Company Name: Karur Vysya
Company Ticker: KVB IN
Date: 2019-02-13
Event Description: Q3 2019 Earnings Call

Market Cap: 63,434.26
Current PX: 79
YTD Change($): -10
YTD Change(%): -11.236

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: N.A.
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: N.A.

Q3 2019 Earnings Call

Company Participants

- P. R. Seshadri, Managing Director & Chief Executive Officer
- Sivarama Prasad, General Manager & Chief Financial Officer

Other Participants

- Abhinesh Vijayaraj, Analyst
- Dhaval Gada, Analyst
- Prashant Poddar, Analyst
- Bhavik Dave, Analyst
- MB Mahesh, Analyst
- Rakesh Kumar, Analyst
- Darpin Shah, Analyst
- Jay Mundra, Analyst
- Unidentified Participant
- Yash Agarwal, Analyst

Presentation

Operator

Ladies and gentlemen, good day and welcome to Karur Vysya Bank Q3 FY '19 Earnings Conference Call hosted by Spark Capital Advisors India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhinesh Vijayaraj from Spark Capital Advisors India Private Limited. Thank you and over to you, sir.

Abhinesh Vijayaraj, Analyst

Thank you, Stanford. Good afternoon, everyone. On behalf of Spark Capital, I welcome you to the 3Q FY '19 earnings call of Karur Vysya Bank. We have with us today the management team of KVB represented by the MD and CEO, Mr. Seshadri; President and COO, Mr. Natarajan; General Manager and CFO, Mr. Sivarama Prasad; and Company Secretary, Mr. Srinivasa Rao.

I now request Mr. Seshadri to take us through the highlights of the quarter gone by. After which, we will open the floor for questions. Over to you, sir.

P. R. Seshadri, Managing Director & Chief Executive Officer

Thank you very much, Abhinesh. Good afternoon, everybody. Thank you very much for joining us on this call today. I thought initially that we would go through all the significant things that had happened during the quarter and then address the NPA related issues that I'm sure you guys, all of you have questions on. But on some introspection, I came to the conclusion that perhaps it is best to address the elephant in the room, talk about NPA first and then go out and address the other items. So during the quarter, in the investor presentation on Page 35, you will see that we had a net NPA addition of INR349 crores comprised of INR86 crores from commercial, INR246 crores from corporate, INR8 crores from agri, and INR9 crores from retail. You'll also recall that consistently we've been giving the message that we would like to build a portfolio where the annualized NPA accretion is roughly 150 basis points.

Net accretion on an annualized basis is 150 basis points, is the kind of portfolio that we would like to build going forward. That amounts to roughly on a portfolio size of INR50,000 crores, roughly INR750 crores or thereabouts on an annualized basis of net slippage. You'd also remember that in November of 2017 we had indicated to you that there was INR1,200 crores of watch list, of which 160 -- sorry, INR164 crores remained unutilized. So during this quarter essentially CBG; which is our corporate business, our agri business, and our retail business; the NPAs came in as planned. The sum total of those NPAs are roughly INR103 crores leaving a gap to the planned NPAs that we would have had as per normal of roughly INR80 crores to INR85 crores, right. So if our 150 basis points had held good, we would have had about approximately INR180 crores or thereabouts of NPA; INR103 crores comes through these three businesses, INR80 crores is left out, right.

Now during the quarter we also had NPA on account of a large non-bank finance company, which is systemically important, amounting to INR313 crores -- INR313.5 crores -- INR314 crores that was recognized as NPA. In addition, INR130 crores of what was on the watch list became NPA. So, that amounts to INR444 crores. And one restructured asset; if you recall we used to have -- we've been working down our restructured assets. One of the chunky restructured assets that was still on our balance sheet, which is amounting to approximately INR40 crores which you had full visibility to, also became an NPA during the quarter. So adding all three of these, which are items that were fully known to the marketplace, we get a number of INR444 crores plus INR40 crores, that is INR484 crores plus the fact that we had indicated to the marketplace that our NPA on an annualized basis would be -- run rate would be roughly 150 basis points. You have to add the other INR80 crores, that brings us to roughly INR570 crores.

Against that, for our corporate book, our NPA is roughly INR680 crores net of certain collection items that we would have accounted for in any case. So therefore, we had incremental NPAs amounting to INR100 crores that were outside of what the market would have expected. But given the fact that we are running a large book and given the fact that we made these predictions 14 months back, I think we are within the margin of error that could be expected under the circumstances. I'd also like to indicate that during this quarter, we took credit provisions to the extent of INR432 crores, which is INR7 crores above the net -- the operating profit for the quarter. This included a 50% provision against this systemically important non-bank finance company, of which there has been significant discussions both in the papers and outside.

When we look at the five quarters forward, our belief is that our CIG, which is the Corporate and Institutional Group book, we should expect NPAs to the extent of approximately INR750 crores -- slippages of INR750 crores in the next five quarters. I repeat this is a forward-looking statement. This is the best guess estimate that we have at this point in time. And another INR1,000 crores or thereabouts from our commercial book slippages; not net slippage, gross slippages; and we expect another INR100 crores or thereabouts for our retail and agri book. So net slippages over the next five quarters in our expectation is INR1,850 crores, which will be offset by (technical difficulty) recoveries. So our current expectation, and I repeat the word current on the basis of information available today and on the basis of all the analysis that we can do at this point in time, our current expectation is that over the next five quarters our net NPA accretion would be roughly INR1,100 crores.

