

Punjab National Bank

Q4FY11 Conference Call Transcript

20 May, 2011

Transcript

Moderator

Ladies and gentlemen good evening and welcome to the Q4 FY 2011, post results conference call of Punjab National Bank, hosted by Emkay Global Financial Services. We have with us today Mr. K.R Kamath, Chairman and Managing Director. As a remainder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Anish Damania, head of equity at Emkay Global. Thank you and over to you sir.

Anish Damania

Thank you. On behalf of Emkay we would like to welcome Mr. K.R Kamath, Chairman and Managing Director of Punjab National Bank. I would like to thank the management for giving us this opportunity to host this call. I would also welcome all the participants who are on this call. Now I would like to hand over the call to Mr. Kamath. Over to you sir.

K. R. Kamath

Thank you Anish. I am accompanied by Mr. Tanksale and Mr. Rakesh Sethi, My Executive Director, Madam Sushma Bali, who is our General Manager, who is taking care of investor relationship and R K Mattu whom all of you know, who has been interacting with all of you. So the entire team of PNB is available to you now. In view of some internal pressures on time because of some pre scheduled commitment sometime, we may not be in the position to immediately hold an investors analyst meeting in Mumbai this time, that's why we thought that we will quickly go on a conference call. So I would request each one of you to raise any of your issues that are there in today's conference and time is not a constraint for us today to answer any of your queries. With this brief introduction, I'll just quickly take you through the numbers. I think we have posted the entire presentation in our website and I am here sure that all of you got your copies and you are ready with your homework also. But I will quickly run through the numbers, I will first take on the annual numbers.

The gross profit, operating profit increased by Rs. 1,729 crores to reach a level of Rs. 9,056 crores at a growth rate of 23.6%, but when you come to the net profit it increased to Rs. 4433 crores, a growth rate of 13.5%. I will come to it a little later but if you look at the core operations that means taking the treasury contributions out of the whole thing. Last year we had Rs. 803 crores of contribution coming from treasury, this year it is Rs. 299 crores and last year we had two items which are not normal items by sale of stake in UTI mutual funds and the housing finance company, but there was a good income which is coming from the treasury, so the Rs803 crore became Rs299crore this year. Last year we had a depreciation of Rs. 68 crore on investment which has been increased to Rs. 147 crores this time. If you exclude this from the net profit, our net profit last year was Rs. 3034 crores which have now increased to Rs. 3987 crores, which records a growth of 31.4%. Operating profit last year was Rs7326 crore minus Rs803 crore comes to Rs. 6523 crores and Rs 9056 crore minus Rs 299 crore comes to Rs. 8757 crores. So the core operating profit has moved from Rs. 6523 crores to Rs. 8757 crores, recording the growth of 34.2 %. The point I wanted to make it, this operating profit growth of 34.2% and a net profit of 31.4% has come after making very liberal provisions on the employee related liabilities about which I will talk a little later.

Now when it comes to the provisioning this year, we have made Rs. 2004 crore of a provision as in Rs. 994 crore for provision towards NPA and the standard advances, there was increase in the provisioning to the tune of Rs. 200 crores, Rs 59 crores last year to Rs. 259 crores. The major portion of this Rs. 259 crores came, Rs. 186 crore came on account of the increase in the asset book over the last one year. Rs. 36 crores has come on account of the increase provisioning for the so-called teaser loans. Other accounts also contributed. So Rs186 crore on the asset growth and Rs36crore on account of the teaser rate scheme. This is the reason why the provision on the standard assets has gone substantially high. Depreciation investment has increased some Rs. 68 crores to Rs. 147 crores. Income tax has been a growth of about Rs. 132 crores. So the total provision has increased by 35.1% which is basically on account of provisioning of the NPA and the standard assets.

If you look at the income head, we find that interest on advance, interest income has increased by 26% which has come uniformly from all segments. Interest on advances grew by 26.5%, interest on investments by 23.7%, other interest income by 29.4 %. The other income that is the non-interest income, we saw that other income is almost flat at Rs. 3600 crores. But the core non-interest income which had grown by 20%, the stagnation in the other income is, on account of the fall in the trading profit by Rs. 500 crores. Recovery written off assets has increased by 61%, of course the liquid mutual fund dividends have come down from Rs. 323 crores to Rs. 216 crores. If you look at the fee based income, the processing fees has been flat despite substantial increase in the loan book, that probably we will have to work little more.

Income from ATM operations had gone up from Rs. 107 crores last year to Rs. 201 crore this year. If you really look at the interchange what we pay, last year we paid Rs.150 crores and earned Rs.107 crores, these are the negative by Rs.50 crore. This year we paid Rs. 197 crores and earned Rs. 201 crores, so they are about marginally positive by Rs. 4 crores. So this goes to show that our ATM network has started paying to us and as we go along we will be in a position to increase this substantially. Miscellaneous income also showed a robust growth from Rs. 238 crore to Rs. 390 crores. Our interest expenses have grown up by 17.3%. 15.3% from the interest paid on deposits. Interest paid on borrowings has increased from Rs. 54 crores to Rs. 258 crores, mainly because we relied on borrowing through the market throughout the year. First to fund our asset growths in the first half and second to take advantage of the arbitrage of percentage that is available in the market. The overall interest expenses incurred increased by 17.3%. The establishment expenses increased by 42.9% in terms of the provisioning what we made last year

