



“Punjab & Sind Bank Q1 FY-23 Earnings Conference Call”

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Moderator: On behalf of Punjab & Sind Bank, a very Good Afternoon to the analysts and distinguished guests. The days of the pandemic are on the edge therefore we can look for better financial health in future. I would like to thank you all for taking out your time and joining us today. I welcome you all to the virtual analyst conference of Punjab & Sind Bank on the announcement of the Quarter 1 FY 2022-23 Financial Results. Before we begin I would like to introduce the management who would be addressing today's analyst conference. We have with us Sh Swarup Kumar Saha, Managing Director and CEO, Sh Kollegal V Raghavendra, Executive Director, Dr Ram Jass Yadav, Executive Director and Sh Vinay Kumar Mehrotra, Chief Financial Officer. We have placed all microphones on mute. At the end during the Questions & Answers session, we will be coordinating for unmuting analyst microphones for asking questions. I will take you through this process before this Q & A session itself. The management will continue to remain unmuted throughout the session. I will now request Sh Saha to address the gathering.

Swarup Kumar Saha: Thank you Diksha. Good Afternoon to all of you and welcome to all the participants of this virtual analyst conference. We have today declared the Reviewed Financial Results for Q1 of FY 2022-23. I will go through some of the key highlights of our results that have been declared today and then we can move on to the Q & A session. The Net Profit of the Bank has grown by 17.82% on Y-o-Y basis from Rs.174 crore in Q1 FY 22 to Rs.205 crore in Q1 FY 23. Net interest Income has grown by 22.45% on Y-o-Y basis. Return on Assets increased to 0.64%. Net Interest margin improved to 2.92% in Q1 FY 2022-23 from 2.50% in Q1 last year. The CASA deposit has improved by 269 bps and now stands at 34% showing a growth of 11.97% Y-o-Y basis. The RAM advances has grown by 15.88% on Y-o-Y basis out of which Retail has grown by 17.99%, MSME by 17.09% and Agriculture by 12.29%. On the asset quality front, our gross NPA ratio has improved to 11.34% as on June 22 as against 13.33% as on June 21 and 12.17% as on March 22. Our Net NPA ratio has also improved to 2.56% as on June 22 as against 3.61% as on June 21 and 2.74% as on March 22. The Provision Coverage Ratio including TWO has improved from 87.89% in March 22 to 88.10% in June 2022. Our Cost of Deposits is at 4.16% which has improved by 26 bps on a Y-o-Y basis. The Bank is well capitalized with a Capital Adequacy ratio of 16.79% and CET 1 ratio of 13.08% for Q1 FY 2022-23.

Amongst the other highlights, the total business has grown by 4.72% on Y-o-Y basis to Rs.174261 crore as on June 2022. The Total Deposit has grown by 3.10% on Y-o-Y basis to 101534 crore as on Q1 FY 2022-23. The Gross Advances as a whole has grown by 7.06% on Y-o-Y basis to Rs.72727 crore and the operating profit stands at Rs.252 crore for the current quarter. So that is all from our side as far as the key highlights are concerned. Now we are open to your questions and answers.

Moderator: Hi, everyone so you will notice a small icon on your screen next to your name, a hand sign. Once you press this, it will alert us that you would like to ask a question. We will go around 1 by 1. The analyst asking the question will be unmuted and I would request you to identify yourself and your firm before asking the question. For those of you, who have joined us through audio call, I request you to kindly

whatsapp me if you would like to ask a question. We will ensure that your question is taken. If any 1 of you are having trouble in sending a direct message to this chat then please forward your questions to our whatsapp group, and we will ensure that the question is taken. Our numbers are mentioned in the chat box. Mr Ashok Ajmera would like to ask a question. Please go ahead.

Ashok Ajmera: Yes, good afternoon Sir and welcome you to Punjab & Sind Bank as the Managing Director. I've got a few observations and a couple of questions. Sir there is a pressure on our profitability. I mean we generally compare with the last quarter and not be necessarily the corresponding quarter in many of those cases like the advances, NPA and the profitability. So the profitability has gone down to Rs.205 crore as compared to Rs.346 crore. So going forward how do we ensure and come back to the good level of the profitability? My other question, when I see your advances, segment wise, the food and processing industry has gone down from Rs.1567 crore to Rs.775 crore. Is it because of the some reallocation or repayment or because of any other reason why there is drastic change from 4.52% to 2.11%? At the same time, the NBFC exposure has also come down from Rs.9,473 crore to Rs.8,992 crore. Other than that, there is not much movement in this. So, on the credit side how do you look the future growth because quarter on quarter it is almost mute.

