Q4 FY2021

EARNINGS CONFERENCE CALL

TRANSCRIPT

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Management:

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Moderator:

Good morning everyone. I hope everyone is safe and doing well. On behalf of Antique Stock Broking I welcome you all to 4Q Earnings Call of Canara Bank. We have with us senior management of Canara Bank represented by Shri LV Prabhakar, Managing Director and Chief Executive Officer, Shri Debashish Mukherjee, Executive Director, Ms. A Manimekhalai, Executive Director, Shri K Raju Executive Director, and other team members on the call. Without taking any more time, I will hand over the call to Shri LV Prabhakar, for his opening remarks, post which we will open the floor for Q&A. Over to you sir.

Mr. LV Prabhakar:

Thank you very much and very good morning to all of you. Regarding the highlights of the balance sheet as on 31st March 2021, first of all I would like to discuss something about the liabilities side. Then asset side, then recovery, along with slippages and then way forward. And also the impact of COVID and also the outcome of the amalgamation of e-Syndicate Bank with Canara Bank. As far as liabilities side is concerned, we have concentrated more on small deposits such as CASA and we have achieved 13.95% of growth Y-o-Y and now our CASA is at Rs 3.3 lakh crores. Retail term deposits, another focus area. We have increased by 16.37% Y-o-Y. Now it is at Rs 4.20 lakh crores. Bulk deposits we have discouraged and we have reduced it by 2.82%. As far as overall deposit growth is concerned globally we have grown at 11.5%. And as far as domestic deposits are concerned we have grown at 10.5% plus.

Now coming to the assets side, as we have said in our earlier meetings, we have concentrated more on retail advances. When I talk about retail advances, it is in terms of retail housing, agriculture & MSME, which is otherwise called as RAM segment, and it has grown at 11%. Retail has grown at 12%. Housing has grown at 15%, vehicle loans has grown at 13%, agriculture has grown at 17.4% and MSME about 2.5%. In total RAM has grown at 11%. This is a decent growth and in the earlier meetings we have said that going forward our percentage of RAM in the overall asset portfolio will be increasing, as we have projected. Now we have achieved 56% of RAM and corporate advances of about 44%. Going forward, the overall concentration will be more on RAM sector along with the balanced concentration on corporate financing also.

Regarding the growth in the retail sector going forward, we see that growth will be there and as of now we are not getting any enquiries from the corporates for capex. However, we are getting good proposals under infrastructure and also enhancement in some places where we are aggressively participating. Now coming to the income side, I am happy to share with all of you that the total income, especially the interest income in spite of reduction in the Base rate, MCLR and RLLR, the reduction is only to the extent of 2% Y-o-Y and we could maintain it about Rs 69,000 crores. As far as non-interest income is concerned, we have done very good performance in that one and the growth is very significant. For example, if you see our fee based income, we have grown at 19% Y-o-Y and 33% Q-o-Q and as far as recoveries in written off accounts is concerned, we have shown a very impressive growth of 19.56% Y-o-Y and Q-o-Q of course it is 185%. Regarding the other receipts again there is a growth of 46%. So total non-interest income Y-o-Y there is a growth of 40% and Q-o-Q it is 22% which is a very significant achievement.

Now coming to the NPA. During the Q3 results of FY21 we have uploaded the proforma NPA also and we said that our gross NPA as per the proforma NPA as on December 2020 is about Rs 60,000 crores. To be more precise it is Rs 59776 crores. As per audited results of March 2021, the gross NPA is at Rs 60288 crores. We said that gross NPA percentage wise, we are expecting about 8.95% and actual audited figure as per March 2021 is 8.93%. We had projected proforma Net NPA as Rs 24800 crores, and in reality it is exactly Rs 24442 crores. We said that Net NPA percentage maybe at 3.93% and the actual is at 3.82%, lesser than what we had projected. For Provision Coverage Ratio we said that it will be 79.45% and it is at 79.68%. Credit cost we said it will be somewhere about 2.28% and actually it is at 2.09%. Yes, slippage ratio is about 2.35% and taking into consideration our asset size of Rs 6.75 lakh crores, it is coming to about Rs 16600 crores. Exactly when you compare it with the last year that is FY20, the slippages were to the tune of Rs 22600 crores. It has come down to Rs 16600 crores. Adding recoveries our total reduction is to the extent of about Rs 18,000 crores. So basically when you compare the absolute figure of gross NPA with March 2020, there is reduction of about Rs 800 plus crores and in the net NPA there is a reduction of about Rs 2000 crores. Percentages as projected we have maintained those things. This is possible because during the pandemic period, when the people were working from home, we had given specific tasks to our people to be in constant touch with our borrowers and also the depositors to explain them about the benefit of repaying and availing the fresh funding. So most of our borrowers have responded to that and during normal period the percentage of recovery as it is called, ‘collection efficiency’, is to the tune of 92%. Now in April, when the pandemic is now at the peak, our collection efficiency is at 88.8%. So there is a dip of 2 to 3%. We are hopeful that going forward, once the pandemic impact is settled, we can make good of whatever downfall is there.

Now coming to the amalgamation aspect, as you are observing, very smoothly and well before the given scheduled time, we have completed the integration of our software and now we are working on the latest version of our software that is 11.8. All my 10400 branches and offices have been shifted to the new software. Integration of human resources have also taken place. We have completed the promotion process and successfully we have declared the results on 31st March 2021. The top management postings also has completed and they are in place to discharge their duties for the coming one year. So there will not be any top level disturbances or top level uncertainty as far as Canara Bank is concerned.

