



“Union Bank of India Earnings Conference Call for the Period Ended June 30, 2024”

July 20, 2024



MANAGEMENT : Ms. A. MANIMEKHALAI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

SHRI NITESH RANJAN – EXECUTIVE DIRECTOR

SHRI RAMASUBRAMANIAN S. – EXECUTIVE DIRECTOR

SHRI SANJAY RUDRA – EXECUTIVE DIRECTOR

SHRI PANKAJ DWIVEDI – EXECUTIVE DIRECTOR

SHRI AVINASH PRABHU – CFO

SHRI AJAY BANSAL – HEAD, INVESTOR RELATIONS

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Union Bank of India Earnings Conference Call for the Period ended June 30th, 2024.

The Bank is represented by the Managing Director and CEO – Ms. A. Manimekhalai, Executive Directors – Shri Nitesh Ranjan, Shri Ramasubramanian S., Shri Sanjay Rudra, Shri Pankaj Dwivedi and other members of the Top Management.

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 this conference, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded.

Now, I hand the call over to Mr. Ajay Bansal – Deputy General Manager. Thank you and over to you, sir.

Ajay Bansal: Thanks, sir. Good afternoon, ladies and gentlemen. I, Ajay Bansal – Head of Investor Relations, welcome you all for Union Bank of India Earnings con-call for the period ended June 30th 2024.

The structure of the con call shall include a brief opening statement by respective M.D. and CEO ma'am, and then floor will be open for interaction.

Before getting into the con-call, I will read out the usual disclaimer statement. I would like to submit that certain statements that may be discussed during the investor interaction may be forward-looking statement based on the current expectations. These statements involve a number of risks, uncertainties and other factors that cause the actual result to differ from the statement. Investors are therefore requested to check this information independently before making any investment or other decision.

With this, I now request our respective M.D. & CEO ma'am for her Opening Remarks. Thank you and over to you ma'am.

A. Manimekhalai: Good afternoon to all of you. I welcome you to Union Bank Financial Results Announcement for the 1st Quarter ended June 30, 2024. Thank you for joining us today. I trust you have reviewed our results.

Let me “Provide an Overview of our Performance and Key Highlights for this Quarter”:

The 1st Quarter is typically a flat season compounded by election impact and annual staff transfers, resulting in not-so-good business growth.

As far as the banking industry is concerned, the credit growth has been outpacing deposit growth, increasing competition for liability. We are mindful of this fact and implemented several strategies to address this challenge, which I will discuss in detail later.

The guidance versus the actual performance:

Let me just give you a brief with regard to what the guidance that the Bank had given and the performance of the Bank. The deposits have grown by 8.5% YoY, advances by 11.5%, largely in alignment with our guidance range of 9% to 11% for deposits and 11% to 13% for advances. Our NIM is at 3.05% surpassing our guidance of 2.8% to 3% for FY25.

On asset quality:

We are showing consistent improvement in the past several quarters. In line with our guidance, gross NPA reduced to 4.54% with gross recovery at 3,368 crores and slippages restricted to 2,318 crores.

With regard to my growth:

We aim for a sustainable growth balancing top line and bottom-line performance. As per latest RBI data as of June 2024, SCBs reported 10.6% YoY deposit growth and 13.9% growth in credit vis-à-vis our Bank reported 8.5% growth in deposits and 11.5% growth in advances. Both on YoY and QoQ basis, the deposits and advances of the Bank is positive. We are not growing our top line at the cost of our bottom line. CASA and retail term deposits form 72% of our total deposits and we are maintaining this ratio consistently for a long time.

Now, with regard to my Q1 highlights:

Total business of the Bank reached Rs.21.36 trillion with deposits of Rs.12.24 trillion and advances at Rs.9.12 trillion, while our SB deposit registered a YoY growth of 4.6%, CASA on a whole grew by 3.7% and term deposits registered a growth of 9.5%.

We grew better under RAM advances by 14.5%, while large corporate advances grew by 7.8%. Higher growth, we have seen under gold and an education loan and also vehicle loans.

Net profit of the Bank has reached Rs.3,679 crores in June quarter, a growth of 13.7% YoY and 11.1% QoQ basis. Operating profit of the Bank is at Rs.7,785 crores with 8.5% YoY growth and 19.1% QoQ basis. GNPA has reduced by 280 bps, net NPA has come down by 68 bps to 0.90%, PCR has improved by 263 bps to 93.5%. The credit cost improved to 0.73%, grew by 24 bps YoY. ROA has improved to 1.06% and ROE to 15.7% as of June 2024. The implementation of the new investment norms has positively impacted our portfolio.

With regard to CASA growth, we have taken a lot of initiatives, and we hope to increase our CASA base based on the various initiatives that the Bank has taken.

During the quarter, the major achievements that the Bank has achieved is S&P Global Rating has revised our outlook to positive aligning with the sovereign rating of the country. India Rating upgraded our rating to AAA Stable, one notch up.

We have opened the first branch in Lakshadweep at Agatti and also opened 12 premium branches in the RUSU locations.

We also have a plan to raise capital to the extent of Rs.10,000 crores for FY25. It has been approved by the board, of which Rs.6,000 crores will be equity and Rs.4,000 crores through AT 1 and Tier 2 instruments.

In conclusion:

I want to emphasize the Bank has been very consistent in performance. Our balance sheet is quite strong, stable and sustainable. The key initiatives we have taken with regard to underwriting capabilities, centralization, verticalization, HR transformation, and robust assurance framework all are yielding good results for the Bank.

