"IDBI Bank Limited
Q2 FY2020 Post Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the IDBI Bank Limited Q2 FY2020 Post Results Conference Call hosted by Batlivala & Karani Securities India Private Limited. As the reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. Participation in this conference call by invitation only IDBI Bank Limited Results right to block access to any person to whom an invitation note sent. Unauthorized dissemination of the contents or the proceedings of the call is strictly prohibited and prior explicit permission and written approval of IDBI Bank limited is imperative. Please note that this call is for investor or analysts. Any guests from media are requested to disconnect the call now. I now hand the conference to Mr. Amit Singh from Batlivala & Karani Securities India Private Limited. Thank you and over to you Sir!

Amit Singh: Thanks operator. Good evening everyone and thanks for joining the call. On behalf of Batlivala & Karani Securities, we welcome you all to the IDBI Bank limited 2Q FY2020 post results conference call. We have with us today the management of IDBI Bank Limited represented by Sri. Rakesh Sharma, Managing Director and CEO, Sri Samuel Joseph, Deputy Managing Director, Sri Ajay Sharma, Executive Director and CFO. The bank's details financial and presentation had already been uploaded on the bank's website, and I believe most of your audience would have managed to see that I would now request MD and CEO Sir to start the call with his opening remarks on Q2 FY2020 Results post which we can start the Q&A session. Over to you Sir!

Rakesh Sharma: Thank you. Good evening everybody. So first of all, I liked to mention that he had given certain guidance note in December also and thereafter every quarter whenever we are meeting some guidance was given so as compared to the guidance how our performance has been so I will start from that.

In fact in December if you remember we had announced that our net NPA we will try to bring below 6% by September 30, 2019 and I am happy to inform you that the net NPA as on September 30, 2019 was 5.97% and the other guidelines were that our SLA growth we should be around 16% to 18% and actually September 30, 2019 we have been able to record a growth of 17%. CASA we have estimated 40% as of now our March 31, 2020 as against that we have already achieved 44.87% and NIM also it was estimated to be 2.25% for half a year we are already 2.23%, but for the quarter alone if you see it is 2.33% and the capital adequacy as we said that we will be above the regulatory benchmark so what I want to convey is that the guidance note which we had given more or less we have been able to comply with that.

Now in this regard, I will further elaborate on the performance. So first thing is two things I would like to bring you to the notice one we are as of now for the last two and a half years we are under PCA and as a result, there are certain restrictions on our doing business so mainly we are doing retail business and there we have grown by 17% Y-o-Y this quarter and the previous quarter we had grown by 19% and as due to this our ability to do certain other offer business was limited so that is why our priority was that to come out of PCA and accordingly we have tried to work on all the parameters and we have been able to bring the bank's performance as per RBI stipulated parameters and under PCA the five parameters are there so as of September 30, 2019 we stand comply with all except the profitability part ROC is negative but as far as CET1, capital adequacy, net NPA and leverage part, so we are within the RBI guidelines and accordingly we will be requesting RBI to take us out to PCA of course, finally it depends on them but due to these restrictions, there were restrictions on doing business as a result.

There were certain limitations that we could grow our profit to a limited extent only we could grow from our profit but once we are out of PCA, we will cautiously start doing the overall business and I am sure with that that will help us not only improving our profit but improving our balance sheet size also. For the last almost two and half years, the balance sheet has been shrinking but within those parameters we have been able to show some good performance during this quarter, if we go to the business first, I will cover the business so overall the bulk deposits which our target so bulk deposits we have been able to reduce which was cost deposits and the CASA ratio we have crossed one trillion mark under the CASA and the CASA ratio stands at 44.87% almost 45% we have achieved and there has been a growth of 15% in our CASA deposits accordingly the cost of deposits which was 5.41% as on September 2018. It has come down to 5% by 2 3% so it has helped us in improving our NIM also and as per our plan we have been reducing bank deposits. There has been reasonable good growth in retail term deposits and CASA deposits.