Regarding the infrastructure amalgamation, we have completed the amalgamation of infrastructure. Wherever as per the projected plan, the number of branches to be amalgamated or closed and the ATMs to be re-shifted or closed, all those things we have executed as on 31st March 2021. This time I would like to mention to all of you, the most important thing is regarding the operating profit. The operating profit we could cross the 5 digit figure that is Rs 20009 crores, which is really a very attractive figure and this operating profit of five digit figure really helped us in showing a net profit of Rs 1010 crores along with making ample provisions, taking into account the future impacts also. Let me share with all of you that we have already made in Q4, Rs 500 crores floating COVID provisions, which we will be using in the coming quarters. Apart from this we have made Rs 494 crores resolution provision. When the resolution takes place, the required provisioning is already taken care of in the Q4 itself which will be used in the coming Q1 of FY22. So as far as provisioning is concerned, PCR as of now is at 79.68%. Apart from that we are having a cushion of about Rs 494 crores which we can use going forward. Other than this, we are projecting very good recoveries based on follow up from our side which will be more than the slippages. Cost of deposits, another important point which we would like to share with all of you, is now at 4.52%, which has come down from 5.42% last year. Cost of funds now we are enjoying at 4.07%. Last year it was at 5.05%. Yield on advances, as on March 2021 we are maintaining at 7.73% and NIM now is at 2.75%, which was 2.51% last year. All these parameters are after taking into consideration the impact of the COVID wave one. As far as our ratios are concerned, CRAR is at 13.18% and Tier I capital ratio is at 10.08%. So the regulatory capital we have sufficient and growth capital also we are having. But going forward, maybe in a week's time or 10 days we are going to hold one Board meeting wherein we will be discussing in detail about the future business plan as well as future capital raising plans. However, I would like to mention that the future business growth will be more than what we have already shown in the financial year ending March 2021. So with these few observations I am open for the questions and answers. Thank you very much.

Moderator:

Participants please note whosoever wishes to ask a question can do so by pressing their raise hand button on their application. We have the first question from the line of Mr. Bhavik Shah. Sir please unmute yourself and ask.

Mr. Bhavik Shah:

Hi sir, thanks for the opportunity. Sir, last time you had disclosed an exhaustive slide on restructuring and this quarter I could understand there is only outstanding MSME restructured from a BSE filing and there is a restructuring in the notes. Sir what would be the total restructuring as on Q4?

Mr. LV Prabhakar:

If you see the results which were given and uploaded in SEBI site, MSME restructuring figures we have given, which we did from 1st January 2019. The number of accounts were 1.53 lakhs and amount is Rs 4800 crores as on 31st March 2021 as far as MSME less than Rs 25 crores is concerned. Now coming to other OTRs, last time we said that during the December results that we are expecting about Rs 10000 crores of corporate loans to be restructured under OTR scheme. Under that we have already made a provision of about Rs 494 crores to take care of the 10% provision that has to be made. However, as on date only Rs 2700 crores of corporate loan has been restructured under OTR and one account which is a public sector account dealing with steel manufacturing has decided not to use this facility for which our exposure is about Rs 5000 crores plus. So we expect that under the restructuring package one as far as corporate loans are concerned, our book maybe less than Rs 5000 crores and as on date it is Rs 2700 crores. As far as retail is concerned, the restructuring is done to the extent of Rs 636 crores. That already we have given in our presentations. Then apart from this, I think you don't see much restructuring as far as the original restructuring package one is concerned. As far as restructuring two is concerned, yesterday we had a discussion in the Board and very soon maybe in one or two days, we will be issuing the guidelines to our people in the field and then we will be finalizing the data in consultation with the borrowers to take up for the restructuring and that figure will be available very soon. But about what has happened, those figures are very clear before you and what is going to happen I think we will be sharing within 10-15 days' time.

Mr. Bhavik Shah:

Okay. Sir just to recollect, so around Rs 5000 crores of corporate restructuring is expected of which Rs 2700 crore has already been implemented. Retail is Rs 636 crores and MSME is Rs 4800 crores.

Mr. LV Prabhakar:

That is Rs 4800 crore is cumulative from 1st January 2019 to latest and for the present, if you see only MSME it is of Rs 1770 crores. Number of accounts is about 45000.

Mr. Bhavik Shah:

Okay. And sir would you help me with the NIM for fourth quarter? So the PPT had cumulative NIM I suppose.

Mr. LV Prabhakar:

We will be sharing with you.

Mr. Bhavik Shah:

And sir I understand Q-o-Q there has been a sharp decline in net interest income. So a part of it can be explained by the interest on interest which is Rs 125 crores. Sir what has been the other part? Why has it declined so much?