Before I conclude, I want to address yesterday's outage regarding the Microsoft system. I want to emphasize that the Bank has not been impacted with regard to the outage.

I conclude here and now we are open for questions. Thank you.

Moderator:

We will now begin the question-and-answer session. The first question is from the line of CA Dr. Ashok Ajmera, Chairman Ajcon Global. Please go ahead.

Dr. Ashok Ajmera:

My only little observation and concern, ma'am, is on the credit and deposit growth, especially in this quarter which is totally I mean muted, 0.59% domestic credit grew, and the deposit reduced from Rs.11,99,197 crores to Rs.11,96,168 crores as far as the domestic deposits are concerned. So, this is my first question that in the remaining quarters like when we have to grow our credit books even as per your target of almost about Rs.1,10,000 crores, that is almost about Rs.36,000 crores per quarter minimum, how do we plan to grow that credit book and equally the deposit also, and which are the areas from where, because our agri portfolio has already grown much?

Ramasubramanian S.:

See, if you are looking at actually our growth, the banking industry is presently undergoing the equity trend that the deposits are very difficult and there is a high cost, it involves a large cost for the increase in the deposit, but at the same time, if you're looking at it, our retail, there is a steady growth of around Rs.3,000 crores we have increased in the quarter despite being one of the flat quarters normally in the banking industry, being the 1st Quarter. If you're looking at it, as madam has already informed that we are taking the main various initiatives for increasing our deposits. There will be a special focus on CASA. We have taken a project where we are reaching out to our ETB and also new-to-Bank clients for balancing the CASA accounts. As ma'am told, we have also opened some premium branches, catering to these clients. The premium branches will be only catering to the CASA clients so that there is a steady growth of CASA in the coming days. So, already the Bank is aware of the situations, and we have already initiated many, many projects in this regard to keep our market share at the existing level. As regards to credit, if you are looking at the last quarter also, our RAM sector growth is 14%, which is in tune with the market. There is a reduced growth in the corporate sector where actually because some of the low yielding advances have been shut down

during the last quarter, and our CD ratio also, we want to maintain between 73% to 76%. So, Bank is very well aware of it. If you are looking at the credit, once the private capex come into full Force, Bank is ready already, if you're looking at it, we are having an excess liquidity of around Rs.65,000 crores. So, Bank is ready to increase the portfolio in the coming days.

Dr. Ashok Ajmera: Ma'am, just due to the change in the classification and valuation norms of the investment, our AFS, there is an increase of Rs.1,702 crores which has gone to the general reserve. But, if you take it, our net worth which was Rs.87,601 crores given in the result and if you add the profit of Rs.3,678 crores, the total should come to Rs.91,279 crores but it is Rs.93,748 crores. So, net worth has gone up by Rs.2,470 crores versus the AFS increase in the valuation of the general reserve of Rs.1,702 crores. So, about Rs.700 crores has gone further into the reserve if you look at the networth difference between the March end and the June quarter. So, what is that component of that Rs.700 crores, the additional increase in the networth, is it zero coupon bond, some calculation?

Sudarshana Bhat: As far as investment in new norms are concerned, which has been implemented from 1st April onwards, whatever the impact on that general reserve is Rs.1,702 crores after tax, which has been added in the general reserve. In addition to that, around Rs.20 crores, whatever the June quarter addition is there, that has been added to AFS reserve. Total addition is Rs.1,722 crores on account of changes in the investment guidelines which effect from 1st April 2024 onwards.

Avinash Prabhu: This is Avinash Prabhu. Basically, the Rs.700 crores that you're talking about is the reduction in DTA. So, because there's a reduction in DTA, you're seeing that differential of Rs.700 crores. So, that's why our networth has increased.

Dr. Ashok Ajmera: That is why Networth has gone up another Rs. 700 crores. Ma'am, certain on the notes to the accounts, there is a fraud in the note #9, the fraud is reported Rs.465 crores, the outstanding is Rs.341 crores in this quarter in 128 basis. So, number one, it's a very high number in the first one quarter itself. Secondly, how much is of these frauds are on the borrower account and how much is on the digital and other cyber frauds and what are the chances of recovery out of this Rs. 341 crores outstanding which has been fully provided for?

A. Manimekhalai Maybe in terms of Reserve Bank of India guidelines, now all the frauds, even though if the Bank is not responsible for that, but it is on the digital platform, it has to be classified as fraud and we have taken this up with the RBI in this regard. So, almost like 70% to 80% of these frauds are digital frauds of small in nature and of course the remaining are credit and credit fraud that is happening. The Bank has taken lot of initiatives with regard to this. We have opened the separate transaction monitoring department in the Bank. We also have reconciliation department. We have put a lot of steps with regards to arresting the digital frauds as well as with regard to the various transaction fraud that's happening. Real-time monitoring of all the transactions are happening in the Bank. We are also putting velocity checks and customer profile, AI we have taken this. So, we are taking up a lot of measures to arrest the fraud and you must be aware that the Bank is operating at 24/7 cyber security operations center also at Hyderabad. So, with these initiatives, we hope to reduce the number of digital frauds that's coming up with the Bank, plus also the transaction frauds are happening within the Bank.

