



“Canara Bank
Q2 FY2021 Earnings Conference Call”

October 30, 2020



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Moderator: Ladies and gentlemen, good day and welcome to Canara Bank Q2 FY2021 Earnings Conference Call. As a 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sohail Halai. Thank you and over to you Sir!

Sohail Halai: Thanks Aisha. Good morning everyone. On behalf of Antique Stock Broking I welcome you all to the call. Special thanks to Prabhakar Sir and Canara Bank’s management team for giving us this opportunity to host the call. Today we have with us Mr. Prabhakar, MD and CEO and Executive Directors, Mr. Rao, Mr. Mukherjee and Manimekhalai along with senior members from the management team to give us insights from the bank’s performance and future outlook. Without further delay I now hand over the call to Prabhakar Sir for his opening remarks. Over to you Sir!

LV Prabhakar: Thank you very much and good morning to all. Let me first thank you all for joining this call. Q2 results for Canara Bank is really encouraging and first let me talk about the liability side. Last time, we have given a guidance that we are concentrating more on individual customers, customer service and customer satisfaction and so the results are visible now. Savings bank has grown by 13.38% Y-o-Y, CASA has grown by 14.47% and retail term deposits have grown at 18.14%. Through these figures, I would like to highlight that we are moving away from bulk deposits and high cost deposits and want to concentrate more on basic banking and individual customers banking.

Now coming to the asset side, on retail there is a good traction. Retail lending growth is about 9%, with retail housing growing at 13%, vehicle loans growing at 6%. Overall retail is growing well and even MSME Q-o-Q if you see, growth is around 4.56% and agriculture Y-o-Y growth is around 7% and Q-on-Q growth about 6%. Domestic gross credit has grown at 4.77%.

Now coming to the income figures, we are happy to inform you that the cost of deposit, which plays a crucial role, is reduced from 5.55% to 4.75%, but at the same time maintaining the yield on advances at 8.06%. This has resulted in a good NIM of 2.82%, which has grown from 2.47% in September 2019.

Now coming to operating profit Y-o-Y, yes, we have shown a growth of 32.53% and on net interest income we have shown a growth of 29.31% and we stand at Rs.6296 Crores. This time we have concentrated on fee based income also, because of which during the current quarter, the fee based income has reached a figure of Rs.1219 Crores, which is 20.57%

increase. Along with the business growth in terms of liabilities and in terms of assets we have also concentrated on recoveries. Our gross NPA is at 8.23%, which is down by 187 basis points and net NPA is at 3.42%, down by 230 basis points. Three quarters ago there was a comment that the PCR, the provision coverage ratio of Canara Bank was not attractive and one year ago it was at 69%. So again we have given importance to this one and now we have brought it to 81.48%, an increase of 1188 bps. This is possible because of the recovery, especially the cash recovery, which was done during the last two quarters. During the current quarter, if you see, we have recovered about Rs.1504 Crores as cash recovery and Rs.657 Crores as upgradation. Focus was also there on recovery in written off accounts. While last quarter the amount was Rs.259 Crores, this quarter it is Rs.449 Crores. Why I am telling these figures is that in the given situation of COVID-19, where in the last six months there were many lockdowns and many branches were functioning partially, these figures could be achieved because of the strategy, which the bank has adopted and the active participation of all my staff including officers and the clerks. Because of this, such results are visible.

Let me tell you what we did during this COVID time. We have anticipated this problem somewhere in the month of February itself and then we have kept things in place in terms of contacting the borrower from home. When you talk about work from home, what we did is our officers used to take the list of the depositors to contact them, to give them comfort and also the borrowers, especially the accounts, which are under stress and also the borrower accounts, which are written-off. Our staff contacted them and interacted with them and then they convinced them that being a NPA borrower will not serve them any purpose and it is better to come out of this as there are many schemes, which are available where they can take future funding. This has convinced my borrowers and we could get about Rs.449 Crores in written off accounts, which directly helped to increase my balance sheet.

Now coming to management of interest paid and interest received. Here also we have taken very calculative stand. If you see, the interest expenses year-on-year we have reduced by 11.94% and quarter-on-quarter we have reduced by 4.64%. Here I would like to take you to the figures of cost of deposit. Last year it was 5.55% and this quarter we have brought it down to 4.75%. This has helped us in reducing the total expenditure by 5.36% and total interest expenses has been reduced by 11.95% on year-on-year basis and 4.65% on quarter-on-quarter basis. We have concentrated on fee based income also this time and because of the focus, the fee based income has increased by 20.52% year-on-year basis and 30.93% quarter-on-quarter basis. Now the fee based income for this quarter is Rs.1219 Crores and trading income was also satisfactory. Non-interest income if you see, quarter-on-quarter basis, it has increased by 19% and year-on-year basis it has increased by 12%.