Last year we made about Rs. 1006 crores provisions for the wages and pensions. This year we had made a provision of something like Rs. 2900 crores. So when it comes to the pension liability, I think we had made sufficient provisions on the pension liability. We had 18,673 retired people and 24,479 people in service that had opted for a pension in the past. And we have been very liberally providing for the pension fund in the past as you know. So the gap of the actuarial evaluation which was required to take care of the existing pension of this was Rs. 264 crores. Now the new employees who opted for the pension, 4677 employees who opted for pension have retired by 31 March 2011 and as per the RBI requirement we have to make a full provision in respect of these employees, that provisioning came to Rs. 579 crores. The employees in service who opted for second option are 29,350 this called for actuarial evaluation deficit Rs. 2758 crores and we decided to give 20% of this during the current year so Rs. 552 crores. So Rs. 264 crores for existing employees, Rs. 579 crores for the second option employees who are already retired and Rs. 552 crores for the 20% of the actuarial deficit in respect of the employees who opted for the second option of pension. When it comes to the gratuity, we have to provide Rs. 318 crores for the ongoing actuarial valuation of the employees and on account of the increase in the gratuity amount from Rs. 3.5 lakhs to Rs. 10 lakh which required an additional provision of Rs 566 crores and we took 20% of this for the current year Rs. 113 crores. So Rs. 318 crore for existing normal requirement and Rs. 113 crore on account of the incremental liability arising of gratuity, so we had made a total provision of Rs. 431 crores. So Rs1395+Rs431 crores, so we made almost like Rs. 1826 crores towards the incremental liability on the pension arising of the, second option of pension and also to take care of the ongoing liabilities.

Now other operating expenses have increased by marginal 16%. The overall operating expenses grew by 33.6%. Cost of deposit for the full year was 5.24%, yield on advances was 10.58%, the net interest margins for the whole year were 3.96%. I would like to remind that at the beginning of the year we had given a guidance of 3.50% and we have maintained 3.96% net interest margins for the full year. Return on assets is 1.34%, return on net worth at 22.13%. Cost income ratio is 41.27 %. Book value per share is 661.2 and earning per share is 140.60. This is the nutshell of our results for the full year.

I would just like to quickly touch on the quarterly numbers about which you may be keen to know. Our interest income increased by 33.2% in this quarter to Rs7440 crore. But our interest expenses went up by 41.9%. If you look at our management of the net interest margin, we have always been accounting for a lower growth of interest expenses compared to the higher growth of the interest income. But this quarter because of obvious reasons because we had to relied a lot on the high cost bulk deposits and the market went substantially up in the interest rates to fund our credit growth. The interest expenses have grown up by 41.9%. As a result our net interest income which was Rs. 2475 crore last year has improved to Rs. 3029 crores, 22.4% growth. The other income increased from Rs. 958 crores to Rs. 1145 crores, 19.6% growth. Operating expenses increased from Rs. 1100 crores to Rs. 1667 crores. As a result the burden increased from Rs. 143 crores to Rs. 521 crores. The provisions were last year Rs. 1200 crore this year it was about Rs. 1307 crore. So as a result the net profit improved some Rs. 1035 crores to Rs. 1201 crores.

If you take the impact of the treasury out, the net profit for this quarter improves from Rs. 993 crores to Rs. 1101 crores and the operating profit for this quarter improves from Rs. 2195 crores to Rs. 2455 crores. In terms of the provisioning, last year we had made a provision for NPAs at Rs. 462 crores, this time we made a provision of Rs. 544 crores. Standard advances last year this quarter Rs. 49 crores, this year we had made Rs. 100 crores. There was less provision for standard restructured accounts, last year Rs. 116 crore this year Rs. 26 crores. Income tax has been almost at the same level. So the total provision increased from Rs. 1197 crores to Rs. 1307 crores during the current quarter.

In terms of interest on advances we improved by 36.9%, interest on investment increased by 20.6%, other interest income increased by 27.6%. So the overall interest income increased by 33.2%. Other income increased from Rs. 958 to Rs. 1145 crores. Core non-interest income has shown a growth of 19.5%. Recovery in written-off assets has increased from Rs. 140 crores to Rs. 221 crores, 58.2%. Trading profit had come down from Rs. 138 crores to Rs. 53 crores. Last year's Rs. 138 included 81 crore out of UTI, if you take that out, last year we would have earned Rs. 57 crores this year it is Rs. 53. But a dividend from liquid mutual funds last year this quarter was Rs. 48 crores this year it is Rs. 120 crores. Overall total income has gone up from Rs. 6542 crores to Rs. 8586 crores. If you look at the breakup of the fee income, commission on LC and bank guarantees has increased from Rs. 134 crores to Rs. 165 crores. Bills and remittance increased from Rs. 64 crores to Rs. 80 crores, 24% growth. Incidental charges increased by 47%. ATM operations increased by 82.1%. Third-party products increased by 61%. Miscellaneous income increased by 127%.

Two areas recorded negative growth, one is, processing fee which was Rs. 153 crores last year to Rs. 119 crores this year. And the second one is exchange profit which was Rs. 138 crores last year's to Rs. 109 crores this year. When it comes to interest rate and deposits it has increased by 42.1%. Interest paid on borrowing increased from Rs. 8 crores to Rs. 69 crores. Interest paid on others which basically forms the Tires-2 bonds it increased from Rs. 250 crore to Rs. 290 crore. Establishment expenses increased from Rs. 653 crores to Rs. 1129 crores, an increase of almost like Rs. 470 crores. The employee benefits last year I said we have provided in this quarter Rs. 81 crores. This year we have provided for Rs. 752 crores. Other operating expenses from Rs. 447 to Rs. 538, 20.3% and operating expenses increased by 51.5%.

When it comes to cost of deposits this quarter, our cost of deposits was 5.64% up from 4.88% last year, 5.20% last quarter. Yield on advances 10.83%, up from 10.18% last year and 10.59% from the last quarter. The net interest margin 3.91% for this quarter compared to 3.96% last years and 4.13% last quarter. Return on asset during this quarter has been 1.34%, return on net worth 23.97%, cost-to-income ratio 39.93% and book value and earnings we have discussed. The net interest margins curve we have given which is absolutely 3.96%, 4.06%, 4.13%, and 3.91%. So I would say that we started our first quarter with 3.91% we ended the last quarter at 3.91% in between we jumped from 3.91% to 4.06% to 4.13%. I will discuss about the full-year results.

