ੴ ਸ੍ਰੀ ਵਾਹਿਗੁਰੂ ਜੀ ਕੀ ਫ਼ਤਹਿ

पंजाब एण्ड सिंध बैंक
(भारत सरकार का उपक्रम)

Punjab & Sind Bank
(A Govt. of India Undertaking)

Where service is a way of life

"Punjab & Sind Bank Q1 FY-24 Earnings Conference Call"

August 07, 2023

MANAGEMENT: **Shri. Swarup Kumar Saha, Managing Director & Chief Executive Officer**

Dr. Ram Jass Yadav, Executive Director

Ms. Mahima Agarwal, Chief Financial Officer

Moderator: Hello everyone. Good afternoon Ladies and Gentlemen and welcome to Punjab and Sind Bank's Q1 FY 23-24 Analyst Meet. As a reminder, 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 the briefing session. Please note that this conference is being recorded. On behalf of Punjab and Sind Bank, I once again welcome all the participants to the virtual analyst meet. On the panel from the Bank's Management we have with us Shri Swarup Kumar Saha, Managing Director and CEO, Dr. Ram Jass Yadav, Executive Director and Ms Mahima Agrawal, Chief Financial Officer. Following the management's address, we will conduct a question and answer session. We have placed all microphones on mute and during the Q&A session we will be coordinating the unmuting of the participants for asking questions. I will guide you through that process before the Q & A session begins. However, the management will remain unmuted throughout the session. I would now like to request our Managing Director and CEO, Shri Swarup Kumar Saha to address the gathering. Thank you and over to you Sir.

Swarup Kumar Saha: Thank you Diksha and good afternoon to all. Welcome to the virtual analyst meet post the declaration of the Q1 results of the Bank. With me is Dr. Ram Jass Yadav, Executive Director and Ms. Mahima Agarwal, Chief Financial Officer along with some key functionaries at the Head Office. Our presentation is already uploaded on the website of the Bank and the Stock Exchanges. Allow me to mention a few highlights of the Bank's Q1 results for the current year. The Total Business witnessed an 11.63% increase to reach Rs.1,94,525 crore. Deposits grew by 12.49%, and stood at Rs.1,14,211 crore. Gross advances of the bank increased by 10.43% to Rs.80,314 crore. The RAM advances grew by 19.64%, with the Gross Advances' RAM percentage improving from 49.47% to 53.60% on a YoY basis. Gross NPA decreased from 11.34% to 6.80%, and Net NPA improved from 2.56% to 1.95%. The PCR has improved from 88.10% to 88.58%. The operating profit stood at Rs.257 crore while the net profit decreased to Rs.153 crore. Non-interest income demonstrated a significant improvement of 54.78% on a YoY basis. The yield on advances reached 8.45%, and the net worth increased from Rs.5226 crore to Rs.7213 crore. Capital adequacy ratio improved from 16.79% to 17.19% on an overall basis and sequentially, net interest income improved by 7.89%. Net interest margin also sequentially improved from 2.53% to 2.63%. Regarding other areas of performance, the bank successfully met all its priority sector targets. Looking ahead, our strategic outlook focuses on capital-optimized growth. We will be upgrading our core banking platform from Finacle 7 to Finacle 10, emphasizing technology enhancement. Recovery efforts remain a priority and our guidance for the year is above Rs.1500 crore. The bank plans to hire in specialized areas and strengthen capacity-building efforts in human resources. We have strategies to increase non-interest and fee income. On the lending side we will have a focus on co-lending where we have already built a portfolio of Rs.1000 crore. We have increased our partners both on the Priority as well as Non-Priority. Digital transformation will continue to get special focus where lot of improvement is happening like Digilocker, Whatsapp Banking. With the technological upgradation in the core banking solution happening we feel that the digital transformation will take a fast forward mode and with the digital transformation we would like to go in to the digital innovation improving the process delivery across segments like retail, agriculture, and MSME. We will be focussing on operational efficiency through structural changes including call centre enhancements and implementing video KYC mode which will result in efficiency in acquisition of Savings and Current Accounts. Fintech Collaborations in one area where we would like to move very fast, especially in underwriting standards, data management, current account sourcing, auto renewal and bringing in wealth management. We are partnering with a Fintech firm to enter the mutual fund business with implementation planned for Q4. Our guidance for the year for recovery and upgradation will be more than Rs.1500 crore, in deposits we expect a growth of 8%-10%, advances growth of 13%-14%, gross NPA below 6%, and net NPA below 1.5%. The PCR which is at 88.58%, we aim to increase it to around 90% and improve net interest margin from the existing level of 2.63% to at least 2.90%. Credit cost which is at 0.08% now, is expected to be below 1% and the slippage ratio which is at 0.60% will be maintained below 1.25%. That concludes the key highlights of our Q1 performance. I'm now ready to take your questions during this session. Thank you.

