

Moderator

Ladies and gentlemen welcome to the Q2FY12 Results Call of Allahabad Bank Hosted by Emkay Global Financial Services. We have with us today Mr. J.P. Dua – Chairman and Managing Director, Allahabad Bank. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kashyap Jhaveri -- Senior Research Analyst of Emkay Global. Thank you, and over to you Mr. Jhaveri.

Kashyap Jhaveri

Good evening, ladies and gentlemen, and thank you for joining us today. We would like to welcome the management of Allahabad Bank. We have with us today, Mr. J.P. Dua -- Chairman and Managing Director, Allahabad Bank and we heartily thank him for giving us this opportunity to host the call. I would now like to hand over the call to Mr. Dua, over to you sir.

J.P. Dua

Thank you. Quarter has been good for us and there has been all around growth during this quarter and half-year ending 30th September. Bank has grown by 21.38% and the total business has crossed 2,38,000 crores. All of you may have gone through the results also, we have hosted on our website now, but still let me give you some highlights. Operating profit is up 21.47% from 782 to 949. Net profit is up 21.22% from 403 to 488. Net Interest Margin has gone up from 3.34 to 3.68. Net Interest Income has gone up by 36% from 969 to 1318. Yield on Advances have increased by 221 basis points from 10.35 to 12.56, while the cost of deposit has gone up by 138 points only from 5.74 to 7.12. Book value per share has gone up to 198 from 167.90. Earnings Per Share has increased, gone to 41 from 36.04 annualized. Return on Assets has also improved to 1.24 from 1.11. Cost to Income ratio has come down from 43.36 as of March to 41.67 as of 30th September.

One area where we feel, there is something which we need to share with you is NPAs. Our whole effort to the half year was to contain the NPAs. So we started a big recovery drive and we recovered around 443 crores. Out of which, some 355 crores has been recovered, with accounts up to 25 lakhs only, that means our thrust was major on small loans, because we have a big portfolio more than half of the NPA portfolio which is less than 25 lakhs. So all thrust was on recovery of small accounts. So we could recover 355 crores. Fresh delinquency has come around 520 crores and that too, this 520 crores which is after we have switched over to 100% system generated identification of Non-Performing Assets. As of September 30th, we are 100% on system as far as the identification of NPAs is concerned. Bank is fully on CBS, there is no human intervention involved in it. And specifically, we asked the auditors borderline cases, you can take a decision if you feel like, but we would like it to be declared as NPA because system is saying so. So we have not interfered because what happens? Today, we declare NPA, maybe next month, automatically, it turns out to be a standard account, what is there? But let once for all, whatever is there as far as the quality of asset is concerned, we, as a bank, wanted to be sure. So that's why you may find the second quarter is a little large delinquency, it is only because of that we have moved to 100% system-related, but if you look at total NPAs in the first half year, I think it's little more than what last year it was. But at the same time, we have recovered about 443 crores, so that the net effect is very less. We have been able to maintain gross NPA ratio of 1.77% and net NPA of 0.69%. Having said that we have also made adequate provisions, so that profitability is there, let there will be provisions with peak scale of everything not only for now for time to come also, my provision coverage ratio is 80% today.

Coming to capital adequacy, my capital adequacy stands at 12.99% with a Tier 1 of 8.93%, so that means around 9% is my Tier 1. I am very comfortable as far as the next six months are concerned. I have Tier 2 of 4.06. I have approached Government of India also for 1000 crores, because growth is going to take place, definitely, we will be needing capital. Though I have had them of 4,700 crores, but last time government has given us 670 crores, this time also they have pledged they will give sufficient capital to all the banks. If I am able to get something from Government of India, why not?

One vertical, which has done exceedingly well is the fee-based. The fee-based income has gone up from 213 crores to 257 crores, a growth of 21%. Particular area is LCBGs, process fee and ForEx, where good growth has come.

We continue to be the largest partner of LIC as far as sale of Life Insurance Corporation is concerned. We have doubled our sale of gold coins. And I hope in the next six months, fee-based income will definitely generate good income for us.

Then lastly the treasury part, the treasury profit is only 7 crores, but in spite of this, my profitability is not affected. My core has generated sufficient profits for me, and if I take out the trading profit of 7 crores, my net profit has gone up by 32%, and my operating profit has gone up by 26.69%.

We plan to open about 155 branches this year. We have opened already 26 branches and we plan to have another 500 ATMs, we have already opened more than 100 ATMs.

One initiative which we have taken and which we want to launch, we are setting about 2000 POS terminals throughout India because that will generate good CASA for me and good business also for me, because this is one area where we want that. CASA is not growing away, it should grow in spite of whatever efforts we have done. We have opened more than 12 lakhs Saving Bank accounts this year in the first six months. So now the big target for next six months is trust on CASA, trust on fee-based income, these are the two major areas and recovery. In addition to the normal business, we will concentrate on these three major areas.

So these are a few of the highlights and this is what we plan to do for the next six months. Our target for the total business is around 2,80,000 crores. Right now, we don't intend to change it. Let us see how the things move, how the market moves and how the economy grows. So right now, we are definitely moving forward, and I think we should be able to do better than the industry. Question.