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Here one more aspect I would like to bring to all of your notice is that there is a bipartite agreement going on and the settlement is going to take place very soon as far as wage revision is concerned. As per the market news, it says that there will be an increase in salary of 15%, we have provided whatever expenses are going to be incurred by the bank as on date, that is as on September 30, 2020. So even if the wage revision happens and increase is there by 15%, Bank is not going to have any adverse effect since all the provisions have been done. Apart from that, during COVID time to encourage our people and to have good customer service, we have floated many schemes, which has also contributed a bit more under the staff cost. But we feel that it is worth spending some money during the COVID time on the staff cost. However, as far as the operating expenses are concerned, year-on-year it is flat, but quarter-on-quarter it has increased by 13% because as you all know when the bank goes into an amalgamation process, expenses increases because of IT and other aspects. But an increase of 13% in a normal course and after taking the amalgamation process to a very advanced stage, I think is very reasonable.

Now going to the future guidance, we are going to concentrate on individual customers and CASA and retail lending will be our priority. Then recovery, yes we have started one campaign R&R that is recovery and restructuring. This has given a lot of momentum and the results are very encouraging and I can say that the recovery figures will be more encouraging in the coming days and that is our guidance. As far as business growth is concerned, we project a business growth of about 8% and credit growth of about 6% to 8%. This is on a lower side, I am telling, but this is a minimum target that we want to achieve. Then gross NPA, we will be maintaining around 8%, net NPA we will be maintaining around 3%. Then provision coverage ratio, yes, from 69% now we have brought to almost about 81% plus, and it may increase about 2% to 3% going forward. NIM this quarter we have achieved 2.82% and our guidance is 2.75% plus and we will be maintaining at this level. Regarding capital raising, during the current calendar year March 2020, we have raised about Rs.3000 Crores Tier II bonds at 7.18% and then we have raised last month about Rs.1118 Crores of AT I bonds at 8.30%. Now we are on the way of raising equity through QIP for about Rs.2000 Crores. So this is all I would like to share with you. Now we are open for any questions from your side. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Good morning and thanks for the opportunity.

Moderator: Thank you. The next question is from the line of Jai Prakash from HSBC. Please go ahead.

Jai Prakash: Thank you for the presentation. Regarding Government of India holding currently I am seeing it at 78.5%, so in terms of QIP is completely raised are there any chances that government is also going to participate in equity raise or are they going to reduce their stake?

LV Prabhakar: We said that we are going to raise about Rs.2000 Crores through QIP and generally the Government of India will not participate in QIP.

Jai Prakash: Okay. Thanks for that.

Moderator: Thank you. The next question is from the line of Anveshi Shah from Acko General Insurance. Please go ahead.

Anveshi Shah: Sir my question is what do you think NIM level, which is currently so high, do you think it is sustainable and if not then what are your expectations going ahead or like what level would be sustainable for your bank?

LV Prabhakar: As you know at present, NIM is at 2.82%, but in the last few quarters it touched 2.47 then it has come to 2.51%, then to 2.84% and our guidance is as, we said we will be around 2.75%. With the present growth in our low cost deposits and retail advances and a few corporate advances and also the yield on advances at around 8%, I think we will be in a position to maintain the NIM at 2.75% roundabout.

Anveshi Shah: Thank you Sir.

Moderator: Thank you. The next question is from the line of Rahul Nair from SBI Mutual Fund. Please go ahead.

Rahul Nair: I had a query on your restructuring, have we received any applications there?

LV Prabhakar: As far as the OTR is concerned, we have projected that about Rs.13000 Crores to Rs.13500 Crores of loan book maybe restructured under the OTR. This is our internal calculation, however we have received the request only for Rs.600 Crores, which is already under the process.

Rahul Nair: This Rs.13000 Crores can you give me the breakup like corporate, retail?

LV Prabhakar: It will be 80, 20.

Rahul Nair: 80 would be the corporates?