Moderator: Thank you, Mr. Saha. Ladies and gentlemen, if you look at your screen, you'll notice a small hand icon next to your name. Pressing this icon indicates that you have a question to ask. We will go through the participants one by one and the analyst with the question will be unmuted. Before asking please introduce yourself and mention your organization. If you have joined via audio call, kindly send your question via WhatsApp to us. If you're having trouble sending a direct message to our chat group, please forward your questions to our WhatsApp numbers. For your convenience, the numbers have been provided in the chat group. If you need assistance during the call, raise your hand on the Webex panel or press *3# on your phone. We'll ensure your questions are addressed by our panellists. I see a question coming from Amit Mishra. Please introduce yourself and proceed with your question.

Amit Mishra: Yeah, this is Amit Mishra from Indus Equity Advisors. Good afternoon, everyone, and thank you for the opportunity, Sir. My first question is about the movement in SMA 2. It seems to have gone up significantly compared to the last quarter, from Rs.107 crore to Rs.310 crore. Could you please elaborate on this?

Swarup Kumar Saha: The overall SMA book above Rs.5 crore has decreased from Rs.446 crore to Rs.372 crore and specifically, the SMA 2 has increased sequentially from Rs.107 crore to Rs.310 crore. This is primarily due to a state government account backed by a state government guarantee which experienced a delay in fund inflow which was accounted for within 3 to 4 days after June 30th. So, technically it became SMA 2. The account in question is around Rs.270 crore.

Amit Mishra: My next question is about recoveries. You mentioned a target of Rs.1500 crore for recoveries but in the current quarter we've achieved around Rs.345 crore. With this trend, do you think we'll be able to meet the target by year-end?

Swarup Kumar Saha: Yes, we are confident about reaching the target of Rs.1500 crore. We have some accounts lined up under NCLT and NARCL which we expect will contribute around Rs.1000 crore. Additionally, we have strong recovery scheme internally for other than corporate accounts. Our focus will be on mid-corporate accounts for recovery. We are confident we will achieve the recovery target.

Amit Mishra: In last quarter Rs.1153 crore was the recovery, we could have given a much higher target for recovery.

Swarup Kumar Saha: If you see, the inventory of the NPA gets drastically reduced. We had good recoveries last year and some of that happened in Q4 and we had overall recovery and upgradation of over Rs.2100 crore last year. So we have given the guidance taking these factors into account and the fact the inventory of big accounts is getting reduced.

Amit Mishra: I also noticed that the cost-to-income ratio has increased to 72% in this quarter. Could you explain the reason for this increase?

Swarup Kumar Saha: The increase in the cost-to-income ratio is due to the wage revision provisions we have started making. We have provided Rs.57 crore in Q1 this year, which was not present in the Q1 of the previous year. This provision has impacted the ratio. However, if you compare with Q1 of the previous year, the increase is not substantial.

Amit Mishra: Lastly, you mentioned Establishment of CASA back office on Slide 37. Could you provide more details about this?