Kashyap Jhaveri

Vinita, we can move on to question and answers.

Moderator

Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Praful Kumar from Principal Mutual Fund. Please go ahead.

Question and Answer Session

Praful Kumar

Good evening, sir. Thanks for taking my question. Just one question on this 520 crore slippages, how much of this was one-off due to the system migration?

JP Dua

I can't say that but I can tell you 50% of it is in the small loans less than 25 lakhs, so it may be that most of the borderline cases or maybe these are all agriculture and small loans, so maybe because of that, because sometimes you are not able to get it, but system has taken care of it, so fine.

Praful Kumar

Sure. And sir, secondly, what is your restructuring that we have done this quarter?

JP Dua

My total restructure book is 2941. Out of which about 220 is roughly NPA against 144 when we started two years back. Out of which 2721 is the standard.

Praful Kumar

Okay. And what was the number for this quarter, if you can give me?

JP Dua

One account, which has gone maybe two, three small accounts also. One account is Electrotherm (India) which we have restructured and that's one major account, that's all.

Praful Kumar

Largely, positively surprise on a margin, what is the outlook for the margins for the full year because earlier you said, we try to maintain three, but this seems to be a great...

JP Dua

No, the guidance of three plus, it is to give that guidance. But at the end of the day, we have to improve on our performance all the time and we have been able to contain our cost, at the same time, we have been able to reprice the assets also, so both assets and liabilities. And let me share with you, because that may answer a few of your questions also. We have reduced our short-term loans in a big way because that's what we find the kind of economic scenario, so short-term loans, we have reduced in a big way, they were all low yielding accounts even otherwise.

Praful Kumar

Sure sir, I will come back in the queue. Thank you.

Moderator

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

Mahrukh Adajania

Hello sir, congratulations. Sorry, I didn't catch the figure of restructuring for the quarter. You said one account, how much was it?

JP Dua

Name of the account I can give you, Electrotherm and the amount is 268 crores.

Mahrukh Adajania

Okay sir. And the other thing I wanted to check is that, now what is your exposure to SEBs and what was it as on June 30, 2011?

JP Dua

My total exposure to Electricity Board was 8883 as of 30th September and now reduced to by another 300-400 crores in the last one month, because I have come out of Tamil Nadu Electricity Boards.

Mahrukh Adajania

You came out. How you came? They repaid, is it?

JP Dua

They paid on due date.

Mahrukh Adajania

They paid on due date and then you did not give them a fresh loan?

JP Dua

Yes.

Mahrukh Adajania

And what was your exposure to TNEB, sir?

JP Dua

300 crores.

Mahrukh Adajania

Okay. So now which SEBs are you exposed to, because you come out of...?

JP Dua

I am not exposed to Northeast, I am not exposed to Bihar, I am not exposed to Maharashtra. I am exposed to Uttar Pradesh, Bengal, Haryana, Delhi and one more is there, that's all.

Mahrukh Adajania

Okay. Sir, just on the loan, I just wanted to check all your loans to SEBs, would they be short-term loans or would they be longer-term loans? What is the tenure of these loans and what would be the retailing? One, two, three years. And the retailing cycle is bullet repayment, one-shot repayment?

JP Dua

No, no, we are having escrow, partly working capital, so monthly repayment and partly it is a bullet payment.

Mahrukh Adajania

Okay. And all these are paying on time?

JP Dua

Yeah, I have no stress, no delinquency and no restructuring as far as the Electricity Boards are concerned. I don't have those particular states where you feel Kerala, Tamil Nadu, northeast, Bihar, Madhya Pradesh.

Mahrukh Adajania

Right. And sir, what would be your total exposure to the Power sector now, State Electricity Board?

JP Dua

Total exposure to the Power sector is 13,612 crores, out of which I think today, it may be about 12500-12600 crores. Generation, I have NTPC, I have all those accounts, so practically in Power sector, my NPA is zero, other sector NPA is there, nor I expect.

Mahrukh Adajania

Right. And sir, now you mean that 50% of your slippages during the quarter were largely on small loans and all. Can we expect a core slippage figure for the forthcoming quarters at around 2-3 billion, what guidance would you give on that?

JP Dua

As far as slippages are concerned, they are part of the system. As long as there is not some landing money, slippages will be bound to be there. It should not be extraordinary, it should not be very high, that's the only thing because that is reflected in the asset quality. You see my first quarter, the slippage was only 160 crores. And the second quarter now the slippage is because of system generated NPA and we have been a little on a sense that, okay, whatever is there, let it come out once for all. So having said that and having done that I think in the next six months, slippages should be a normal slippage or maybe a little less than the normal slippage. But with all this, our thrust on recovery continues, because that's one mitigation, which we can take care and recovery is not only recovering the NPAs, but at least preventing the NPAs also.

Mahrukh Adajania

Got it sir. Just one more question that you were talking about an upside to fees because of changes in the West Bengal government policy, has that come through in terms of payment or salary?