Now given the fact that we do not have a crystal ball that is 100% accurate and given the fact that we were out of our estimation to the extent of INR100 crores for this quarter, I am as a matter of ample caution adding INR200 crores to the INR1,100 crores that I just told you. So, our expectation is that over the next five quarters our net NPA accretion will be of the order of magnitude of INR1,300 crores. It is my expectation that some of these INR1,300 crores will be front-loaded, i.e, this will be like a detained curve, it will reduce over time. And the INR1,300 crores that we're talking about is not very far away from the 1.5% net NPA accretion that we've been talking to you about. Our expectation was that we would reach this a little sooner than we are likely to. But having said that, we think that we are within striking distance of hitting that number as we go forward.

I will now try and revert back to whatever it is that we've been trying to work on over the last quarter or so. Essentially we're working on four broad themes. The first theme is to improve efficiencies and to build competitive advantage for ourselves. In that regard we have, as you've seen, launched I believe the most comprehensive digital banking initiative in the banking industry as of today. It is now fully embedded in our system. Our people are using it. It is generating very substantial volumes of loan applications. We generated 42,000 loan applications last quarter, which is a number that we've never generated in the past, and the numbers are still increasing and our expectation is that we will be able to use this tool to grow business volumes on the retail and on the commercial side very significantly as we go forward. It provides to us a new method of doing business. It provides a competitive advantage that will take our competitors a little bit of time to replicate.

Similarly on the commercial side, our system went live as you're aware September-end. October to December was the first full quarter of usage for New to Bank and the good news is that it's now almost fully embedded. Our folks have gotten used to it and we are seeing incremental traction on that platform day after day. Our new processes -- we've introduced a whole set of new processes that are market benchmarked that will ensure that the products and services that we're offering to our customers are not only competitive, but are delivered in a manner that the customer wants it. The second key area of focus for us was to improve risk management. As you're aware, we had hired a Chief Risk Officer about a year or so ago. We continue to augment the team on the risk management side. We have also undertaken a risk limitation exercise on the corporate bank front. It is something that I will talk about later.

Essentially we are limiting the tickets that we are writing on corporate, which is one of the reasons that you're seeing that our corporate book has shrunk sequentially and year-on-year to the extent of 6%. We have changed the risk architecture in the company. We've moved from a decentralized risk acceptance process to a centralized risk acceptance process and we've also ensured that we've put risk specialists in our divisional offices where credit related decisions were taken hitherto without the presence of a Risk Officer. So, there has been a hell of a lot of work on that front. As I've been telling you, we've implemented a whole host of new scorecards. We are updating a series of new scorecards as we speak. We are using external benchmarks more aggressively like CMR, external rating methodologies, et cetera, et cetera more aggressively to ensure that the book -- the quality of the book improves substantially.

Most of these initiatives have already been implemented, some are ongoing. And we are seeing that where automated decisioning tools have been implemented, the through-the-door population is behaving significantly better than historic vintages at the same time, let's say, the last quarter of 2017 or early 2018. The first quarter of 2018 versus the first quarter of 2017, nine months out, the performance of the newer vintages are much, much better. This is more visible where the scorecards were implemented early, a little less visible where judgmental underwriting continued. But we are moving to an area where scorecards are more -- used more and as a consequence, we think that the portfolio that will be judgmentally underwritten, especially on the smaller ticket, will reduce over a period of time. The third area of focus for us has been operational control. As an organization, we've operated in a completely decentralized manner over these 102 years that we've been in existence.

We've been strengthening the operational backbone of the company by centralization. So we've -- over the last two or three quarters, we've been focusing on studying the activities -- the operational activities that have been done in the company, where they are being done, and trying to move them into a centralized location where they can be done in a controlled manner. In that regard, the branch operation centralization is an important initiative that we are currently undertaking. We have already centralized a few of the activities that the branches used to do associated with customer demographics as well as management of limits on customer accounts. These were centralized last quarter and the quarter prior to that, if I'm not mistaken. We are undergoing currently a complete analysis of all our branch activities so that we can centralize activities that are best done in a back office location and free up time in the branches for more sales-related activities.

We've also invested a great deal of money in AML and KYC systems upgrade so that to ensure that we are appropriately set up to ensure that RBI's and other regulatory requirements are met completely. The fourth pillar of what we're trying to do is to ensure that we grow profitably. We are doing a bunch of things on this front. We are enhancing our product suite. You will notice in the deck that our credit card -- commercial credit card has gone live.

We test launched it in December. We are at the process of ensuring that everything works as advertised and we should be going for a commercial launch later part of this month and we are expecting that we will book approximately 10,000 cards during the rest of the quarter. It's a tight ask, but we think we can do it. We've implemented risk-based pricing to ensure that the risk asset that comes on board is appropriately priced. We are seeing the results of that flowing through.

A consequence of the risk-based pricing is that our net interest margin has grown in this quarter against the prior quarter in spite of the fact that gross slippages were significantly higher than the prior quarter, which means that in spite of the fact that we've had significant interest reversals, our NIM continued to grow which is indicative of the fact that we do have pricing power and that is being demonstrated in the NIM that is flowing through. We've demonstrated the very tight control on costs. I'm sure you've seen the deck. On a year-on-year basis in spite of the very significant investments that we've made on the technology platform, on the new hires, and so on and so forth; our costs are tightly controlled. The growth, which appears on the face of it to be 13%, is effectively on account of retirement benefits for which we had to make provisions on account of interest rates moving in our direction.

If I may just step a moment back into the second point, which was the risk management point. I forgot to mention that we've been working towards ensuring that our company is ready to move into Ind AS as quickly as possible with the minimum of disruption. One of the items that we had to deal with was the treasury book. The treasury book historically in keeping with the way most traditional Indian banks have dealt with the treasury, we had large durations or long duration papers sitting both in held-to-maturity as well as in available-for-sale. Over the last two or three quarters, we have been working very hard to reduce duration on the treasury. I'm happy to report to you that duration on the available-for-sale securities is now down to 1.82 years, which was over three years just two quarters ago, and the duration on our held-to-maturity book is down to 4.05 years from 4.5 years two years ago -- I mean two quarters ago. And if you go back further, you will find that there is even more reduction.

