. You must have seen what is the provision I have made. It is in the range of Rs. 1,000 crores. In Rs. 1,000 crores, definitely some part will be reduced from the DTA also. So, it will take a lot of time. As I told you, we are under discussion with our tax consultant also because then we have to see the impact. Whatever the current tax rate, 35%, is beneficial or we should move to the new tax rate. That is under discussion.

Jai Mundhra: And last question, sir, on your 1% ROA threshold. I take your point that by this year, you would be exiting at 1% net NPA. So, your credit cost should come down drastically. But even at PPOP level, somehow PNB seems to have the lowest fee income as a percentage of assets. The banks which are delivering 1% ROA now, on revenue margins, we would be similar, but I think the fee there is a 40 to 50 basis points gap between PNB and them. So, is there any conscious effort to address this gap? Margins and credit costs I think any way you are very much on track. Is there a thought process to plug that fee income gap?

Atul Kumar Goel: Yes, we are very much aware, Mundhra, of this and it is a regular part of our discussion also. We are trying how to improve the other income by way of non-interest income, then how we can increase the third-party product. Even there was a discussion in the board about how we can increase forex income. That is on our radar and we are taking the requisite step to increase the other income.

Rakesh Kumar: I would request Mr. Choksi to go ahead with the questions.

Choksi: Sir, my first question is your outlook on international book, treasury book, and on your subsidiaries.

Atul Kumar Goel: As far as overseas books are concerned, in that I will talk about the advances portfolio. Around Rs. 35,000 crores to Rs. 36,000 crores is the outstanding as on date in the overseas loan book, and we are trying to improve it. Around 9.9% growth is there in the overseas book. You are aware that how the global economy is behaving. We are not putting pressure on our overseas branches because we are having only 2 branches; Dubai and the GIFT City. The 9.9% which is the growth we have achieved, I think it is reasonable around Rs. 36,000 crores. As far as our subsidiary is concerned, I have already just given the answer. There is no plan as on date for monetizing any subsidiary. All the subsidiaries or the associate companies are doing well.

Choksi: I was not asking from a monetization perspective, but for the investment which you made in subsidiaries, and they are doing well, you had a change of CEO, the outlook is getting better; so, there will be quite a rich reward to PNB with a future outlook. That was my question.

Atul Kumar Goel: That was the story of the PNB Housing Finance. You must have seen the results also. They published their results 2-3 days back. They are making good recoveries also; they are taking growth also.

There was a little bit of an issue in the PNB. That was only on account of the change in the interest rate on account of the G-Sec, etc., because they are dealing in government securities. Even the Canara-HSBC is also doing good. I think all my subsidiaries are doing a very good job.

Choksi: Sir, what's your outlook on the Treasury on India?

Atul Kumar Goel: As far as Treasury is concerned, you are all aware. If you see, 7.31% was the 10-year G-Sec in March, which has reduced to 7.11 in June 2023. As on date, today it was 7.36 in the morning. Yesterday there was some news in the US that it has increased to 7.38. So, I think that this is not only for the Punjab National Bank, but it will also be very difficult to make money out of the Treasury profit in times to come unless and until the rate has been stable. Even there will be a mark-to-market loss also because whatever the provision you have made at a particular date, there will be mark to market a little bit of loss, but we are not worried because we are not dependent on the Treasury income. If you see, the Treasury income is hardly Rs. 136 crores in the current quarter. Current quarter means September quarter. Even we have posted the operating profit more than Rs. 6,000 crores. We have made adequate provision for the wage revision. We are not dependent, so we are not worried, but we will not allow the opportunity to go if there is a chance to make money out of the Treasury.

Choksi: Does it mean that your focus on advances, which is doing well, would reward the bank in the second half much better than the first half?

Atul Kumar Goel: Yes, definitely.

Rakesh Kumar: I would request Sanjeev to go ahead with the questions.

Sanjeev: I have sent a note that I just wanted to understand how many of the branches we own and how many of them are on lease and how much we have added from OBC which are owned or leased; the total sum. And have we reorganized any time during all these years? Have we clubbed them or have we reduced some expenses on that side, or have we ever thought of monetizing our own and optimizing them? This is the question because now the digital world is taking shape very fast. How can we use those assets better? And how do we think about them?