JP Dua

Yeah, we have one of the five bankers, who are paying the salaries of West Bengal employees.

Mahrukh Adajania

So that system has changed from cash to cheque, is it?

JP Dua

Yeah, system has changed from cash to cheque.

Mahrukh Adajania

Alright, and what was the upside from that?

JP Dua

No, upside will come and go some time only, because we have got only two salaries as of now.

Mahrukh Adajania

Okay, but what would be the amount of flows that you handle any such number you can give?

JP Dua

In three months only things will stabilize, because slowly people will move to these five banks because customers are maintaining account, these employees are maintaining account with various banks, so now slowly they will move to these five banks because salaries are going to come to these five banks only.

Mahrukh Adajania

Got it, okay sir, thank you so much.

Moderator

Thank you. The next question is from the line of Subramanian T S from Sundaram Mutual Fund. Please go ahead.

Subramanian T S

Good evening, sir, and congrats on a very good set of numbers. Just need few data points; firstly, what would be your Current and Savings deposits during the quarter?

JP Dua

It's always on a terminal date.

Subramanian T S

Yeah, as on terminal date.

JP Dua

Total Savings deposits as on 30th September was 35,875 and Current was 7,609 taking a total to 43,484 which gives a 31% share in the total deposits, the CASA is 31%.

Subramanian T S

Sure sir. The other thing is on the Yield on Advances have moved up sharply. I just wanted to understand if there was any write-back of interest amount because of higher recovery, so the recovery amount was there also, some interest component which added to this income?

JP Dua

Yeah, that is not a very big amount, but then what we have done, we have partly rebalanced our portfolio. Short-term loans, we have discouraged and portfolio has come down almost 50% about 7,500 to 3,000 resulting in that the short-term loans are always low yielding loans, mainly land at these rates.

Subramanian T S

I see. And the other thing is on the recoveries that you have done during the quarter. Is this the run rate that you think you will be able to sustain for the quarters coming ahead?

JP Dua

We have kept a target of 1000 crores, 443 crores we have recovered in the first six months, so I hope 1000 crores is not a very big target, we will be able to do it.

Subramanian T S

Okay So this 443 crores is for both quarters put together, the recoveries that you have done?

JP Dua

Yeah.

Subramanian T S

And the 520 crore slippages, is that for the quarter or for the half year?

JP Dua

Half year, 520.

Subramanian T S

So the slippage for the quarter is only around 350 crores?

JP Dua

Yeah.

JP Dua

The first quarter was 160 crores slippage.

Subramanian T S

Okay sure sir. Thanks that's it from my side.

Moderator

Thank you. The next question is from the line of Sagar Tanna from Kotak. Please go ahead.

Sagar Tanna

Hi, sir. Have you come across any restructuring cases which are yet to be reflected or are any other top borrowers on the corporate side discussing with you in terms of some restructuring, etc.?

JP Dua

Some accounts which are already NPA, so that discussion is going on for restructuring.

Sagar Tanna

And fresh cases?

JP Dua

Fresh cases, fortunately, not there and I don't wish the fresh cases to come now.

Sagar Tanna

No, because we sense some general slowdown or getting deeper, so do you feel that will affect?

JP Dua

You can expect some surprises sometime, because you don't know, right now nobody ever expected GTL to go to CDR. I am not there in GTL, but end of the day, it's a very big account in industry, so the bank is affected almost.

Sagar Tanna

True. And sir, how much exposure would we have in Jai Prakash Group?

JP Dua

We have around 1300-1400 crores.

Sagar Tanna

And would he be amongst the largest on the private side?

JP Dua

No, other groups are also there, there is Reliance, there is Tata.

Sagar Tanna

So he wouldn't be amongst the top three or top five?

JP Dua

No, exposure is 800 crores, sanctions are over 1300 crores.

Sagar Tanna

Fine, thank you sir.

Moderator

Thank you. The next question is from Rajadeep Anand from ICICI Prudential Life. Please go ahead.

Rajadeep Anand

Yeah, good evening sir, congrats on a good set of numbers. Sir, just two questions from my side, Firstly, on the employee cost, there seems to be a bit of a spike versus Q1 onwards, so if there are some buffer that we have built up over there?

JP Dua

Partly right what you say and partly is because there is an increase in DA on pension, so how many banks have factored in that, I don't know, but I have factored in.

Rajadeep Anand

We have factored into the full extent?

JP Dua

Yeah, we have provided for.

Rajadeep Anand

How much would that be...?

JP Dua

I have recruited in the last three years about 7200 new employees and they are all mainly officers or chartered accountants or MBAs and 4000 people have retired. So earlier, it was cost neutral, but now it's not cost neutral. But at the same time, bank has become young, age of a junior officer is 34 only, so this will give me a great dividend by way of productivity, so maybe that cost has gone up a little.

Rajadeep Anand

Okay, so this is based on whatever recalibration your actuary suggests every quarter, this number should keep on coming.

JP Dua

Yes.

Rajadeep Anand

Okay. And sir, tax rate is very low for this quarter. I would like to understand if you can help us, why there is such a volatility?