Coming to the balance sheet – Our total deposits increased by 25.5%, total advances increased by 29.7%. The CD ratio increased to 77.38%. The composition of bulk deposits has increased from 19.38% to 22.82%. But if you look at March 09 balance sheet our bulk deposit constituted 20.8%. So last year we reduced the composition of bulk deposits from 22.8% to 19.38%. And this year we have again taken it back to 22.82%. This was basically required for us to fund the asset growth because we are getting good growth opportunity in the assets and retail term deposits and the CASA growth was not commensurate with the credit growth, so we have to look for the bulk deposit. Nevertheless, the very fact that we have maintained our net interest margins intact shows that we have not given up a lot by taking the bulk deposits. The share of CASA was 39.2% at the end of the year. The advances growth has been 29.58% and there has been well-spread in all the areas, agricultural 17.5%, industry 28.59%, MSME 29.96%, and the large industry 28.1%. Retail loans which was growing in the teens in the last year has shown a growth of 23%, housing loan has seen a growth of 23.88%, and vehicle loans have seen a growth of 24.22%. This is on account of the previous strategy of setting up 65 retail asset branches with proper power for the sanctioning and booking loans that there. The exposure to the commercial real estate came down from Rs. 10,382 crores to Rs. 9731 crores which is a very strategic decision what we have done. In this also the lease rental loans have increased from Rs. 2471 crores to Rs. 3839 crores. So in essence the pure construction loans given for commercial real estate has come down substantially as a continued strategic action of the bank.

When it comes to the breakup of the industry advances also the textile has seen a growth of 21.38%, basic metals have seen a growth of 23.98 out of which iron and steel is 20.13%. Petroleum is 21.67%, engineering has 16.85%, rubber and plastics 36%, vehicle parts and equipments 33.82%, gems and jewelry 24%. Infrastructure has gone up by 45% of which power has gone up by 64%, telecom by 46%, roads and ports by 20.75%. So it is a well-spread asset book and well-spread asset growth. Investment book 88% of the SLR is in HTM and 75.19% of the gross investment is in the HTM. Duration of AFS is 2.86% and duration of the total portfolio is 4.63%.

In terms of NPA, we started the year with a NPA of Rs. 3214 crores. There has been fresh delinquency of Rs. 4353 crores. There has been a reduction of NPA by Rs. 3189 crores. The cash recovery increased from Rs. 950 crores to Rs. 1188 crores. The upgradation increased from Rs. 328 crores to Rs. 410 crores. The gross NPA at the end of the financial year is at Rs. 4379 crores. The net NPA which was Rs. 982 crores at the beginning of the year is at Rs. 2040 crores at the end of the year. The gross NPA is at 1.79% at the end of the year and the net NPA is at 0.85%. The provision coverage ratio is 73.21%. If you take the technical write-off out the provision coverage ratio is at 53.45%. You may just look at it that Reserve Bank of India has given a dispensation of recognizing the working of the provision coverage ratio based on the risk weighted assets as structured, in fact if you factor that out I think the provision coverage ratio works out to something like 82.13%. Now this goes to show that we have a sufficient provision available in the system. We have calculated the risk weighted assets this provision coverage ratio at 73% based on the risk weighted assets as on 31st March, 2011.

Then, of course, we have given the details of the restructured accounts in the presentation. In terms of the capital adequacy, it has come down from 14.16% to 12.42%. Tier-1 capital is at 8.44% and the Tier-2 capital is at 3.98%. In fact, we had sufficient headroom to raise the capital around Rs1200 crores of Tier-1 capital and almost like Rs8200 crores of Tier-2 capital. But we had at the beginning of the year looking at the interest rate scenario raised Rs 500 crores of Tier-2 capital. At the beginning of the year it was expected that the fourth quarter we may see the slowing down of interest rates and we thought that we will pick up some capital in the form of Tier-2 when the interest rate comes down, but it did not come up and it went on firming up so we did not go for the incremental capital except for Rs500 crores of Tier-2 capital that was raised and Rs184 crores of capital which came from the government of India. There is no need for any anxiety on the capital because we have sufficient headroom. We are looking only for the right time to raise this capital.

In terms of market share we improved our deposit market share from 5.23% to 5.29%, credit market share from 5.33% to 5.44%. Business per branch for the first time crossed Rs100 crores mark to reach Rs105 crore and the business per employee also for the first time touched Rs10 crores mark.

In terms of capacity building – I think our ATM network has gone up to 5050 now. We have given the breakup of branches. The total branch network is 5100 and odd. We have given the breakup 866 metro branches, 1096 urban, 1152 semi-urban and 2047 rural branches.

Well, our performance has been recognized by our winning lot of recognitions and accolades. I think this is a natural I thought I will brief you about the financial results of the bank for the quarter and the year.

Before I hand it over to you for the question-and-answer I will try to preempt the questions coming and rising out of the monetary policy yesterday. I think the monetary policy has put tremendous pressure on the banks and the operating deficiencies of the banks. The increase in the savings bank rate from 3.5% to 4% will straightaway translate into an increase in our cost of deposit by 15 basis points. The 50 basis points of increasing repo rate and another 25 basis points of increase in the repo rate last time which was not passed on to the customer that will put pressure on us. In terms of the additional provisioning that is required rising out of the new prescription, immediately there may not be any issue because we have a 70% provision coverage ratio. RBI has tried to regularize this 70% provision coverage ratio by giving prescriptions for regulatory provisions. So, to that extent it may not have an immediate impact but as we go along I think probably this may require a call for additional provisions compared to last year.

The avenue available to the bank in deploying the temporary liquid surplus funds in liquid mutual funds, I think that will also put some pressure to reduce some of our income because it actually had liquidity which was put into liquid mutual funds and now that we will have to restrict it to 1% of the net worth.

Now all this put together what we responded to the media yesterday can put pressure of 50 basis points to 100 basis points on the banks. Realizing the impact of this we have raised the base rate BPLR 50 basis points today and the base rate is at 10% and BPLR is at 13.5% effective tomorrow.