Mr. LV Prabhakar:

Yes. Let me explain. MCLR we have reduced from April 2020 to April 2021 by 50 basis points. And one year MCLR is at 7.35%. So our aim was to transmit the interest benefit to our borrowers as maximum as possible. Second point is we have already reversed Rs 125 crores of interest as per the Supreme Court's directions as an ex gratia, which is also factored into the Q4 interest income. Apart from this, we have reversed about Rs 600 crores of interest, out of which Rs 400 crores in Q3 itself we had made provision, put together about Rs 1000 crores of interest we have reversed to take care about the NPAs that we have classified. In spite of this, there is a good interest income and our yield on advances is at 7.73%. If you see the interest income on advances, last year it was Rs 51000 crores. In spite of reversal and in spite of COVID impact still we have about Rs 50000 crores of interest income and interest on investments is almost stable. Overall interest it was Rs 70850 crores. This time it is 69240 crores in spite of discussing about all the pandemic impact. However, I would like to request you to concentrate on non-interest income which was our focus area and we have compensated that by having a growth of 40% from Rs 10860 crores, the non-interest income has increased to Rs 15285 crores. Q-o-Q also there is a growth of 21.86% and the amount was Rs 5207 crores. So overall if you see, interest income we have managed. Non-interest income we have increased. Interest paid we have reduced drastically to 10%. If you see Y-o-Y interest expenses, it has reduced by 10%. Q-o-Q it is 3.58%. Interest paid on deposit on Q-o-Q reduced by 4.38% and Y-o-Y the reduction is by 9.71%. So we have compensated on both sides, whenever we were getting the interest income less, interest paid also we have taken care of. Operating expenses as you can see, we have controlled and the increase is only 5% in spite of Bipartite agreement, where the staff salaries were increased by 15% and other operating expenses, we have kept flat at Rs 6600 crores. Last year it was Rs 6591 crores. So there is a reduction in total expenses by 6.33% and also income received is by about 2.5 to 3%.

Moderator:

Our next question is from the line of Mr. Sridhar. Sir please unmute yourself and ask.

Mr. Sridhar Sivaram:

Sir, first congratulations on a good set of numbers. My question is on your proposed QIP. I heard on your interview that you are planning to raise QIP. I am a bit surprised given the fact that the stock is trading at half book. Any QIP at this stage would significantly erode the interest of minority shareholders and whereas your Can Fin Home is trading at 2.7 book and given the interest of private equity in the financial space, you can easily raise Rs 2500-3000 crores just by you know selling Can Fin Home and come back for a QIP when your stock performance is much better. We are already seeing significant improvement. I am just wondering why would you want to erode minority shareholder and the majority shareholder, the government also stands to lose. Why would you want to do a QIP?

Mr. LV Prabhakar:

Let me clarify it. In the board meeting which we are going to hold maybe after one week to 10 days, we are going to discuss the capital raising plans including QIP AT-1 bonds and Tier II Bonds. So it is a plan that is going to be discussed and to have approvals. Whether we will execute it and at what time, that depends upon the market conditions. We don’t want to go without having an approval for going for QIP or any other mode of raising the capital. It is only a provision enablement which will be available to us, at an appropriate time to use. Now the second point is of our subsidiaries. I have about 9 subsidiaries. I have about 5 joint ventures and also Gramin Banks which are called Associates. All are making good profits and I am expecting that going forward their valuations will be much more attractive. So as of now, we are not in a mood to dilute the stake. However, option is open. At an appropriate time we may take a call.

Mr. Sridhar Sivaram:

Thank you sir but it still looks to me that you know Can Fin homes at 2.7 book and possibly when if you do a strategic sale you could get 3.5 book, that looks like a very high priced book multiple and the board should seriously consider that. Sir my second question is on the credit cost of provisioning. You had provided about Rs 18600 crores for FY20 and about Rs 17500 for FY21. That is close to about 2.5-3% credit cost. If you can give some guidance because you have been providing a very high number for the last 4-5 years. So when do we see some normalization and some guidance of what we could expect for 2022?

Mr. LV Prabhakar:

Regarding your first question and first suggestion, we have noted it. Thank you very much for that one. Now coming to your second question, when you have interacted with me during March 2020, when I have taken over the charge of this bank, the question was your Provision Coverage Ratio was 69.8% or roughly it is about 70%. Compared to industry average, during March 2020, our provision coverage ratio was very less. So our aim was first of all to strengthen the balance sheet, and our aim is to see that the balance sheet is ready for the future also. So we have started making provisions reasonably and very aggressively and the Provision Coverage Ratio we could take it to 86%. Now it is at 79.68% which is a decent PCR. And going forward we would like to maintain somewhere around this percentage. Now, another point is you might have seen the results and the presentations which we have given, in that we said that whatever frauds we have declared in Q2 and Q3, generally there is a provision of dispensation to make provision in four quarters and during the Q4 we have made a Rs 670 crores provision upfront for all the accounts which we have declared as fraud, so that no carry over will be there. That means, going forward, I need not worry for making any provision for whatever accounts I have declared as fraud as 100% is provided. Another point is Rs 500 crores more floating provision I have made to take care about the future slippages in Q1 of FY22 that is June 2021 and also Rs 494 crores additional provisioning I made for OTRs. All these things gives lot of strength to the balance sheet and the balance sheet will be ready to absorb any unforeseen surprises if at all it will be there. We can predict the strength of the balance sheet today about the tomorrows, which is why we make more provisions. As I said, once we have reached 80% plus, that is a decent PCR and we will be maintaining around that percentage.

Mr. Sridhar Sivaram:

So sir is it fair to expect say around Rs 12000 crores of provisioning? Just to get some sense because obviously as you said, 17-18 these are very high numbers and we are happy that you have provided a lot. But should we expect around Rs 12000-13000 crores of provisioning for next year?

Mr. LV Prabhakar:

I can say the credit cost will be somewhere around 2.10% to 2.20%.