So, we've reduced volatility on the treasury book. We've swapped out the 10-years duration assets that we had with four-year or five-year duration assets over the last quarter and the quarter prior to that. And I'm very happy to note that interest rates have moved in our direction because the yields instead of being inverted at about three to four years has now become straight and which has left us significantly in the money on those assets. So in summary, these are the four broad themes that we've been working on and I think that if we were to do this properly, we would be in a position to get to where we want to get to. I just want to spend a minute more talking about our expenses. Expenses are tightly under control as I said and in order to keep the expenses so, we've shut eight branches so far. We are down now to 782 from a peak of 790.

We've also shut a bunch of ATMs on account of the fact that those ATMs were not really making us money and in the context of the requirement for significant upgrades on those ATMs for security reasons, we felt that it was better for us to shut them down. Just a few -- just to spend a minute or two on the liability profile of this institution. I am happy to report that over the period, our average balances have grown roughly -- our average balances have grown 12% on savings, 7% on demand. So on an amalgamated basis for CASA, we've grown 10%, which is a reasonable growth over the period. We would obviously have liked it to be a little higher. But having said that, we do have a very granular book which we think is going to hold us in good stead as we go forward. We've deliberately kept the growth of time deposits down because we do have challenges in putting out the money and therefore in the absence of greater visibility on growth, we had moderated the growth of our time deposits.

But we are now -- we are confident enough to say that should we need the money, we should be able to generate it. With respect to the asset business, you'll notice that it's a story of two worlds. The first point is that our retail business is growing very, very nicely, year-on-year we've grown 25%. It does include, however, IBPCs to the extent of INR500 crores; but even ex that, the growth is nice, granular, high quality growth. Agriculture and commercial have grown 7% -- no, 7% and 9% each. Agriculture, this is part of the season where we should get some growth. Our control screens both on agriculture and on commercial have been tightened very considerably so we are ensuring that we get higher quality loans on board. On the corporate side, as I said, we've been tightening our expectations as far as the quality of the risk and as a consequence, we've wound down a portion of the portfolio. We've also sold some of the assets, which is the difference between the INR680 crores I talked about and the net number that is showing in agriculture on the -- sorry, not agriculture, on the corporate side.

So, that's pretty much it. I'm happy to answer any questions you may have. And I think we are feeling reasonably comfortable with where we are going. We do have some challenges left. I do not believe that challenges are all over. You would have noticed that our gross NPA is 8.49% and net NPA is 4.99%. That is an area of challenge that we have to address. And what we intend to do is that over the next five or six quarters, we intend to continue to provide aggressively. We think that the regulatory requirement for provisioning will come off as our NPA numbers moderate towards the level that I'm talking about and -- but we will continue to provide more aggressively thereby catching up with provisions and reaching the 60% mark, which I think is adequate given the nature of our portfolio.

So, that's pretty much it from my side. I thank you once again for being here with me. I'm very happy to answer any questions. Thank you.

Questions And Answers

Operator

Thank you very much, sir (Operator Instructions) The first question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada, Analyst

Yes. Hi, sir. Thanks for the opportunity. Just a couple of questions. First, sir, I got little confused with the comment you made on the five quarter guidance on gross and net slippages. If you could just repeat the gross numbers across the segments that you talked about, that would be very useful, sir.

P. R. Seshadri, Managing Director & Chief Executive Officer

Thank you. So, I said that we expect and this is an expectation looking five quarters ahead. We are being a little circumspect here. The corporate slippage we expect INR750 crores, which is only to be expected given the quantum of NPA accretion that has happened on the corporate side. On the commercial side, we expect approximately INR1,000 crores. And these are gross slippages -- gross slippages and then approximately INR100 crores both retail and agri put together. Okay?

Dhaval Gada, Analyst

Okay. So, INR100 crores each, right?

P. R. Seshadri, Managing Director & Chief Executive Officer

No, INR100 crores in total.

Dhaval Gada, Analyst

Total, okay.

P. R. Seshadri, Managing Director & Chief Executive Officer

So, we'll come to INR1,850 crores. We expects INR750 crores of recoveries. which brings it to INR1,100 crores. But given the fact that I don't have a perfect -- what should I call it, perfect crystal ball to look at the future, I'm adding another INR200 crores.

Dhaval Gada, Analyst

Okay, understood.

P. R. Seshadri, Managing Director & Chief Executive Officer

As a buffer to get INR1,300 crores. Okay.

Dhaval Gada, Analyst

Okay. Now, I got it. Okay. So the maximum you expect into FY '20 -- by the end of FY '20 for the next five quarter would be INR1,300 crores maximum?

P. R. Seshadri, Managing Director & Chief Executive Officer

That is right.

Dhaval Gada, Analyst

Okay, understood. Right. And sir, the second question was around this quarter, what was the write-off amount if you could just provide that? So you have given the reduction amount, if you could also give the write-offs during the quarter?

P. R. Seshadri, Managing Director & Chief Executive Officer

The write-off that we did was to the extent of INR434 crores.

Dhaval Gada, Analyst

And how much was it last quarter, sir, just in case you have it handy?

P. R. Seshadri, Managing Director & Chief Executive Officer

These were -- sorry, what did you ask, Dhaval? I'm sorry, we just had -- I got into a conversation.

Dhaval Gada, Analyst

Sorry. I was just saying that how much was it last quarter in case you have that number handy? I have it at zero. I just wanted to double check if...

