SBI

Q3FY22

EARNINGS CONFERENCE CALL

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Moderator: Ladies and gentlemen, good day and welcome to State Bank of India Q3 FY21-22 Earnings Conference Call. As a reminder, all participant lines will be in listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pawan Kumar Kedia - General Manager, Performance Planning and Review, State Bank of India. Thank you and over to you sir.

Pawan Kumar Kedia: Thank you. Good evening ladies and gentlemen. I am Pawan Kumar Kedia, General Manager Performance Planning and Review. On behalf of the top management of SBI, I extend a warm welcome to all joining us today and on SBI Q3 FY22 Earning Conference Call. On the call today we have with us our Chairman, Mr. Dinesh Kumar Khara; Mr. C. S. Setty, Managing Director, Retail and Digital Banking; Mr. Ashwani Bhatia, Managing Director, Corporate Banking and Global Markets; Mr. Swaminathan J, Managing Director, Risk, Compliance and Stressed Assets Resolution Group; Mr. Ashwini Tewari, Managing Director, International Banking, Technology and Subsidiaries; Mr. Alok Choudhary, Deputy Managing Director, Finance; Mr. Charanjit Attra, CFO.

Before I request our Chairman sir, to give a brief summary of the bank's Q3 FY22 performance and the strategic initiative undertaken, I would like to read out the Safe Harbor statement. Certain statements in these slides are forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual outcome may differ materially from those included in the statements due to a variety of factors. Thank you. Now, I would request our Chairman sir to make his opening remarks.

Dinesh Kumar Khara: Thank you. A very good evening to all of you. It's a pleasure to connect with you once again, virtually amidst the ongoing pandemic. Thank you for joining this conference call on a Saturday evening. I would like to start by thanking all our stakeholders including our customers, shareholders, employees, and the broader ecosystem, which has been supportive of our effort and initiative in our banking journey. For the last two months or so, we have seen a sharp increase in COVID-19 cases due to new Coronavirus variant Omicron. However, its effect has been nowhere as deadly as the second wave thanks to the government's massive vaccination drive, including precautionary booster dose for certain categories.

The extension of vaccination to the age group of 15 to 18 also has contributed to better preparedness in dealing with the virus and return to normalcy. The quarter three of the financial year 22 results, further validates that the bank's performance is improving steadily. I would like to highlight a few key indicators of our performance, which are essentially relating to the bank's profit. Net Profit for the quarter has increased to 8432 crores which is a Y-o-Y increase of 62.27%. Operating profit has also increased marginally by 6.86% Y-o-Year, our ROE has improved from 9.49% to 14.01% Y-o-Y basis. Our net interest income for quarter three of financial 22 is up 6.48% Y-o-Y and our domestic NIM is up by six basis point Y-o-Y, even as the CD ratio is at 60.89%. We believe that these are an outcome of the bank's focus on profitable growth. Given the trust, our brand enjoys our heritage and our reach. We aim to deliver best value to our customers while being profitable. As I've said in my prior interactions, we will lend at price points which add value to all of us.

The gross NPA ratio of the bank has come down from 4.9% to 4.5% on a quarter-on-quarter basis, while the net NPA is at 1.34% for quarter three of financial year 22. The net NPA stands at 34,540 crores and additional provisions not included in that NPA are 30,089 crores. The bank's operating profit for nine month period including additional provision is 2.48 times the net NPA levels, which makes it one of the most resilient balance sheet in the recent years. Our slippage ratio for nine months financial 22 is at 1.16%, while our slippage ratio in quarter three of the financial 22 is 0.37%. This is largely an outcome of the critical changes that have been made in our underwriting processes through the large cycles.

Further, it highlights the inherent quality of the bank's underlying portfolio, which continues to be one of the lowest RWA portfolio in the nine months. The CET1 ratio of the bank is at 9.38% at the end of December 21. And if we include the profit earned during the year, the ratio stands at 10.32%. We believe that the internal accruals are adequate to support the credit growth through the financial year 23. The bank's journey towards digital leadership continues and is adding significant value both for the bank and to its customers. The bank super app YONO is gaining strength by addition of new features. From a longer term perspective, I would like to highlight that we are one of the best managed institutions in the country. Our management quality and the bandwidth enable us to efficiently manage the scale and complexity of our business across the globe. We continue to attract the best talent in the country. In fact, our probationary officers exam is one of the most competitive exams in the country, with an intake ratio of 0.2% compared to a 1% intake ratio in the common admission test for the leading Management Institutes.

In the recent past a number of our top executives have gone to at both public sector undertakings private sector banks, and also FIs. Our team is committed to deliver +15% ROE consistently over the long term. As credit growth picks up we expect the profitability ratios to improve further. While the longer term prospects are clear now in the last quarter, we would still prefer to wait before giving guidance on key variables. To wrap up my opening remarks, I would like to thank you all for your support to the bank. We remain committed to reward your trust in us with superior sustainable returns over the long term. I wish everyone very good health and prosperity. My team and I are now open to taking your questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Mahrukh Adajania from Edelweiss. Please go ahead.

Mahrukh Adajania: My first question is on recovery. So, excluding inter quarter recovery, what would be the gross slippage in Q3 and in the first half you already had inter quarter recoveries of 8000 crores So, what would that figure be for nine months or just for the third quarter?