Swarup Kumar Saha: This is where we intend to drive digital transformation in our operational aspects. Currently, our branches serve as the traditional brick and mortar setup with regular accounts being opened at these branches. However, we have identified two key areas for strengthening. Firstly, we need to enhance our regulatory compliance, which is one aspect. Secondly, we aim to improve our efficiency in customer onboarding. We've devised a comprehensive 2 fold strategy for this. One involves establishing a robust back office to bolster regulatory norms and address KYC compliance. The second aspect involves facilitating this back office through a tab-based banking acquisition mode. This entails equipping branches with tablets to enable outreach programs for account openings. Online verifications will be streamlined and video-based KYC operations will enhance efficiency, positioning us favourably compared to other banks. This strategic shift is planned for completion by Q4 of this year, marking a structural transformation. As for CASA, I'd like to mention that our technological upgrade, nearing completion, will significantly amplify our acquisition of CASA accounts through digital channels. We're already doing this to some extent but the current older version presents operational challenges. With the upgraded version of core banking, acquisition efficiency and velocity will be substantially improved, reinforcing our efforts in this sector.

Amit Mishra: When can we expect these changes to be fully implemented?

Swarup Kumar Saha: We're in the process of significant technological collaboration to achieve this. We anticipate onboarding vendors in Q3 and customization to allow implementation by Q4. Our target completion date is set for Q4 of the current year.

Amit Mishra: So the major impact of these changes will reflect in FY25?

Swarup Kumar Saha: Correct, the substantial effects of these changes are likely to be reflected in FY25.

Amit Mishra: Do you have internal process to assess customer satisfaction rating?

Swarup Kumar Saha: We're aware that this is an important area of focus and we are in the process of designing our approach. While we currently lack a technical collaboration for assessing customer satisfaction, we do have internal mechanisms in place. However, once our technological upgrade is completed and our digital transformation happens, we intend to offer such facilities through our mobile app. Our progress is somewhat contingent on the CBS 10 migration, a critical component. Despite some elements being on hold, customer satisfaction is a significant area of focus. I'd also like to highlight that we closely monitor the rating of our UNIC app. Our app rating is quite well placed, serving as one of the indicators for monitoring how our apps are performing.

Amit Mishra: Now, moving on to my final question for CFO ma'am. Could you provide some guidance on ECL provision? How much is the bank planning to allocate in accordance with RBI guidelines and could there be any impact on other provisions?

Mahima Agaarwal: We are indeed aware of the ECL requirements at this time. We have made some additional provisions already. Going forward, we have evaluated the situation and will certainly make provisions for ECL as needed.

Swarup Kumar Saha: As of now, the formal guidance note is yet to be released. Nevertheless, we are gradually building the required provisions based on our preceding data. This process will continue in the coming quarters. Meanwhile, we are maintaining substantial provisions on standard accounts.

Amit Mishra: Thank you for the information. Best wishes and thank you.

Moderator: Thank you, Amit. Mr. Ajmera, please feel free to ask your question.

Ashok Ajmera: Thank you for giving me this opportunity. Good afternoon, Mr Saha.

Swarup Kumar Saha: Good afternoon and thank you for joining us.

Ashok Ajmera: While we acknowledge the increase in net interest income and net interest margin for this quarter, there are other aspects that leave us somewhat disappointed. For instance, the asset quality, where we observe that both Net NPA and Gross NPA have risen in absolute terms, which is unusual given the results of other banks. Moreover, the CASA ratio, which was already relatively low, has further decreased in this quarter. Profitability also seems to be affected with a significant decline in both operating profit and net profit compared to the previous quarter. Additionally, while the recovery and upgradation figures are mentioned, the amount recovered from written-off accounts, considering the bank's size, appears rather insignificant. On the credit front, the negative growth rate of 0.82% for this quarter raises questions about the bank's approach to lending and utilizing its funds. Our credit-deposit ratio is also on a declining trend, suggesting underutilization of funds for lending purposes. Overall, while the bank's guidance for credit growth, recovery, CASA, and deposits is positive, it seems that the advancements made in digital transformation have not yet been fully reflected in the results. This quarter's performance appears to be one of the weakest. I emphasize the importance of prudent credit decisions for the bank's success. Could you please provide insights on these points?