As far as advances are concerned despite these restrictions, the yield on advances has increased from 8.46% to 9.14% as on September and the advances we have been going only in retail so retail SRA part like as far as structured retail assets are good, our growth was 17% and the other of course other than SRA in MSME and all these the growth was around

5% so overall although there is a shrinkage in balance sheet, but in SRA we have grown well and as a result, our ratio of RAM/Retail Agriculture and MSME it has increased to 53% so it used to be around 70-30 about three years back so now gradually we have been able to realign our portfolio and this ratio has now improved to 53%:47% so and out of this our structure to retail assets. I am happy to inform that 90% of our advances are backed by full mortgage securities so that means the advances are good and even NPA overall in the retail portfolio the NPA level is less than 1.5%. So this is the position regarding the business.

Now coming to profitability part of course, there has been a loss of Rs.3459 Crores, but the loss was lower than as compared to September 2018 quarter and June quarter also, so and the mainly the loss has occurred because we have grown for accelerated positive where we have given in the our disclosure also this accelerated provisioning when I say that whatever is it provision was doing December or March 2000 quarters so wherever we individually our committee has you know examined all the cases and whenever we felt that there was inherent weakness we have made accelerated provisioning so as a result provision coverage ratio is very robust. In fact, I think it must be the highest in the industry 91.25% so the other operating expenditure there was a good control.

Staff expenditure of course has increased but this is basically because earlier we were making a provision of 8% for salary increase, we have started making at the rate of 12% right from normal 2017 so as a result some additional provision was required. In addition because of actually provision that provision because of Ind-As provision because the GSEC yields are going down so as a result of higher provision. We have to made it according to AS 15, we have made some additional provisions so but as of September 30, 2019 all provisions have been made so nothing is carried forward other in NPA we have made accelerated provisioning so as a result the staff expenditure there is some increases there but of course going forward such increase will not be seen because the normal provision of 12% only will be made and backlog provision will not be there so everything we have provided in September quarter.

Operating expenditure is under control. If we see the net interest income there is a robust increase in net interest income. It has increased by 25% so that is a good sign, despite the fact that we are not growing in advance is NII increasing by 25% and that is a good sign and so this has also helped us in improving our operating profit which has increased by 19%. Of course if we take out the operating profit on account of transit sale from the base quarter also and from this current quarter also, then there is a 42% increase in the operating profit. Now we are coming to the provisions as I said, we have made accelerated provision because we did not want to leave any contingency and as a result our provision for coverage ratio has increased. So now coming to the treasury part, treasury of course because of the falling interest rates we have there has been some write back of provision and the modified duration we have been able to improve which was 4.39% for AFS portfolio in September 2018, which has now declined to 2.44% and so here also in fact most of the problems which was there issues in the problems which was there, which I have been resolved and now it is quite healthy portfolio, which we are holding.

Now coming to NPA the slippages, which was Rs.3486 Crores last quarter it has come down to Rs.2059 Crores and as against that in fact we have been able to make recoveries Rs.2229 Crores, out of this of course to Rs.2029 Crores around Rs.96 Crores is in return of account and part around Rs.374 Crores has gone to interest rate so that is why it is being shown as only in around 1700 here recovery and upgradation but finally the partly that is going to interest and partly under TW account which has gone to profit. So this way now the net NPA ratio has come down to 5.97% and provision coverage ratio as I said is 91.25%.

One more thing, I would like to emphasize here if we see NCLT cases both RBI list one and list two we have provided 100% provision and because of our, you know, the corporate type of portfolio because our 70% advances were in corporate so as a result major number of NPA cases or with NCLT if we include our total, gross NPA plus technical written of 73% of our NPAs are under NCLT either referred or admitted. And admitted case itself is around 43.5% so that is why the recoveries are basically because seven months there have not been major recoveries in NCLT so recoveries are little stuck-up but because of one case mainly so these events the decision comes in that case also other cases will start falling in line and we expect that shortly that the issue will be decided and then remaining a two quarters we will get a good recovery in NCLT cases also. Of course, we are trying for sale of some NPAs to ARC. We had given advertisement for sale of Rs.9300 Crores worth of assets to ARP that process is going on so I hope we will be able to complete the process by end of this current quarter.