Management: See as far as we go for the net slippage that is one of our industry practices also. And our net slippages are 2334 crores for this quarter, which we have already shared. Yes, of course, we had a challenge in the first quarter and our slippages were as high as 15,666 cores, but we have recovered much of those slippages well in time. And now as the situation stands, we feel that our slippage is hardly any. And whatever little is seen that also we are in a position to recover. And SMA1 and SMA2 also is at a much lower level in the month of December 21. And in fact, here also we are witnessing a pretty strong trend in terms of recovery. So, that is one of the reasons perhaps slippage are not as much of a worry for us.

Mahrukh Adajania: Sir yes, but sir is it possible to have a figure like we had a figure of 8000 crore of first two quarters recovery in the second quarter. Any other similar number for the third quarter for nine months?

Management: In fact, that was a very unusual situation which we saw in the first quarter. And that's how we were tracking the recoveries very closely. But since now the slippages are not as high so we really don't work out like that, but nevertheless I'll ask the department concerned if at all they will have some number they will share with you separately.

Mahrukh Adajania: Thank you sir. Sir, my next question is just on the rate outlook, so market rates are hardening. Now, just in terms of loans and deposits, for loans how much of your loan would be repo linked, of course external benchmark but within that repo linked, because that would re-price only when the repo changes?

Management: See, we have repo linked loan book that is about 0.24%. Our external benchmark link loan book is about 22%.

Mahrukh Adajania: How much sir?

Management: 22% it is essentially repo and these are the two that you say, it is 22%.

Mahrukh Adajania: Okay, sir. But most of this will reprice only when the repo will hike, right?

Management: No, if at all it is linked to the EBLR then it will be as and when the rate moves.

Mahrukh Adajania: Got it sir. Sir and just in terms of deposits, so the growth in savings on a sequential basis. This quarter has been a little under 2% on a sequential basis. So do you visualize the situation given hardening rates, that in the next two to three months we'll have to increase your savings rate, because if you're increasing your term deposit rates, then the re-pricing is only incremental but saving that will be outstanding.

Management: We will not be resorting to increasing the savings rate, we will rather be looking at certain maturities in the term deposit bucket. But yes, of course much of it will depend upon the behavior which we'll see on the ground. But we don't plan to increase our savings rate.

Moderator: Thank you. Our next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: So, firstly in terms of the overall growth on the corporate side, so last couple of quarters, we have been highlighting that there would be utilization of the working capital limits and when we see it across the industry, larger part of growth is coming in from the petroleum and the other industries while deleveraging is continuing in the iron and steel roads, transport and all. So, now how do you see the outlook given maybe government is also putting a lot of trust on CAPEX and overall how would we participate in terms of the corporate credit growth given the competition?

Management: I would like to give you some kind of a color in terms of the underutilization or the un-utilization which we have seen in the working capital cycle. As at the end of September 21, we had a situation where the unutilized limits were as high as around 52% so, from there it has come to about 43%. So which means that the un-utilization or the underutilization has come down. But having said that, still we have got the unutilized limits of about two lakh crore and as far as the corporate book is concerned. Even term loans also there is a slight improvement in the un-disbursed term loans. But yes, of course, we'll have to wait and watch for the improvement in the utilization as well as the term loans are concerned. As far as the infrastructure spend is concerned of course, what we have seen in the growth till now, they were into various state government enterprises which were getting into various kinds of infrastructure spending, that is one of the major components and apart from that, the utilization which you have seen is into this core sectors, that is something which has and even the infrastructure sector also, we have seen a decent growth. So, going forward, the kind of the underutilization which is coming down and also the trend which you have seen in the month of January, we hope to see it sustained. And if at all it sustains then perhaps we will witness much decent credit numbers than what we have seen in the third quarter.

Kunal Shah: But it is not unwinding because the first fortnight numbers show some unwinding in the bank credit overall but that's not the situation for us and we expect it to sustain?

Management: As far as I don't know about the banking system but we keep on reviewing our numbers on an ongoing basis and there we see very healthy tips.

Kunal Shah: And on international overseas side there is a different traction. So, what is the outlook of their we had seen a good growth on a quarter-on-quarter basis as well as year-on-year. So, what is the nature and do we see pursuing the opportunities maybe for the Indian linked and corporate overseas?

Management: No, this financing is essentially a trade finance which has been done, 21% increase which is coming is essentially trade finance and the local ones which you have done in these geographies. We are primarily focused into USA, UK, Singapore and Hong Kong and these are the major territories where we are growing. So, I hope and apart from that we had started a new line of activity which is factoring. So, that has also given us a decent growth hopefully we expect to see a similar trend going forward.

Kunal Shah: Okay. And one last question in terms of the standard asset provisioning. Is it more towards the restructured book or the increment which is there, maybe 500, 600 crores would it be because of the increase in the loan book, but balance would be towards the restructured book?

Management: Yes, it is essentially relating to one of the account which we were seeing that it is under some stress, though it is a standard account. So, that is one of the reasons and mainly it is on account of that and some bit of a restructuring.

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

Mona Khetan: So, firstly, on the cost to assets for nine month, it stood at about 1.8% for SBI. So, where do we see this moving over the near term, could it normalize back to the 2% levels, we've seen earlier or should it remain where it is?