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- LV Prabhakar:** Yes.
- Rahul Nair:** Any specific segment, which you are expecting mainly in the corporate?
- LV Prabhakar:** When we analyzed our portfolio and we do not find that any specific segment or sector is going to get this benefit or are going to apply. It is spread across.
- Rahul Nair:** Okay, I have one more question. In second half how much recovery do you expect from NCLT this year. are you not expecting much?
- LV Prabhakar:** Let me tell you one thing. If you see my guidance, which I have given when we have come out with the March results, we said that our recovery will be more than our slippages and we said that our slippages will be to the tune of about Rs.10000 Crores. So our recoveries will be more than Rs.10000 Crores and as on date if you see our recoveries, we have already crossed Rs.4500 Crores in the last two quarters. So recoveries are good and another important point is if you go through our recovery and written off accounts, in the last quarter and the current quarter it comes to about Rs.700 Crores. So we feel that this is overall recovery and we may expect maybe about 25% to 30% of our recovery will be from NCLT cases.
- Rahul Nair:** This is expected by March right 25% to 30%?
- LV Prabhakar:** Because now, NCLT cases are in public domain and at what stage they are in is also there, but the good thing is every week we are getting some recovery like Rs.50 Crores, Rs.100 Crores, which is really encouraging.
- Rahul Nair:** One last question, as a percentage of your AUM what proportion of your customers have paid zero installments till date like even after the moratorium?
- LV Prabhakar:** Let me tell you one thing to be more precise, is that the moratorium ended as on August 31, 2020 and all these things are back-ended now or back-loaded so as on date I think it does not have much relevance. But even then to be more transparent and more logical, the people who pay three installments and who have not paid three installments, that figure we have already uploaded in the website and it is about 25% of our portfolio.
- Rahul Nair:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mahrukh Adajania from Elara Securities. Please go ahead.

Mahrukh Adajania: I had a question on your collection efficiency; sorry I missed the initial part of your discussion, what was your collection efficiency in September?

LV Prabhakar: Collection efficiency generally comes if it is a term loan. If you take the portfolio as a whole including term loan installments as well as the CC and OD accounts, which are running regular, we are in the range of about 92% to 95%.

Mahrukh Adajania: 90% to 95%?

LV Prabhakar: Yes.

Mahrukh Adajania: What was your exit moratorium?

LV Prabhakar: Moratorium is 25%.

Mahrukh Adajania: My question was that how is your exit moratorium of 25% how many have paid in September and October?

LV Prabhakar: As on October, this figure might have gone down by around 3% to 4%.

Mahrukh Adajania: Okay, it is still around 20% not paid?

LV Prabhakar: It is not the question of not paid now. It is already back-ended, so we will take it as there is no demand.

Mahrukh Adajania: Okay, collections are 90% to 95% that is what we are going to focus?

LV Prabhakar: That is the correct one. The DCB concept, which we used to discuss long, long ago demand collection balance. So that is applicable when installment to installment is taken care because now in the IRAC norm and IRAC category and SMA-1 and SMA-2 categories, the calculations are a bit different.

Mahrukh Adajania: Thank you.

Moderator: Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Slide #45, the moratorium number is given 146000, this is as of which date?

LV Prabhakar: This is as on September 30, 2020.

- Jai Mundhra:** As on September 30, 2020, 25% of the borrowers by value have been enjoying moratorium?
- LV Prabhakar:** By value they have paid three installments and not paid three installments of total six installments.
- Jai Mundhra:** They have not paid September installments right?
- LV Prabhakar:** No, you have to understand like this: up to August 31, 2020 six installments are to be paid and RBI has said that you need not pay six installments. It can be back-ended or it can be what you call FITL can be credited for CC loans. To give a fair picture we have taken midway that is the people who have paid three installments and not paid three installments and under that criteria the figure is 25%, which as on date has gone down further and all these installments are now back-ended as per RBI so as on date I cannot treat it as a demand.
- Jai Mundhra:** For the month of September and October, how many sectors have not paid?
- LV Prabhakar:** That is what 92% to 95% based upon the various sectors, our collection percentage was there. No, the position will be better. If you see the SMA-2- Rs.5 Crores and above, our figure is about Rs.2881 Crores, which is hardly 0.37%. In the notes on account, the figure which we have given that is regarding the hold amount as per the RBI circular as on June, that amount was about Rs.10300 Crores at that time, for which we have already made a provision of Rs.1030 Crores. Now the Rs.10300 Crores have come down to Rs.4000 Crores as on date.
- Jai Mundhra:** I am asking for the number which is above that, which is Rs.25000 Crores and you have also given SMA 0+1+2?
- LV Prabhakar:** I got your point. On that date, when we have to show the hold amount, this Rs.25000 Crores is the amount, which is SMA, but they are not going to become NPA. If that hold is removed the amount out of this Rs.25000 Crores as on September 30, 2020 is only Rs.6800 Crores, which has come down now to Rs.4000 Crores.
- Jai Mundhra:** My question is slightly different; I am asking this Rs.25000 Crores numbers, SMA-0 plus 1 plus 2?
- LV Prabhakar:** Yes, it includes SMA-0 also.
- Jai Mundhra:** It is Rs.27600 Crores because those numbers not exactly the same.