Swarup Kumar Saha: Thank you. Mr.Ajmera for your questions. You are right on the profitability front. It is better if we looked into our sequential performance as well. So, you're all aware that regarding the market dynamics of the yield movements in the Treasury front. So our bank was also not immune to that ecosystem and that's why we had an impact of Rs.109 crore of depreciation loss in this current quarter. We had Rs.55 crore trading profit and a Rs.109 crore of depreciation. So, the overall contribution from the Treasury aspect was a negative compared to what was the last quarter or what was in the Q1 quarter last year. So that had an impact on the overall operating profit cycle. But we have in place a comprehensive plan with respect to non interest income, particularly on the fee side. We will be concentrating very hard on how to improve our fee income from insurance business, wealth management, health insurance, etc. We will be going into a co-branding arrangement with a large credit card company which will take place for wealth management also. We will be able to complete that expected by Q2 or maybe latest by October this year. So by compensating our MTM losses through these other income sources, we feel that the operating profit and the net profit we will be able to maintain at least and not below last year's level. So that is how the profitability is planning out. In terms of our credit, you are right that the credit growth has been muted for the bank for the last few years. In fact, last year also, the credit goes was only 3.8% particularly because the bank had taken a call to rejig the balance sheet, a ratio between corporate and RAM which was much more skewed in favor of corporate advances, to move it towards the RAM advances. So, that transition happened last year, and we were able to bring the ratios in a different level in March, 22. Having said that, if you see our performance this time our advances have grown at 3.32% on a sequential basis. So we will be conscious of our increasing of credit growth and we have a guidance of about 15% in which will be broadly distributed between RAM about 20% to 22% and on the corporate side of 8% to 9% and as far as the food processing was concerned, yes there has been a

repayment from NAFED & FCI. So that brought down my food processing outstanding and, of course, the NBFCs has come down. We are taking conscious and controlled exposure in NBFCs, but we will be continuing to do that. This is a temporary drop down in our exposure and in food processing and we will be also looking for good written, top rated NBFCs on a corporate side also. So, all in all, what I can submit here is that the bank will be looking for credit opportunities in a much more focused manner than what it was doing in the previous years.

Ashok Ajmera: Just my observation and submission that since our base is so low. I mean as we have got a plenty of scope to grow as a PAN India Bank. A similar situation, you know, in another bank which is also comparatively a smaller bank in the public sector bank. Their credit growth if you see it is 24% to 25%. Now also, the target is more than 22%, and even the corporate book can be increased apart from the RAM? Because there is too much of competition in the RAM with the other banks also other top tier banks. So I think we have to rejig our Policy and BBB is also a great investment. I don't think that a bank like us, on case to case basis, should avoid BBB cases, because we would get those kinds of cases and we can have the assessment case to case basis and can go even for BBB rated account also, which ultimately are good account. So this is just a piece of observation on it that we can definitely grow because you got a very, very experienced people now. Even the top management is also very experienced, and definitely we can have the Pan India presence by growing a little bigger than what we are estimating on this. Having said that sir, I mean it's a food for thought for you. I have another observation on this fraud account note number 12, Rs1242 crore of the fraud, which has been reported. It is mentioned it is in this quarter. Is it right that this Rs.1242.66 crore is only in this quarter and fully provided for it during the quarter only.

Swarup Kumar Saha: I will start answering from the back on the 2nd question and move to your 1st observation. Yeah the 2nd question regarding the fraud, yes, it is SREI and it is fully 100% provided for. On the 1st observation, you're absolutely right that the bank has tremendous potential to grow in spite of being a geographically concentrated bank, just like other Bank you were referring to. Any credit growth cycle also needs to be backed up with good underwriting processes and good policies and risk appetite. So that that goes hand in hand. Having said that, what I'm saying with the with the 3.8% growth last year FY 21-22, we are estimating an above 15% growth on the current year. So we are trying to leap frog in our credit growth. Also, if I just look into these figures above 15% and 3.8% last year. The other Bank we are closely observing how they are growing, to what extent they are growing and maybe we will also that they are what extent they are growing. They are not growing at 25% or 22% in 1 single year. They have also paced their credit growth in a very, very calculated manner. So, we are conscious, you are absolutely right there are ample opportunities, whether it is NBFCs and other sectors are concerned and we will be looking into those areas also on how to grow, but primarily what we were doing, corporate negative last year, we expect that on the corporate side at least we grow at between 8% to 9% and with a RAM growth of around 20 to 22% we expect that we keep RAM and corporate share between 52 and 48 in that ratio. So we are conscious, and we will be planning

out a Pan India visibility of the bank and Pan India expansion of the bank, publicity, and that's why we have posted a general manager in Mumbai, specifically for marketing good corporate accounts in Mumbai itself. The banks of our sizes do not typically may require a general manager posted in terms of the volume of business that we have, but we are conscious that how to penetrate in good corporate and that is the best place to be in. So I think all in all we are now poised to have a good credit growth, at least if not more than the system at least at par with the system.