Management: Cost to asset ratio would be, it is somewhere around 1.78, now it has come down from 1.95. So, I expect it to come down actually, once we have the balance sheet number growing and also it will not lead to much of an incremental cost for us. So, I expect it to improve further and also there is a lot of digital adoption which is happening. If I may say so about those four thousands crore worth of book has been underwritten in the current financial year to the digital medium. So, there the cost is quite negligible. And we are trying for end to end digital. So it will further come down.

Mona Khetan: Okay. And on the restructured book the presentation mentions a 33,000 crores and once we include the non-COVID MSME restructuring under the earlier scheme and adjusted for any overlap that we have with the current COVID related restructured book, where would the total restructured book stands for us?

Management: Total restructured would be around 40,000 crore. Restructured per se is 32,000 cr plus whatever remaining previous book, if at all will be it will be around 40,000 crore.

Mona Khetan: Got it. And finally where does the total ECLGS disbursement stand for us today and if you could give what was it last quarter as well, thank you.

Management: Sorry, I could not get your question. Can you please repeat it?

Mona Khetan: ECLGS disbursement.

Management: The outstanding is 31,000 crore.

Mona Khetan: Okay. And where was it last quarter for us or how much did we disburse in this quarter?

Management: We were at 27,000 Cr. Additional disbursements also during this quarter.

Moderator: Thank you. Our next question is from line of Akash Jain from Ajcon Global Services Limited. Please go ahead.

Akash Jain: I had a question regarding recoveries. Sir what would be the recovery from written of accounts in this quarter?

Management: Quarter is 1500 crores, nine month is 5600 crores.

Akash Jain: Okay. And what are we expecting from NCLT accounts in terms of recoveries in coming quarter?

Management: We will not be differentiating between NCLT, but overall we are expecting the recovery of about 8000 crore in this whole financial year.

Akash Jain: Okay. And sir I wanted your outlook on the MSME book, going forward what do we see in the MSME sector?

Management: We expect the book to look even better going forward. We are focusing on vendor finance, dealer finance in a big way. So, that will help us in improving the quality of this portfolio.

Akash Jain: Okay. And in the corporate book which sectors are we seeing green shoots apart from infra?

Management: The core sector also, the core sector is also showing some opportunities and I would say that the kind of traction which you have seen in the last quarter and even the early months of this quarter it appears to be universal, very broad based.

Akash Jain: And with regards to the much talked large retail chain account, do we have exposure to that account?

Management: We have the exposure and we are fully provided for that. Almost fully provided.

Moderator: Thank you. Next question is from Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: I have a couple of questions, first is sir we have seen around 1490 crores of MTM, depreciation this quarter, is this mainly pertaining to GSEC bonds or what is there?

Management: The investment depreciation is only about 60 odd crores, the remaining is the accelerated provisions that we have made on the security receipts that are maturing over the next two to three years. So, since SRs are held as part of investments, so it is reflecting investment depreciation but, investment depreciation per se is about 60 crores.

Jay Mundra: Sure, sir. Sir if you can highlight what is your gross book value of security received, and after this lumpy provisioning, how much we have the total provisioning there, the gross book value?

Management: 8000 crore is the gross SR and now we have provided up to 87% of the book.

Jay Mundra: Understood. And sir on this MTM, now if the GSECs were to go up or if were to harden how, what is our threshold of the investment AFS book, till what yield you are protected in some sense there?

Management: We are protected till about between 6.95 and 7.

Jay Mundra: And sir just to, just correct me if I am wrong, if I were to see your AFS detail that you had given, you're given very beautifully detailed AFS breakup. But, if I were to understand that, let's say your sensitivity of interest rate, what is the number right that I should be multiplying SLR into AFS which is like 41%. And then, the entire AFS book which is your GSEC, e-bills, corporate bond, SDL all would have more or less similar impact, is that the understanding right?

Management: The impact won't be different because the way the yields have moved, currently, they would have moved more on the longer term, this is what has happened over the last three weeks or so. So the impact will not be uniform across the portfolio.

Jay Mundra: Right. Assuming the parallel shift in the yield curve would the entire AFS book that we have shown, GSEC, e-bill, corporate bonds, SDL and everything that would have let's say MTM requirement, the entire AFS book?

Management: Yes, so above a certain threshold our PV01 is around 110.

Jay Mundra: Sorry, so what is 110?

Management: PV01.

Jay Mundra: Okay. Fine, did not get but anyway. And this is like 41% of the entire SLR investment right, that is the way to read this, 11 lakh crore into 41%, is the AFS book?

Management: No, our total investment book is in excess of 14.5 lakh crores, 8.5 lakh crore is the HTM and our AFS is about 6 lakhs.

Jay Mundra: Understood sir okay. And the other question was sir on growth on corporate growth specifically. So, Chairman mentioned that, there is of course the lower or the utilization has not been that great, but it looks like that we are losing out market share as compared to peers, especially on the corporate side. So, is this like a conscious strategy that you feel that the pricing is not that remunerative enough or how are you seeing this space, specially the market share loss here?

Management: So, when it comes to the corporate credit growth and market share, we are very mindful, as I mentioned in my opening remarks also, what the price points at which we would like to lend and also in terms of the industries where we would like to lend, we don't want to get into indiscriminately into all sectors where we want to lend, we are very mindful. And what our risk appetite accordingly we will lend.