That is why once this NCLT recovery start happening in any case we are doing good recoveries in retail cases, but major amount of NPA are in corporate once this NCLT cases get decided, I hope that we will be able to achieve target of Rs.30000 Crores of recovery, which we had fixed our ourselves.

As far as SMA position is concerned and the SMA2 as on September 30, 2019 was high around Rs.6295 Crores, but I am happy to inform you that as on October because those big cases which were appearing in SMA2 have been regularized and as on October 31, 2019 the SMA2 was only to Rs.1176 Crores from Rs.6295 Crores it has declined to 2176 which the position is quite comfortable and we do not foresee much slippage from this side. As far as capital adequacy is concerned and we stand comply with all the parameters with total Tier I capital was 9.52 and CAT1 was 9.27 and total capital adequacy stands at 11.98 and we are much above the regulatory level and in fact the capital available to us it should take care of our future and their current year's growth requirement. But at the same time of course we have a board approval for raising Tier 2 capital up to Rs.3000 Crores and that process also will be starting now.

As regards PCA I have already indicated that we have complied with all the parameters and alliance synergies in the work is going on and we are getting good business from LIC recently we had launched that co-branded gift card, which will be used by LIC for their employees and that is helping and we are of course targeting the business of their premium policyholders, their staff members and their agents.

With this background, I am quite hopeful that the going forward our performers will improve and especially once we come out to PCA the overall profitability and business parameters with improve further. With this I will end here and we can take the questions. In fact, I have with me my DMD and CFO and the other EDs are also there, large corporate and then mid corporate, NPA management, group retail assets, private sector lending and head of treasury so we will can take the question

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: Sir just what are the other parameters which you think that you will be out of the PCA where one or two parameter which we are lacking over there and what are working so on the front?

Rakesh Sharma: Our efforts are that now having made the December and March provisions already we have made and we do not expect much slippage now because the credit is also declining so our effort will be to be in profit in December quarter but in any case let us by the end of this financial year we should be in profit. That will be our effort.

Sneha Ganatra: Okay and what would be run rate of this slippages we are expecting and how would you see recoveries from overall on NCLT as well as non-NCLT so any internal targets for GNPA and net-NPA and PCR based on the industry as of now?

Rakesh Sharma: As far as the RAM/Retail, Agriculture and MSME portfolio is concerned we have been making good recoveries, but of course NCLT referred cases recoveries were not happening in fact for seven months no case has been resolved but once we get decision on SR, on the distribution pattern so thereafter some other cases will also start getting resolved and we expect good recovery in the next two quarters so my target for recovery is including this retail SME, total target was Rs.13000 Crores out of that day in first six months June or September quarter we have already made around Rs.3500 Crores of recovery. Of course we have already put assets on sale around Rs.9000 Crores, and we are quite hopeful and we will be able to achieve the targets which have set for ourselves.

Sneha Ganatra: Okay what is your take on the current stress on the NBFC going on and Dewan type of an exposure and considering this what is the slippages run rate we are expecting?

Rakesh Sharma: One thing is that in NBFC fortunately, we do not have much exposure and of course Dewan we had some exposure as on September 30, 2019 it was tendered asset now going forward in the current quarter let us see but other than that we are not expecting some other big slippages so hopefully like as I said in second quarter the slippages were around Rs.2059 Crores I am quite sure that you know the slippages is less than this during the next quarter.

Sneha Ganatra: And how was your Dewan exposure Sir? Dewan exposure is how much Sir?

Rakesh Sharma: Less than Rs.1000 Crores of course if they are in fact so far they were paying their dues and the account was standard only, after that you know some high court restrictions were there once advance that court restrictions are lifted I am hopeful they will again start paying it but of course till that we have to go by that only, so otherwise we are simultaneously the banks are working on resolution plan also, so let us hopeful..