Ashok Ajmera: Regarding this emergency line of credit, restructuring, now since all the installments and repayment must have started already. So, what is the figure of this restructuring which was due to COVID and what is our efficiency ratio in that demand, which we raised in this month or this quarter from those accounts. Secondly, on the Treasury that how do you look going forward on the investment side.

Swarup Kumar Saha: As far as the book on the restructuring advances resolution framework 1 and 2 the figures are given in 30 page slide number 34. We have a total book size of standard restructured around Rs.2407 crore out of that we have slippages in this quarter. Out of the Rs.321 crore slippages that we had Rs.42 crore slipped from this restructured book. So, in view of the time period of the monitoring going away there is still some stress in the MSME but we are confident. That's why the slippage in the MSME was higher than the other sectors but, we still feel that we have a strong monitoring team and a recovery mechanism we'll be able to contain our slippages. We have a slippage ratio of 0.52% in the current quarter and we intend to keep the slippage issue at less than 1%. So, overall, we feel that with aggressive recovery, strong monitoring mechanism we will be able to bring down our gross NPA below 10% by the end of March 2023 and net NPA below 2% by end of March 2023. On the Treasury side we already know the impact on the current quarter of Rs.109 crore and with the MPC now meeting shortly and declaring their decision on the report we expect anything between 35 to 50 bps. It can still be around 6% by the end of the year. We feel from our portfolio mechanism, because we have reduced our duration also we feel incrementally from Q1 onwards we don't see much of an impact which will really be negative on my balance sheet. We'll have some impact maybe 15% to 20% for the incremental impact may happen but we'll have a compensatory mechanism for increasing my income.

Ashok Ajmera: What is the modified durations?

Swarup Kumar Saha: 2.69.

Ashok Ajmera: Both AFS & HFT.

Swarup Kumar Saha: Yes

Ashok Ajmera: Thank you sir for this round of questioning. If time permits I'll come back again. Thank you.

Moderator: Our next question is from Sushil Choksey. Please go ahead.

Sushil Choksey: Good afternoon. Congratulations on appointment as MD in Punjab & Sind Bank. My 1st question what is the best scenario for your CD ratio?

Swarup Kumar Saha: We are at 71.63 now and we expect that by March, 23 it should be anything between 72% to 73%.

Sushil Choksey: It is in light of current treasury situation?

Swarup Kumar Saha: Ye. We have worked out our plan because as I said earlier that we will be still focusing primarily on the RAM segment through a co-lending mechanism we are planning to build a portfolio around Rs.2000 crore by co-lending. We are creating pipelines for digital lending also. Our personal loan scheme is already in place. We are going to bring that in into our mobile app and we'll be going into various tie ups with other NBFCs also for co-lending. On the MSME we'll be doing the outreach programs, cluster based approach for MSME outreach. We have taken out a scheme with a very competitive rate of interest on MSME Satkar. So, that has given us good response in the market to penetrate where we were not there earlier and therefore we feel that we can go between 72% to 73%.

Sushil Choksey: Can we have our incremental higher outlook higher than 72% to 73% because in view of current Treasury situation and 1 doesn't know when the war will end and when the inflation would taper and all the central bank will be in acceleration mode and may go into overdrive. So why can't we look at a higher credit growth and lower investment book? Next how well positioned are you to improve your CASA and cost to income?

Swarup Kumar Saha: As far as your credit growth observation is concerned, we will look into it. As of now we have given a credit growth guidance of 15% which when compared to 3.87% still looks very stiff but are confident that we can achieve that figure. We will look into where our investment portfolio can be rejig a bit so that we maintain proper optimum CD ratio. CASA we are very low at 34% now. It was 31% on a year on year basis. We are taking out new products on the CASA front. Our current account will be on focus. We have taken out the current and POS terminal combo scheme, which will help us to garner more current account business. We will be going after corporate salary accounts in a bigger way. CASA will be our focus area going forward.

Sushil Choksey: You have mentioned about co-lending. Are you looking at secure and unsecure products both or only secured product.

Swarup Kumar Saha: As of now secure.