Jay Mundra: Understood sir. And the last question sir is, on ECLGS it looks like last quarter was some 24000 crore and this quarter it has gone up to 31000 crore so like 25% increase in this quarter, any specific reason or this was just because the ECGS 1.0 scheme was liberalized so maybe that is causing this spike?

Management: Yes, it is a both a combination of additional financing which was allowed under the ECLGS and also the extension to certain new sectors, together contributed to this growth.

Moderator: Thank you. Our next question is from Mahesh M B from Kotak Securities. Please go ahead.

M B Mahesh: Just two questions from my side. One is, how are you looking at your capital adequacy number, in the sense that if growth does come back, would you still want to look at a possible capital raise any time soon. Or you think that internal accruals part sufficient to manage the near term growth numbers?

Management: As far as the growth which you're looking at 9% kind of a growth. With the clawback of the profit which we'll have at the end of the year, we will be comfortably placed. But, yes, we'll wait for the growth trends in the coming financial year. And accordingly, we'll take a call on the capital raise.

M B Mahesh: Sir just one additional question you kind of indicate that your near term trajectory on ROEs is around 15%, does that mean that if credit cost were to go, let's say below your long term averages for a certain period in time, would you allow the ROEs to move higher than 15 or you think that you would kind of keep it at those levels at least for the foreseeable future. What is your internal assessment or how do you want to look at this?

Management: So we'd like to keep the ROE above 15 that is not that we don't want to go beyond 15. That's very clear. But yes, of course, many of the calls will be taken at the material point of time.

M B Mahesh: Okay, I just kind of clarify this, let's assume that your loan growth was still running at a let say a 10s to 12 kind of a number and ROEs are still quite high. So, you still quite comfortable kind of keeping a high ROEs over pushing growth, is that the way to see?

Management: So, actually if you have a look at our numbers, we should be at above 12% as far as tier I is concerned, our risk weighted assets are currently at about at around 55%. So there is enough capital to take care of loan growth. So on the return on equity side, we haven't really thought very deeply on the fact that whether we should get 16 or 17 but suffice to say that, right now we are pretty well placed.

Moderator: Thank you. Our next question is from Jignesh Shial from InCred Capital. Please go ahead.

Jignesh Shial: The same thing I wanted to check, so with the kind of growth rate of around single digit 9% to 10% there is no immediate capital raise is we looked into. That is what has been mentioned, is that correct?

Management: Yes, that's right.

Jignesh Shial: Okay, that's important. Then number two, can you give some more some more numbers or throw some more light on your digital initiatives such as how the sourcing and all on the MSME front is happening or even the personal loan fund is happening. If you can give some more light on that, that would be really useful.

Management: Digital, so as the YONO app is concerned it's comfortable about 4.5 crore people have already become the registered user of our YONO app. And when it comes to the online banking around 9 crore people are using this and the online banking so, that is something which we are seeing. Almost 30,000 odd savings bank accounts are getting opened on a daily basis. And we have also seen a decent growth in terms of our PAPL which is pre-approved personal loans, which we are dispensing, almost 40,000 crore worth of loans have been dispensed in this financial year using analytics & this particular app. And when it comes to the financial superstore, we are efficient to sell about almost around 400 crore kind of a mutual fund, 3300 crore worth of mutual fund sales we have done with the help for this app. 70 lakh policies, personal accidental policies, we are sold with the help of this app. And the growth actually in the mutual fund sales have gone up by almost four, five times on a Y-o-Y basis. Going forward, in fact, we are already using this app for doing our KCC reviews, and also the KCC agri gold loans also we are sourcing, with the help of this app, almost 10,000 worth of agri gold loans were sourced with the help of this app. So that's how things are and I am quite hopeful that going forward, the way we are leveraging our analytics, so we will be in a position to offer many more such functionalities with the help of this YONO app.

Jignesh Shial: That's quite good. And just lastly reconfirming, roughly 22% of the loan book is being too external benchmark rates right, that is…..

Management: For 22%.

Jignesh Shial: So, in case of any movement happening on the table side, immediately your 22% of the book will get re-priced accordingly?

Management: Yes, that's right.

Moderator: Thank you. The next question is from Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Just a couple of questions, first one is your outlook on credit cost for fiscal year 23 given that you have seen a very good sort of credit environment, asset quality is held up quite well despite the three waves of COVID. So just wanted some color around that, and in that context, if I look at the write-off pool, it's at around 1,80,000 crore today. So, what kind of recovery should we assume going ahead from that pool and on a net basis are we looking at a very benign net credit cost for fiscal year 23, that's the first question.

Management: Credit cost our endeavor would be to keep it around the level but yes of course the guidance, when it comes to guidance, I would like to believe in under promise and over delivering and with that in mind, I would not like to change guidance, but nevertheless, I would like to keep it around the same number, credit cost that is one. Secondly, your question relating to the recovery from the write off pool, generally our experience is that, I may be in a position to recover more than 20% of the write off pool so that is something we have seen over the past. So, it should be around the same level.

Gaurav Kochar: Okay. So, just to put number into context 1,80,000 crore pool, roughly 36,000 crores in the next year maybe two to three years is the sort of recovery that you would be targeting?