Atul Kumar Goel: I will give the answer to your question. It is a mix of both sides. Some of the branches are on lease accommodation and some of the branches are our own. It is not that we have taken the branches from the OBC. Even in the model of the PNB, we are having some of our own branches, some of the branches on the lease; similarly with the United Bank of India, similarly with the OBC. And we are aware, and we know the banks also. Two banks in the UK and 1 bank in Korea, they don't have any branches. As for your specific question on whether we are doing monetization, last year around 1,000 branches which were very near to our other branches, 1,000 branches we merged with the other branches.

Sanjeev: Any plan to monetize any of the assets which may be in the main area of old PNB owned and added with the merger of the banks? Have you ever looked at the market value of all these and how much we can monetize?

Atul Kumar Goel: There are 2 types of monetization. First monetization is whatever investment we have made in our subsidiary associate, as on date, there is none. But as far as your specific question regarding monetization of the assets, definitely we are doing. Last year also we did and current year also we are doing. And we are seeing where we are having the excess space, etc., there is no need, and then we are monetizing. But that is not a very big amount.

Sanjeev: And not likely to be a big amount in coming years?

Atul Kumar Goel: Yes.

Rakesh Kumar: I would request Kunal to go ahead with the questions.

Kunal: Sir, firstly on the deposits side; even though the target is 10%-11%-odd but if we really look at it in terms of the year to date, the growth is quite muted. Private banks are also getting very aggressive in terms of raising the deposits. Do we see in terms of clear loss in market share? And given that the domestic CD ratio is still at 70-71 odd percent, we might still continue to see the loan growth coming through without much traction on the deposits side. How is the bank preparing itself for competition from private banks?

Atul Kumar Goel: Kunal, as far as PNB is concerned, there is no issue of raising the deposits. We can also raise and there is no competition from the private banks. We have 10,000 branches and apart from that, 29,000 BC channels. And if you see whatever accounts we have opened 2022-23, 85 lakh accounts we have opened and in the 1st Quarter itself, we have opened around 51 lakhs. With the same rate, more than 1 core accounts we will be opening. Similarly, the current accounts; 2 lakh accounts we have opened in 2022-23; in the first half it is 1.47 lakhs. Deliberately we are not giving the rate for the bulk deposit. Any time we can raise. Raising deposits is not an issue, but what will I do with that deposit? Because, as on date, what is my requirement of the SLR? 18%. I am sitting on the excess SLR of 6% where I can get the money at 6.75. So, deliberately we are not participating in any bid for the bulk deposits, and we are concentrating on the CASA. You must have seen already that more than Rs. 4 lakh crores we are having in SA and there is a growth of 4%. So, immediately there is no need for raising the high-cost deposits. You have seen that the 11% to 13% growth of the advances has been taken care of by the 9% growth rate. No issues and no challenges. As far as deposits is concerned, we don't have any competition with the private banks.

Kunal: And secondly, if you can just repeat in terms of the slippage breakups – I missed that out – across the segments.

Atul Kumar Goel: Slippage breakup sector-wise, in agri it is 424, MSME is 683, retail is 420, others 223, and in the existing account is 76. Even if it is balanced now. It is not coming from one segment that in agriculture it is too much or even the MSME is too much; it is balanced. Even in the corporate, it is negligible. In the corporate, it is not coming. Some of the corporates, although MSME of the limited companies, they will come under the corporate, but there is not too much slippage. MSME some part of the corporate may be there.

Rakesh Kumar: I would request Ashlesh to go ahead with the questions.

Ashlesh: Just one question from my side. Can you share the number of AS 15 provisions for this quarter?

Atul Kumar Goel: AS 15 provisions, I will give the number of the last quarter. It is Rs. 580 crores for this current quarter, and in the last quarter, it was Rs. 1,240 crores.

Rakesh Kumar: Shashin, please go ahead with your questions.

Shashin: I just quickly wanted to understand in your NIMs calculation guidance, you actually indicated 2.9% to 3% for the end of the year. Could you also indicate what are your yield assumptions and the cost assumptions?

Atul Kumar Goel: As I told you earlier also, because some of the deposits have to be repriced, there may be an increase of around 10 to 15 basis points in my cost of deposits, which is running around 4.84%. This is one point. Second is as on date if you see my NIM, it is around 3.11%. On account of the repricing of the deposits, we are giving you the guidance for 2.9% to 3%, but we are giving another guidance also that whatever we are having in the absolute number NII, I think we will be in a position to maintain the NII in the absolute number. Why I am telling this statement is because sometimes you are not getting the yield of even 50 basis points or 75 basis points from the sub-AAA advances. If an opportunity is available where I will get a NIM of only around 0.5, why should I allow the opportunity to go? In terms of the percentage, the NIM may be reduced, but absolute number it will be increased.