Sneha Ganatra: Sir Can you share subsidiaries stake sale plan or anything?

Rakesh Sharma: Already some monetization during the current year also we have some NSD shares. There are two subsidiaries we have put on sale, one is this IDBI Mutual Fund and the second is Federal Life Insurance, so mutual fund of course it is at advanced stage, already it is getting finalized hopefully if not by December, by March we will get in the money and in the Federal Life Insurance also we have appointed the transition in our advisors so they are working on that so there also the process is going on, there also I feel that by March end we will be able to finalize the deal.

Sneha Ganatra: How much amount which we were expected to fetch in both the deals, if possible can you share?

Rakesh Sharma: The amount I may not be able to share with that because that will be confidential number too. As far as the asset management is concerned, so far once we signed the agreement then we will be able to disclose the amount. As far as Federal Life is here, it is still at exploration stage so amount I may not be able to share at this juncture, but certainly once it is finalized we will share this with you.

Sneha Ganatra: And post this IDBI, how do you see the overall traction on the fee income side?

Rakesh Sharma: See already if you see our fee income, basically if you the other income, there is a growth of Y-o-Y growth of 28%, Rs.800 Crores from it has increased to Rs.1033 Crores but of course if we exclude that also then also it has increased, because in the base figure also some amount was there so no two ways of course in our existing accounts, the business which is being done, that LCBG commission and all these things so there is a good growth is there and apart from sale of investment and is now third party distribution business that is also given because we are working on various strategies with LIC and other insurance companies also, so those also we will be getting this income. Now the presently our other share of other income to total income which was around 13% it has increased to 16%, there is good traction is there.

Sneha Ganatra: Sir now going forward we are in the provisioning of the NCLT 100-100% and more of less provisioning has been done so what would be the guidance of the credit cost that will be take care of the next year and for the second now?

Rakesh Sharma: Now in fact presently if you see the credit cost in first quarter was Rs.3.45 which has come down to 1.93 so now this will I hope it should come down quite substantially because this especially during over the next two quarters that we have already taken care of raising provision of course whatever new celebrities that was, but amount we should be able to keep it below 1%.

Sneha Ganatra: Credit cost guidance below 1% you mentioned?

Rakesh Sharma: For that quarter.

Sneha Ganatra: Okay, any resolution we are expecting from this power sector side Sir?

Rakesh Sharma: Power sector of course like you know see in that case that RBI resolution plan cases we have already signed this ICA, in eight cases we are the lead, remaining 25 cases we are note the lead but we have signed ICA, so in some of those cases our power cases also and there we are quite hopeful that the last date is around is January 3, 2020 so by that time some power accounts are also there, we expect that this will be resolved, name I cannot share with you but yes certain power accounts are also there.

Sneha Ganatra: Growth wise we just focussing on the retail front, right?

Rakesh Sharma: Now presently because we are at their PCAs, in retail and that retail also if you see major growth is coming from structured retail, home loan, education loan. Education loan not much growth if you see the overall growth in retail also, home loan it is 18% and LAP it is 14% and auto loan it was around 16%, so mainly 17% growth has come from that area but as far as MSME is concerned, the agriculture it was 9%, other yes overall 5%-6% growth, overall it is, but now once we are out of PCAs then of course we will note like to grow very aggressively, we will be very cautious in our approach, but certainly in good accounts in corporate we will be increasing our exposure so that we can earn good income.

Sneha Ganatra: Okay and Sir on the outlook on your margins considering their REPO rate link and we are again focussing on the retail. How do you see the margin traction to be?