Classification: Public

- Moderator:** We will move to the next question which will be from the line of Mahrukh Adajania from Nuvama. Please go ahead.
- Mahrukh Adajania:** Ma'am, firstly on PSLC income, while of course it's always strong in the 1st Quarter, it is kind of doubled. So, who would be the main buyers -- would it be Foreign Banks, Private Banks, who are the main takers of PSLC because the demand this quarter looks to be significantly higher than last year, right, where last year's 1st Quarter also there was good income, but this time it's even better? And what is it that sells the most -- is it agri-gold or what? That's my first question and then I have a question on cost of funds as well.
- Sudarshana Bhat:** as far as PSLC is concerned, it is traded on the platform which is open to all the buyers. We are not able to understand who is the buyer and who is the seller. It is a platform where it will be dealt based on the demand/supply, but usually on observation during the last quarter, when the sale took place major buyers look to be a Private Sector Bank, who are in the segment.
- Mahrukh Adajania:** Sorry, I did not hear the last point.
- Sudarshana Bhat:** Private Sector Banks who are having the shortfall in that segment. It was traded at a range of Rs. 1.80-2.00 during the quarter.
- Mahrukh Adajania:** And then what would be the amount of recovery income or dummy interest in NII and any swap-related income in NII this quarter?
- Sanjay Rudra:** For the last quarter it was Rs.607 crores. And what you asked about the second question?
- Mahrukh Adajania:** In NII, you have some swap-related income every quarter, right? So, what was it this quarter?
- Sudarshana Bhat:** Yes, it will be around Rs.700 to 800 crores, madam. It is on par with the year and quarter basis, similar income. There is no change as much.
- Mahrukh Adajania:** Just one last question on cost of funds. Obviously, there's no business growth given that it's the 1st Quarter and it's a dull quarter for the banking sector. But, as liabilities are challenging, you yourself pointed out deposit growth being slower than loan growth and that there are special offers given by all Banks on term deposit, do you see an upward movement in the cost of funds in the quarters ahead, this quarter it has somewhat declined?
- A. Manimekhalai** Actually if you look at this, QoQ, the cost of deposits is slightly reduced by 5 bps over March '24. It is because we did not take much funds in the market and we have got enough of liquidity with us. That's the reason the cost of deposits has fallen in this quarter. But going forward, looking at the increase in advances, we would like to borrow funds or raise more term deposits and that is the time that we will be looking at increasing probably rate of interest. And as of now we are very competitive in the market with regard to deposit rate and we look at the tight liquidity position and dividing gap between the deposits and the credit growth, plus we also have quite good excess SLR growth. So, we were not looking at increasing the cost of deposits to a great extent.

- Moderator:** The next question is from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead.
- Suraj Das:** Couple of questions. One is on the yield on advances, that has declined on a QoQ basis. If you can shed some light, I mean, what is the actual behind that? And has there been any impact because of this revised payment charges guidelines?
- A. Manimekhalai** Yes. Yield on advances has declined by about 15 days, primarily due to the fall in our DL recovery. About 11 bps impact it had because of the DL recovery compared to the previous quarter. We also saw a small increase in the average advances, that's about Rs.10,000 crores increase in the average advances. That's the reason there has been a decline, and plus if you look at this we were able to pass on the MCLR reset of only 25 bps during the year. So, that is the reason that if you look at YoY there is a decline in the yield on advances.
- Suraj Das:** So, the second question is on the standard asset provision. So, I think this quarter you have provided something like Rs.1,300 crores and similarly, I think if I see let us say SMA-0, that book has also increased. So, if you can shed some light here?
- A. Manimekhalai** Standard asset provisioning, we have done to the extent of about Rs.1,296 crores. It's increased to that extent. This increase is due to an anticipated distress or potential restructuring in a couple of accounts. That's the reason that we have done this additional provisioning.
- Suraj Das:** And then the rational of increasing?
- A. Manimekhalai** Rational also is there in SMA-0. That's the reason that our SMA-0 numbers have also gone up.
- Suraj Das:** Last question would be on the NBFC growth. I think in your corporate slide deck, you have given the exposure to NBFC has grown substantially on a QoQ, YoY, both basis. So, I mean how you are looking at this growth probably in the coming quarters?
- A. Manimekhalai** No, if you look at QoQ, there is not much of an increase in NBFC, but YoY of course from Rs.1,07,795 crores to Rs.1,20,065 crores that's how the NBFC book has grown. But we have shared lot of numbers on the NBFC book plus our other low yielding advances book also close to Rs.15,000 crores is what we have.
- Ramasubramanian S.:** To add to that, if you are looking at other Banks growth in NBFC, it is from the RBI data, we find that it is a 15% growth is shown, whereas our growth is around 14%. Still, we are having a room we will be taking.
- A. Manimekhalai** We have shared almost Rs.5,000 crores in our NBFC book. If you look at December '23, it was at Rs.1,25,540 crores and today we are at Rs.1,20,065 crores.
- Suraj Das:** What could be the rating here? I'm assuming this would be double A or AAA rated NBFCs?