Shashin: On follow up with that, if you were to look at your loan book right now, is there any part of your loan book which has to be repriced on account of change in base rate or the floating to the fixed rate mix? What would that be right now?

Atul Kumar Goel: Shashin, my maximum books are on the floating rate of interest on MCLR around 36.68% because it keeps on changing. It is very difficult to answer your question because sometimes we have given the loan of 3-month MCLR, we have given on 6-month MCLR, sometimes we have given on 1-year MCLR, and it keeps on changing. At the time of the repricing of the interest rate, definitely it will be changed, but as far as repo linked is concerned, which is around 27% and the allied is 10%, I think unless and until they will not be increasing the repo, that will not be repriced, but MCLR because it is a regular process, every month we are changing the MCLR. So, some of the loans definitely will be repriced.

Shashin: And my last question is on the gross slippage of Rs. 1,700 crores. What would be the interest income write-back on that in absolute amount?

Atul Kumar Goel: Actually, it will be around 2.5% of the total whatever the slippage is because in some of the accounts, we have got the interest recovery. Normally if you see this, we are charging around Rs. 8 crores to Rs. 9 crores. It is around 2% of the outstanding. But in some of the accounts, there was part interest service also available.

Rakesh Kumar: Sir, just one question from my end. The CET capital of 10.2, would we need any core equity capital in the next 12 months?

Atul Kumar Goel: As far as 10.23 is concerned, what is the regulatory requirement? Regulatory requirement is only 8%. We are having as on date 2.23% excess capital. But we have to see what will be my growth also. And not immediately, because in the March quarter, you have seen what is my profitability as on date. Rs. 3,000 crores are my profitability, which we are not adding at the time of calculation of the capital adequacy. If we take the ballpark number that Rs. 6,000 crores will be profitability, then whatever the dividend we will declare, remaining will add to my only CET-I also. Why we are not raising the CET-I from the market is because my price is undervalued as on date, because to serve the equity is also a challenge. The moment we will be in a position to see what is my approved price that has come in the market, then only we will hit the market. As on date, there is no immediate need because we are having more than 2% excess CET-I and some of the profitability we will be adding in the next 6 months. So, as on date, there is no more challenge. Definitely, if we will make a growth target of 20% or 25%, whatever your question is, Rakesh, then there may be an immediate need. Then, we can think immediately to raise the equity by way of the QIP or any other mode which is available.

Rakesh Kumar: I think, sir, we have come close to our time slot and there are no further questions also. So, I would request you to, sir, kindly give a closing remark to the audience and to investors.

Atul Kumar Goel: My closing remarks is only this that the bank is doing very well, and I want to tell all my analysts and the investor community because some of the things which are not reflecting in the numbers are digital transformation and HR transformation. In digital transformation, last year we started in June 2022. Around 36 products we had launched; processes and services if you will add, around 70. Similarly, in the HR transformation, benefit of which we will be getting accrued in the March 2024 that is underway. And the bank is on a very right track. You see that there is a lot of improvement in the quality of the assets also and the operating profit is increasing. One thing with slippage is, it is under control. 1,800 number we have reached, and in the quarters to come, we are hopeful, and we are confident that numbers should be reduced. As on date, there is not any lumpy account where we are thinking there will be any issue. The net profit is also increasing, a 300% increase in the profitability. Last time also, there was a good increase in profitability. And on account of this 91% of the PCR, I hope and you all will agree that the NPA provision requirement will reduce gradually. There will be a drastic reduction on the NPA provision which is the major concern in our bank also. So, whatever the NPA we are having Rs. 90,000 crores, the TWO, and Rs. 65,000 crores, I think that is our gold mine and whatever recovery we will be making in times to come, definitely that will be added to my bottom line. Either it is the operating profit, either it is by way of the reversal of the provision, or either any increase in the net profit. And whatever target we are giving for the 1% ROA at the exit of the 2024-25, we will see in times to come whether we are in a position to make this before that also. These are my closing remarks. Once again, my sincere thanks to all the analysts and the investors who have attended this con-call.

Rakesh Kumar: Batliwala & Karani Securities would like to thank PNB's entire Management Team, Analysts, and Investors to have participated in the call. Thanks for taking your time out. Now, we have come to the close of the session. We can log out now.