Moderator:

Thank you. We have the next question from the line of Rishikesh. Please go ahead. Rishikesh please unmute yourself and go ahead. Okay we will move on to the next participant. We have Amit. Amit please unmute yourself and announce your question. Mr. Amit?

Mr. Amit Mehendale:

Okay. Sir first of all congrats on good set of numbers. It is good to see that FY21 performance was better than the guidance. Can you now talk a little bit about guidance for FY22 specifically loan book, PAT etc. that is my first question and the second question is how is the top management assessed on the performance from the government side? Was there any specific target that you had received for next year from finance ministry or government?

Mr. LV Prabhakar:

First of all thank you very much for your compliments. Now coming to the guidance, last time whatever guidance we had given, we have surpassed in most of the parameters and in other cases we are almost near to that. This year, we are expecting that our performance will be better than what we have shown in the last year. Because last year first time we have experienced pandemic of COVID-19 wherein we were not prepared well. Whereas now we are prepared well with proper policies and proper operating procedures. Now we can deploy people to work from home, at the same time we are able to see traction in the results. So last year, if you see the business growth, in spite of the pandemic we have grown at 8.23% whereas our guidance was for 8%. Regarding the deposits growth, we said that we will be growing at 8% plus. We have grown at 11.5%. For credit retail we said that we will grow at 6%, whereas in retail we have grown at 12% and RAM sector we have grown at 11%. Whereas in corporate we have taken a conscious, very conscious call to be more careful in extending. Hence the domestic credit growth was at 5.5%. CASA as we said, we will be concentrating to reduce interest cost and we are almost at 34.33%. NIM we have maintained at 2.75%, which was our guidance. So all these parameters which we have said, we have achieved in spite of the COVID impact. Going forward, we are finalizing the guidance in the next board meeting. However, I can assure you that our guidance will be better than what we have given in the last financial year.

Moderator:

We have next question from the line of Mr. Madhu Kela. Sir please unmute yourself and go ahead.

Mr. Madhu Kela:

First of all congratulations. Very well set of performance considering what happened in the whole of last year and I think we aspire a real lot of confidence interacting with you over the last one year. Very, very clear thinking. So please accept all my compliments from heart.

Mr. LV Prabhakar:

Thank you very much.

Mr. Madhu Kela:

Sir, I just want to build up on what Sridhar asked actually. Sir I am personally little perplexed while you say valuation of your subsidiaries will go up, there is no doubt they will also go up. But if you are not wanting to sell our subsidiary at three times book value and we are still contemplating to raise money at 0.5 times book value, as a shareholder, it defeats any logic. So I just want a little more insight as to what are you thinking, what is the Bank thinking about this whole subject.

Mr. LV Prabhakar:

Thank you very much. Let me bifurcate your question into two parts. One is raising capital for the parent company and second one is selling the stake in the subsidiaries. As I said all my subsidiaries are doing very well and all are profit making. So as of now I see lot of potential in my subsidiaries, in my associates and in my joint ventures also. For example, I will tell you one small thing. Apart from this housing finance we have Gramin Bank also in Andhra Pradesh. It makes a profit of Rs 286 crores. Can Fin Homes makes a profit of Rs 456 crores. So, I see more potential in my subsidiaries going forward. However, as I said, we will keep the option open with the permission of the Board, as Board directs and we are not closing the option. But As of now, we don't have any idea of diluting the stake. Going forward we may change our strategy depending upon the market conditions. So that option is always open.

Second one is raising the capital. Last time we have seen with the cooperation of all of you, we have come out with a QIP of Rs 2000 crores and at that time also I had many questions like these. People have responded very well and it was subscribed 2.5 times for a public sector Bank QIP. AT-1 bonds, we have raised at 8.3% which is a very, very competitive rate. Then we have raised at 8.5% also and not more than that. So, what I mean to say is we are very clear that all the options we will keep it open and as per the market conditions we will take a call at the appropriate time.

Mr. Madhu Kela:

Sure Sir, I just want to you know and thank you for the detailed explanation. Sorry, at the cost of repeating, sir you will get the money. Even at Rs. 150 your QIP will get subscribed even five times. That is the confidence people have in you. But the whole question is do you want to dilute at 0.5 times book value and not sell the subsidiary at three times book value?

Mr. LV Prabhakar:

Yeah, just I will put the answer in a different way. In the last four quarters you have seen the performance of Canara Bank. People are observing and they are observing very keenly. Maybe in terms of cash recoveries, recoveries in terms of written off accounts, in terms of growth in CASA, in terms of growth in retail, especially in terms of non-interest income growth, all those things and the way in which we are aggressively making provisions and making the balance sheet future ready, I think people see a lot of potential in this. Going forward I think people will understand the actual potential of Canara Bank and the results will be visible.

Mr. Madhu Kela:

Absolutely.

Mr. LV Prabhakar:

Thank you very much.

Mr. Madhu Kela:

That's the precise thing which I am saying sir. I have one small question also. See last time when we did the QIP, at that time you had said that for 2022 and 2023, our ROA will be 0.4% and 0.8%. Are we still standing by the guidance sir?

Mr. LV Prabhakar:

Sir if you see our ROA, we have already crossed 0.36 for this quarter and year as a whole we said that it will be around 0.2% and it is at 0.23% and quarter wise it is 0.36%. So we are almost there and we will be there.