LV Prabhakar: Let me explain you. Now if you take this Rs.27000 Crores, for example the latest figure I can tell you if you classify this as SMA-0, SMA-1 and SMA-2, SMA-0 amount will be more because of the COVID impact whereas SMA-2 and SMA-1 is less, so we have included all.

Jai Mundhra: I am asking both numbers would be same Rs.25000 Crores and Rs.27000 Crores, SMA-0+1+2?

LV Prabhakar: No, let me explain to you. This Rs.27603 Crores is SMA-1, 2, 3 as on September 30, 2020, which we are giving whereas this Rs.25073 Crores is relating to August 31, 2020. We have given in bracket outstanding as on August 31, 2020 whereas this Rs.27603 Crores is as on September 30, 2020, which is slightly different Sir.

Jai Mundhra: Understood Sir and out of your entire loan book if you can roughly tell us how much percentage of the loan are not on monthly repayment, someone would have quarterly, six monthly, roughly 10%, 20% because then they would not be a part of SMA-0, 1, 2 because they are not even during for the month of September?

LV Prabhakar: Let me give you a few figures, which are already on the net. For example, let us come to retail. We have housing portfolio of about Rs.60000 Crores, so this housing portfolio we have on monthly installment basis. Then we have about Rs.12800 Crores of vehicle loan. In vehicle loan it can be monthly, it can be quarterly also depending upon the cash flows what he is running. Then I have the educational loan, which is also about Rs.1300 Crores. Here also again there is a gestation period because of the study period then it comes depending upon his job or business whatever is there again it will be monthly or quarterly. Then coming to the personal loans, which is about Rs.25000 Crores, again if salaried it comes every month. Like that every sector is varying. If I go to my corporate loan book, in corporate loan book again the repayment is based upon the cash flows and it varies. So that is why I cannot tell you exactly but by purpose and by sector, yes we have the methodology, which has been adopted in calculating monthly or quarterly.

Jai Mundhra: But at an entire bank level would the non-monthly repayment loan broad number would be about 10%, 20%, 30%?

LV Prabhakar: I think from that exercise will share with you those figures.

Jai Mundhra: Last question Sir if you have quantified the standstill slippages I could not see that, what is the quantum which otherwise would have slipped?

LV Prabhakar: If you see point number 24 of the notes on account, as on September 30, 2020 we have shown Rs.6826 Crores as hold amount, which has come down to Rs.4000 Crores now. Against this already we are having a provision of Rs.1038 Crores. So even if I say that in the hold amount of Rs.4000 Crores, around 60% slips it will not be more than Rs.2500 Crores to Rs.3000 Crores. On the Rs.3000 Crores if we have to make a provision of 20% it is around Rs.600 Crores whereas already provision of Rs.1038 Crores is available for this. So basically I think our Canara Bank is in a comfortable position as far as the hold amount is concerned.

Jai Mundhra: But what is the standstill slippages number 4000 or 6000?

LV Prabhakar: As on date it is 4000.

Jai Mundhra: 6000 was the number is in September, but now it has come down?

LV Prabhakar: Yes, exactly.

Jai Mundhra: Thank you so much.

Moderator: Thank you. The next question is from the line of Anirvan Sarkar from Principal Asset Management. Please go ahead.

Anirvan Sarkar: Thank you for the opportunity. I joined the call rather late, so I am sorry some of these have been answered already, but just wanted to know on the deposits front our credit deposit ratios are quite low now, so what is our plan, do we plan to cut deposit rates sometime soon or how are we looking at this?