Rakesh Sharma: Of course like net interest margin already as I said from 1.80 last year has increased to 2.33 for the current quarter, but you take half yearly it is 2.23 so yes I agree that because of this REPO interest rates now it has been made applicable for both retail and MSME, some yield in advances there will be some decline but correspondingly depending on our deposit requirement, we are taking there that this cost of the deposit is also coming down so overall I am quite hopeful that our target is that name should be maintained at 2.25% which was

1.80%, 1.85% last year so the overall growth is there to 2.25%, that we will be able to achieve.

Sneha Ganatra: Sir the last question on the opex front how do you see the opex action considering still there could be some employee related provisions still left out?

Rakesh Sharma: The employee like whatever provisions pending were there we have done, because you know what was happening is up to June the IBA had offer of 8% so I will guarantee a provision of 8%. Now not only that for the current quarter we have to make provision of remaining gap but from November 2017, we had made a provision so already we have made sufficiently provided. Number two the actuarial valuation because of this rate of yield if you see where it is yield, so discount rate it was reduced by 60-basis point from 7.79% as on March to 7.19% as on September 30, 2019 so it has resulted in increased liability on account of this pension, but I think more or less rates have stabilized so there also I do not expect much growth next quarter and the salaries also but operating other than the salaries if you see operating expenses these are more or less stable so I do not expect much direction under this operating exposure.

Sneha Ganatra: Okay got it Sir. Thank you for the detailed discussion.

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

Mahesh MB: Good afternoon Sir. Just a couple of questions, I did not get the first part where you have explained what is the rationale for the increase in the SMA account on the corporate side?

Rakesh Sharma: The corporate side some two big accounts, some overdues were there but in October all these overdues have been regularized so and there it has had those two accounts, two, three accounts were there, even those have come out of any SMAs so totally fully regularized, so some irregularity was there that is why SMA-II was there but now in October everything has been regularized so these are out of SMA.

Mahesh MB: Okay and would you be able to share which sector they were?

Rakesh Sharma: They were power sector.

Mahesh MB: Okay and the second question is on your exposure to telecom which is kind of give us some color on the non-fund exposure that you have out here?

Rakesh Sharma: In telecom also if you see you total exposure is around Rs.7248 Crores out of that if you see only 13% is BB and below rating and 35% is A and above rating so that way some around Rs.1316 Crores is in the total Rs.1577 Crores is NPA and remaining is standard but there mainly two accounts are there, they are big accounts which are non-fund exposure but quite healthy accounts so we do not foresee any problem there.

Mahesh MB: The exposure is finally revolving around one specific telecom exposure that one is extremely worried about, could you be able to share some color on this.

Rakesh Sharma: Which one?

Mahesh MB: This is to Vodafone Idea.

Rakesh Sharma: There are major two, three accounts, you know why, specific accounts, you know mainly those accounts but these are good accounts. In fact BBB and above itself is 52% and A and above is 13% so 65% is my investment grade and above.

Mahesh: Okay and finally the third question is can you give us some color on your outlook on recoveries for the second half of this year?

Rakesh Sharma: The second half as I said one this through ARC sale, we have already advertised for Rs.9300 Crores so out of that the process is at advanced stage so that hopefully those assets will be able to dispose off. That is number #1, number #2 this Essar case of course is pending for quite some time. Once the Honorable Supreme Court gives decision on that so that will pave the way for the other cases also hopefully and that various issues will get resolved and these are mainly at advanced stage. So I expect that at least high six big cases will be resolved and that is why the total overall target of recovery for Rs.13000 Crores which we had fixed for ourselves we will able to, already there were roughly in retail and RAM portfolio our recoveries are okay so around Rs.3500 Crores we have in total recovery, upgradation, technical write off everything has been done, so we will able to achieve these that means remaining around Rs.9000 Crores should come in recovery in the remaining two quarters, it can come through ARC sale or recoveries NCLT, non-NCLT accounts.

Mahesh: And these you do not expect any NPV hit from here on, and if these do not expect any major provisioning impact.

Rakesh Sharma: Provisioning, of course like as of now as I said before the next two quarters, the hedging provision we have other than only may be I do not know one account like earlier we were discussing NBFC so that only the worrying factor if that happens but other than that we do not expect any major issue.