Swarup Kumar Saha: Thank you for your insightful observations on the bank's quarterly results. We recognize and appreciate your concerns and I'd like to address them in detail. Regarding asset quality, I want to clarify that while the net NPA figures have seen a marginal increase, the gross NPA numbers have decreased both in absolute terms from Rs.5648 crore to Rs.5464 crore and as a percentage from 6.97% to 6.80%. The net NPA increase is primarily attributed to a single mid-corporate restructured account that slipped into NPA and had to be classified from an earlier date as D-2. Excluding this account, our slippages of Rs.450 crore, if we subtract this Rs.100 crore, align with industry standards. However, you are right when you say that our overall recovery performance can be improved. Furthermore, we are actively focusing on enhancing our recovery mechanisms to address this issue and we expect that we will be able to contain the slippages. Regarding other ratios and credit growth, I'd like to highlight that our credit quality is of utmost importance. We have been selective in our borrower choices, resulting in improvements in AAA and AA rated accounts. If you see, for NBFCs my AAA rated accounts have moved from 58.47% to 66.47% and Total A and above have gone up to 99.90%. If we look in to my overall credit profile of Rs.5 crore and above, my BBB and above has improved from 56.72% to 58.88% and if we add the Government Guaranteed accounts to this it comes to 86% to 87%, so my book is in a healthier position. Our credit profile is strengthening and we are managing risk prudently. While credit growth may fluctuate between quarters due to various factors, we possess a robust pipeline of sanctions and approvals, amounting to over Rs.10,000 crore which will not only take care of our future credit growth of 13%-14% but also surpass it. We are expediting these approvals to drive credit growth. Our CASA has gone down and our CASA % has always been an issue and we have been an outlier in terms of lower CASA Ratio. However, it's important to note that the overall industry trend has seen a decline in CASA ratios across banks between 3% to 4%. Our focus remains on improving this aspect and our current and savings account components are still growing in line with the industry, with current accounts growing at 11% and overall CASA at 4% plus. We are also moving into various other methods and enabler for customer acquisition such as video KYC, TAB Banking. Regarding profitability, the dip in net profits can be attributed to additional provisions for the single mid-corporate account and wage revision of Rs.57 crore. We have also pre-loaded some of the ageing provisions which normally would have been done in Q2. We are committed to building a resilient balance sheet for the long term. Our capital adequacy ratio has improved sequentially, reflecting our focus on maintaining a strong financial position. As far as the recovery in TWO accounts in concerned, it will continue to be our focus. Yes, the 1st Quarter has not been encouraging in terms of performance but normally these areas are compared on Y-o-Y basis as the bigger resolution normally happen at the end of the year.

Moderator: Hello, Mr. Ajmera. We cannot hear you. Could you please write down your question in the chat box so I can read it out loud to Mr. Saha? Mr. Ajmera, I'll come back to you shortly. In the meantime, you can write down your question in the chat box. I'll move to the next participant in the queue. Before that, I'd like to remind anyone who wishes to ask a question, you may do so by clicking on the small hand sign icon next to your name. In the meantime, we have a question from Devesh from IIFL, and his question to you is, "The 10.43% growth in gross advances is noteworthy. Can you elaborate on the sectors that contributed the most to this increase in lending?"

Swarup Kumar Saha: Yeah, certainly. The growth has been influenced by various sectors. Our ED Mr Yadav will take this up.

Ram Jass Yadav: As far as the overall growth in advances is concerned, it is normally constituted of two parts: RAM and Corporate. Our bank's policy focus is to expand in the RAM segment, which has shown growth. The RAM segment grew by 19.64%, which is in line with the industry. On the other hand, corporate growth has been relatively slower due to strategic decisions. As far MSME growth of 10.30% is concerned, the 1st Quarter always has the slow growth but going forward, we have robust plans for growth in agriculture and MSME segments, supported by digital delivery and underwriting systems. We are also moving quickly in collaboration with co-lending partner institutions to expand the agriculture and MSME segments. So, both these sectors are poised for expansion through these partnerships.

Moderator: Mr. Saha, we have our next question from B&K Securities. The question is, considering the overall economic recovery, how does the bank anticipate the growth trajectory and potential changes in the coming quarters?