Management: Correct. And also it differs also depending upon the security if at all it is there, but yes next two to three years on a on a rough basis we can assume that.

Gaurav Kochar: Sure, that's helpful. And my second question is, with respect to the system credit growth data that came in every fortnight in the last fortnight of December, there was a huge bump up in credit, around 3.7 trillion And for us, the credit growth is also strong at 5.5% sequentially. So whether this large chunk of this growth in this quarter came in at the last fortnight, is that a fair assumption and in that context, will it be fair to assume that the interest income, the interest on loan benefit for this growth will be more visible in 4Q, is that the right way to look at it?

Management: You're right, but in our case the growth which you have, which you are thinking in terms of the last quarter, it was not really so I would rather say that we have seen the growth coming in the early part of January, which of course you will get to see in the current quarter so, hopefully we'll have decent numbers to talk about when we close this quarter.

Gaurav Kochar: Okay, that's great to know sir. And on the incremental yield versus the on book yield on loans, how high is the incremental yields given that large part of growth is coming from retail and within retail, the unsecured retail. So, any color on what would be the incremental yield?

Management: Actually, retail growth is about 14%, 15% but what we have observed is that the chunky growth comes from the corporate book, and if at all chunky growth comes from the corporate book, and a significant portion of our loan book is now linked to external benchmark or MCLR. So, that also will be the guiding factor in terms of the kind of earnings, which we'll get to see about 50% is MCLR and about 22% is external benchmark rate. So, that is how our book at this sector**.**

Gaurav Kochar: Right. So, sir just to stretch this question a bit, on margins roughly 50% plus 22%, that's 72% of the book is externally linked, and if we are in a say rising rate environment and interest rate has to go up the next 12 to 18 months, another 25 to 50 basis points, in that backdrop on the liability side, given that savings rate could be broadly fixed and term deposit rates assuming the CD spread right now that you have is significant, so we need not raise the term deposits over the medium, near to medium term. So taking that context what kind of margin you're looking at from current levels. Can we assume a 20 basis points, 15, 20 basis point of margin improvement over the next say 12 months, 24 months?

Management: There are many variables so we'll have to wait and watch but nevertheless, our effort would be to keep the NIM at around the same level which we have, where we are today. And if at all there will be scope for improvement we will see and improve there.

Moderator: Thank you. Next question is from Manish Oswal from Nirmal Bang. Please go ahead.

Manish Oswal: My question on the, our interest income during the quarter. So, we saw a growth of 5% on 5.5% on loan book side but NII on the declining side so any one off in the previous quarter to this quarter sir, can you clarify on that?

Management: IT refund would be the one.

Manish Oswal: What is the quantum sir, delta quantum, what is the delta movement?

Management: 1900 crore.

Moderator: Thank you. Next question is from Ashok Ajmera from Ajcon Global Services. Please go ahead.

Ashok Ajmera: Thank you for this opportunity and congratulations Mr. Khara and the entire team once again you're made the operating profit of 18,521 crores making the bank to be, making a profit of 75,000 crores on the annualized basis if you take it or it will go rather more which is really commendable. And even on the other front of the various ratios NPA, gross NPA, net NPA your PCR, ROE, fantastic results. Having said that, because most of the questions have already been covered. I would just seek your view though the time has been very short from the budget to now. So, with this RBI supported digital currency movement now coming in, maybe it may take some time but yes it is going to be there. Sir have you got any time to think over it to, how it will disrupt the entire banking system, whether the deposits will flow out of the banking system whether, what kind of impact it can have because it is going to come that is for sure now. So this is my first questions, not only a question, I just want your views on this sir.

Management: It's too early and too premature unless and until we get to understand what the size, dimension and nature of this particular concept is going to be. But nevertheless, one thing I would like to mention that, digital is becoming a default option in the economy, and with the digital becoming the default option, if at all there is any digital currency. So as against the physical currency, the movement is going to be through the digital currency. So, that's how I really understand but yes, it's various dimensions in terms of store of value, transaction value, and how will it be accounted for when it comes to the country's GDP is concerned. So all those dimensions I'm unable to really comment I'll ask my colleague Mr. Ashwini Tewari to come in and give his views.

Management: First thing we have to remember is that the Reserve Bank is a conservative institution, it is not an institution which will disrupt the system. Second is that, the digital currency, the central bank side it's like only in two, three countries, you have Nigeria, Iran, you have Bahamas and few other smaller countries, China is still testing though it has been very advanced in terms of testing and one of the leading reasons for China to do this was because the big tech in China and the wallet based funding that becomes really, really powerful and very large corporate systems. So that was their motivation. In India, what we have is that the payment system is already very evolved. So the digital payments through UPI and through NPCI are really, really significant part of the system. And since the intrusion is already happening through these channels, the motivation to that extent from the digital currency is relatively not that much. So, the use cases which RBI has to find for digital currency should largely be in the wholesale space. And therefore, we have to wait and watch as to what RBI thinks about the objectives, it is not a currency for the currency sake, it should be for what objectives should be done. So, we'll have to wait and see RBI has reached out to some players to actually take their inputs, and there will be committees, et cetera which will be setup so, we'll see how it goes.