Mr. Madhu Kela:

Sir, can you in the second wave of COVID and these are the times, a whole two months have passed by, do you see any meaningful impact in SME, MSME or in the agriculture book of the Bank? I know the corporate side is being completely cleaned up. Do you see new set of problems coming because of the wave two of COVID?

Mr. LV Prabhakar:

It is a fact that there is impact. Nobody can deny that. Let me tell you in terms of absolute figures, the collection efficiency was about 92% in March. Now it is at 88.8% for my bank. That means there is an impact of about 2% or 3%. The impact is there. But only one plus point is, we are sufficiently experienced to handle the second wave since first wave we have experienced and successfully we have come out of that impact. So our people are ready with the experience and expertise to handle the second wave and to be in touch with the borrowers as well as the customers to see that the loan portfolio will grow and also the asset quality will be maintained. Wherever required we are ready to help our borrowers in whatever way it is required as per the policies.

Mr. Madhu Kela:

Okay sir. Sir would you say that in the second wave, the kind of people who are getting in trouble, they are really genuinely good people and it is only a timing mismatch rather than the account really going bad?

Mr. LV Prabhakar:

I think we will be in a better position to assess the impact maybe in the first week of June. Because as of now I think the impact what we see is about 2% to 3%. But I think in June we will be in a better position to say what is the real impact based upon the collection efficiency and also other parameters, credit growth and all those things.

Mr. Madhu Kela:

Thank you so much sir and I sincerely wish the bank doesn't have to dilute capital at 0.5 times book value. Because I am sure in your hands we are going to see much, much better valuation in times to come.

Moderator:

Thank you. We have next question from the line of Pranav Gupta. Please go ahead.

Mr. Pranav Gupta:

Yeah. So sir just two questions. One is a continuation from the previous question. You said that your collection efficiency has dropped from 92% to 88.8% in April. But if you can qualitatively speak in terms of how MSME borrowers or agriculture borrowers are behaving in this time and secondly if you can talk about any lumpy recoveries that we are expecting in FY22 going forward.

Mr. LV Prabhakar:

This drop of 2% to 3% we are observing in MSME and to some extent in retail also. Not in agriculture, because this is not the time for agriculture to repay. This is the time for us to give the funds for the kharif season.

Mr. Pranav Gupta:

Yeah. Sir what I was basically asking was that do you see any material impact further I mean from April to May, given that you know April end was where we started seeing lockdowns across the board. Has May qualitatively been worse off? If so then by how much?

Mr. LV Prabhakar:

As per the April data, which we have for our bank, the collection efficiency is now at 88.8%. So in June there will be some impact, because for total of May, most of the states were in lockdown. However, because of the Reserve Bank of India's restructuring circular, which has come and which we are going to implement in the coming week, may neutralize the adverse impact to a larger extent. We have discussed about it in the Board meeting yesterday and maybe in a day or two circular will be issued to the people and people will be on the job.

Mr. Pranav Gupta:

Okay and sir the last question on recoveries. Are we expecting any chunky recoveries to come in, like we saw Bhushan happening in this quarter, are we seeing any recoveries in the next couple of quarters?

Mr. LV Prabhakar:

Yeah one account is there in the public domain which is an NBFC. I think in the financial year FY22, that account has to be resolved and if it is resolved, I think every bank will get a hefty amount of recovery at whatever discounted rate.

Mr. Pranav Gupta:

Okay. Any other impacted or is this the only one, the large one?

Mr. LV Prabhakar:

As far as NCLT or just outside NCLT is concerned, where RBI is directing, I think this is the account which we are seeing and other accounts are there. We are expecting that maybe around Rs 2000-2500 crores we will be recovering from the NCLT accounts. Maybe in terms of liquidation or in terms of resolution.

Moderator:

Thank you. Participants please request you to limit your questions to one per participants. We have next question from the line of Mahrukh.

Ms. Mahrukh:

Sir, my questions is what is your total SME book including the ones below Rs 5 crores. SMA 0, 1+2 in absolute terms.

Mr. LV Prabhakar:

Yes. First let me give you the data regarding more than Rs 5 crores. SMA 2 it is about Rs 5023 crores which is about 0.7%. SMA 1 is Rs 10359 crores which is about 1.47%. Put together it is about Rs 15000 crores which is 2.17%. SMA 0 is about Rs 7500 crores which is about 1.05%. So put together total it is about Rs 23000 crores. It comes to about 3.22%. We are worried about this. Because these are the big accounts which are more than Rs 5 crores, where if they don't fit under restructuring, recovery is the only way. Whereas in smaller accounts, restructuring facility is available and it will be taken care of and in 12 months these people, even if the lockdown and other things are over by the end of this month or maybe first week or second week of next month, they can pick up. So, our worry is this Rs 22918 crores which is SMA 2, SMA 1, SMA 0, which we are following up very closely, because it comprises of only

770 accounts. It is very easy to monitor. However, we are cautious about these accounts and we are carefully handling these accounts.

Ms. Mahrukh:

Sir but the other banks like BOB and PNB have given below Rs 5 crores in their prospectus. I just wanted to compare, just as a comparative figure if you could give the numbers.

Mr. LV Prabhakar:

Definitely, definitely we will share with you.

Ms. Mahrukh:

Okay and sir just one last thing. How many employees have been infected with COVID in the second wave?