LV Prabhakar: The credit deposit ratio is 68% and if you see the credit uptick in retail, we are growing comfortably. Retail lending is growing at 9% and under retail, housing is growing at 13% and vehicle 7%. So in retail, I think there will be a good traction going forward. That will not be an issue. Now coming to the corporate, yes it is a bit muted because consciously we have ensured that two corporates where the outstanding is about Rs.12000 Crores, we have credit rate of those two accounts because of which, Rs.12000 Crores outstanding has come down. But accordingly we have done further funding, so the corporate book is flat. Going forward during the current quarter corporate book will increase because we are getting good enquiries and proposals especially under HAM projects, under which the debt component will be around Rs.500 Crores, Rs.600 Crores, Rs.800 Crores. Also in food processing sector and the infrastructure sector we are getting the proposals. So I think corporate book also will grow and the funds, which we are having today, we have mobilized from the individual customers not bulk deposits. Savings bank we have grown at 13%, then CASA we have

grown at 14% then retail we have grown at 18%. So this growth and momentum we want to continue as far as the retail customers are concerned because they are the stable and solid business for the bank. Now increase in the corporate book is not a big issue for us as in the coming one-two quarters there is a good traction as far as the corporate book is concerned and again CD ratio will be above 70%. So we will continue to take the deposit and if you see our cost of deposit even though our deposit is growing in retail, our cost of deposit compared to last year from 5.55% we have brought it down to 4.75%. NIM we are maintaining at 2.82%, so I think the things are in right track and this momentum has to continue and for bulk deposits, high cost deposits we are saying no.

Anirvan Sarkar: Also any update on our capital raise plan, have you updated on that?

LV Prabhakar: I have updated, but I am happy to update you also. In the current calendar year, if you see in March, we have come out with Rs.3000 Crores for Tier-2 bonds, which we have raised at 7.18%, which is a record then. Again in the last two months we have come out with AT-1 bonds and we have raised about Rs.1118 Crores at 8.30%. Now we are coming out with QIP for Rs.2000 Crores and things are on track.

Anirvan Sarkar: Okay, just one last question. Have you disclosed your disbursement under the ECLGS scheme?

LV Prabhakar: Our bank is one of the best performing banks as far as emergency credit line is concerned and we disbursed to 422000 borrowers amounting to Rs.8300 Crores. Why I am telling the number of borrowers is that we have already taken care of about 422000 MSME borrowers that means going forward for one, two, three quarters or further, there is not going to be any issue for Canara Bank.

Anirvan Sarkar: Thank you.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Elara Securities. Please go ahead.

Mahrukh Adajania: Just a bit further on Jai's questions, we had talked about numbers of Rs.25000 Crores and Rs.27000 Crores and how they match, I just wanted to check that Rs.25000 Crores relates to the moratorium book right?

LV Prabhakar: No Madam, both are different. This is nothing to do with moratorium book. Moratorium book is 25%, which is different.

Mahrukh Adajania: Thank you.

Moderator: Thank you. The next question is from the line of Parth Gutka from Macquarie. Please go ahead.

Parth Gutka: Thanks a lot for the opportunity. Just on the collection trend, can you just bifurcate between what has been your experience between the salaried and the self employed customers and also what share of your loans are towards PSU entities, just some colour on that? Thanks a lot Sir.

LV Prabhakar: Let me tell you one thing. First of all, our exposure under retail is maximum to the salaried people because of which there is a regular flow of recoveries and that is why I said that the under the DCB concept, the demand and collection percentages varies from 92% to 95%. Corporate book as I said as on date we have received request of about Rs.600 Crores as far as OTR is concerned, out of which only 80% is the corporate. So what we see going forward as far as our book is concerned there will not be much impact regarding the recovery. If you segregate our portfolio, about Rs.1 lakh Crores is for public sector undertakings where there is no issue. Then we have a gold loan portfolio of significant about Rs.65000 Crores where there is no issue. Then in the agricultural portfolio as on date things are fine and there is no issue for me. I have about 60% in A and above A-rated corporate portfolio and 18% under BBB portfolio. So almost about 78% of my book is highly rated or very good and remaining BB and below consists about 22%. In this, I have a portfolio, where it is supported by collaterals and there are MSME units also, where the rating will be BB, but they are doing well. So that is why going forward I do not see any strain as far as Canara Bank book is concerned.

Parth Gutka: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Good morning. I just had a couple of clarifications, so on the collection efficiency number of 92% to 95% does that include past arrears as well or only demands for the month?

LV Prabhakar: This collection efficiency what we have said is for the total stock and it includes the current figure as well.