Ashok Ajmera: Okay, sir my next is on, now this NARC national asset recovery company now finally everything is approved and it is now in place. So, in this quarter that is the January-March quarter. How much are we thinking, because it has been overall size of this first tranche I've been reading is reduced from 84,000 crores to some 50,000 crores. So, how much will be of SBI in this the gross value wise?

Management: It will be around 20,000 crore. Phase one will be about 11,000 crore.

Ashok Ajmera: And we feel that the realization is about that same 20%, 25% valuation and 15% of that is actually cash coming in?

Management: That structure is going to be the same 85% SRs, it would be government guaranteed SRs 15% is going to be cash. So, that is the kind of a structure which will be there.

Ashok Ajmera: So, now coming to this budget announcement, very bold the CAPEX announcement of almost about increasing by about almost 1,95,000 crore making it to 7.5 lakh crore. So, from that, sir don't you take the cue that tremendous work is going to happen in this and the bankers are going to play a very, very major role in this. So, is it now the time to again relook at our target of 9% or going forward even from the capital adequacy point of view also the huge opportunity will be there in place, a huge investment will be built up along this line?

Management: I agree with you and the kind of a CAPEX aspirations which have been indicated in the budget. We are very much prepared for meet those kind of growth requirement of the economy and in variably it gets spread over a period of time. So, we will be very closely watching the situation and if at all there will be need for raising capital, we'll certainly look at it. But as of now, we will be ploughing back our profit also at the end of this financial year. And there after we will look at it, that how things really look like.

Moderator: Thank you. The next question is from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh: Sir, just two questions. One is, the current account has gone down quarter-on-quarter, could you just highlight what's happened there, current account deposits. And the second is sir on this NIMs, just from the understanding I've got is essentially that you do get a positive benefit from rates given the orientation of the book, but you would at the interest of loan growth, would look to pass on some of that benefit back to consumers and keep the ROA around that 0.8%, 1% level. These are two questions sir, thank you.

Management: See, when it comes to, NIM of course absolute credit growth, apart from that yield on advances, yield on advances have come down in the system as a whole. So, we are very mindful in terms of the kind of underwriting which we will do, and at what price point we will do. So we'll keep that in mind, so absolute growth will come but maybe at a price which may not be in tandem with what we have seen in the past, but much of it will be a function of the market. So, that is one part. And current account of course, as you know it is always, it is something it's a function of the volatility and current account is a reality. So if at all people economic capacity improves, people don't keep the money into the current account, they rather consume. So, that will have to live with.

Saurabh: Okay, so there is no one off on this 250 lakh going down to 230 lakh number?

Management: No, towards March it always swells also because the government releases many, lot of payment. So, it goes up also, so that's a reality.

Moderator: Thank you. Next question is from Manish Shukla from Axis Capital. Please go ahead.

Manish Shukla: First question is on the loan book you said about 22% is EBLR, could you give the break up for the rest how much is MCLR and how much is fixed rate?

Management: MCLR is 49%.

Manish Shukla: And balance will be fixed rate loans, is it?

Management: Small, small quantity. Fixed rate is about 17%.

Manish Shukla: Okay, alright. The second question is that, I know a scenario where interest rates have already started rising on balance sheet, we're sitting on almost 31% investment, so of which 6 lakh crores is AFS, so #A it is a lower yielding book and #B we are in a rising rate scenario. So, how comfortable are you with this mix of assets between loans and investments?

Management: Since our book which is linked to MCLR and EBLR 72% So, the rising interest rates scenario we will not have much of a challenge and even fix rate also there is a structure which allows us to revisit the interest rates. So that's not as much of a worry. As far as the investment book is concerned we'll have to wait and watch how really things look like, thereafter we will be taking appropriate call but nonetheless as soon as our duration is concerned, the modified duration for us is about 1.97. So, till the month of December we are quite fine even now also as we speak we are okay, but let's see how the things look like going forward.

Manish Shukla: Sure. The second question sir is on COVID provisions, they are about 6000 crores so, what are your thoughts around either carrying it as is or utilizing it going forward?

Management: So, this quarter will decide depending upon the evolving situation will decide that but we will surely make some provision and use this around, in whatever way it is prudent.

Manish Shukla: Okay. And the sectorial exposure shows that the telecom exposure is up sharply Y-o-Y, what is the nature of this slide number #10?

Management: This is something, it is AAA companies.

Manish Shukla: Sorry, I didn't catch that.

Management: It is essentially to the AAA companies, well rated companies.

Manish Shukla: Okay. The really last question, for at least two or three quarters now international loans have been growing faster than the domestic loans. And clearly that is a drag on net interest margin. So just wanted to get your thoughts on how you see that opportunity between traditional business versus drag on net interest margin?

Management: These are all short term financing which has been done and of course, apart from that we have done some, not bilateral it was syndicated loans which we have participated. And we have introduced a new line of activity which is factoring. So that also helped us in ramping up this portfolio.

Management: Interest rate they can redeploy quickly, in short book it can redeployed into better yielding assets quickly.

Management: And in good rated assets.

Moderator: Thank you. The next question is from the line of Krishnan from HDFC Securities. Please go ahead.