Mr. LV Prabhakar:

Ma'am in the second wave, as of now, about 7000 people are infected. However, the good thing is more than 75% people have been recovered.

Moderator:

Thank you. Participants request you to please limit your questions to one. We have next question from the line of Mr. Ashok Ajmera. Sir please unmute yourself.

Mr. Ashok Ajmera:

Yes. I am just asking for a few observations and questions. At the cost of repetition sir let me congratulate you, Prabhakar sahib for another set of very good results. The whole team of Mukherjee Sahib, Manimekhalai madam and now Satyanarayan Raju jee. I think you have all done a fantastic job sir. Having said that sir, I have got a couple of information points and also confirmation and some queries. Our profit for this quarter includes sale of priority sector lending certificates of Rs 84 crores and Rs 791 crore. So 875 crores have been taken in the profit of this quarter. Am I right that this Rs 1000 crores of profit includes the Rs 875 crores of profit?

Mr. LV Prabhakar:

No. It is only Rs 85 crores.

Mr. Ashok Ajmera:

Rs 85 crores is included in this quarter and is it going to be a consistent kind of a thing?

Mr. LV Prabhakar:

Here let me share some facts and figures with you sir. If you go through our priority sector portfolio as per the norms 40% is required. We are at 52%.

Agriculture 18% is required. We are at 26.81%. Small and marginal farmers 8% is required. We are at 19.48%. So this is the potential which Canara Bank is having, to sell the PSLC certificates in future provided we get good rate.

Mr. Ashok Ajmera:

Okay. Sir my second observation is that you also said in the earlier answer that you have got almost about 9 subsidiary companies and I see some of them are repetition. Like now you have got Synd Bank services also and Can Bank services also. So, I want to just understand any thought is given on the restructuring of this entire subsidiary portfolio to cut it down? Secondly except these three subsidiaries, other side we don't see any major, because if you look at the total consolidated profit and the standalone profit, the total addition of profit is only Rs 55 crores from all these nine subsidiaries as against the huge investment in those subsidiaries and the efforts which you are putting in even in the central office also. So, any thought on this except I think Canara Robeco which is 51%, and maybe I think your factoring, so I just want to have some color on this subsidiary business, computer and services.

Mr. LV Prabhakar:

Yes. Let me bring to your notice some facts. We want to have subsidiaries and the issue is how best you can make these subsidiaries perform better and better every quarter. At Head office level, we have started one separate vertical to monitor and to hand hold these subsidiaries, which is headed by a very experienced General Manager. Today they maybe giving us positive results, may not be much significant compared to the parent Bank's performance. But these subsidiaries already have started performing and they are in the way of giving good results. Going forward these subsidiaries will be giving a lot of resources to the parent company. So, our aim is to nurture these subsidiaries and to guide them. In three of these subsidiaries, I am the chairman. So, I see the potential and we are hopeful that going forward all these subsidiaries are going to perform. However, as suggested by you, as and when required, in future, we may think of coming out of these subsidiaries if required and if the market conditions are suitable for us.

Mr. Ashok Ajmera:

What about sir Canara Bank Securities?

Mr. LV Prabhakar:

If you just see the figures, Synd Bank Securities as on March 2020, it was making loss. Once it was come into our folds it has started making profit. So yes, everything is in our radar. But we will be taking decisions at an appropriate time.

Mr. Ashok Ajmera:

Sir, this out of this Rs 50000 crores COVID loan which has been announced by the Reserve Bank of India, have you formulated your policy and what kind of interest do you see, will you take it at the repo rate and equal amount of the loan which you disburse will you give it back, getting the 40 basis points benefit? Any thought on that? Anything has been done on that sir?

Mr. LV Prabhakar:

Yeah, we have done a lot of homework as far as medical services financing is concerned, under this COVID loan book. Already we have sanctioned more than Rs 1200 crores worth of loans for this medical loan book and we are expecting that we will be comfortably sanctioning and disbursing about Rs 4000 crores to Rs 4500 crores.

Mr. Ashok Ajmera:

Then will it include the NBFC for onward lending to the medical under this category?

Mr. LV Prabhakar:

It is our direct lending sir.

Mr. Ashok Ajmera:

But will you consider the NBFCs also for the increasing the amount for the onward lending under this?

Mr. LV Prabhakar:

It is there. But whatever figures I am telling is the finance which we are going to do directly from our Canara Bank to the borrower.

Moderator:

We have the next question from the line of Mr. Pranav Tendolkar. Please unmute yourself and go ahead.

Mr. Pranav Tendolkar:

Yes thanks a lot sir. First of all, in terms of fresh slippage, if I consider whatever was considered in proforma, last quarter and then what we consider what is classified as slippage this quarter, I see that actual slippage is just Rs 4000 crores right? Doesn't mean that fresh slippage from all the proforma NPA difference. We have to subtract that from Rs 14495 slippage that we have reported and that difference was around Rs 10000 crores. So, this quarter slippage seems to be only Rs 4000 crores. Am I right in that?

Mr. LV Prabhakar:

Exactly right sir. Because if you see our September and December slippages it was hardly Rs 300 crores, and Rs 395 crores because of the Supreme Court's direction. During the Q3 results we have already declared and uploaded in the website, the NPA which we are not classifying, because of the direction of the Honorable Supreme Court, otherwise could have been NPA. It was so transparent. If you take that into consideration, your calculation is 100% correct. Slippages are under control and including everything, full year it is only Rs 16639 crores.