- A. Manimekhalai** Yes, my NBFC portfolio, if you look at almost like 99% is A and Above and 1% is Triple B and Lower.
- Moderator:** The next question is from the line of Dixit Doshi from Whitestone Financial Advisors Private Limited. Please go ahead.
- Dixit Doshi:** So, I have three questions. Firstly, as you mentioned that the standard asset provisions we are anticipating some loan accounts defaulting. So, also do you feel that we will increase the standard asset provision going forward also or it was maybe one-off this quarter and this will be such high provisions in the future quarters as well?
- A. Manimekhalai** Yes, this is a one-off provisioning of a certain couple of accounts and that's the reason that we have done this.
- Dixit Doshi:** So, from next quarter onwards, this amount will be lower.
- A. Manimekhalai** Yes, in the next quarter, it may not come up.
- Dixit Doshi:** My second question is regarding this recent Telangana Government farm loan waiver. So, first thing is, will it impact us? And also, secondly so how this will be recorded in the books of accounts, will it be like those accounts move to the entry and the government will pay us at a later stage or I think the amounts are transferred to the farmers account, so can we do the auto debit kind of?
- A. Manimekhalai** It's done usually, the amounts are credited to the farmers account and from there it is credited to the loan account. And it has just started. So, we will not know the impact because we are doing it in two phases. The second phase will be completed by August 15th. So, we will know the exact by that time.
- Dixit Doshi:** The amount will be transferred to loan account. So, we don't anticipate a significant jump in the GNPA because of this, right?
- A. Manimekhalai** No.
- Dixit Doshi:** So, our capital adequacy is quite strong at 17% and we are targeting a growth of 11% to 13%. So, this Rs.6,000 crores equity raise, is it just the provisional approval we have taken, or do you really feel that we will require this much fund?
- A. Manimekhalai** Yes, we are quite comfortable, as you say, with regard to the capital adequacy is concerned, we have enough capital to take care of our growth. But we have taken a board approval to raise capital in case there is a capital cycle revival and then the growth profits the Bank also increases and the ecosystem also increases, we would like to have more capital to take care of that.
- Moderator:** The next question is from the line of Jai from ICICI Securities. Please go ahead.

- Jai:** My question is sorry again on this standard assets provisioning of Rs.1,200 and plus crores. Is this entirely due to some rising the SMA that you have seen, or this also includes the usual higher provision on restructured assets?
- A. Manimekhalai** Because of those couple of accounts that we are finding a potential stress, that's the reason that it has been done.
- Jai:** These are like large corporates, right? So, if you can mention the sector and the like overseas account also?
- A. Manimekhalai** Not overseas sector, these are domestic ones only.
- Jai:** And the amount even if I look at SMA right, it is only Rs.5,000 crores, usual trend of Rs.1,000 crores. So, it looks like that the increase is more like Rs.4,000 crores?
- A. Manimekhalai** Yes, exactly.
- Jai:** And against that you have taken a like 25% kind of provisioning?
- Avinash Prabhu:** Yes, but Jay, it's not necessary that these accounts have to be in SMA. So, we have looked at the overall book and We have identified like ma'am said a couple of cases where we could need additional provisioning and that's why. So, it's not necessary that it has to tie-up with the increase in the SMA book.
- Jai:** If you could mention the sector of these potential accounts, just to understand sector color there?
- Avinash Prabhu:** Unfortunately, it covers a few sectors, and we don't want to get into those details at this stage.
- A. Manimekhalai** Jay, no, as I told you, these are potential numbers that we are looking at. We have been upfront about it. So, we do not know how those accounts are going to behave. But as a prudent governance method, we have already provided for them.
- Jai:** Then there's a question on this AFS new guidelines, right. In convention to that, there is a sharp cut in the AFS book also in absolute amount in both SLR and non-SLR, very sharp reduction in the absolute amount and similar to that I was under the impression that treasury income may decline because of this new guidelines. So, two questions here. One is why there is so much sharp cut in the AFS and non-SLR book in the AFS category, why not too much impact on the treasury income?
- Sudarshana Bhat:** As far as treasury is concerned after the new guidelines, AFS book will not be treated as a trading book, it is a banking book. So, whatever the trading position to be taken, that should be taken in the HFT book. So, we have taken the position in HFT book instead of AFS book, and we have strategically done the exercise and we could able to book similar amount of profit which even otherwise annual shifting, other activities are not there, still we could able to generate a year-on-year

equivalent profit. That is the main reason for generating the equal amount of profitability in the treasury during the current quarter.

Jai: Sir, there is Rs.150 crores of positive impact in the P&L, right, because of this treasury, because of these norms. If you could explain sir, what is that?

Sudarshana Bhat: That is the mark-to-market gain on that which is not booked. It is accounted for daily basis and even quarter-end also. As per the new guidelines, we have to be done on the fair value and daily impact on all those portfolios will be taken into account in the P&L account. Since our HFT portfolio is having a position which is having a positive gain, that has been added to the P&L.

Avinash Prabhu: See, basically this is the consequence of the new guideline, right. So, you see this across the banking sector where because there's a split in the held to maturity, AFS and FVTPL you see that these movements would happen in the 1st Quarter, but obviously you may see lesser volatility in the subsequent quarters.

Jai: Ma'am in your opening remarks, you mentioned initiatives in CASA, and I think you mentioned a range of the loan to deposit ratio also. So, is that fair to say that loan growth in the near-term for next one to three quarters would be similar to deposit growth, right, I mean as you grow deposit, you will be able to lend as well, is that a fair understanding?

A. Manimekhalai Yes, that is our strategy. We want to grow our deposits in line with our advances growth, but we have given our guidance for the year and we will be keeping to the guidance that we have given, but however, we have taken a lot of steps with regard to increasing the liability portfolio of the Bank and as I told you in the very beginning that we have also taken a consultant on both to increase to give us guidance on how to increase deposits, plus we are opening new branches and we are also opening new premium branches at RUSU locations to see that our deposits are growing. We have also established a customer service excellence cell for better service and complaint management and to take care of our existing to Bank customers. So, there are many strategies that the Bank has implemented during the last half year, and we hope to see good results and the gap between the deposit growth and advances growth will be reduced.