Krishnan: Couple of queries one goes around the express credit segment, there's been a furious pace of growth there for a few quarters now. Just want to understand your sense of what kind of end use are you seeing here, what kind of ticket sizes are these typically that's one. The second is, now obviously private sector banks are allowed to compete for the government business. Just wanted to understand your thoughts around how the competitive intensity is. And where does SBI continue to have a right to win?

Management: Well, of course, when it comes to the unsecured PAPL is concern you wanted to know the average ticket size.

Management: Two questions what you asked in terms of the growth potential of that, we've been consistently maintaining that this is coming mainly from our salary package account. We have about 1.7, 1.8 crore salary account holder and our penetration in the express credit just about 25% to 26%. So there's a good potential still available to be explored there. And yes, it is a competitive area, but we have been revising very, very dynamically all our salary packages and to continue to be extremely competent in this area. And as far as ticket size is concerned it ranges from 6 lakhs to 8 lakhs.

Krishnan: Anything around the end users as all, what are these typically being used for just to get a sense of where consumption is headed?

Management: This defense salary holders when they go home, they will have some repairs of homes and all this is very easily available as a loan. So, normally they take for this kind of expenses, some home repair.

Management: This is all consumption expenses, agriculture land.

Management: They don't know, they mainly put into assets, they generally use for marriages.

Krishnan: And just on the competitive intensity around the government business?

Management: Government business requires a lot of investment in terms of manpower and machine technology. And also we are quite competitively placed.

Management: International holding up.

Moderator: Thank you. The next question is from Anand Dama from Emkay Global. Please go ahead.

Anand Dama: Sir, one thing a lot of private banks have given how much is the tax spend as a percentage of OPEX, is it possible for you just to give a ballpark figure over there?

Management: Okay, fine at some stage we will start also introducing.

Anand Dama: Okay. Sir any ballpark figure like any percentage that you can share?

Management: I would not have anything on this.

Anand Dama: Okay sure, sir. Second is on a restructured portfolio. So you said that your restructure portfolio is somewhere about 40,000 odd crores, how is that portfolio behaving because if you look at the non-restructured portfolio of NPA certainly are coming up, even your agri portfolio did well. But your restructured portfolio has a lot of SME pool as well. So, how is the payment performance over there, whether customers are paying and what kind of relapse rate or the NPA formation that you get from the restructured portfolio as in when the moratorium ends?

Management: So far we have not seen any unusual trend in terms of either slippages or SMAs. It is the usual performance so far. So, I don't think there is any concern but of course, a lot of MSMEs also got some moratorium. So once the moratorium goes off we will have to see how the behavior is there. But so far, there is no untoward kind of uptick in the slippages.

Anand Dama: When basically is the moratorium is going to end for most of the SME customer?

Management: It's very difficult to say that, somebody opted for six months, somebody opted for 12 months, so maximum of two years was permitted, so different MSME customers have taken different moratorium.

Moderator: Thank you. Our next question is from Abhishek Khanna from Jefferies. Please go ahead.

Prakhar: Good evening sir this is Prakhar, just a couple of questions, while I appreciate you don't want to disclose your gross slippages numbers, which all the other banks in the industry do that. But if I'm looking at the credit cost numbers for the quarter, it is sequentially up 15%. And would it be fair to see that on a quarterly flow basis, your net slippage would have been higher by a similar percentage more or less?

Management: Not really, it is whatever additional provisions have been done on account of aging would be one of the component for the credit cost, which seems to be little.

Prakhar: Because the coverage last quarter improved by 200 basis points, this time it has improved by 100 basis points. So, last time you would have covered more ground than this time. That's why I was.

Management: Earlier the slippage, my dear sir, there is rarely any slippage this year, this quarter, why don't you look at that number, please.

Prakhar: I understand sir, I just wanted to get a broad sense because we don't have the gross flow number…..

Management: We have been given that slippages always and we want to be consistent on that. So, you should be respectful about that decision. It has actually come down from 0.61 to 0.57.

Moderator: Thank you. Our next question is from Nitin Agarwal from Motilal Oswal Securities. Please go ahead.

Nitin Agarwal: So, sir couple of questions like one is like we have been reporting very benign levels of slippage for last few quarters now. And 4Q is seasonally a strong quarter from asset quality angle. So how do you see the sustainability of this current slippage run rate?

Management: Hopefully we should be in a position to maintain this trend.

Nitin Agarwal: Okay. And secondly like on the credit growth we have seen a good pickup in the system. But in the next fortnight there has been a pullback also, which is like almost half of the addition that we saw in the quarter end period. So how has been that for SBI and how do you see the growth momentum sustaining over the 3Q addition that you have seen?

Management: We have seen the sustenance of the trend which we saw till the month of December, rather in certain respects, I would say it is even a stronger one, which you have seen.

Nitin Agarwal: So we have not seen any back asset that the system?

Management: No, not really.

Nitin Agarwal: Okay, sure sir. And sir lastly the performance of our general insurance subsidy has been under pressure and this quarter we reported a loss, so how do you see the claim ratios trending this business any color on the performance and the profitability outlook if you can share?

Management: It's a trend so perhaps we are part of that trend. Maybe going forward, we should be efficient to take.

Moderator: Thank you. Our next question is from Nilanjan Karfa from Nomura. Please go ahead.