JP Dua

See, we are one of the high tax payers because somewhere we did not plan it properly and with the resulting in the last year, we have paid 300 crores extra tax, where refund is coming now.

Rajadeep Anand

Okay, so this is adjusted for that refund?

JP Dua

No, not adjusted, but now we have planned in a manner that we don't pay extra. The tax is payable on taxable income, not on the full income. So, a lot of exemptions are available to banks; one is for rural advances, if you give advance in the rural area, one is for long-term loans also, so somewhere we were not claiming that benefit earlier. And all such loans were not properly marked because we were not of CBS earlier. Now since we are fully automated, lot of MIS is available with us, which we can take advantage of because as a bank we have always met priority sector targets. So a lot of benefits which were available, we were not availing so far. So now we are availing and I think tax liability should be less this year.

Rajadeep Anand

But the 300 crores extra tax rebate is not ...

JP Dua

We are getting it back, but when we get that, I don't know, but maybe in this quarter or maybe in the next quarter.

Rajadeep Anand

Okay so sir because we do so many of these rural advances and long-term loans and agri, our tax rate is lower than 33%, what is...

JP Dua

That is for good number of banks. You see the Syndicate Bank, how much they have paid, very little.

Rajadeep Anand

Right. So what is the good number to go by when looking at Allahabad Bank for tax rate.

JP Dua

I think it should be much less than what it was last year and maybe less by about 5%-6% we are trying to.

Rajadeep Anand

Okay, alright. Thank you, those were my questions.

Moderator

Thank you. The next question is from the line of Chinmay Desai from Anvil Shares & Stocks. Please go ahead.

Chinmay Desai

Sir, congrats on good set of numbers. Sir, if I got that right, that 520 crores is the slippage for the half year, right?

JP Dua

Yes.

Chinmay Desai

Sir, on this whole Power sector thing, what is your understanding on how...?

JP Dua

We are not very much unduly worried because one, maybe that Power sector has its own problems like coal linkages and all, but these problems or the projects which are yet to come. The projects which have already gone on stream, there are no issues at all. So my major client is NTPC, 1000 crores. My client is Neyveli. Isn't it? And there is the kind of Electricity Boards I have, in most of the cases, I am escrow banker. So when cash flow is with you, so your risk is mitigated. And last six months, we have not sanctioned a single fresh loan because till the things are clear like land issues, environment issues, forest issues, we don't want to go into this area now till the things are clear.

Chinmay Desai

Okay. And on the tax thing, so what you are saying is that we would probably be paying tax around 20% for the entire period?

JP Dua

21%-22%, that's what we are estimated.

Chinmay Desai

Okay sir, that's it from me right now. Thank you.

Moderator

Thank you. The next question is from the line of Kanika Thakkar from Sunidhi Securities. Please go ahead.

Kanika Thakkar

Hello, congratulations on a good set of numbers. As far as your advances growth go, it has slowed down quite a bit this quarter, so what is your outlook for the full year?

JP Dua

We have rebalanced the portfolio. We have got out of certain accounts also and we have got out of short-term loan business also partly, and that is the reason that the loan growth is slow, even otherwise if you see previous numbers also, first two quarters are like that though we have grown very good in the first quarter at 30%. But that percentages sometime, the quantum was not that much because last time, the base was small. But now the busy season has started, we have good number of sanctions with good amounts. Hopefully, I think there should not be any issue, but we will grow I think better than what we have grown in the first six months.

Kanika Thakkar

So what would your guidance be for loan growth?

JP Dua

Total business growth should be around 24%-25%, that's what we are estimating and we will be able to achieve it.

Kanika Thakkar

Okay. And sir, could we get your outlook on Savings bank deregulation?

JP Dua

We have as yet not taken any decision because there is a sufficient liquidity. Most of the accounts with bank like ours, they are transaction account, convenience accounts, and I don't think that there is a threat of shifting or moving accounts from one bank to another. So we will take a call after sometime, let's see how the market reacts to it. So we have not taken any decision, our ALCO will take decision. But in the near-term, I don't think we are revising the rate of interest.

Bajrang

Just to add on that, one thing on the tax front you said that 300 crores of refund will come in the next quarter. So are we going to account that through lower tax rate or we will take it in the other income?

JP Dua

Any money coming, somewhere we will use it, now like we have to provide for depreciation, I have provided 2 crores in this quarter also. So already 10-year G-sec is around 8.88 or 8.90, isn't it? So when money comes, I think we will get use for provisions only.

Bajrang

Okay. And sir, one thing which we would like to request from all analyst community because now this Power sector concerns as you might be aware every time they are asking the same questions again and again and I think the reply what we hear from most of the bankers is that there is no concern on the SEB front and suddenly in this quarter two particular banks have showed that the loans have been restructured in case of two banks. So now something which has already started. I don't know how that will be there for Allahabad Bank particularly going forward, but if you could give us the two ratios which will help us in taking a clue from a longer-term perspective, one could be your power exposure companies to whom you have given loan. The debt service coverage ratio on an average for the entire portfolio, which will help us a lot and what is the average PLF which will be required for that particular portfolio to service the debt. If you can give us a couple of banks have already used that?