Kanika Pasricha: This is Kanika, CEA. So, there are a lot of questions coming on wedge between credit and deposit growth and this whole issue around cost of deposits. While for our Bank, this quarter has been favorable, but overall, for the system we have seen on a macro basis, if you actually see the RBI itself in the latest financial stability report has come up with an analysis which shows that in high growth phases, typically, the wedge between credit and deposit growth lasts for 2 to 4 years. Now in the current cycle, which has started from April 2022, this wedge has been initiated between credit and deposit growth. 26 months have passed. We still have a year to go and the RBI itself is acknowledging that even for the next 12 months, that is going by historical examples of experience, this wedge may persist between credit and deposit growth. Similar issue for our Bank is actually for the system as well and it's reflecting in our guidance too. The second point is everybody is talking too much about CASA cost of deposits. Cost of deposit today for the banking system as a whole is

witnessing upward pressure. We have been lucky in this quarter, but broadly the risk is on the upside purely because CASA as a segment is witnessing a structural slowdown. There are two points. One is of course the structural slowdown, because households are shifting their savings mix from deposits to equity in small savings and we are anecdotally facing that. And the money roots back to the banking system in the form of a TD or a bulk deposit. So, CASA is facing structural slowdown and in high-rate periods, CASA ratio usually comes down, that is true for our Bank as well. And in fact, it's true for every Bank on street especially in this quarter where Q-o-Q, there has negative CASA growth. Last but not the least, what we will actually see is that CASA is facing a structural slowdown, the wedge between credit and deposit to persist for deposit is real in this financial year. They are causing some upside risk to cost to deposits as well. Thanks.

Jai: Yes, sure. That's very helpful. One last question is on restructuring provisions. So, we have a restructuring book of around Rs. 11,000 crores – Rs. 12,000 crores. How much is the restructuring provision that we have? And it looks like that we may be seeing ECL implementation very soon. Do you envisage any additional provisioning a) on the total loan and b) specifically on the standard restructured book? Thank you.

A. Manimekhalai: With regard to, in the meantime that we get the numbers for restructured book, ECL, we will not be having much of an impact. We have lived into that portfolio, ECL will not be having major impact on the Bank numbers. The banking sector is in a relatively better position now in terms of asset quality, capital adequacy and profitability. And we will be able to absorb the impact condition of the ECL and I know the timelines will be given for one year timeline to implement the ECL norms after the final guidelines and the news is that it will be implemented for FY26-27. So, in this scenario, we will not have a substantial impact on our balance sheet with regard to ECL.

Avinash Prabhu: So, there, the restructuring book is very small. So, we will get back to you on the amount, but it's only about Rs. Rs.22,000 crores and we will come back to you in terms of how much, about 39% of that is NPA.

A. Manimekhalai: 36% of the restructured book is NPA.

Avinash Prabhu: Correct. So, we will come back to you on the amount provided, but it would be significantly covered in terms of provision.

Moderator: Thank you. We have the next question from the line of Prabal from Ambit Capital. Please go ahead.

Prabal: Ma'am, just a clarification first. I was asking the clarification that the reversal of penal charges, that 11 basis point on advances, is that the correct understanding? And this was for how many quarters prior?

Ashwini Choudhary: Meaning?

Prabal: Meaning how many quarters prior penal charges have been reversed in this?

- Ashwini Choudhary:** If you're referring to the penal charges introduced by RBI instead of payment charges guidelines you are referring. So, there is no significant impact of that movement because all charges are generally collected as and when it is applied. So, compounding was anyway had a very limited impact, so it will not have any significant impact in terms of amount.
- Prabal:** So, would it be fair to say that let's say from next quarter this 11 basis points will get added to your loan book and it will continue thereafter?
- Sanjay Rudra:** Basically the 11 bps interest yield on the advances has come down primarily because Rs. 850 crores last quarter we recovered the dummy ledger interest around Rs. 850 crores. As it is Rs. 850 crores, this quarter the dummy ledger interest recovery is around Rs. 607 crores. Almost Rs. 243 crores shortfall is there because that has impacted 11 bps interest reduction in the yield on advances and in fact penal interest and penal charges, it has not major impact on Bank's earnings.
- Prabal:** My second question is on the agriculture book that's growing pretty strong at 23%. So, what is dialing that?
- Sanjay Rudra:** CASA book is primarily we have grown in around 23% year-on-year basis in the last quarter. In that, we have both the KCC and infrastructure lending, investment credit was the major focus. But that also our gold loan portfolio has also helped in increasing our agriculture advances.
- A. Manimekhalai:** Agri book, as ED said it's gold loan increase was also there plus agri SHG that also has grown substantially to about 30% growth we have seen in agri SHG. Investment credit, food and agro and all this has been helped us in increasing the agri book. Also, you must be also aware that 59% of my branches are in the RUSU market. So, that's the reason that we are having a healthy growth in our agriculture portfolio.
- Prabal:** How do you look this growth going ahead?
- A. Manimekhalai:** We would be growing consistently. We have been growing at 21% or 22% in my agri book. So, it will be increasing in the same level. In the interim budget, the FM also talked about the GYAN, that rural also was the main focus of the present Government. So, we are looking at growth in those locations also. Agri infra is one portfolio that we are very aggressively looking at. So, my portfolio will have a good growth in the agriculture.
- Prabal:** Prior to you, agriculture book had a lot of NPA, so after you taking charge, have you made any strategic tweaks in the way it is getting underwritten?
- A. Manimekhalai:** Yes, agriculture, NPAs are there of course. But we have a very robust OTS system there where we are able to immediately settle the agriculture NPAs and also give loans apart from that. We have also seen some debt waiver schemes from one or two states, so this will reduce the NPA agriculture. We started off with almost like 10% in June 23, today we are at 8%. That's the kind of secured NPA that we have seen in our agriculture. It's coming down year-on-year.