Sushil Choksey: What kind of digitization, what kind of other expenses which will accelerate the bank from the past to the current to get on par with the larger banks and

what kind of initiative and expenditure having budgeted over a period of next 20 to 24 months.

Swarup Kumar Saha: See, as far as on the digital front, you know that any digital leap frogging will depend on the technological platform that we stand on. We were at Finacle 7 version and the Finacle 10 migration has just started from 2 - 3 months back. Any migration takes a normal time period of anything between 12 to 14 months. It goes in phases and there is a requirement that we upgrade our core banking solution to the latest version very quickly but we will not stop on completion of that process. The bank last year took out this PSB UNiC app and Corporate Biz app on the mobile banking which is an Omni Channel app. So, what we are intend to do is to whatever technology platform of Finacle 7 supports us, we are going to revamp this app in a big way and already my rating in the app has started improving over the last 1 month because of the upgradations that we are doing in that app, bringing in new features. We were in a slow starting position because we actually implemented this App only last December quarter. So we were going slow in that but now that is there and we are trying to bring that platform as fast as possible at par with the bigger banks and once we can map these to the digital app and make a Super app and bring on digital lending through that process, bring in wealth management, bring in customer acquisition, so my operating cost going forward will also go down. But this we'll have a medium and long term strategic way that we are thinking. So, my core banking upgradation is on. We have a budget of round over Rs.200 crore for 3 years going forward. We have excellent IT advisory board who are advising us on our technology front. With their support we feel that maybe by March, 23 we'll be in a much better position on our technology and digital front which will help the bank to take many more initiatives which are offered by the other banks.

Sushil Choksey: What is your guidance on credit cost for the whole year?

Swarup Kumar Saha: Credit cost guidance would be less than 1.

Sushil Choksey: Q1 you are already at 0.17.

Swarup Kumar Saha: Q1 we are at 0.04.

Sushil Choksey: But you are seeing an upward bias.

Swarup Kumar Saha: In terms of MSME, we still feel there is a bit of a stress. Our internal assessment is anything we should be around 0.5, but on a conservative basis we are projecting below 1%.

Sushil Choksey: How much are lending have you done under the government scheme GECL 1 and 2. Are you expecting any stress out of that book?

Swarup Kumar Saha: Nothing significant, but in quarter 1, out of the Rs.321 crore slippage Rs.42 crore was from the restructured book. So we expect some slippages, because our SMA 2 also have some MSME accounts.

Moderator: Is there anyone who would like to ask a question? May I remind you that there is an icon rather next your name.

Ashok Ajmera: I just want certain information and clarification on note number 20 that 5 borrower accounts in which Rs.141.96 crore additional provision had been made, which were the NPA accounts. Which are those accounts and what is the status of the recovery in those accounts.

Swarup Kumar Saha: These actually on a prudent measure we have provided additionally. Some of these accounts, maybe it will have an impact in Q2 or Q3 going forward. So we thought it is better to strengthen my balance sheet and to have a better provision coverage ratio, we provided this amount of Rs.141.96 crore additionally.

Ashok Ajmera: What is the balance outstanding in these accounts.

Swarup Kumar Saha: We'll share with you separately.

Ashok Ajmera: There is an RBI penalty of Rs.27.50 lakhs for noncompliance. What kind of non-compliance this penalty is for. Have you taken necessary precautions?

Swarup Kumar Saha: Yes we have taken necessary precautions. During the RBI Inspection, they found some inconsistencies in our EBLR policy. That is taken care of at this point of time.

Ashok Ajmera: Sir, my last observation there are some certain foreign banks, you know, who do the onward discounting of the issued by our bank they are not honoring the LC of the bank issued by the bank. I taken up this point earlier also with the management that being a public sector bank why is it so that the letter of credit issued by us is not honored for the further discounting or for buyers credit and other things. So it is just to bring it to your notice that you can take it up with those banks.

Swarup Kumar Saha: We will look into it.

Ashok Ajmera: Which segment or industries you see the credit demand coming in and are you considering those industries which were bad in the past like textile paper and engineering, steel industries. What is your outlook now? Are you considering fresh exposure to those sectors which have done well in the recent past?

Swarup Kumar Saha: We will take a call on case to case basis. Of course, we will look into good infrastructure ham projects, ethanol projects, renewables, food processing units, renewable solar. All will be taken care on a case to case basis but we are open to increasing our corporate book.

Moderator: So, thank you everyone for joining again today and our team will be sharing relevant information talks with you in case you have any queries please feel free to reach out to us. Thank you once again,

Swarup Kumar Saha: Thank you.