P. R. Seshadri, Managing Director & Chief Executive Officer

We didn't do any write-off last quarter. This quarter we've done INR434 crores. This is essentially a sale. This is a sale to an (inaudible). Okay?

Dhaval Gada, Analyst

Okay. Understood.

P. R. Seshadri, Managing Director & Chief Executive Officer

Cash sale, not on this -- not with an SR.

Dhaval Gada, Analyst

Right. Sir, just last question on like normally you end up giving ROA guidance. I mean given the quantum of credit cost that is likely to come in the next five quarters as you move close to 60% provision coverage, I mean what's your expectation on return on asset? And if you could also sort of end by tying that with the capital requirement. While you're not growing, but the accretion probably will not be as sizable. So, just if you could tie the two bits? Thanks.

P. R. Seshadri, Managing Director & Chief Executive Officer

Thank you, Dhaval. So basically to address that question, one needs to look at what the five quarter pre-provisioning operating profit would be. Pre-provisioning operating profit at current run rate would be in the neighborhood I presume of INR2,100 crores, INR2,200 crores at the very least I would think. Assuming it was INR2,100 crores and my provisioning rates on this net INR1,300 crores, let us say is 70%, I will have to provide -- or 75%. Let's say I provide INR1,000 crores out of the INR1,300 crores that goes through, then I am left with INR1,000 crores or so or thereabout. Let's say I even provide a little bit more, we provide INR1,300 crores just to ensure that we catch up. I haven't done the math in my head. But you could say that I am providing INR350 crores a month -- quarter, that will give me INR1,500 crores -- INR1,650 crores or so. INR350 crores into five.

Sivarama Prasad, General Manager & Chief Financial Officer

Yes, INR1,750 crores.

P. R. Seshadri, Managing Director & Chief Executive Officer

INR1,750 crores. If we do INR1,750 crores, then we still have pre-provisioning operating profit of INR2,200 cores -- let's say, INR2,200 crores, we are again left with INR450 crores. So it's question of how much we need to do and we will be play the game as we go forward, but we intend to provide more than is expected. You've seen that over the last five quarters we've increased our provision coverage ratio except for this quarter.

Dhaval Gada, Analyst

Correct, yes.

P. R. Seshadri, Managing Director & Chief Executive Officer

Even in this quarter, we have provided very aggressively to ensure that we have 50% coverage on the one name that most of you would be interested in.

Dhaval Gada, Analyst

Correct. Okay. This is useful, sir. Thanks and all the best. Thank you.

P. R. Seshadri, Managing Director & Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from the line of Prashant Poddar from ADIA. Please go ahead.

Prashant Poddar, Analyst

Good evening, gentlemen. Sir, actually I want to talk about the slippages number for next five quarters you gave. I understand this is gross slippage, but in commercial loan, INR1,000 crore would essentially mean about 7%-8% kind of gross slippage. Is it that bad a portfolio?

P. R. Seshadri, Managing Director & Chief Executive Officer

Mr. Poddar, I think it's a very good question that you ask. Historically, the portfolio has been -- it is a small ticket portfolio that has been dealt with in a particular manner in the sense that we've told customers that it is okay for them to pay in 30 days or 60 days as long as they pay us before the 90th day. And then under these conditions what happens is, one slip makes them go into NPA. I mean if they are persistently on 60th day and they miss one cycle, they become NPA. So, we've got elevated SMA 2s and this is in common with most other banks of this nature because historically being an SMA 2 was not seen as something wrong. We've been trying to tell people that that is unacceptable. We've been communicating to them saying that we expect you to be current on all your obligations. We've been incentivizing them to be current on all their obligations. But given the fact that we've got elevated SMA 2s, we expect the gross slippage to be high. However, our expectation is that since these people are reasonably good businessmen, they are small businessmen where business is run by the owner himself; the expectation is that they will come back, if not immediately, within a month or two; which is why INR1,000 crores of gross slippage is the number that I have averted to.

Prashant Poddar, Analyst

So, I understand that, sir. And then the other -- so when you say recoveries of INR750 crores, this is inclusive of the reversals which will happen from this portfolio?

P. R. Seshadri, Managing Director & Chief Executive Officer

Correct. That's true.

Prashant Poddar, Analyst

And I mean if you were to really look at the net slippage in this portfolio, is it fair to assume that it will be close to INR500 crores only?

P. R. Seshadri, Managing Director & Chief Executive Officer

Net slippage on this portfolio, yes, it would be in that neighborhood, yes. Maybe a little touch higher, maybe at INR600 crores or thereabouts. Yes.

Prashant Poddar, Analyst

Sorry, I didn't get that point.

P. R. Seshadri, Managing Director & Chief Executive Officer

I'm saying a touch higher. We were expecting approximately -- at this current juncture being conservative, we are saying about INR600 crores would be a number that I'm hazarding. If you recall, I don't know if you were on this conference call after our first quarter. After the first quarter we had elevated NPAs during the first quarter on the commercial side. It came in at INR241 cores and everybody was worried about the commercial portfolio and they asked me what do you think is going to happen to this commercial portfolio. And we -- our answer to them was that we had done a flow model, we built a flow model. We had studied the flows and assuming that the flow rate was the flow rate as of the first quarter, the NPA expectation for the entire year would be INR700 crores incremental. That is the net NPA.

And assuming that the previous nine months' flow rate held, then it would be in the neighborhood of approximately INR500 crores -- between INR400 crores and INR500 crores. The reason why we did this analysis and this was trying to sort of back up our own view that historically the NPAs in this portfolio seem to maximum happen in the first quarter and then they sort of tend to retrace over the next three quarters. Now under the current circumstances, there is reasonable tightness on the SME side. And, however, our portfolio has behaved since then. Our net NPA accretion in the first quarter was INR241 crores, next quarter was INR98 crores if I am not mistaken, and subsequently this quarter is INR86 crores. So, it's come in much lower than what we had predicted initially.