J.P. Dua

You are asking and it is not possible for me in this conference call to give you.

Bajrang

No, not in this conference call, at least from next concall onwards.

J.P. Dua

I have NTPC, I have Neyveli and all, there are no issues, one. You also should understand that issue which are being discussed in the media, in the press otherwise pertain to the units which are yet to come.

Bajrang

True, that's true sir.

J.P. Dua

Isn't it? Let us not get worried by because no bank is going to give money just on the basis of a project report. We don't give money only on the project report. The all linkages are set up till all permissions are obtained, till promoter invests 25%, not a penny is given by any bank.

Bajrang

True, that's pretty true sir, we are pretty confident on the bank, I think I am following for last 10-12 quarters, but every time the similar thing, but if you could give us little bit of detail that would be help for the entire community.

J.P. Dua

If you are following up for the last 8-10 quarters, single rupee NPA is not there from infrastructure side.

Bajrang

True, this time also I got surprised because of these lower provisions, definitely.

J.P. Dua

We are very particular about asset quality and this is one of the priorities, we work on four 'C' principle and our second 'C' is only credit quality, that goes down to the lowest level.

Bajrang

What is the non-funded exposure in the power sector, which we are going to commit?

J.P. Dua

I can't give, that's what I am saying, you are asking for specific numbers it may not be available.

Bajrang

Okay thank you sir.

Moderator

Thank you. The next question is from the line of Anand Laddha, please go ahead.

Anand Laddha

Sir, can you just give the break-up of movement of NPA for this quarter?

J.P. Dua

Yeah, the NPA at the beginning of the quarter was 1,604, cash recovery is around 98 crores, upgradation is about 62 crores, technical write-up is 250 crores, so total reduction is 410 crores, fresh addition is 520 crores, and net NPA is 664 crores, because we have provided for 1051 crores up to now, then recovery in return of that is 36.53 crores.

Anand Laddha

That will come in other income line?

J.P. Dua

Yes.

Anand Laddha

Okay and sir on the restructured book you said standard restructure asset is 2720 crores and this quarter you have restructured Rs. 268 crores on account of an Electrotherm (India), so there could be some reduction also in restructuring account?

J.P. Dua

That's why I have given you the net figures.2941 and out of the standard is 2721.

Anand Laddha

Okay and the same number in Q1 sir?

J.P. Dua

Q1 numbers were different, amount has come from.....

Anand Laddha

Okay sir. That's it from my side. Thank you.

Moderator

Thank you. The next question is from the Dhawal Gala from Birla Sunlife, please go ahead.

Dhawal Gala

Sir, three questions; one, your investment book has been growing much faster than your overall asset growth in the last two quarters if you compare from March '11 numbers, so can you give some break-up whether there is CPs and CDs something like --?

J.P. Dua

Let me tell you, whatever surplus I am parking either with CDs or treasury bills. So if you see my SLR going up that means I have invested in treasury bills. All surplus is in treasury bills.

Dhawal Gala

Okay, sir if you could give breakup of the 50,383 crores of investment book?

J.P. Dua

Right now I don't have, but it's all in treasury bills as far as SLR is concerned, whatever others is concerned that is CDs. The whole purpose is I can have cash in 24 hours because whenever I need money. At the same time, I don't want to keep it idle, let me earn something out of it.

Dhawal Gala

Right. Sir, and what would be the guidance on net interest margins? Now that we have first half margins at 3.5%, would it be?

J.P. Dua

It will be 3 plus, and has been 3 plus that's what all I can say because first time we have crossed 3.50 mark in the half year. You remember we started 2.32 March 2008 and since then we have not looked back.

Dhawal Gala

Absolutely, sir. Sir, but then also, 3% plus guidance, would it be that you would be revising your guidance to 3.25 or 3.5 range or it can come down?

J.P. Dua

I don't want to be specific. I will only perform and tell you, that's all.

Dhawal Gala

Okay sir, are we seeing any cost pressures in terms of our NIMs because our CASA ratio has now come down to 31-odd percentage, two years back it was close to 35-36%, still cost of funds have been managed very well, what would be the reasons?

J.P. Dua

Cost pressures are always there and let it remain always there. It's how you manage with your operational efficiency. And as a bank, we tried to but our composition of liabilities is such that way minimize the cost. So we have been able to minimize the cost partly with both our CDs whenever and we see the tenor of the CDs also. Partly we go for retail, partly we go for other deposits also and then we try to see to it that the liability, the tenure and what's our requirement for the tenure because there is an asset/liability mismatch should not be created and all. There is so many things which we will take care but at the end of the day our objective is to reduce the cost.

Dhawal Gala

Sir, on you SME book, the book has been actually growing more than 25% over the last 2-2.5 years. Sir, considering the current higher interest rate scenario, don't you get worried or are there any early signs of pain on this book?