We have drawn out action plans for the current year. The RBI had said that the deposit rate is going to be 17% so probably we look forward for a deposit growth of 18% to 20% during the current year. The credit growth, the RBI has projected at 20% so; we will look forward for a credit growth of 20% to 22%. When it comes to the net interest margin, with all these pressures our efforts will be to hold on to a net interest margin level of 3.5% which has been a hallmark for the bank throughout in the last at least 2 to 2.5 years. When it comes to the focus I think definitely the retail term deposits and the CASA is going to be the focus. But nevertheless if there is an opportunity for the credit growth. In fact, we looked at the maturity of the bulk deposits; the average maturity of the bulk deposit is 169 days. It shows very clearly that we have gone for short-term bulk deposits so that when the re-pricing advantage comes we are in a better position to get our liabilities re-priced.

This is in a nutshell I thought I will brief you before handing it over to all of you. Thank you once again for all the support you have given and the patience to listen to me and the floor is open to you for questions.

Moderator

Thank you very much sir. Ladies and gentleman, the first question is from the line of Amit Premchandani from UTI Mutual Fund, please go ahead.

Question and Answer Session

Amit Premchandani

In the conference call today RBI pointed out that loan given to NBFCs other than housing finance companies will not qualify as priority sectors lending unless you actually securitize the asset and take it in your book. Just wanted to have your view on the change in norms and is the reading correct on the street?

K. R. Kamath

I think I need to only add a rider. What the RBI said is that any loan given to an NBFC, it can be classified as a priority sector only if it is for MFIs. In respect of the existing accounts already in of our books, they said that that will continue to be a priority sector as far as these accounts are paid out in the regular course. That means the present and existing accounts which can be taken as priority sectors. But in case in future it can be only in the form of securitization and take the asset on your book.

Amit Premchandani

So in terms of impact on banks, what do you think would be the percentage of indirect priority commitments the bank will be generally the sector will be meeting through these loans to NBFCs?

K. R. Kamath

I don't think that we will have a serious problem in making our priority sector obligations because of this and our exposure has been very limited because the issue will come up in case of some of the housing loans companies where they have lend for the priority sector, that will be one issue which will come up or maybe some low value transport operator loans. I do not think that it will impact our priority sector advance in a big way and without this also we will be in a position to meet our commitments.

Amit Premchandani

From a sector point of view which would be the banks in terms of private or public, who will be more impacted and what percentage will they need an alternative mechanism as per your view?

K. R. Kamath

I am not very sure because I do not have an access to the other bank's reserve or the loan portfolio and I would not like to comment on what will happen to other banks.

Amit Premchandani

On the restructuring related standard asset provisioning, so you have some access provision on standard asset or do you need to provide in that?

K. R. Kamath

See what happens is that we have an overall provision of 70% in terms of a provision coverage ratio. Now, if you remember last year when the RBI introduced this, it was introduced as a countercyclical measures to ensure that banks when they make good profits when the economy is not doing that profit, let us save something for the rainy day. Now, this has been regularized by the RBI by prescribing higher regulatory prescription for the various types of assets. Immediately we feel that we will be in a position to maintain all these regulatory prescriptions and arising out of the 70% provision coverage ratio what we have. But as we go along I think that when the loan book grows substantially we will have to look for additional provisioning.

Amit Premchandani

So basically you are implying that this excess provision can be used against the standard asset provisioning?

K. R. Kamath

Yes, because what happened is that we took this provision and we put it at different places because the regulatory provision was not taking you to 70%. So when we did 70% we said that wherever we made a little more than what is required in the regulatory provisions at different places, now we will be in the position to draw it back and within the provisioning we will be in a position to deploy it.

Amit Premchandani

But in terms of overall policy, what will be the policy of the bank in terms of maintaining a coverage ratio because it implies that your coverage ratio will go down?

K. R. Kamath

The point is that the RBI has not done away with the 70% mark now, one. Second thing is that, we will be, as a conservative bank, would always like to see that our provision coverage ratio improves. But having said that unless you have some windfall profit which comes either from treasury or by some sales stake or something, the type of pressures what we will face during the current year arising out of the monetary policy announcement and other things, I do not think the banks will get a sort of a luxury to make excess provision much above what is regulatory required which has already been enhanced. So making enhanced regulatory provisions itself will be a good effort for all the banks and if there are any one-off profits coming into our books definitely we will try to put it. Our guidance will be that, wherever there are opportunities we will try to improve the provision coverage ratio.

Amit Premchandani

You have increased base rate and PLR have you taken the saving deposit rate increase, have you taken that into account while calculating your base rate or is it still due?

K. R. Kamath

That is what I said. At the back of the envelope calculation, 15 basis points on the FD. 75 basis points increase in the repo rate, how much of it gets passed on to the borrowers over a period of time, that is the second thing. And then probably an increased provisioning requirement as we go along. All these put together can impact the bank to the tune of 50-100 basis points. So we thought instead of waiting for all these things to get converted into the books since we have enough reasons to transmit the policy announcement to the borrowers at this stage, we have taken the call to increase the base rate by 50 basis points.

Amit Premchandani

Your yield on investment is a little low at 6.42%, while all the government security rates have gone up or commercial paper rates have gone up. Just wanted to understand why is it so?

K. R. Kamath

I think the long dated securities which we had in the past which are earnings from higher rates of interest. I think I would like to get back to you on this issue, before we close the call we will get back.

Amit Premchandani

Finally last question, on the power sector you had around Rs16300 crore exposure to the sector. Can you give us a breakup of the segregation of between private, central, and SUBs?

K. R. Kamath

I think I may not have this immediately but I will try to put this in the website by tomorrow morning.

Amit Premchandani

Are you seeing any pressure on the sector?

K. R. Kamath

I think we have been saying that every bank has taken exposure, probably I would restrict to my bank that we have taken enough exposure in this and now we would like to go a little slow on the sectors.

Moderator

Thank you. The next question is from the line of Ajinikya Dhavle from Bajaj Alliance Life Insurance, please go ahead.