And so, the prediction that we are making now is on the basis of information that is available and what is -- what can be seen, the movement that we can see on the ground. So slippage of a INR1,000 crores is something that we would expect where on a net basis, including corporate, we will get approximately INR1,100 crores left out. I think on the commercial side, it will be probably fair to say INR500 crores is a reasonable number. There will be an error margin in that, plus-minus 15% is something that you can expect. So, it could be INR425 crores to INR575 crores is a number that you can have.

Prashant Poddar, Analyst

Sir, the other bit is on the corporate itself. I mean, after the kind of slippages which the portfolio has seen not only for you, but for any other large corporate bank, now even SBI -- even public sector banks are looking for negative slippages incrementally and you're talking about close to 4%-5% gross slippage even in this portfolio in the subsequent year. Either it is too conservative or it is -- it substantially means that the portfolio is still bad?

P. R. Seshadri, Managing Director & Chief Executive Officer

I think it's a good question. Our portfolio in terms of gross slippages are arguably -- I tend to agree with you that we've had very large slippages both in recent times and in the past and the portfolio performance has been anything, but good.

But having said that, the portfolio is on our books and some of it needs to flow through. We are unfortunately unlike the PSU banks, lenders in entities which are not part of the NCLT settlements that have taken place so far. So consequently, the recoveries that you've been seeing for some of these entities is not being seen by us so we have to go through the long grind of going through the legal process and that sets us apart from the rest of the PSU banks.

Prashant Poddar, Analyst

So that is the bit on recoveries, which also -- I mean the larger names not getting addressed is -- outside is understandable. But the smaller loans, average ticket size of INR34 crores and 72% of your current book being less than INR100 crores, SMA 1 and SMA 2 in your corporate book being only 2.82%. If SMA 1 and SMA 2 is only 2.8% of the loan book, expecting a slippage of 5% -- I mean actually I can't understand this number either it is too adhoc -- I mean it is too -- what should I say, it is too guesstimated a number or it is too conservative because if your SMA 1 and SMA 2, all of it slips as well at this point of time, we shouldn't see that kind of slippage as you are talking about. Why I'm discussing this number alone is because as the previous participant also asked, your PPOP isn't high enough to help you increase your coverage ratios to a level which most banks will have post recoveries, post everything -- I mean post everything financial year '20 end, even some of the PSU banks will have their net NPA of close to 2%, which we will not have if we just look at our PPOPs and the kind of slippages even incrementally you're talking about.

P. R. Seshadri, Managing Director & Chief Executive Officer

No, I think...

Prashant Poddar, Analyst

And our assessment, our understanding from your previous conversations has been that the portfolio that's remaining on the book at least is pretty high quality. I don't have the data on your ratings of corporate book here, but in the previous presentations you have shared that and that looks to be very, very high. And in that perspective, these numbers look too conservative or probably there has been a reassessment of the corporate book altogether.

P. R. Seshadri, Managing Director & Chief Executive Officer

I think you make a valid point. I don't think we've articulated that the book -- articulated anything about the health of the corporate book so far. Our corporate book -- our expectation was that because we have had large slippages, going forward whatever remained would behave. We have visibility to roughly half the number that I just told you that we think that those are bad and that will flow through, which is amounting to INR375 crores, INR400 crores or thereabouts. We don't have visibility to the rest of the numbers. You're right. There is a degree of estimation that one has to do because we are speaking now 15 months out and unfortunately, things change. The good news is that we don't have exposure to many of the names that are being debated today where there is discussion as to the viability of certain entities, which appears in the newspaper very often.

Most of them, we don't have any exposure to. But it's very difficult for us to definitively name the entities that are going to go bad between now and five quarters out. So therefore the visibility that we have, as you rightly mentioned, is to about half of that. The other half is a guess estimate on the basis of other names. Those may not flow or those may. So, we perhaps have become a little bit more conservative than we were the first time around when we gave an estimate of INR1,200 crores on the corporate book and we were pretty much bang on actually. So in this case, perhaps we are a little bit more conservative than we should be. Having said that, that's the best number that I can provide at this point.

Prashant Poddar, Analyst

Sir, very quickly last question from my side on advances growth. There has -- can you give us some indication of the three portfolios that -- what kind of growth we can see over next one and three years?

P. R. Seshadri, Managing Director & Chief Executive Officer

So, our expectation is that -- I'd leave the corporate side for the moment because it is still work-in-progress and there's a lot of restructuring happening on the corporate side. On retail, I think we will step up from where we are at this point in time. We've done 25%. We think that we should be in the 30%, 35% range as we go forward. We think commercial will come back, right now it is at 9%. We've got our new products completely rolled out. The new risk screens are completely rolled out and we should be growing commercial in the high teens as well as agriculture. Agriculture is actually seasonal business so during the agricultural season, we expect to grow in the high teens again.

So on average, even including corporate, our view in the near term is to -- starting from the next year onwards is to grow at roughly about 15% year-on-year. So, that's the target that we have set ourself because we've now fixed the credit underwriting processes pretty significantly and we do think that we can step on the gas. Going forward, I think year two and year three, obviously the intent would be to grow faster than that. We are in markets where the environment is conducive and therefore we will try to go to the high teens -- I'm saying in the first year in the mid-teens, next year into high teens or early 20%, 20% plus is the ambition at this point in time.

Prashant Poddar, Analyst

Okay. Thank you very much, sir.

Operator

Thank you. The next question is from the line of Bhavik Dave from Reliance Mutual Fund. Please go ahead.