Nilanjan Karfa: Sir just want to go back to a strategic question. So we are probably running the lowest cost of deposits and as rates are hardening, don't you think this is the right opportunity to continue to pass on some of the rate benefits maybe in terms of fee maybe in terms of spread and greater wallet share of the customer. And also considering that our credit cost are probably going to run much below the historical size, is this kind of a thought is something that has been discussed in the top management and any strategic intent on this side?

Management: We are very closely watching the situation and last month we had increased our term deposit rate by 10 basis points. So we are very closely watching situation and accordingly we are taking the steps.

Nilanjan Karfa: Okay. Have we reduced any charges on let say LC / BG usually the non-funded, have we done any tinkering on that side sir?

Management: So, it's very customer specific and depending on the wallet share, and depending on the volume of business that the customer would give us, this is a continuing process and it is also a response to competitive pressures that we get from other banks.

Nilanjan Karfa: So, if have to extend this question, are you seeing a lot of competition from at least the top?

Management: We are all playing in the market so competition is bound to be there. Nothing unusual, competition is part of the game.

Management: There's no trend upwards to response to your question differently there has been no revision on the card rate. But on a case to case basis, decisions are always taken. And that has been the usual trend, there is nothing significantly different. Over the previous quarters, the liquidity was very good. And there are others fees like processing fees on retail and all, there are several campaigns that run for shorter periods where the maximum benefits are passed on to the customer.

Moderator: Thank you. Next question is from Adarsh Parasrampuria from CLSA. Please go ahead.

Adarsh Parasrampuria: Couple of questions, one does SBI even need to raise capital over the course of the next 12 months, because from March, if you add that proforma of profits, there has been a 30 basis point improvement in our CET one level. So just wanted to understand, can you self-finance your growth because ROEs are better than growth, so if you can do it yourself?

Management: We will be taking the call in the next financial year. But as of now, we feel that first half of the next financial year whatever growth is likely to be there that can be adequately supported by other capital which we have.

Adarsh Parasrampuria: Got it. And sir the next question it's been touched upon by a few participants, but that's been a bit of a drag on the system has been the credit growth right some pick up that we have seen, what is your sense of credit growth, which areas do you think certainly you are seeing momentum in terms of how clients talk to you that is improving or not, because we have been in single digit growth for a long time as a system right.

Management: Now we have started seeing, as I mentioned that the underutilization has come down by almost about 900 basis points, as well the working capital is concerned on the corporate side. And similarly, when it comes to the term loans, it has also come down to about 100 basis points on unavailed term loan component. So that way, there's a traction which we saw in the month of December, and the December quarter. Thereafter, at absolute level, we have seen much better credit growth in the month of January, though despite the fact that Omicron had affected partly the various parts of the country. But nevertheless, still we could see a much better growth. So going by the January trend, if at all that is sustained, we expect the credit growth in this quarter to be much better than what we saw in the October, December quarter. And I feel that should be, that kind of a behavior should be sustained in this quarter. And apart from that now, the budget has also talked about investment into the infrastructure related areas. So, it will also open up many opportunities and also many of the industries which had already hit capacity utilization of 100%. They will probably augment their capacity too, the core sector being one of the major ones. So hopefully, we'll get to see much better credit growth in the coming financial year. But yes, of course we will wait and watch for the earlier trends to see.

Adarsh Parasrampuria: Got it sir. My last question is on the SME credit. Retail and corporate has held up very well. SME there was a lot of dispensation, incrementally CLGS lending, restructuring. So what will be your expectation because that could be one risk for the next maybe 12 to 18 months in terms of asset quality, what would be the expectation?

Management: We are trying to get into activities which should be cashed for this financing, and also into better quality of SME lending, which should be essentially into dealer financing, vendor financing, et cetera. So that is one of the focus area for us and to that extent we should be in the question to improve the quality of the book and the SME.

Adarsh Parasrampuria: So, from the restructure pool where you gave ECLGS we wouldn't see too much of a risk?

Management: Not really, because if you will look at it, our book would be around COVID book 32000 crore. 32000 crore we already have got the COVID provision of about 6,000 odd crore. And what we have seen from the past is that, the PD is generally around 30%. But this book is very unusual because, this was a very unusual circumstances in which the restructuring has happened, it was essentially activated to the disruption in the cash flow as the cash flow gets repaired. The stress also goes out and we have seen that some of the people start repaying and don't really avail the restructuring benefits for the full term. So, we'll have to wait and watch. But nevertheless, we feel that we have accelerated the strengthening of balance sheet.

Management: This is supplement what out of this 32,000 crore restructuring book which you are talking about the MSME is just about 12000 crore. So in that also we are not seeing any untoward kind of behavior in terms of the slippages. So there's no great concern on the restructuring book on the MSME. So, this is one thing which…..

Moderator: Thank you. Our next question is from Sumeet Kariwala from Morgan Stanley. Please go ahead.

Sumeet Kariwala: I just had one data question. What is the incremental yield on the unsecured loan book if that's available.

Management: I would not have that number, we don't track that.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time that would be our last question for today. I would now like to hand the floor over to the management for their closing comments. Thank you and over to you.

Dinesh Kumar Khara: Thank you very much. The time taken by all of you on a Saturday evening. Look forward for your continued support. All the very best. Enjoy your weekend. Stay safe, bye.

Moderator: Thank you very much. Ladies and gentlemen on behalf of State Bank of India that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.