- Sanjay Rudra:** And supplement to what ma'am said, we change our strategy for the agriculture also. Our major focus now if you see for the last 1 or 2 years, we have focused more on the SHG fund lending also where we are growing at a 30% and the delinquency rates are very low. In addition to that, the major NPA which was seen over the period of time was in the farm credit and that also we have changed mostly from the farm credit to investment credit also. So, with all this strategy, our overall NPA percentage has come down and it is in fact further improving with the recent debt waiver which has been announced with few of the states. There also we are finding not much, but some positive impact on our recovery side also is happening.
- Moderator:** Thank you. The next question is from the line of Rakesh Kumar from B&K Securities. Please go ahead.
- Rakesh Kumar:** Ma'am, first question is with respect to this Rs. 1,296 crores standard asset provision that we have made. So, what is the outstanding number against which we have made this kind of provisioning?
- Sanjay Rudra:** No Rakeshji, we will not be able to tell you the exact number against which we have created. These are the general provisions we have made, but as you will find that some of the accounts are already happening under the SMA zero category also and some are still not happening under the SMA category also. So, there are couple of accounts for which we have made the additional provision on this standard provisions we have made.
- Rakesh Kumar:** I was saying, ma'am, that generally whenever there is such occurrence, we start with making 15% to 20% provision, right ma'am?
- Sanjay Rudra:** Yes, it will be in similar line only.
- A. Manimekhalai:** 15% to 20% provisions.
- Rakesh Kumar:** Ma'am, the interest income coming into the NII line, this quarter it was Rs. 607 crores. Last year FY24, we had Rs. 3,065 crore. So, would we like reach similar kind of number of Rs. 3100 crores by FY25?
- Sanjay Rudra:** Yes. This being the 1st Quarter, we were aware that this quarter we had an election, and all transfers has happened. So, there was slightly, the recovery itself was slightly muted because of the various factors. One of that majorly is because of the election also. So, we hope that as we have already projected Rs. 16,000 crore of recovery in NPA. So, we will be able to meet Rs. 3,100 plus crore of recovery in the dummy ledger interest.
- Rakesh Kumar:** Ma'am, the small and marginal farmer, now we have 11.3% as against benchmark of 10%. So, like this quarter we have sold quite a lot of like and we have gained quite good gain also of around Rs. 950 crores. So, what is the sustainability of that number considering that now we have a new base of ANBC as compared to 4th Quarter we had 13%, similar number. So, like what is the prospect of this PSLC in remaining quarter?

- A. Manimekhalai:** Yes. PSLC, usually we gain in the 1st Quarter. We do not do this in the next quarters also, but the small and marginal farmers, we will be able to sustain this growth. As I told you earlier also that our growth in agriculture is quite good and we will be able to meet this requirement of S&MF on a quarterly basis.
- Moderator:** Thank you. The next question comes from the line of Srikarthik Velamakanni from Investec. Please go ahead.
- Srikarthik Velamakanni:** Thank you. I have a question on the AFS book. You mentioned our excess liquidity is roughly Rs. 65,000 crores whereas the AFS book itself aggregates to Rs. 25,000 crores. So, how do you intend to really deploy this excess liquidity because largely logged in the HTM portfolio?
- Sudarshana Bhat:** We have kept the AFS portfolio after the new guidelines, it will be treated as a banking book, not a trading book. Whatever excess liquidity we provided depending upon the requirement, we have taken strategic position in the different segment to generate additional gain on account of fluctuation in the bond yields as well as expectation of the rate cut. Accordingly, we have positioned ourselves in various segments to take the advantage of the market movement during the current fiscal.
- Srikarthik Velamakanni:** Yes, sir. Part of the liquidity will have to be sold from the HTM book also, right?
- Sudarshana Bhat:** Now we kept depending upon the requirement 60%, 20%, 20% and it can be easily accessible and can be disposed of as and when required the liquidity requirement. It will be in **50:48** which can be disposed of as early as possible, which will not be kept in HTM portfolio.
- Srikarthik Velamakanni:** Understood. And in this quarter, what is the percentage of recovery in our net interest income?
- Sanjay Rudra:** Dummy ledger interest recovery is around Rs. 607 crores for the June quarter.
- Avinash Prabhu:** So, just to clarify, if your question is on the recovery in written off accounts in the non-interest income, it's Rs. 954 crores.
- Srikarthik Velamakanni:** No, this was a dummy ledger income.
- Moderator:** Thank you. The next question comes from the line of Kunal Shah from Citi. Please go ahead.
- Kunal Shah:** So, on gold loan, what is the quantum of gold loan out of this Rs.1,90,000-odd crores? And what was that year prior to that and what would be the GNPA's out there?
- A. Manimekhalai:** Total portfolio of gold is about Rs. 78,000 crores and out of that, Rs. 66,000 crores is in agri.
- Kunal Shah:** So, in agri, it is Rs.66,000 crores and this Rs.66,000 crores compared to last year?
- A. Manimekhalai:** Rs.43,000 crores in June 23.