Bhavik Dave, Analyst

Hi, sir. Sir, just to continue with the previous participant. Just wanted to understand we are already at 21% NPA on our corporate book, which is extremely high, and we are still envisaging that another INR1,300 crores -- INR1,250 odd crores will slip in this book, which will mean another 45% increase in our slippage rate -- NPA rate of around 30%, 35%, which is even worse than a PSU bank. I would like to understand where is this INR1,200 odd crores number that are you getting from? What sectors are these? Which are these big accounts -- like accounts that are undistressed because the system is not seeing any increase in slippages on the corporate front? Even likes like PSU banks are talking of a slippage run rate that is decelerating from their highs. So, I'm not able to comprehend where this increase is coming from.

P. R. Seshadri, Managing Director & Chief Executive Officer

So, I think you misunderstood the numbers. We said that gross slippage on the corporate side, the expectation is roughly INR750 crores not INR1,200 crores, firstly. And I also said that we can visibly see roughly INR400 crores worth of assets that are weak at this point in time. But weakness arises over time and I'm predicting five quarters out so I have added another INR350 crores as a buffer assuming that something else will come up. So I have visibility to another INR400 crores and the rest is a guess estimate, if I may use that word, of future stresses based on which industry they are, et cetera, et cetera. et cetera. We also expect pretty substantial recoveries to come through. So on the net side on the corporate front, we don't expect to grow more than INR300 crores to INR400 crores. I mean even if the INR750 crores happens, it won't be such a substantial growth. That's the expectation at this point in time. So, does that clarify?

Bhavik Dave, Analyst

Yes. And just on this INR400 crores as well, so we had a watch list, we had a restructured book, we had these compartments that we had formalized. But even after that when our watch list is completely over, what is this INR400 crore that you're seeing? What sectors are these into and what kind of accounts? Are these like lumpy accounts or these are -- how many accounts would these INR400 crores form, how many accounts would be there?

P. R. Seshadri, Managing Director & Chief Executive Officer

Okay. It's a good question. The INR400 crores essentially a, we had a watch list, yes, and the watch list excluded the restructured accounts that were there. And the watch list was prepared with a view that we are looking one year out, I mean the watch list cannot take into account two years out, very difficult to predict. That's point number one. And the watch list held by and large as I explained in the beginning. The INR400 crores that we are talking about are accounts largely in the engineering/construction space, the lumpy bits are there and then there is an assortment of other accounts, which don't really have any particular pattern. But engineering/construction is the -- infrastructure as you could say, there are a couple of names there that we were unable to exit in time and which have now turned south. They are delinquent and are likely to be NPA fairly quickly.

Bhavik Dave, Analyst

Okay. And sir, secondly, on your operating expenses. So, you've invested quite a bit on the revamping the way you are lending. So if I see the last three, four years, your cost growth has been pretty -- very, very stable at around 9% to 10% CAGR in the last three years including FY '19. So what would be your like guesstimate for operating expense growth that you would envisage for the next couple of -- two to three years.

P. R. Seshadri, Managing Director & Chief Executive Officer

Look, this is one thing that we do quite well, manage our expenses. So even before this quarter, year-on-year we've grown 14%, much of it is one-timer provision for employment retirement -- employee retiral benefits. I think we will not grow expenses by more than 8% to 10% a year compounded. We do have some room to rationalize cost further. Many of the expenses that we have taken to build out the new systems are at a point where they will be sort of spiraling downwards as opposed to increasing and therefore, it gives us a little bit of room. And even if we want to do some stuff on the advertising front, which we've been not really present in other than on radio and so on and so forth, it gives us room to do more sales and advertising related activity without growing expenses very dramatically. So, we'll intend to keep expense control strong. We intend to grow the topline and hopefully things will flow through. I mean the only joker in the pack is how much NPA we accrete and how much provision we need to make, but that is something that we are very, very focused on.

Bhavik Dave, Analyst

And lastly, sir, the numbers that you spoke about during your introductory comment where you said that INR2,200 odd crores that you're expecting as operating profits, that is for five quarters, right, not for FY '20?

P. R. Seshadri, Managing Director & Chief Executive Officer

Correct.

Bhavik Dave, Analyst

Including the last quarter for this year and next four quarters, right? That's how you're looking at it.

P. R. Seshadri, Managing Director & Chief Executive Officer

That may be an understatement, it might be a little bit higher. It maybe little bit higher, but I am just keeping a reasonable number there.

Bhavik Dave, Analyst

Sure, all right. Okay. That's about it. Thank you, sir.

Operator

Thank you. The next question is from the line of MB Mahesh from Kotak. Please go ahead.

MB Mahesh, Analyst

Hi. Good afternoon, sir. Just again coming back to the previous question again. If you look at the -- if you look at Slide 31, there is no mention of engineering and construction which is that large. Why do you expect such a large slippage in this particular account, one? Second, if you look at again the SMA data, it is also not showing that kind of trends, but you are saying that it will -- it is likely to slip very quickly. Where is it -- where are these stressed sitting out there? And last quarter you mentioned that the non-fund based devolvement, which is about INR160 crores which are sitting out there, the probability of default was extremely -- was on the lower side and we were kind of 40 -- 30, 35 days into the results.

P. R. Seshadri, Managing Director & Chief Executive Officer

No. Mahesh, on the contrary, I have very consistently said the probability of default is very high. You please read the transcripts again and do not put words in my mouth, Mahesh.

MB Mahesh, Analyst

Okay. I will take back those. Just kind of -- I just thought that you said that look, it is there, sitting on the outside and see, okay. I'm just using the words which are there. It says that it is not appropriate for us to make a provision at this point of time given that many of them are performance related guarantees, which may not be called ultimately. I mean these were the words you had used in the previous quarter, sir. Just trying to understand...