Ajinikya Dhavle

Congrats on the good set of numbers considering the constraints you had. Going back to this interest income on investments, in the fourth quarter the number was Rs1472 crores and in the third quarter the number was Rs1493 crores. So, one sees a decrease in absolute income earned from investment while your investment book has grown by about Rs5000 crores. So I was just wondering what led to such a sharp decline in yield on investment in one quarter, fourth quarter over third quarter?

K. R. Kamath

I will just have my GM, Investment online after about a couple of minutes and ask him to answer this. He will come online.

Ajinikya Dhavle

Second question again on you have been ahead in raising PLR and base rate consistently. But if I see the change in the yield on advances over a one year period, our yield on advances of 10.3% in first quarter has moved up to 10.8% in the fourth quarter so about 50 basis points improvement in yield. I think of our base rate has increased significantly more than that, maybe 100 basis points we have raised from the base up to March. The aggression on raising base rate or PLR doesn't seem to have flown through the yield on advances?

K. R. Kamath

See the question is that there are a lot of corporate things which always are based on the negotiated rates. So our ability to pass on the rates continuously like this is absolutely restricted. Ultimately what operates is a net interest margin. Suppose we are in a position to raise this and we have kept the cost like this, net interest margin would have been something like 5%. So it is acceptable and I need to keep my employment intact, so I cannot work for a 5% NIM.

Ajinikya Dhavle:

So again in that context sir, you have raised it again by 50 basis points, how do you think that borrowers are in a position to take that or how much of it can actually be transmitted to the borrowers because funding cost will naturally go up for you?

K. R. Kamath:

The immediate impact will be 15 basis points increase in the sales plus interest rate, that I think definitely will get absorbed by this 50 basis point increase in the base rate. Now the other things are all consequential. Now point is that since we are into the off season now, so we should see whether there is a need for an accelerated deposit growth now. If there is no need for accelerated deposit growth, I think we should be in a position to handle the deposit interest rates at the existing level which have been really good compared to what we had kept at March, we have not reduced these interest rates substantially. So that will not be a further increase in the cost of deposit, but we will be in a position to accept the 15 basis point, but we will be in a position to that 50 basis point increase on the base rate. So I think we should be in a position to balance and try to maintain our NIMs at what we expect.

Ajinikya Dhavle:

And the recovery from written-off account during this year has been fantastic, fourth quarter was more robust, what is our outstanding technically written-off accounts pool now and what kind of ballpark targets you would like to lay on this because I think the pool must have gone big considering the write-offs of the year?

K. R. Kamath:

I will try to give you the number, but definitely the recovery in written-off assets is going to be much better than this year depending upon the pool which we have. The pool should be something like, I just give you, get back the number.

Ajinikya Dhavle:

No, this year we recovered more than Rs500 crores, can you confidently say more than that is possible next year?

K. R. Kamath:

Definitely I think we should be.

Ajinikya Dhavle:

And last question from my side on the asset quality sir. How much of our book is now recognized through system, the NPAs?

K. R. Kamath:

I think Rs50 lakhs and above, we have totally completed the system generated NPAs and our effort is to complete the remaining part now.

Ajinikya Dhavle:

So the slippages of about more than Rs1200 crores while in the last 2 quarters, we had seen about Rs1000 crores per quarter kind of addition. So fourth quarter was actually more. So again was it granular, was there any big account or was it due to system based NPA recognition?

K. R. Kamath:

I would say that we increased the diversified amount that the largest out of which was Rs200 crore of an account.

Ajinikya Dhavle:

But this moving to CBS based on your parallels and experience, is it going to impact again in the FY12. Shall we see this kind of slippage ratio of more than 2.2% continuing in the future?

K. R. Kamath:

On the NPA, my stand has always been one, as unless you are in a position to maintain your gross NPAs around 2% and if you are in a position to earn enough to provide for the NPAs which come out and then of course if you have a mechanism to recover, that is where you see the better recovery coming in the written-off assets and other thing. So overall I would give a guidance that we will still try to maintain our gross NPA levels around 2% for the current year and next year also.

Moderator:

Thank you. The next question is from the line of Pramod Gupta from HDFC Standard Life. Please go ahead.

Pramod Gupta:

What was the total amount of restructuring that was done in this year?

K. R. Kamath:

I think we have given this number in the presentation, put it on the slide, but I could see I can give you the number. This year it was Rs3190 crores.

Pramod Gupta:

Another thing is in the last quarter, somebody asked about the slippage. What was the actual amount written-off in the last quarter ?

K. R. Kamath:

We have the written-off amounts for the last quarter. I just give you this number. I will have to give two, three numbers I will give you at the end.

Moderator:

Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani:

I just wanted to make sure that in your NIM calculation, do you also include the dividend from the liquid mutual funds?

K. R. Kamath:

No, liquid mutual fund is getting into the dividend income that does not come into the NIM calculation.

Hiren Dasani:

When you are reporting NIM of about 3.91% for the quarter compared to 4.13%?

K. R. Kamath:

Absolutely, the dividend income is kept out, otherwise if you look at the dividend income from mutual fund, it has increased during this quarter compared to last year.

Hiren Dasani:

I am just wondering that could that apparent decline in the yield on investments, could it be because of that there is more proportion in the liquid funds in this quarter compared to the last quarter?

K. R. Kamath:

This is one possible thing because there is a difference in calculation of this in different banks. So obviously since we are claiming the benefit of the dividend in the mutual fund, we have taken this mutual fund dividend into the other income now. So this may be one of the reasons. I will just get my treasury GM online and then I will answer this.

Hiren Dasani:

Sir the other question is on second pension-related liabilities. Now if I understand correctly from your notes to accounts, there was about 2757 crores second pension liability plus 566 crores of additional liability of the gratuity of the enhanced amount, so call it about 3300 odd crores and is it fair to assume that of that 3300 crores, 1150 crores is what you have provided in FY11. So the remaining of about 2100 crores to be precise would be amortized over the next 4 years?

K. R. Kamath:

I have given these calculations, very clearly I said. Now what is to be amortized in terms of the pension, it is Rs2206 crores and in terms of the gratuity, it is Rs452-53 crores.