Mr. Pranav Tendolkar:

Right. Sir that is one question. Question two is that do you have actually up till quarter 3, I remember Rs 1903 crores of COVID provision. Now in your notes to account, you seem to have taken RS 863 crores out of that in this quarter provisioning in P&L. You have utilized Rs 863 crores and you have done Rs 500 crores plus, provisions for COVID for future quarters?

Mr. LV Prabhakar:

Yes, yes.

Mr. Pranav Tendolkar:

So, the provisions for COVID that are outstanding for the next quarter says Rs 1903 crores plus Rs 500 crore minus Rs 863 crore. Is that right?

Mr. LV Prabhakar:

Here, there is some clarity has to be given. What we did is, wherever required we have made aggressive provisions, account wise also. Over and above that what we did is, for the next quarter, taking into consideration whatever slippages maybe there, we have made about Rs 500 crores floating provision and Rs 494 crores for resolution for OTRs. We have also utilized about Rs 670 crores to make full provision for whatever accounts we have declared as fraud in Q2 and Q3.

Mr. Pranav Tendolkar:

Right.

Mr. LV Prabhakar:

So basically, what we did is we have seen that Provision Coverage Ratio account to account is increased significantly. Over and above that, this Rs 500 crore and Rs 494 crore we are having, which can be utilized in the coming quarters. Apart from that, for delayed RP we have made Rs 447 crores and others we have made about Rs 120 crores and Rs 125 crores again we have made, for this interest reversal also.

Mr. Pranav Tendolkar:

Right. So sir, outstanding COVID provision other than say restructured Rs 494 crores that you are saying, other than that there is no provision buffer remaining for future right?

Mr. LV Prabhakar:

As of now, if you have to say it is a clear provision which is available is about Rs 500 crores plus Rs 494 crores, apart from whatever we have already adjusted or accounted for account to account. Which could have been done next quarter but we did during the current quarter itself.

Mr. Pranav Tendolkar:

Yeah last question from my side. 2% of slippage guidance that you have given right? For around Rs 14000 crore to Rs 15000 crores for the next year.

Mr. LV Prabhakar:

We are anticipating about Rs 14000 crore to Rs 15000 crores for year as a whole, annual slippages and our recoveries will be more than that.

Moderator:

Our next question is from the line of Ms. Saumya Agarwal. Please go ahead. Unmute yourself.

Ms. Saumya Agarwal:

Yeah, your press release mentions that you will be setting up the cumulative losses against the share premium account. So just trying to reconcile the numbers here. The cumulated losses were Rs 9400 crores as at end FY20 and it now stands at around Rs 18500 crores. So could you please give some color on what has led to this kind of increase and secondly how much share premium account outstanding as on date?

Mr. LV Prabhakar:

Yes, very good question ma'am. Now I request my CFO to kindly interact with you ma'am. Please Ramachandra.

Mr. V. Ramachandra – CFO:

Yeah, see out of Rs 18000 crores, Rs 9000 crores is of unit one that is Canara Bank and after merger of Syndicate Bank it has increased to the balance amount.

Ms. Saumya Agarwal:

Okay and how much would be the share premium account as on date?

Mr. V. Ramachandra – CFO:

Share premium account is Rs 30000 crores.

Ms. Saumya Agarwal:

Okay. So sir just wanted to understand the thought process while this is meant to clean up the balance sheet, but how comfortable are you that this exercise will not lead to accumulation of losses in the future? So just wanted to understand your thoughts on that.

Mr. V. Ramachandra – CFO:

Madam by adjusting the accumulated losses from the share premium account, there will not be any deterioration of any of the financials. It is only to improve our distributable surplus for the AT-1 bonds. Otherwise, there is no impact on the financials.

Moderator:

Okay thank you ma'am. Our next question is from the line of Mr. Anil Bang. Sir please go ahead. Unmute yourself.

Mr. Anil Bang:

Yeah, hi this is Anil Bang from Marshall Wace. Thank you for taking my question. You have given some clarification on net interest income. Just wanted to understand properly, total net interest income for fourth quarter is Rs 5600 crores approx. You mentioned there were two reversals of Rs 125 crores and another one of Rs 600 crores. Does that mean that the underlying net interest income in the fourth quarter should be around Rs 6300 crore odd? That is first. Just to confirm that. And should that be a good starting point for the June quarter onwards? Thank you.

Mr. LV Prabhakar:

Here, the Rs 600 crores which we have reversed, that is because it has to be reversed. Since we have classified the accounts as NPA, that is an accounting procedure. So, it has to be excluded and this ex-gratia, which is to be given to the borrowers, where the outstanding is more than Rs 2 crores, for that we have reversed about Rs 125 crores to give to the concerned eligible borrowers. However, the amount is coming to about Rs 104 crores. So, we made an interest reversal of about Rs 125 crores.

Mr. Anil Bang:

Okay got it. The Rs 600 crores in provision was lying in provision on accounting wise?

Mr. LV Prabhakar:

That Rs 125 crores we have reversed and we have kept aside which has been now adjusted to the extent of Rs 103 crore to Rs 104 crores. We have credited the customer's account and remaining balance is available.

Mr. Anil Bang:

Okay and the another Rs 600 crores which we have reversed, was that in the provision side? That is why it should not be added back to NII?