Mahesh MB: Thanks a lot.

Moderator: Thank you. The next question is from the line of Amit Singh from Batlivala & Karani Securities India Private Limited. Please go ahead.

Amit Singh: Thank you Sir. Thanks for the opportunity. Sir firstly if you could give the breakup of SMA -II, how much is corporate SMA-II and how has it moved over the quarter?

Rakesh Sharma: In fact out of it in Rs.6295 Crores, major was in this corporate only but this corporate out of this SMA-II corporate and retail June, September end, out of Rs.6295, 5000 Crores was incorporate only, remaining is of course retail, but so out of these Rs.6295 already we have been able to get the accounts regularized and as on October 2019 it was only Rs.2176 Crores. So out of these also may be around 50-50 in retail and corporate but these I do not expect any major slippage out of these Rs.2176.

Amit Singh: Sir in Rs.2176 Crores Sir if you could give the sectoral breakup I mean where exactly Rs.2176 is located?

Rakesh Sharma: Out of that major account we will have to see around Rs.700 Crores is in Infra and around Rs.900 Crores is in infra out of that large corporate so may these around Rs.900 Crores is in infra only, remaining have small, small accounts are there.

Amit Singh: And Sir apart from that if you could also quantify what is our exposure to the non-fund based accounts which are already NPA accounts?

Rakesh Sharma: Non-fund based already that also around Rs.2000 Crores is there, which are already NPA but we are following up with those accounts not necessarily that because these are some majority of outstanding in infra accounts but infra accounts not necessarily that the projects have not been completed so some of the projects have already been completed so at this stage we do not think that more than 50% will fall back, when it will be invoked that time certainty is also not there, not that immediately it will, some to them it will get resolved also because simultaneously projects are getting executed also although the exposure is around Rs.2000 Crores but all of it may not follow as liability some of these guarantees we will get it back.

Amit Singh: Sir if you could also share the quantum of exposure where we have signed the ICA but the account is still standard in our books so if you share something?

Rakesh Sharma: In fact where we have signed the NPAs around Rs.12000 Crores is the outstanding, out of that how much standard immediately I do not know because we have list of all 33 so it will take time, how much is ICA.

Amit Singh: Out of 12000 is just maybe we can supply and give these information.

Ajay Sharma: Amit, we will give this information.

Rakesh Sharma: This maybe on the standard, I will give this information.

Amit Singh: Yes, not an issue Sir. I will take it offline.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference over Mr. Amit Singh for his closing comments.

Amit Singh: Thank you operator. On behalf of Batlivala & Karani Securities, we thank IDBI Bank Limited management for giving us the opportunity to host the call. Thank you everyone and have a good day. May I request the MD Sir to kindly give the closing comments on this quarter?

Rakesh Sharma: As I said the cleaning process for the bank for the current year, we had taken up this task that we all consolidate the books and although we were under PCA we were not able to grow, but one good thing is that during this period we have been able to strengthen our risk management policies and during this period, underwriting standards, monitoring power collection mechanism that we have been able to strengthen it further, even the MSME in priority sector advances like our warehouse, we had earlier burnt our fingers, some NPAs had happened, we have revised all our these sanction process and precautions we should take. Now we are ready. Once we come out of PCA we are ready starting up the business in better way, in good way, so that such situations we do not face in future and the overall if you see despite all constraints despite the fact that we are under PCA, we have been able to show some improvement, some growth under net interest income, in growth in improvement in profit, other income, net interest margin, reducing cost of deposit, CASA has almost increased to 45% and whatever business strategy part was presented to the board and the directions were given, I think more or less we are going as per that plan so with that I hope the positive time for IDBI Bank now and even other income, the income coming from various synergies which are being worked out with LIC also these are working out, so I hope the position will improve much better way in the coming time.

Moderator: Thank you. Ladies and gentlemen on behalf of Batlivala & Karani Securities India Private Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.