Swarup Kumar Saha: Yes, I've already addressed this in terms of the various initiatives aligned with the Government of India's focus on capital expenditure development. We are in sync with the country's growth story and have set a guidance of 13% to 14% growth in advances. We believe this is achievable and with around Rs.10,000 crore of leads that we have, we are well positioned to achieve this growth in the coming quarters.

Moderator: Thank you, Mr. Saha. I can see there's another question from the representative of Dam Capital, who has asked about the company's net worth seeing a significant increase of 38.02%. What were the key drivers behind this growth and how does it strengthen the bank's financial position?

Swarup Kumar Saha: Yes, our CFO will address this.

Mahima Agarwal: Our net worth has increased due to two main factors. One is the retained earnings and the second is the reduction in intangible loss in the capitalization bonds. Both these factors have contributed to the increase in our net worth.

Moderator: Thank you, Ms. Agrawal. I can see Mr. Ajmera has a follow-up question. Mr. Ajmera, you are unmuted. Please go ahead and ask your question.

Ashok Ajmera: Yes, Sir. I have some specific questions in our note numbers 8, 9, 10 and 11. If we see, in note number 8 there is a restructuring in terms of January '20 and February 20 circular of Rs.321 crore and the provision is Rs.50 crore. Then in note number 9 resolution outstanding Rs.964 crore and the provision is Rs.125 crore and then note number 11 the outstanding is Rs.123 crore and the provision is Rs.43 crore. So, it is approximately 15 to 20% provision of all these outstanding of around Rs.1400 crore to Rs.1500 crore. Have you made any assessment as to how much more loss can be there or how much more can slip into NPA in these notes to the account?

Swarup Kumar Saha: Yes, we have analysed this on a very granular basis and found that during the quarter, there was a slippage of 8.25% from the restructured book and 2.31% from the GCL segment. We are carefully monitoring these accounts. The restructured book has reduced and as of June'23 our restructured book is at Rs.2,676 crore, compared to Rs.3,322 crore in March 22. Out of the Rs.2,676 crore, Rs.928 crore are under the GECL.

Ashok Ajmera: What is the buffer on the provision side, including standard assets? How much buffer do we have for credit losses?

Swarup Kumar Saha: Currently, we have approximately Rs.150 crore as a buffer beyond the standard advances as per regulatory requirements.

Ashok Ajmera: On the NBFC credit, the private NBFC credit in this quarter is Rs.3,404 crore up from Rs.2,968 crore last quarter, an increase of about Rs.430 crore. So, if this NBFC credit of Rs.400 crore was not there, then there would have been another slip. So which kind of NBFC is this? Is it a private NBFC rated AA or…?

Ram Jass Yadav: These are AA rated NBFCs. However, the figure has gone down. They have their own natural recovery cycle. In the coming quarters, especially Q2 and Q3, they are implementing their expansion strategies, which should positively impact their performance.

Swarup Kumar Saha: The overall NBFC book has gone up in A and above rated loans to 99.90%. Specifically for private NBFCs, the overall outstanding has decreased from Rs.3,404 crore to Rs.2,968 crore.

Moderator: Thank you, Mr. Saha. Mr. Ajmera, we will come back to you later. In the meantime, we have other participants waiting to ask their questions. If anyone else would like to ask a question directly to Mr. Saha, please raise your hand by clicking on the hand icon next to your name. Now, let's proceed with a question from Pallavi Deshpande from Samiksha Capital. She has joined us through an audio call and has sent her question via text. She inquired about the 1.98% increase in operating profit but a 25.37% decline in net profit. Can you explain the primary factors contributing to this decrease and the corrective measures being considered?

Swarup Kumar Saha: Certainly. The Operating Profit on Y-o-Y basis has gone up by 1.98% and was overshadowed by significant provisions made during the quarter mainly in respect of wage revision of Rs.57 crore which was not there last year. This impacted the net profit. We remain vigilant and focused on managing these challenges effectively.

Moderator: Thank you for your response, Mr Saha. Mr. Ajmera, I have unmuted you. You may please go ahead and ask your last question.