Hiren Dasani:

So total Rs2658 crores divide by 4?

K. R. Kamath:

Rs253 for gratuity and Rs2206. So it requires Rs113 crores every year now for gratuity and Rs552 crores for the pension.

Hiren Dasani:

So Rs665 crore annual amortization required for the next 4 years? Compared to that, this year we have done about 1150 crores?

K. R. Kamath:

Yes.

Hiren Dasani:

You said that you want to maintain the gross NPAs closer to 2%, but you can maintain gross NPA closer to 2% also by aggressively writing off the things. It would be more clear to us if you are looking at lower net slippage for the next fiscal year compared to the current fiscal year?

K. R. Kamath:

Absolutely I think any CEO would definitely love to do that, but you are operating in an environment which has got its only influence on the whole economy. Now it is correct that you maintain 2% of a gross NPA by write-off, but you need to have a profit to write-off this. Unless you earn sufficient money and provide for, you cannot write-off. My answer has always been consistent to one, are you earning enough to provide for these NPAs which are surpassing. If you are earning enough and providing writing off and then recovering it afterwards, I think that is the good balance sheet management. The second is that do you have a good mechanism to work on these, yes it is very clearly reflected by our recovery from the written-off assets, increasing the recovery, written-off assets, but obviously I would agree that if the slippage itself can be prevented, I think that will be the best way to do it. We will be strengthening our credit monitoring mechanism for this purpose, but let me tell you that you cannot be away from the sort of an environment in which you are operating.

Moderator:

Thank you. The next question is from the line of Suresh Ganpathy from Macquarie. Please go ahead.

Suresh Ganpathy:

One is on the pension, the gratuity I think you were providing it upfront. So this fourth quarter, have you written it back a part of it the last 3 quarters whatever you were providing upfront?

K. R. Kamath:

Yes, because we went with a presumption of the pension liability being taken over 5 years. Now since the RBI said that you need to provide for the pension liability in respect of the retired people this year itself which itself came to something like 576 crores for us. It was not envisaged us at the beginning of the year. For which it is that we amortized the overall pension and the gratuity.

Suresh Ganpathy:

And this quarter out of your total Rs1200 crores slippages, clearly 40% of it has come from restructured assets closer to Rs450 to Rs500 odd crores, any large account or any sector which has gone bad which has contributed to this large slippage, any information that you can share on this?

K. R. Kamath:

I made this point that there has not been a concentration of NPAs in any sector and one of the largest accounts which kicked into NPA is Rs200 crores. Remaining amounts are all smaller amounts and it is well spread. Only thing I would say that there has not been a concentration.

Suresh Ganpathy:

And on the system based NPL recognition, you did clarify, but can you put a percentage number to how much would be actually already under system based method of classification, whether it is 80% of the accounts, 90% of the accounts, any such number?

K. R. Kamath:

I may not be in a position to quickly react on these numbers. We will try to put it on the website tomorrow what is the percentage of the assets covered under the system generated assets.

Moderator:

Thank you. The next question is from the line of Vishal Goel from UBS Securities. Please go ahead.

Vishal Goel:

My question is actually on the lending rate hikes which I think almost all banks are talking about. Sir what kind of hike you think corporates can absorb given that rates are already very high and do you think that credit cash slowed down below 19% what RBI kind of anticipating?

K. R. Kamath:

I think the RBI has anticipated this 19% taking all these factors into account. If you look at it, it is less than last year's growth. So to that extent, the credit has to necessarily slow down because the RBI actions are very clearly aimed at containing demand. Now the demand has to be contained probably the traditional growth should slow down. So to that extent, I think RBI would have made this projection after taking into the account all this impact.

Vishal Goel:

And my other question is actually when you lend to the NBFCs for priority sector kind of loans, do you offer concessional rates in the sense that there will be some subsidy of 1 or 2%?

K. R. Kamath:

I think the only regulated rate today is in agriculture where the loans for short-term, crop loans up to 3 lakh, bank has to lend at 8.5% and claim 1.5% subsidy from the government. Otherwise the priority sector loans are absolutely free to be charged by us.

Vishal Goel:

What I actually was saying is for example you are lending to two NBFCs and one NBFC is qualified for priority sector lending. So is the rate differential which is there in these two cases?

K. R. Kamath:

What happens is that it depends upon the desperation with which a bank looks at this NBFC advance. If a bank is not having 40% and they are compelled to meet this 40%, probably they may try to give a lower amount, lower interest to the priority sector NBFC and then take it on their books, otherwise you get a good return from these NBFC accounts.

Vishal Goel:

But you would not be doing that?

K. R. Kamath:

We have enough of priority sector with us.

Moderator:

Thank you. The next question is from the line of Sameer Bhise from Torero Capital. Please go ahead.

Sameer Bhise:

All my questions have been answered, thanks.

Moderator:

Thank you. The next question is from the line of Vikesh Gandhi from BofAML. Please go ahead.

Vikesh Gandhi:

I think it has been asked, but all those slippages that we have seen in this quarter, anything chunky out there besides the Rs200 crores that you mentioned and was that Rs200 crores also part of restructured slippages or it is outside of that?

K. R. Kamath:

It was a restructured account on which we had upgraded that account. So there was a difference of opinion between us and the RBI on an interpretational issue. So ultimately we respected the views of RBI. The account is serviced as per restructuring, but it became an issue of interpretation and then we said okay, we go with RBI. So the account is serviced as per restructuring.

Vikesh Gandhi:

Whatever you have gone online in terms of NPL recognition of your total slippages of Rs1250 crores, would there be a decent number of that also coming in from this quarter?

K. R. Kamath:

We will see because as you try to align the system, there can be a possibility of something coming up and then we need to handle it. I will not be in a position to put any number on that as of now.

Vikesh Gandhi:

But nothing would be there in this quarter?