P. R. Seshadri, Managing Director & Chief Executive Officer

No. Subsequently, multiple times we have said, we have said that you should consider it as NPA going forward. I can pull it out, I can pull the transcript and give you, okay.

MB Mahesh, Analyst

No, we are not asking that. We are just saying that look, it may slip into NPAs at some point of time. But last quarter there was some kind of a message saying that look it may not be called ultimately. So, you would have had some kind of visibility that the probability that it will slip this quarter is reasonably low. But it's -- everything seems to have slipped this quarter. So, I was just trying to understand what happened. Just trying to understand what is the -- what was the backdrop behind the story, that's it?

P. R. Seshadri, Managing Director & Chief Executive Officer

Yes. Mahesh, one account of INR130 crores slipped, okay. There are other accounts which did not slip. So the expectation was we didn't know when it would slip, it was a guarantee that was called and we had to pay.

MB Mahesh, Analyst

Fair. Fair point, sir. And this -- the fact that engineering and construction doesn't seem to be a top account when you look at the sector details, but you're expecting very high slippages and it's also not in the SMA -- it doesn't seem to be seen in the SMA 1 and 2, the early warning signals; but yet you are saying that it will slip immediately so in the next four, five quarters. What is driving this visibility? Have I got dropped?

P. R. Seshadri, Managing Director & Chief Executive Officer

Sorry, I should have perhaps used the word infrastructure as opposed to engineering and construction. I mean, so that does feature as you can see. We have INR2,255 crores worth of loans to infrastructure and this is a sub -- this is a part of that.

MB Mahesh, Analyst

Okay. And you are saying this -- and it's not seen in the early warning signals, but yet you're saying that it will default.

P. R. Seshadri, Managing Director & Chief Executive Officer

Mahesh, I have to make a prediction of some kind.

MB Mahesh, Analyst

We are just trying to understand that look, have you -- the reason why we are asking this question is that look, these numbers which you have put out in front of us today seems to be extremely high. It's kind of worrying us that suddenly out of the blue you're saying that look, you're going to see reasonably large slippages over the next five quarters at this point in the cycle. That's the whole reason.

P. R. Seshadri, Managing Director & Chief Executive Officer

So Mahesh, I want to correct that. We've consistently said that if we can get down to 150 basis points on next slippage, we'll consider ourselves very happy. Our P&L can take it. We will make money at that point in time just as long as we can ensure there will be risk-based price and we ensure that our margins hold up and increase, right. That's been the messaging all along. So even if I do 150 basis points in five quarters, it comes to about INR1,000 crores. I'm now saying my expectation is INR1,100 crores and you're telling me it is very large.

MB Mahesh, Analyst

No, sir. We are worried on the gross slippages not on the net slippages. So, just trying to understand what is driving the gross?

P. R. Seshadri, Managing Director & Chief Executive Officer

I have -- so there will be -- there is gross slippage, there is net slippage. We are trying to give you more detail. And see, ultimately what I'm going to hold myself to is the net slippage, right. So and I'm trying -- there is as much -- this is a prediction. It has all the risks associated with any kind of prediction so if the outcome is as close to what we got with the INR1,200 crores, I'd be quite happy actually.

MB Mahesh, Analyst

Fair point sir, Thanks a lot.

Operator

Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar, Analyst

Hello?

P. R. Seshadri, Managing Director & Chief Executive Officer

Yes, Rakeshji.

Rakesh Kumar, Analyst

Yes. So sir, just one question. Firstly on this security coverage. So for Q2 presentation, we had for more than 100% secured coverage of a higher amount, which has come down in this quarter. So for this like where is the change, like has that account matured, gone out of the book?

P. R. Seshadri, Managing Director & Chief Executive Officer

Okay. There has been a -- we'll have to come back to you as to what the reason for this change is. Approximately INR2,000 crores seems to have moved out.

Rakesh Kumar, Analyst

Correct.

P. R. Seshadri, Managing Director & Chief Executive Officer

So, it seems to have -- inter-bucket movement seems to be there. Is it because we've revalued those properties and those properties have become less valuable or more valuable, we'll have to figure out. But can we come back to you on this?

Rakesh Kumar, Analyst

Sure sir. And secondly, sir, like in second quarter we had given SMA 1 and SMA 2 number of 1.8% -- 1.3% or something, which changed -- it got changed this quarter to 2.8%. So, what is the reason for the sudden change in the SMA 1 and SMA 2 number just in one quarter and with the slippage of around INR900 crores?

P. R. Seshadri, Managing Director & Chief Executive Officer

Yes. I'm aware of the fact there is a change, which is what is prompting us to tell you that we are seeing a little bit -- our expectation for immediate NPAs is a little higher than what we would have liked. It's because of the infrastructure accounts that we were talking about that are not paying to term. So, that's the reason why the delinquency numbers are a little higher.

Rakesh Kumar, Analyst

Sir, just one very small request. Because of the change in the number, could we request that you can do the reassessment of the numbers from the NPL side and we can do -- some other time we can give some better projections so that we can also be more confirmed and secured on that part?

P. R. Seshadri, Managing Director & Chief Executive Officer

In what way would you like us to...

Rakesh Kumar, Analyst

Like whatever the projections we are giving like on the gross slippage, net slippage number; so we can do the reassessment and we can give number again maybe in the next quarter or maybe a month back -- a month after or something like that?

P. R. Seshadri, Managing Director & Chief Executive Officer

Sure, we'd be happy to. I think we'd be happy to. We've had significant debate before we gave these numbers to you. This is the best number that we have. We'd be -- as I repeated, if we get to INR1,000 crores of net slippage during the next five quarters, we think that we'd be in a reasonably good shape because we are generating enough to improve our provision coverage ratio reasonably quickly. The current view is that we'd be between INR1,100 crores and INR1,300 crores so that's the position. But we will give you a better outlook maybe a month or so down the road.