JP Dua

It is not, because the definition of SME has come like this so that it looks as if the growth is very good. In fact, there are so many sectors combine into one today. So that has become MSME. So growth is good because when the base was small, the percentage wise it looks big, because the base is small. But then, yes, we are growing and this is one of the thrust areas also at USP of the bank because having 2400 branches, we are present in every geography and may be small enterprises are growing and they are into auto components, they are into textiles, they are into garments, they are into IT, they are into services and they are into so many, in fact the whole gamut of pressure that you see and total 45% of total exports is taken by the SMEs only. So in such a continuation to the GDP of the country, you can imagine the size of SMEs in India and definitely we would like to be a part of their growth story also.

Dhawal Gala

Okay, sir in the slippages, if you could give some break up, may be not if you do not have that ready?

JP Dua

Yeah I can straightaway give you a thumb rule, 50% is less than 25 lakhs, 50% of the total NPAs which have there is 520.

Dhawal Gala

Okay sir but how much of that would be from Agriculture, Retail and SME or very small...?

JP Dua

Yeah, coming to Agriculture, it's a standard 5 crores, MSME, it is coming to 218 crores, about 6 crores come in Retail, Education, and Housing and small, small and around 53 crores is trade services, rest comes in other industries.

Dhawal Gala

So, these are in the Q2 of FY12?

JP Dua

It is half year 2012.

Dhawal Gala

Okay, half year.

JP Dua

Full half year, yeah.

Dhawal Gala

Okay sir and one last data point, now that we are on CBS related NPLs, can you provide data if not now, later on how much would be your NPL 1 lakh to 5 lakh or 5 lakhs to 10 lakhs?

JP Dua

Up to 5 lakhs is 245 crores.

Dhawal Gala

Okay and what would be the outstanding loan book?

JP Dua

Total you want?. Yes total I don't have right now, but then I can give you.

Dhawal Gala

Is it 245 crores?

JP Dua

No, I will give you. I think that is incomplete thing I don't want to because I should give you, 1715, isn't it?

Dhawal Gala

Right sir.

JP Dua

When we meet at analyst meet we will try to give you.

Dhawal Gala

Sure sir, thanks a lot sir. That's it from my side.

JP Dua

Thank you.

Moderator

Thank you. The next question is from the line of Pankaj M from Axis AMC, go ahead please.

Pankaj M

Hello. Sir congratulations, you have done a pretty incredible job on the asset quality and specially when I look at your loan book, essentially you have about 35% of the loan book which is across Infrastructure and Power and despite that you have done a pretty incredible job in relation to some of your other peers have done. Sir, two things which I was wanting to understand from you; one if you could share, you have a 20,000 crores Infra book, if you could share whatever within the limited constraints, some granularity in terms of what kind of exposure we have there in terms of which sector or which segments of Infra, so that will be helpful.

JP Dua

Yeah, see around 14,000 crore is by way of Power on generation distribution and transmission. The rest are other sectors and Power takes care of 14.05%, Telecommunication is 662 crores, 0.68% only, Roads and Ports are 2715 crores that is 2.80%, and other infrastructure like SEZs and some educational institutions, ports and all those things is 3202 crores.

Pankaj M

Secondly, from a business point of view, just to understand how higher are the yields on this Infra portfolio which essentially makes it such a profitable business where you have seen some compromise on asset quality, our credit appraisal of banks before lending kind of things, if you could give us sense in terms of what kind of profitability is there in that segment in terms of yields and how much--?

JP Dua

First of all, we are very clear, I don't know why so much is talked about Infrastructure as a sector which is going to have stress, I don't think so. Four projects have problems that does not mean 40 projects have problems. We are talking of four-five big projects there problems have occurred and it will continue to occur in time to come and it occurs everywhere, isn't it. It occurs in small loans also, it occurs in big loans also. It occurs in Infrastructure also. So it depends on the what kind of portfolio you have, isn't it. And sometime unfortunately you can also have one. As a banker, we are lenders, isn't it? Some area also some share of it. Having said that as far as we are concerned in Power, I have 1000 crore I have given to NTPC, I can give you one example. It's a Navratna of the Government of India. I have given Neyveli I don't think anytime it has problem for the last 10 years at least, similarly for Electricity Boards also. Now what kind of Electricity Board you have? What is their track record and what risk litigation you have taken as a bank? So you have to look at all these angles. Now I have escrow with me. I am an escrow banker. Cash comes to me. I recover my installment. So everywhere wherever bank gives money, we will try to have risk mitigation for these things. Similarly, coming to the road projects also. See, when we gave the money initially some 6-7 years back when road projects started coming up, we never thought that they will pay back in four years or five years. The loan was given for 12 years. Now money is coming back in 5-6 years because what road projects are doing and the road is completed, they are securitizing, because in all the cases, the traffic projections what they had given, traffic is four times higher than that. It's a growing country. This is what has happened. In most of the cases, our loan have got adjusted well in time or much before time. Similarly, Ports, we gave for the port not only they have gone for second phase, third phase because the capacity is so limited. So it is not that all infrastructure projects. I tell you very few infrastructure are having problems sometime may be that promoter was not that serious a promoter or his track record was not good. Sometime the tie-ups were not there. Sometimes without permission he has gone and started the project. Sometime linkages he has not obtained and gone ahead with the project. So there are cases, I am not saying there are not cases, but not fortunately, we don't have any such account. So I think I have given a lot of detail to you. You can work on each and every project because every project is a different project.