K. R. Kamath:

It can come up, although I can never say. I have been taking one stand that I will never get into prediction of NPLs what sort of incremental delinquency that can come in. We will definitely concentrate on the delinquencies and handling it with rather than saying, I have stick out on my NPAs sort of a situation. So as of now, I may not be in a position to put any numbers on that. So we will have to wait and watch.

Moderator:

Thank you. The next question is from the line of Shrey Loonkar from Reliance Mutual Fund. Please go ahead.

Shrey Loonkar:

One was on the growth, I understand you have enough headroom on the tier II, but with tier I at 8.44% current year as well we have grown much ahead of the industry. Just wanted to get a sense, our savings rate has grown 4% quarter-on-quarter even if you assume Q4 trend will continue, it still annualizes to 16% growth rate. With this kind of liability, would PNB shy away if growth is not profitable to slow down growth expectations, I just wanted to get your sense on this?

K. R. Kamath:

I think if you are asking me that would I sacrifice the growth for capital, definitely no because I have a 58% government holding, I can dilute 7% and each 1% gets me something like Rs900 crores. So I can get into about Rs6300 crores of additional capital by diluting. If you look at this, government this time has made the capital contribution as a prime expenditure which indicates that the government is willing to look at it every year. The government may come up with like it happens Central Bank of India sort of a situation permit me to go ahead with the right issue. So I want to go ahead on that, but my effort will be to see that I either raise a tier I capital bonds or I raise sort of a plough back enough money into the capital and sustain. The dilution of capital or going for an FPO will be the last resort.

Shrey Loonkar:

You answered the question on the capital side, but on the liability side, given that savings traction is going to slow down, CASA traction would slow down in such an environment. How do you foresee that?

K. R. Kamath:

I have been making this point again that CASA in isolation does not convey anything to me. CASA along with NIM conveys something to me. So suppose I am in a position to maintain the net interest margin at my desired level and in that case, I have to go for some bulk term deposits to fund my asset growth. I will not shy away from it, just because my CASA is coming down. The whole purpose of CASA management is to ensure healthy net interest margin. So as far as I am in a position to maintain that, the CASA ratio in isolation will not be sacrificed.

Shrey Loonkar:

Could you give us some sense on your cost of it, just the retail term deposit pool, non CASA, non-bulk, and what would that be?

K. R. Kamath:

I may not have available; I will try to put it on the website tomorrow.

Shrey Loonkar:

This year slippages have increased quite a lot. I am just now referring to the recovery and the upgradation number, not the write-off number, that number stacks up at around Rs1600 odd crores for the current year which is 25% higher than last year. Could you give us some sense on this with the NPA pool that you see, how do you see the prospects of recovery in next year. Could we track a higher recovery and upgradation either you may view it as a percentage of advances or you may view it as a pool on YoY basis whichever way you are comfortable guiding on that.

K. R. Kamath:

There was a question on the write-off which I said I will answer later on. The total write-off as rightly said during the current year has been Rs 1591.75 crores. It also includes the write-off arising on account of the settlements what we make. That means when you made the settlement if there is some write-off, this also put together and there was also another question on that, what is the pool of the technically written-off assets. The technically written-off pool is Rs 3230 crores. Now to that extent, I would say that the recovery and written-off assets will be much better than what was last year because the pool itself has increased. So we will be in a position to come with a good number on the recovery and written-off assets. There is also a question on the power sector exposure breakup. State electricity board is Rs 4800 crores and private sector is Rs 11,469 crores. I have my General Manager of Treasury with me, Mr. Chhokra. Mr. Chhokra will respond to you on the reason for the reduction in the interest income on investments so that.

P. K. Chhokra:

The main reason was provision management only. So some amount was put in T-Bills because the expectation was that the rates will go up. So we put some more amounts in T-Bills than G-SEC which would have slightly moved up the rate. So because of that, there was some decline in this.

K. R. Kamath:

The point is that we have tried to manage the duration before the possibility of the increase in the Gsec rates and consequential depreciation that we have to handle. So good portion of the (not audible) put in T-Bill so that we did not have to take a hit on the depreciation, but that resulted into a lower yield on the investment.

Shrey Loonkar:

So you answered the question on the recovery from written-off accounts. My question is on recovery and upgradation on the stock of NPAs that we have on book as yet?

K. R. Kamath:

Probably the question is that the whole effort is to see, if you have seen last year a better recovery and better upgradation and this year with a larger opening stock, our recovery from the NPAs and the upgradation will be definitely better than last year.

Shrey Loonkar:

I just wanted your guidance sir, what in your view is the right way of looking at it, would it be pecking it to your opening stock of gross NPA or would it be more appropriate on looking at as an absolute target basis of number?

K. R. Kamath:

Always the question is that opening stock is from where we start it. So since we have a larger opening stock, the possibility is more. But the ultimate thing is that we keep the gross NPA ratio as the fulcrum for the entire NPA management.

Moderator:

Thank you. The next question is from the line of Jatindar Agarwal from RBS. Please go ahead.

Jatindar Agarwal:

Yesterday whatever we saw in the RBI policy, specific provisions have been increased; given the coverage that we have, does that materially change the provision cost that we will see next year?

K. R. Kamath:

Immediately there is no issue as we are looking because we are in a position to manage the whole thing within our existing provision, but when the loan book is growing, then probably I think we may have to make additional provision compared to last year, otherwise also we would have made this to maintain the 70% PCR.

Jatindar Agarwal:

So on a blended basis, now it is either the 70% or the revised norms. So by theory, does the credit cost really change between the two?

K. R. Kamath:

I do not think, it may not make a big difference depends on the portfolio of different banks. The NPA level is substantially low for somebody and the 70% or the 80% provision coverage ratio means a smaller amount and if the credit growth goes higher, probably there may be a need for the additional provisioning there.

Jatindar Agarwal:

Lastly just coming back to your gross default rate and the margin traction that we have seen, obviously there are two ways to ride business. One is you look at a higher spread, but that does accompany the higher credit cost, eventually you will land up making the same amount of ROA at the bottom line. So what we have seen in PNB's case is that there is a greater focus on margin and then unfortunately with the lag effect, we are seeing credit cost rising. So going forward which is a 2-3 year cycle, what is your thought process? You will still continue to maintain a higher margin, but probably see higher credit cost or you will probably see margins trending down and then actually credit cost coming off?