- Kunal Shah:** And in terms of the GNPA's out there, how would it be GNPA proportion in that portfolio?
- A. Manimekhalai:** In gold?
- Kunal Shah:** Yes, in agri gold.
- Sanjay Rudra:** GNPA is around approximately 0.02%.
- Kunal Shah:** So, assuming that Rs. 66,000 crores is almost zero. So, when we look at the agri GNPA at maybe almost 8.13%, then ideally on the other proportion, it should be relatively on the higher side. So, what improvement we are seeing from 9.92% to 8.13% that is primarily coming because of almost like zero GNPA on the agri gold loan.
- Sanjay Rudra:** Yes, that is one area. Similarly, in the SHG also, the GNPA is very low, exact number is less than 2% in the SHG portfolio also. And when we move towards the investment credit, there also the GNPA is low. Primarily, the GNPA was high on account of the farm credit, which is gradually, we are not increasing much on the farm credit but in other area we are increasing our portfolio. So, not only when the SHG and also the investment credit has helped the Bank to improve the reduction in GNPA in the agriculture portfolio.
- Kunal Shah:** And in terms of the standard asset, you mentioned like it could be 15% to 20% provisioning on the outstanding on an average and there would be only couple of accounts which would be there in that provisioning. And any impact on interest income because of that?
- Avinash Prabhu:** Currently no impact.
- Kunal Shah:** So, interest is still getting recognized on that?
- Avinash Prabhu:** Yes.
- Moderator:** Thank you. The next question is from the line of Rahil Shah from Crown Capital. Please go ahead.
- Rahil Shah:** I'd like to know where is our return on assets and cost-to-income ahead? So, if you have any guidance outlook for FY25?
- Avinash Prabhu:** Cost to income ratio, we are in the 44% range, 44.08%. So, in terms of guidance for cost to income ratio, where we not formally given out any guidance, we expect to be in the range of about 45% to 45.5% somewhere there. So, it will be between that 44% range to the 45.5% range. The reason why we say this is because if you look at our peers, they have a much higher cost to income ratio. So, we have room for investment and that's the reason why we don't. We're not actively looking at bringing this down further.
- Rahil Shah:** ROA?

- Avinash Prabhu:** ROA, we have given a guidance that we will be above 1% and that's what We have achieved in Q1.
- Rahil Shah:** So, any further room for improvement on ROA expected ahead?
- Avinash Prabhu:** We will obviously, I mean I think ma'am in her opening remarks also said that we will not chase growth for the sake of growth, and we will obviously keep in mind the metrics. So, obviously we will look at opportunities to improve the ROA, but we don't want to give any specific guidance on that.
- Rahil Shah:** And any branch opening targets. Have you released that as well?
- A. Manimekhalai:** Yes, branch opening, yes, we are looking at opening branches at RUSU locations and other locations also. We have also rationalized about 25 branches in the current year last year of course. And this year we would be opening about 200-250 branches. And basically, these branches will be in the premium kind of a branches. We have opened 28 premium branches in this year and these branches, we have also taken a lot of analytical tools and digital tools to see that the branch locations are properly done and especially in high growth centers, we are looking at opening of branches.
- Moderator:** Thank you. The next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.
- Ashlesh Sonje:** Good afternoon and congratulations on the good numbers. First question is on the fee income front, the growth in fee income was quite strong in this quarter. Are there any exceptional items here?
- Avinash Prabhu:** Yes, like we covered earlier on the call, PSLC fees, we have got about Rs. 955 crores. That is generally a Q1 event. So, we would not see that recurring in subsequent quarters to this extent.
- Ashlesh Sonje:** And I'm referring to just the fee-based income which is Rs. 2,868 crores for the quarter?
- Avinash Prabhu:** That's right.
- Ashlesh Sonje:** I believe PSLC is separate from that one?
- Avinash Prabhu:** No, that's included in that.
- Ashlesh Sonje:** Secondly, if I look at the provision on investments, there has been a reversal in the last couple of quarters. Can you elaborate what is causing this?
- Sudarshana Bhat:** From 1st April onwards, new accounting guidelines has taken place. Earlier whatever the MTM gains are there in AFS portfolio that will be taken in the P&L account. But during the current quarter onwards, the AFS book will not be a trading book, it will be a banking book. And daily basis, mark-to-market with the fair value will be happening and whatever the impact will be there that will be taken into P&L account. Accordingly, current quarter there is very limited scope. In earlier quarter,

that option was available. Now in the new guidelines, the MTM gains on the AFS books were not available. That is the reason it is showing that.

Ashlesh Sonje: Thank you, Sir. I was referring actually to the provision on NPI, non-performing investments that has been negative in the last couple of quarters?

Sudarshana Bhat: As far as non-performing investments are concerned, we will provide 100% provision due to a variation in the market value of those equity instrument which has resulted into gain that has to be reversed back. That is why there is a Rs. 300 crores reversal is there in that segment which is shown as reversal of MTM gain on the NPA item.

Ashlesh Sonje: Lastly, on the recoveries from written-off accounts which go into non-interest income, that item was also fairly strong in this quarter given that this was an election related disruption quarter. Was there any one-offs in this Rs. 955 crore number?