Pankaj M

I really appreciate that. So is it fair to assume that the yield on this infra loans...?

JP Dua

I have not financed a single project in the Road sector other than NHAI. Means National Highways only I have financed. I have not financed the State Highways. That's my way of risk mitigation.

Pankaj M

Sure, no, sir you have done an incredible job so undoubtedly. Sir is it fair to assume that for the system as a whole meaning the yields on these loans are at least 200 basis points higher than the average one would have on the rest of the loan book kind of thing?

JP Dua

Yeah, there are four kinds of you know if you are looking at, if you buy some loans into the interest wise. There are loans which are lent at base rate or quarter plus base rate. There are loans which are lent around base rate plus 1 to 2%. There are trading loans which are lent at base rate plus 2.5 to 3% also. So every bank has its own bifurcation. What kind of risk appetite you have. I will charge 0.25% less, but I will go for a good asset, that's my philosophy.

Pankaj M

Sir, one more data point, what's the total exposure in terms of term loans that we have out of a total book?

JP Dua

Around 63% to 64%.

Pankaj M

And one final thing, you have guided for a credit growth of 23-24% for this year, RBI has moderated the system..

JP Dua

18-19%. In the last if you have seen 8th quarters, we have grown around 4 to 5% above the system and we hope this time also we will.

Pankaj M

Do you think there are enough credit opportunities given your focus on asset quality?

JP Dua

Yeah, for my size of the bank, I have enough opportunities. I have 2400 plus branches, I will leverage the finances.

Pankaj M

Thank you very much, sir.

Moderator

Thank you. The next question is from the line of Sumant Bhutoria from Jet Age Securities, please go ahead.

Sumant Bhutoria

Congratulations on a good set of results. My question is to U.P. Power Corporation, where you have 1800 crores of loans at the end of last year. So in U.P. elections are probably due next year as well and there is some populism and U.P. is one of the five states that were having some distress two months back or so. So I just wanted to know how you are dealing with this account, in particular?

JP Dua

I am an escrow banker for the whole state, first of all that's my risk mitigation. Two, at any point of time, I have 400-500 crores surplus lying with me of U.P. Power Corporation. So I never had any problem at any point of time. Three, for the last five to six months, I have not given any additional loan to them.

Sumant Bhutoria

Right, has the U.P. Board been increasing its tariff, have you been....

JP Dua

Yeah, they are not only increasing the tariff, they are privatizing lot of things like distribution they have privatized and Agra like that. They are going in a big way and I think supply has improved a lot there.

Sumant Bhutoria

Right, thank you sir.

Moderator

Thank you. The next question is from Jyoti Khatri from Systematix Shares, please go ahead.

Jyoti Khatri

Yes, I have just a couple of questions; sir your total slippages for the first half was 520 crores out of that 160-odd crores was from Q1 and Q2, the amount was 360-odd crore. Sir just want to understand out of this 50% came from your system based NPA recognition, right?

JP Dua

No, 100% that come from system based recognition. All NPAs have been recognized either system only and system generated only. There is no manual intervention now.

Jyoti Khatri

I meant that low value accounts.

JP Dua

Yeah, low value accounts, 50% is a low value account less than 25 lakhs.

Jyoti Khatri

Sir, will it be fair to assume that there could be higher chances of these accounts getting upgraded in the second half?

JP Dua

Yeah, there is because you see my recovery, 443 crores I have recovered, more than 300 crores I have recovered out of small loans only, in this first half thrust on recovery was on small loans only. So we have been able to do a big job.

Jyoti Khatri

Okay and sir any provisions that we have done on these accounts? Will you be able to share the number for the low value accounts? The provision is done in the first half?

JP Dua

No separate actually we don't do it. We do the total provision for NPAs. For bad and doubtful debts, I have provided 467 crores for the half year and for the quarter I have provided 301 crores for this quarter and 467 for the full half year.

Jyoti Khatri

Okay, sir in that case, if these accounts are getting upgraded, the provisions will return back in that sense.

JP Dua

Yeah.

Jyoti Khatri

Secondly, on the margins front that you said that you are looking at margins around 3% plus for the FY12, so on the savings deposits front, you are not seeing any increase of saving deposit rates?

JP Dua

As of now, yeah.

Jyoti Khatri

So sir, you currently having a margin of 3.5% plus, so do you think the number is like the guidance that you had given is slightly on a lower side, I just want to understand what could be the factor?

JP Dua

My guidance is conservative, I agree with you.

Jyoti Khatri

But I want to understand what could the drivers that can bring down the margins like --?

JP Dua

We have been able to reduce our cost of funds. Two, we have taken care of operational efficiency. Three, we have been able to reprice our assets.