Mr. LV Prabhakar:

No, no. That is as per the accounting standards we have to reverse. Since the accounts are classified as NPA, interest booked as far as those NPAs are concerned, that has been reversed.

Mr. Anil Bang:

Yeah that is why I was saying like for next quarter this item won't be there. So underlying net interest income should be higher right?

Mr. LV Prabhakar:

Yes. Yes you are right.

Moderator:

Our next question is from the line of SK Agrawal. Sir please unmute yourself and go ahead.

Mr. SK Agrawal:

Basically I don't have any questions. Only expectation. My first interaction with Canara Bank was in 1979 as a professional encounter and I found the people to be very disciplined, committed, hardworking, ethical and I had a very high opinion of Canara Bank and same way the only bank in my home town was the Syndicate Bank. I found people from Canara Bank are really true Bankers. But now as a result, I have put in my whole life's savings into a Bank as a retail investor, I hold about 2000-3000 shares and family put a pressure to sell it off. But I am very sure one day I will see Canara Bank in league with HDFC Bank and that is my expectation. And two, whenever you dilute your equity, you should go for rights issue rather than QIP. That is all sir. Thank you so much.

Mr. LV Prabhakar:

Your suggestion is well taken sir. But one thing I can tell you, in the last five quarters if you see Q-o-Q, each and every parameter we are strengthening the balance sheet and we are becoming more and more transparent, so that everything every analyst and investor can go through it and understand how the balance sheet is going to behave in the coming quarters. Thank you very much sir for all your confidence you have.

Moderator:

The next question is from the line of Ms. Mona Khetan. Pease go ahead. Please unmute yourself.

Ms. Mona Khetan:

Yeah hi sir. A clarification on one of the previous questions, before I move on to my question. So, the interest reversal of Rs 600 crores that you mentioned, Rs 400 crores of this is already taken in Q3, if I am correct right?

Mr. LV Prabhakar:

Correct.

Ms. Mona Khetan:

Okay, so this quarter the impact was only to the extent of Rs 200 crores.

Mr. LV Prabhakar:

No ma'am, it is Rs 415 crores plus Rs 600 crores. It is about roughly Rs 1000 crores. Since in Q3, for Q4 expected slippages we have made provision, that has helped us. In the same way for the next quarter also we are making around Rs 500 crores floating provision which will take care. That is the thing ma'am.

Ms. Mona Khetan

Okay so Rs 600 pertains to the proforma slippages only for this quarter because previous quarter you had already made the provision.

Mr. LV Prabhakar:

Yes.

Ms. Mona Khetan:

Okay but sequentially your proforma slippages have come off. So a little surprising that your interest reversal amount is higher for this quarter versus previous quarter.

Mr. LV Prabhakar:

Proforma NPA which whatever we have projected in Q3, for that we have made a provision of around Rs 415 crores during Q3. Now in Q4, apart from that other NPAs also we have recognized. And total amount reversal is coming to around Rs 1000 crores. So additional Rs 600 crores we have reversed.

Ms. Mona Khetan:

Okay. And my other question was on your deposit rates. So is there any scope of further reduction in the TD and SA rates for you?

Mr. LV Prabhakar:

Ma'am as on date if you see, we are very conscious about the inflation also. So that my retail depositors especially retail term depositors, doesn't leave us. That is why we are maintaining good interest rates and we are experiencing a growth of about 16% as far as retail depositors are concerned. Since savings bank is increasing, our cost of deposits is slowly reducing. And in bulk deposits also we have managed a lot, where we are not accepting any bulk deposits at higher rate. All the high cost bulk deposits we have already paid. So that is how we are managing the cost of deposits and it has come down to 4.52%.

Ms. Mona Khetan:

Okay so my question was coming from the fact that the CD ratio has declined from say about 69% for the consolidated entity as on March 2020 to about 63% today. So with that kind of a credit to deposit ratio, you know maybe even a further reduction in deposits will not harm because you have a lot more deposits than the kind of lending that we are doing.

Mr. LV Prabhakar:

Ma'am if you see the CD ratio, it is not 63%. It is 66% almost 67%. Now, the issue is in retail, we are growing at 12% plus. In RAM segment we are growing at 11% plus. Only in corporate we are a bit cautious and once the economy picks up, we require resources at a low cost, to finance the AAA, AA, A and other corporates, where the uptake will be very huge. At that time if you don't be ready with your low cost resources especially deposits, you will not be in a position to compete with the market to lend to the highly rated customers. So as I said we want to be future ready. That is why we are accepting the deposits. However, at a reasonable rate and also to have the retail depositors to bank with us continuously.

Ms. Mona Khetan:

Okay got it and lastly if you could share the breakup of slippages for full year of about Rs 18000 crores?

Mr. LV Prabhakar:

Ma'am in this about 30% to 35% is MSME. Agriculture is about 20% and retail again 30%. Rest is corporate and others.

Ms. Mona Khetan:

Okay. And would it be possible to have the same numbers for last fiscal slippages which is FY20?

Mr. LV Prabhakar:

Why not? We can share with you.

Moderator:

Thank you. Due to time constraints we won't be able to take any more questions. I would like to thank every participant for asking the questions and joining the call. If you have any further questions you can reach out to Canara Bank Investor Cell. On behalf of Antique Stock Broking Prabhakar sir I thank you all and all the senior management team for giving us this opportunity. Thank you so much sir. We are looking to host you again. Thank you so much.