Ashok Ajmera: Coming to the Treasury, our treasury income for this quarter was significantly higher at Rs.52 crore compared to Rs.7 crore in the last quarter? Can you provide some insights into our overall Treasury book, AFS book, and modified duration? We expect RBI to maintain the current interest rate pause in light of the global situation. What are you thoughts on this? Could you provide some insight into your Treasury operation plans for the upcoming quarters?

Swarup Kumar Saha: Yes, in this quarter, we have experienced favourable developments in the Treasury Department. Our portfolio details can be found in slide number 28. We have increased our domestic investments portfolio from Rs.45,464 crore to Rs.49,000 crore. The HTM book stands at around Rs.35,000 crore and the AFS book is approximately Rs.14,000 crore. While global uncertainties can impact the Treasury book, we are currently well-prepared. However, recent yield fluctuations, influenced by international events after June 30th have had some effect. We anticipate that if stability returns, we can manage global yield fluctuations effectively. Regarding the RBI's stance, I discussed earlier that it will be data driven. Inputs on inflation, including factors like fuel and certain vegetable areas, will guide the decision. Given the global scenario's cautious tone, I expect the current rate to be maintained for one or two more MPCs with potential changes post Q4 based on domestic and international data.

Ashok Ajmera: As per Note number 17, we have an outstanding account of Rs.91.33 crore due to the Delhi High Court order. Our exposure is covered by a 40% provision and we have maintained it as a standard account per the court order. Can you provide further insights into this account?

Swarup Kumar Saha: We have an account which is sub-judice in the Delhi High Court. We have allocated a sufficient 40% provision for this account and we are actively monitoring the situation. Since it is subjudice, I'm unable to provide more details at this time. However, we are preparing for various outcomes, including the potential declaration of this account as NPA, based on the court's decision.

Moderator: Thank you for sharing your insights, Mr. Saha. We have one last question from Kartik, Investec. He would like to know more about the significant 19.64% growth observed in RAM advances categories, particularly in the retail, agriculture, and MSME segments.

Ram Jass Yadav: Under the RAM category, the agriculture segment experienced marginal growth at 2.72%. However, the MSME and core retail sectors were the primary drivers of this growth. Within retail, home loans, vehicle loans, and gold loans showed growth rates of 14.68%, 17.76% and an impressive 43%, respectively. In the MSME space, we've built up a substantial co-lending book of over Rs.1000 crore and we are looking to further expand this, encompassing both MSME and retail segments.

Moderator: Thank you, Mr. Yadav. We have time for one final question from Ritika at Ocean Dial. She has inquired about any upcoming investment or expansion plans that the bank intends to share with financial analysts and stakeholders.

Swarup Kumar Saha: Regarding expansion, we are focused on opening new branches to increase our presence. Last year, we launched 28 branches and this year, we're aiming for 50 more. Our goal is to extend our reach to districts where we currently don't have a presence. Additionally, we plan to enhance our ATM network to improve brand visibility and accessibility.

Moderator: Sure, Mr. Saha. She has another follow-up question regarding the strategies and initiatives that the bank has implemented to achieve a significant 12.49% increase in total customer deposits compared to the previous year's first quarter.

Swarup Kumar Saha: See, that's how we are strategizing. We are expanding our retail customer base. In the financial years 22-23 and 21-22, we faced challenges in significantly attracting retail term deposits. However, that trend has started to change now. Although we still have some dependency on the bulk side, the positive aspect is that retail term deposits are now showing an upward trajectory. We have introduced new products on the current and savings sides, including salary accounts, as well as establishing partnerships to enhance customer offerings**.** With these partnerships, the entire range of products will be made available to customers. For instance, our upcoming mutual fund fintech platform will serve as another avenue for customer engagement. We've also successfully introduced co-branded credit cards, which have received a very positive response. Additionally, we are placing a strong focus on bank assurance business, having established partnerships in health and non-life insurance sectors. This concerted effort in increasing fee-based income and diversifying our product range not only boosts our revenue streams but also enhances customer acquisition. Offering a wider array of products strengthens our appeal to customers. This is how we are strategically positioning ourselves.

Moderator: Thank you, Mr. Saha. Since there are no other questions, this concludes today's conference.

Swarup Kumar Saha: Thank you for joining and have a good evening. You may now disconnect.