Jyoti Khatri

Okay. Sir, thirdly on the delinquencies in your Power sector loans, I understand my questions are repetitive, but still you are not seeing any delinquencies coming in that segment?

JP Dua

No, nothing and I don't foresee also because that stage is also over. Most of the projects are going off stream so project risk is coming to an end almost.

Jyoti Khatri

Okay, thanks.

Moderator

Thank you. The next question is from Abhishek Murarka from ICICI Securities, please go ahead.

Abhishek Murarka

Yeah, hi sir. Sir, just needed a few data points, what is the outstanding amount of bulk deposits or high value deposits that you have?

JP Dua

The bulk is the deposits which I pay higher rate of interest. 183 crores.

Abhishek Murarka

183 crores. Wasn't this number around 18000 crores last quarter?

JP Dua

No, that's the CD.

Abhishek Murarka

Yeah including, bulk deposits.

JP Dua

CD was 17,070 crores.

Abhishek Murarka

Okay, so 17070 crores plus this 180 crores whatever?

JP Dua

Yeah, in fact, CD is a low cost instrument.

Abhishek Murarka

Okay. Sir, could you also give me the risk weighted assets?

JP Dua

I can come back to you later.

Abhishek Murarka

Okay sir, and if you can just give us sense of what kind of sanctions do we have outstanding currently?

JP Dua

I have sanctions of about 22000 crores.

Abhishek Murarka

Okay, and what would be the level of let's say unavailed limits or something outstanding which you would have?

JP Dua

Around 25-30% of working capital will be unutilized.

Abhishek Murarka

Okay, so you said around 63-64% of loans would be term loans, the rest short-term would be mostly working capital. So out of that remaining 35-36%, 25-30% would be the unavailed limits?

JP Dua

Yes.

Abhishek Murarka

Okay, so roughly, I think 9-10% would be unavailed limit of your total loans?

JP Dua

Yeah that is in the system you know.

Abhishek Murarka

Okay, and sir, finally I just wanted to get a sense of, if I look at the movement in yield on advances, we seem to have passed on practically every rate rise over let's say the last few quarters, five or six quarters and sir given that we have a pretty large SME book, do you really think that book can absorb any more rate hikes without showing up any signs --?

JP Dua

That's why the last time also and this time also so far we have not revised the rates.

Abhishek Murarka

Okay, and so we basically feel that we have sort of reached the kind of tip of point and we cannot pass on anymore rates?

J.P. Dua

Perfect, I agree with you because you can increase the rate which borrower can absorb.

Abhishek Murarka

Right, so any further rate hike, suppose there is let's say another 50 bps rate hike, we don't propose to pass it on to at least the SME--

JP Dua

It will be difficult because that you are going beyond a level where the borrower may not absorb and then you face the delinquencies.

Abhishek Murarka

Okay, and sir just wanted to understand something on the cost side, out of this outstanding 17000 crores of CDs, what amount would roughly mature by the end of this year?

JP Dua

It's an ongoing process, because we are not going for one-year CD, we go for short period CDs, where the cost is very less.

Abhishek Murarka

So roughly 50% would be 6 months CDs or so?

JP Dua

Or three months CDs.

Abhishek Murarka

6 or 3 months?

JP Dua

Yeah.

Abhishek Murarka

So around let's say --?

JP Dua

It goes on, because sometime we may not odd period also CDs you get it that is all, because when the demand comes then only you need money and this is the best way because you take for short-term and then you build up your own resources.

Abhishek Murarka

Okay. Right sir, great and good set of numbers, congratulations for that.

Moderator

Thank you. There is a question from Dhawal Gala from Birla Sunlife, please go ahead.

Dhawal Gala

Thanks for taking my question again. I just wanted to ask you in the current quarter, you mentioned the restructuring, the company will be considered under Power sector or which sector because in our presentation it has been showing there is some restructuring done in the Power sector?

JP Dua

No Power is in first quarter, that was Lanco.

Dhawal Gala

Okay, thanks.

Moderator

Thank you. The next question is from Abhishek Murarka from ICICI Securities, please go ahead.

Abhishek Murarka

Sir, thanks for taking the question again. Just missed out on one point. Sir, what would be the outstanding percentage of SLR in the investment book?

JP Dua

31% today. That's what I said that we have passed the excess money in SLR and we have purchased treasury bills because they can be encashed next day, you can have the money also.

Abhishek Murarka

Right, at the end of June, what was the outstanding SLR?

J.P. Dua

I don't have sorry. But I have the figure for September '10 it was 28%, March also it was 28%.

Abhishek Murarka

Okay sir, that's helpful. Okay, thank you sir.

Moderator

Thank you. There are no further questions. I would now like to hand the floor over to Mr. Kashyap Jhaveri, Emkay Global for closing comments please.

Kashyap Jhaveri

On behalf of Emkay Global, I would once again like to thank Mr. Dua for giving us this opportunity to host the call and thank you all the participants also for joining the call today. Have a great evening. Thank you.

Moderator

Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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- Note:**
1. This document has been edited to improve readability.
 2. Blanks in this transcript represent inaudible or incomprehensible words.

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