Sanjay Rudra: No. These are mix of various accounts. It's not one-off item is not there. And on an average, we recover around Rs. 1000 crore plus in technical write-off. Last year also, it was Rs.4000 crore plus for the entire year. This year also we expect a better recovery because we have kept a higher target for overall recovery and accordingly our TWO recovery also will be Rs.4000 crore plus which earlier also we have discussed.

Moderator: The next question is from the line of Anurag Mantry from Oxbow. Please go ahead.

Anurag Mantry: So, two questions, one is on the credit cost. So, I think this quarter is celebrated as a percentage of the net loan which is about 1.26%. And I think your guidance in general has been about less than 1% for the year, so do you see that you had levers to resell less than 1% mark by the end of the year? That's number one. And the second question is regarding the ECL. In fact, if you can just quantify that amount and if you know the capital raise that you're planning of about Rs. 6000 crores, is that related to ECL impact at all?

Avinash prabhu: Credit cost. What did you say? You said the impact is 73 basis points and then yes, we have given a guidance of less than 1%. So, yes, we're looking at sticking to that.

Anurag Mantry: No, I think the credit cost analyzed number for this quarter is 1.26% on net loans, that's higher than the 1% that you've guided for is my understanding. So, just wanted to get a sense of what the levers could be to get that 1.26% down to 1% through the year and looking at the gross numbers?

Avinash prabhu: Our credit cost is 73 basis points. We look at it from a standard advances point of view. So, that is what we are looking at in terms of guiding. So, we would look at keeping a control on that unless there's any one-off event but that is what we're guiding in terms of keeping it below 1%.

Anurag Mantry: And the second one on the capital raise and the ECL?

Avinash prabhu: On the capital raise, like was mentioned earlier, we have got a board approval for Rs. 10,000 crores. We will look at opportunities in the market. Obviously, we currently have a very strong capital ratio. So, we don't immediately see a need for capital, but if there is a growth in our advances book and increase in our risk weighted assets, we will approach the market at the opportune time. It is not linked to ECL.

Anurag Mantry: And could you quantify the ECL impact roughly?

Avinash prabhu: So, we have been monitoring ECL over the past few years. The gap between what is required under ECL and what's required under the current accounting norms has narrowed down significantly. So, we obviously are waiting for the final guidelines on ECL because the Reserve Bank of India has indicated that they may finalize the ECL guidelines this year, but the gap has narrowed down significantly. We are not in a position to publicly mention that number.

Moderator: Thank you. Ladies and gentlemen, we will now take one last question, which will be from the line of Nikhil Agarwal from VT Capital. Please go ahead.

Nikhil Agarwal: I have two questions. One is with regard to the standard accounts that may be potentially stressed, like you said that there could be a 15% to 20% provision. So, assuming a 20% provision, the amount comes to Rs. 6500 crores and the SMA is Rs.5000 crores right now. So, my question is like you said, some of the accounts have come and some have not come into SMA till now. So, what is the bifurcation if you could explain that? And secondly like you mentioned, the different efforts of shifting from farm credit to investment credit, which is helping and bringing agri NPA down. Similarly, what are the efforts in bringing MSME NPA down as well because that is also significantly higher at 8%. These two questions please.

A. Manimekhalai: Yes. With regard to MSME, NPA is bringing it down. If you look at my MSME book, almost 50% of my MSME book is in the micro advances and which is 75% collateral is available in the form of CGTMSE. So, we are very mindful of that and of course in the other sectors of small and medium, there is a robust mechanism to improve underwriting and of course the recovery mechanism also is good. Plus, we have got substantial collaterals in base account that's the reason that if you see the NPAs in my MSME book is coming down. And with regard to your question of SMA, the total SMA book consists of about, if you look at the June '24 book, it's about Rs. 5,144 crores and that's differentiated between retail, MSME, agriculture and the corporate. So, that's the number that we have. Retail is close to about Rs.200 crores, MSME about Rs.1000 and odd crores, agriculture is also to that extent, so it is equally distributed among the portfolios.

Ramasubramanian S.: Only thing you have to understand that see some of the things, maybe the interest as already we have replied, the interest would have come but we may be entering into ICA because of some defaulting somewhere else where there will be some restructuring will be going up. These are all in a very fluid stages. We are hoping to resolve it quickly. Otherwise as a precaution it has been done.

Avinash Prabhu: Like we mentioned in notes to accounts, this is on a prudential basis, right. So, therefore we have just looked at our accounts and we said, okay, fine, the Rs. 1,200 crores seems to be appropriate at

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this point in time and would cover our risk. And that's what We have done. We are not getting into further straight into how much is SMA, how much is standard, etc. That's the number that we have in mind in terms of what could be the right number for this quarter.

Moderator: Thank you. That would be our last question for today. I would now like to hand the conference over to the Management for closing comments.

Ramasubramanian S.: Yes. Good afternoon to all of you. See, as you can see that despite the difficulties or the challenges happening in the banking sector, we focused on only one thing that is sustainable and steady performance for our Bank and as already explained in our opening remarks by Madam that we already taken a lot of initiatives to encounter these challenges which are happening, and we will be more focused on that. We can assure you that the management is focused on the dynamic changes and the challenges happening in the market and we hope to get the same amount of support and cooperation from all of you. Thank you very much.

A. Manimekhalai: Thank you very much.

Moderator: Thank you. On behalf of Union Bank of India, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.