Mona Khetan: It will include any past overdues also paid by the borrower?

LV Prabhakar: Exactly.

- Mona Khetan:** On the rating composition that you have shared on slide 12, I see that in the A and above rated portfolio, there has been a sharp decline from 65% to around 60% now. Any colour around why this has played out?
- LV Prabhakar:** Because of the COVID and the lockdown and other related things, many good accounts have been downgraded by the rating agencies. Keeping that particular scenario into consideration if you see the Canara Bank downgrade it is very negligible. Suppose say BBB and A & above you club, together it is about 77% and in the last year also if you see it is 80%. hardly there is a difference about 3% in spite of COVID impact. Now we are seeing that the accounts, which are downgraded for a shorter period now they are being upgraded also.
- Mona Khetan:** Against your reported GNPA number of 8.2% where would that number be if this Supreme Court order was not in place?
- M.V Rao:** Gross NPA ratio which is at present as on September 30, 2020. We are yet to receive the Supreme Court orders, so naturally it is not included there. But then as our MD Sir was saying going forward because we have given you a guidance of keeping the gross NPA ratio around 8%, we are having a vision as to how to control our slippages and as to how to recover the NPAs. When as per Supreme Court orders these are lifted, naturally some accounts will fall, so we have a mechanism in place as to how to recover them also.
- LV Prabhakar:** Madam apart from that we made Rs.125 Crores floating provision considering there may be some slippages.
- Mona Khetan:** One last question on slide #8 you have made some discussions around SME portfolio, ticket size and stuff, so if you could throw some colour on the collateral levels for the SME book also that will be very helpful?
- LV Prabhakar:** In SME book normally the collateralization is pretty good in Canara Bank by and large because in MSME sector it is either collateralized or most of the accounts are covered under CGTMSE scheme where collateralization is not there. So that way the security issue may not arise and if it arises then we will hope for recovery action as well as invocation of CGTMSE. So that way the collateralization is pretty good.
- Mona Khetan:** How much is the portfolio that fall under this CGTMSE scheme?
- LV Prabhakar:** CGTMSE coverage we can tell you roughly as a percentage is more than 25%.
- Mona Khetan:** Of the SME portfolio?

- LV Prabhakar:** Naturally.
- Mona Khetan:** What would be the typical collateral levels in the non-CGTSMES portfolio, what would be the typical collateral is it hard collateral or is it inventory?
- LV Prabhakar:** By collateral we always mean hard collateral by way of immovable properties as well as plant and machinery in some cases. So typically the percentage of collateral security, which we take is somewhere around 60% and above on an average. In many cases it is more than 100%, in some cases it is a bit less, so average it is somewhere around 60%, which we considered to be pretty reasonable.
- Mona Khetan:** That is very helpful. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Couple of questions Sir, we have return of somewhere around Rs.4000 Crores odd it was a fraud account, is it fair to assume this fraud account are largely HFC, which is expected to see some resolution?
- LV Prabhakar:** We all know about it, but then let us tell you that we have fully provided for that particular account. What we were supposed to do next quarter we have already done it this quarter, so that way we are in a much more comfortable position and of course we are also looking forward to any resolution in that particular account and in other accounts in general.
- Anand Laddha:** This Rs.4000 Crores was an exposure to single account Sir?
- LV Prabhakar:** Yes.
- Anand Laddha:** Okay, if one were to assume 40% or 30% recovery that will flow through the P&L line recovery from return of asset?
- LV Prabhakar:** We are also waiting for that. Let us see how it pans out because at present we are in the middle of some negotiation which is going on.
- Anand Laddha:** You get it that the standstill account because of the Supreme Court order is approximately Rs.4000 Crores odd?
- LV Prabhakar:** Present position, that is not as on September. It is the present position.