K. R. Kamath:

I think if you are very clear on the credit cost curtailment, probably we should lend to this oil companies in bulk and then they business without lending to anybody. So that is not the function of the banker. The function of the banker is to lend and take a normal risk in the business. So to that extent, we have been growing. If you look at the credit portfolio, it is a well-diversified credit portfolio. It is not that there is a concentration anywhere and we have obviously brought down the exposure to the commercial real estate and then we have been very conscious. The liquidity in the system prompted the banks to go for short-term loans which was the invention of the market last 2-3 years that also we have consciously brought down that portfolio. So we are very conscious about the credit quality and the possibility of a default happening in any one of the sectors and we always align our credit growth depending upon these things, but just to say that we need to reduce the credit cost by reducing the margin will become sort of a narrow banking then.

Jatindar Agarwal:

But there is always a trade-off ?

K. R. Kamath:

What would you advise me as analyst?

Jatindar Agarwal:

I do not think so I can advise you as an analyst, but what I would suggest is, is there a much higher focus on just maintaining that margin rather than ensuring that we do not actually write anything which is of bad quality?

K. R. Kamath:

The point is that one has to see that we have a benchmark in that point. Now bringing down the margin is not a great thing I think. We gave a guidance of 3.5% at the beginning of the year and we have ended up at 3.96%. We are again not giving you any bullish guidance. We are again giving the 3.5% of a guidance which we feel should be doable. and if you look at it, carefully study, our net interest margin, management has come from managing cost of deposit, not by unduly going up in the yield on advances and there was a question made by Ajinkya that why your yields have not substantially gone up despite the base rate being increasing. So it is not correct to presume that we are going for high yielding advances at the cost of quality. The NIM management has been absolutely of the cost front if you look at it.

Jatindar Agarwal:

Perfect sir, thank you.

Moderator:

Thank you. The next question is from the line of Mahrukh Adajania from Standard Chartered. Please go ahead.

Mahrukh Adajania:

Firstly how much of your advances will be linked to the base rate plus PLR percentage?

K. R. Kamath:

I think about 60% of the advances will be linked to this.

Mahrukh Adajania:

To base rate plus PLR?

K. R. Kamath:

Yes.

Mahrukh Adajania:

And the other thing I wanted to check is sorry I know that there has been a lot of discussion on slippages, but not talking only about PNB, we have lot of other state banks has been higher than expected slippages and obviously there will be slippages on the system because loan growth has been there, but it has been broadly higher than expected. So obviously there may not be any concentration, but are there some sectors like agriculture or retail, whether technical NPLs where payments are coming only with a lag, or moral hazard in agriculture or any such things?

K. R. Kamath:

Under agriculture, definitely there was something which I shared with you last time because debt waiver coming in people were thinking that should we repay now or should we hold back, but the government has taken steps in the form of giving them subsidy for subvention of prompt payment. So for a borrower who is repaying his crop loan promptly he is charged only 4% which is a good enough incentive for them to bring back to the repayment culture this is one. The second issue is that we have not seen any concentration of NPA, but I think we should respect the wisdom of the RBI which said that you may counter-cyclical provisions because when the banks are doing well, when the economy is not doing well, there is going to be a lag impact on the banks. This was the forecast of the RBI, somewhere it appears that it is coming through.

Mahrukh Adajania:

And what is the amount of liquid mutual funds that you hold?

K. R. Kamath:

It varies from different times, as on 31st March, it was nil. So it depends on the daily liquidity.

Moderator:

Thank you. The next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.

Manish Shukla:

Now the base rate has been increased to 10%, so it is likely that SME kind of a borrower would be paying upwards of 13% or that kind of interest rate, what was in your assessment likely a) loan demand from that segment and b) potential in credit quality issues?

K. R. Kamath:

The loan demand is obviously likely to slow down for sometime unless there are projects on hand. Anybody who wants to go in for further expansion or new projects now, may halt for sometime because our base rate will be the lowest there in BPLR. We estimate 13.5% and other banks are at 13.75% and if they try to emulate us by increasing their BPLR another 50 basis points, their BPLR would touch about 14.25% which appears to be a little discouraging for somebody to get into new expansion and new projects. So to that extent, we would expect that the credit growth may slow down to some extent with the impact. Of course obviously that has got something to, of that may also get further in the form of additional credit cost also depending upon how the economy overall moves. At the end of the day, if the economy can achieve a sort of a 9% robust growth and then everything is favorable, there may not be an issue, but if there is a slow down and then the slow down impacts some of these industries, probably we will have to factor some amount of credit cost there.

Moderator:

Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta:

Just the last one in terms of your fee income, if I see your miscellaneous income in this quarter has been quite sharp, is there any one-off in this?

K. R. Kamath:

I do not think there is anything one-off. It is normal income coming from the variety of transactions coming from the branches.

Alpesh Mehta:

And to just to take it forward, would you be able to share what percentage of your advances will be below 50 lakhs?

K. R. Kamath:

I think I said this, tomorrow we will try to put on the website what percentage of our advances have been system enabled for recognition of NPA, second portion will be less than 50.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Anish Damania.

K. R. Kamath:

I think I have two points pending now with me. I think among the questions that have been raised I think we have tried to answer anything except two questions. One is what is the percentage of the advances which I think will enable for system generation of NPA. Second is what is the cost of term deposits. We will try to put both these numbers on the website tomorrow morning. Despite this if you have any more queries which you feel that because since we are not holding immediate investors meeting Bombay this time, you are most welcome to call any one of us or send your queries to us by e-mail, we would try to respond any time. Thank you very much for taking interest and joining us on this conference call.

Anish Damania:

Thank you very much for your time and thank you very much to your team as well.

Moderator:

Thank you sir. Thank you members of the management. On behalf of Emkay Global that concludes this conference call.