- Anand Laddha:** Okay, so had the Supreme Court order not been there we would have slippages of Rs.4000 Crores odd?
- LV Prabhakar:** But at the same time, let us again remind you that our provision, which we have made is about Rs.1000 Crores, which is still there. So that takes care of most of these slippages.
- Anand Laddha:** We made some additional Rs.125 Crores of floating provision.
- LV Prabhakar:** This is over and above that. Rs.125 Crores is over and above that.
- Anand Laddha:** Effectively we have Rs.1125 Crores of floating provision with us?
- LV Prabhakar:** You can say that yes.
- Anand Laddha:** So if I assume Supreme Court standstill is not there this quarter, slippages would have been Rs.4000 Crores, which means annualized run rate of almost like 3%?
- LV Prabhakar:** It is difficult to assume that because Supreme Court orders came as on September 3, 2020 and that these are different accounts. These are the standstill account, which we took at the beginning of that when the moratorium actually has started. These are the old accounts, so it is very wrong to say that if Supreme Court orders were not there this would have all slipped and one more issue is you are annualizing with a single abnormality, which is not correct. For example, this quarter the slippages were only Rs.300 Crores. I cannot annualize Rs.300 Crores with four quarters and say that it is only Rs.1200 Crores. Same way Rs.4000 Crores, I cannot multiply with four and say that it will be Rs.16000 Crores. It is aberration or once in a different situation.
- Anand Laddha:** If you can give some colour on this Rs.4000 Crores like what proportion will be in SME, would be SME of this what proportion would be.
- LV Prabhakar:** As I said even if we take 60% of that becomes NPA, so it will be about Rs.2500 Crores to Rs.3000 Crores at the most. So for that I have to make a provision of 15% if it is secured or if it is not secured I can go up to 20% or 25%. For example. I have to make a provision of about Rs.600 Crores for this whereas I am holding a provision of about Rs.1030 Crores plus Rs.1025 Crores, so as far as the slippages are concerned under this hold account even if 60% of that slips still everything is under control. For the whole year we are projecting Rs.10000 Crores slippages on a higher side. Already only Rs.2000 Crores have slipped, still we have a cushion of about Rs.8000 Crores to take care and for that adequate provisioning and adequate precautions have been taken. So that is why even if Rs.2500 Crores slips by

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the end of December, I think out of that most of the amount we will be in a position to recover.

Anand Laddha: You also did some SME restructuring under the whole RBI circular of GST registration, SME having GST registration number, so under that we did approximately Rs.4000 Crores of SME restructuring, so if you can explain in this restructuring is it resume principal and interest moratorium or exactly what we do and how much tenure increase we do?

LV Prabhakar: Let us differentiate between restructuring and OTR- one time restructuring. Both are different, so this figure which you are seeing in our notes on account is the restructuring for less than Rs.25 Crores MSME accounts, which has started from last year that is 2019 onwards. So it is a cumulative figure and these things are doing good after restructuring and for which the RBI said that 5% provisioning has to be made and that was already done.

Anand Laddha: This accounts if we believe do they have principal moratorium as well?

LV Prabhakar: Out of this how many have availed moratorium, that data we have not got out because since they are restructured and they are continuing and they are compliant with terms and conditions we have not bifurcated each and every sector.

Anand Laddha: Generally fair to say this account will be remained as a restructure for another one or two years or when they will come out of this restructure?

LV Prabhakar: It depends upon individual account., but by and large what you say is correct. It will remain as restructure in the coming one or two years when we do restructuring. When we get an opportunity to do a restructuring we normally tend to do a deep restructuring.

Anand Laddha: On our cost of deposits they have declined very sharply if I had to look at our saving account that it is at 2.9%, is it fair to say on the term deposit side we do have more space for the rates to come down?

LV Prabhakar: Cost of deposit has not reduced because we have reduced saving deposit. Basically it has reduced because we have done away with the high cost deposit and bulk deposit. off course savings bank reduction to 2.9% has contributed, but significantly what we manage is the deposits which we have taken at 7%, 7.5%, all those deposits we have not renewed and we have paid back and now on bulk deposits our rate is less than 3.2%.

Anand Laddha: Do we assume that there is some space for the cost of funds to come down in the coming quarter or this is now the bottom?

- LV Prabhakar:** Cost of funds the way in which we are handling along with the way we are growing in savings bank deposit at 13% and CASA at 14%, definitely we will see the cost of funds go down.
- Anand Laddha:** Okay, on the employee cost side Sir there has been a little jump on Q-o-Q basis is it because of the additional pension liability we have done it?
- LV Prabhakar:** As far as staff costs are concerned since we have sufficient operating profit and other things, we wanted to provide amply in a sense that bipartite agreement is going to take place and in the bipartite agreement 15% increase has to be given to the staff. So we have made ample provision, so that the day one when we have to make the 15% increase to our staff, I will not have any impact on the future balance sheet. Second one is during the COVID time we have taken a lot of employee benefit steps like what we did is for every six days who work during the COVID time, we paid one day extra salary that has come to about Rs.105 Crores. We have paid that because what we thought is to have customer satisfaction there should be staff satisfaction also. Unless the staff is happy during the COVID time the customer service will get affected. This is reflected in our savings bank growth and CASA growth in turn and also retail deposits have grown by 18%. So whatever provision has to be done for the staff cost we have amply done. Apart from this 15% we have made provision for gratuity, leave encashment and also pension.
- Anand Laddha:** Last question from my side in the provisioning line item, that appreciation in investment was Rs.217 Crores is it pertains to any corporate bond?
- LV Prabhakar:** It is a normal, not specific; there is some yield we have done.
- Anand Laddha:** Because of the yield in general coming down for all even for bond as well as treasury, so I thought there should be mark-to-market benefit, but we have made a provision?
- LV Prabhakar:** No, this time what happened is as we told you that in one big account we have made 100% provision. In that account we have investments also, which we have to provide for.
- Anand Laddha:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Abhijit from Kotak Securities. Please go ahead.
- Abhijit:** Slide 32 on the SMA disclosures, could you explain what led to the rise on the SMA-0 book, it almost double the pre-COVID levels now?

LV Prabhakar: SMA-0 you see even if there is a one day delay in payment of interest or installment it will be booked in the SMA-0 category, so it is transitory, this is not what will actually become NPA. So SMA books will keep on varying especially SMA-0, so the moment it is paid it comes out of SMA. So at a particular date what we are seeing it is 22446 what you are referring to. We feel that it is not much of a threat because these are all as I said is a transitory phenomenon. It keeps on coming and going.

Abhijit: Okay and Sir on the ECLGS scheme, could you tell us what is the underlying amount of the loan book where this benefit has been given?

LV Prabhakar: Under this emergency credit line we have disbursed about Rs.8300 Crores, which is equal to 20%.

Abhijit: Okay and Sir then if I look at the SMA book which is Rs.5 Crores and above how much of this would be actually MSME loans and just trying to understand whether MSME customers are sort of becoming SMA and still using the ECLGS scheme or if you see in cases where customers who have used the ECLGS scheme has actually seen better repayment behaviour and they kind of come out of the SMA book sometimes around that?

LV Prabhakar: MSME outstanding will be less than Rs.5 Crores. A few accounts will be there which will be more than Rs.5 Crores. So generally the SMA above Rs.5 Crores, the amount will be from corporates. As far as the RBI classifications, corporate is more than Rs.5 Crores. So in this particular slide the SMA 0, 1 or 2, the MSME component is very negligible I can say.

Abhijit: Okay, understood. Thank you.

Moderator: Thank you. I would now like to hand the conference over to Mr. Sohail Halai for closing remarks.

Sohail Halai: Before we close the call just one question of this corporate's share is around Rs.2.8 trillion how much it would be related to the PSU or government-related companies?

LV Prabhakar: One trillion is for PSU and PSE.

Sohail Halai: Then this Rs.11500 Crores is basically one has to look at from Rs.170000 Crores odd of restructuring that you are talking about right?

LV Prabhakar: That is include everything, even retail is also there.

Sohail Halai: You said 13500?



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LV Prabhakar: Yes 80% of that is corporate.

Sohail Halai: Okay Sir. Thanks for the detailed view and I really thank you and the management team for allowing us to host this call. Before we close the call would you like to add any concluding remarks?

M.V Rao: Only one part which is missed out in our interaction is regarding the amalgamation. Just I would like to give you some colour on the amalgamation. Since this amalgamation is in the four buckets I would like to tell you within two minutes. What we have is the structural integration, HR integration, IT integration and business integration and going with the business figures the way bank amalgamated entity is performing it gives the credence that there is a smooth transition as far as the business integration is concerned. Coming to the structural integration already it is completed and many of us in the banking are also aware that because of the COVID there were so many hiccups. But this has helped us internally in our structural integration and HR integration, which is already done. Going with the IT integration we have two steps here, one is the version upgradation because earlier Canara Bank was on the transition of moving to 11.8 version. Just two days before entire Canara Bank now moved onto the 11.8 version. Right now e-syndicate is on 11.7 version and it has to move to 11.8 version, which will be completing in the next couple of months. So altogether the amalgamation process, we would like to see it has a seamless experience and best in the industry that we are hoping for and we are confident we are going to deliver on that. Thank you.

LV Prabhakar: Thank you very much.

Moderator: Thank you. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining us and you may now disconnect your lines.