Rakesh Kumar, Analyst

Thanks a lot, sir. Thanks. Many thanks, sir.

Operator

Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah, Analyst

Sir, thanks for the opportunity. So coming back to the GNPA or the numbers which you have mentioned, in commercial or the SMA segment you said INR1,000 crore additional slippages over the first -- over the next -- sorry, over the next five quarters. If we see in our book, we already have a much higher number for that particular segment say around almost 5.7%, 5.8% GNPAs. If we look, our closest competitor is sub-3%. So, what is going wrong for us and especially when we have seen one big hit in Q1 of this year?

P. R. Seshadri, Managing Director & Chief Executive Officer

I'm trying to frame an answer that will be appropriate, Darpin. So, essentially our NPAs that we are holding at this point in time is 5.74%. Now that's a little elevated because we've not written off as aggressively as we should have perhaps some of these assets which we have been carrying for a long period of time. So since you track the share quite closely, you will know that our write-offs are quite minimal on account of the fact that we don't have the P&L room to do so, so far. Going forward, we will manage the NPA little bit differently. As we start accreting to our P&L more aggressively, we'll be able to do some write-offs so that we can clean up some of the older historical things that we are holding on the book. So, that's point number one. So I don't know this entity that you're talking about in South India where their number is 3%, how much of such activity they have done and therefore the comparability becomes a little difficult. That's number one,

Number two, the INR1,000 crores that we've estimated is based on a flow model. Flow models can -- are reasonably predictive. I have not seen every -- we've not gone account by account by account to figure out whether this will actually flow or not flow, et cetera, right. The last time around when we predicted between INR700 crores to -- between INR500 crores and INR700 crores, so far the number has been a -- is a little lower than the prediction last time around. So if we recall in the first quarter, we had said hey, we have got this blow-out, we've got INR241 crores of NPA and we said that -- we explained to you that the flow model indicates between INR500 crores and INR700 crores. That's the best information we had at that point in time. So if this is anything to go by, then perhaps that INR1,000 crores will not happen, right, and that will be an outcome that we are very, very happy with.

Rakesh Kumar, Analyst

Okay. And sir, secondly, again on this commercial NPAs only. So, the reported net NPA is almost INR960 odd crores and you're saying it's going to double in next five quarters. I know it is not comparable, but you're adding INR1,000 crores and even if you adjust for reductions of say INR300 crores, INR400 odd crores; still a 70%-80% growth in that number which you have seen over a period will be added in just next five quarters. So again, the same thing what...

P. R. Seshadri, Managing Director & Chief Executive Officer

You have to remove the recoveries also, my friend.

Rakesh Kumar, Analyst

So, that is what I am saying even if...

P. R. Seshadri, Managing Director & Chief Executive Officer

You have to remove the recoveries also.

Rakesh Kumar, Analyst

Sir, if I remove say -- so INR400 crores of recoveries if I remove, net addition will be say INR600 odd crores over the next five quarters. There is still a significant jump in next five quarters if you see it -- till date you have only INR960 crores of an NPA and in the next five quarters, it will grow by 60% to say INR1,600 odd crores. So I'm...

P. R. Seshadri, Managing Director & Chief Executive Officer

Can you see our run rate for this year thus far? We have accreted roughly INR400 crores so far, a little over INR400 crores.

Darpin Shah, Analyst

Correct.

P. R. Seshadri, Managing Director & Chief Executive Officer

So, it's not unexpected. I mean look, my flow rates are not improving that much. That I agree with you. It's a given, granted.

Darpin Shah, Analyst

And then, sir, still you are guiding for INR1,000 crores of an addition -- gross addition actually?

P. R. Seshadri, Managing Director & Chief Executive Officer

Gross, gross.

Darpin Shah, Analyst

That's what I am saying, gross addition.

P. R. Seshadri, Managing Director & Chief Executive Officer

In five quarters, yes.

Darpin Shah, Analyst

Any of the factors the way you look at has changed in this quarter compared to say previous quarters? Anything has changed there?

P. R. Seshadri, Managing Director & Chief Executive Officer

The factors that have changed is that environmentally itself, there is stress that exists in the SME side. We are not alone in seeing this problem. Historically, our numbers have been very low so we are a victim of success as opposed to failure. MSME segment, if you were to ask CIBIL or somebody, will show you 15%, 17% NPA. We probably won't get there. I think the outcome will be better than what I have been sort of predicting so far if the flow model's indication is anything to go by. There are no specific characteristics that we can see. There are certain industries and trades that we are avoiding like schools, colleges, and so on and so forth. Otherwise there is nothing specific that tells me you shouldn't do this or you should do that.

Darpin Shah, Analyst

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

Operator

Thank you. The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra, Analyst

Yes. Hi, sir. Thanks for the opportunity. Sir, most of the discussion has already happened around this corporate INR750 odd crores slippages -- expected slippages. Just sir, if you can provide some sort of anchor for your this -- for you to arrive at this number. Is it BB and below book or is it -- some sort of color. So let's say next quarter you have INR200 odd crores slippages, that will help us differentiate that this so much amount has come your earlier projected and so much is business as usual. Just color on that would help, sir.

P. R. Seshadri, Managing Director & Chief Executive Officer

Mr. Mundra, we do have a reasonably sized chunk of entities that are proprietorships or partnerships, small businesses which are in the neighborhood of our business bank, where we have loans of INR25 crores or thereabouts. Those whenever you get them rated even though the quality of the entity will be very good, the rating agencies because the nature of the constitution of the entity will give you a lower rating. So with respect to the NPA projection going forward, majority of these unfortunately are bigger names that are in trouble in one particular geography. As I said earlier, I have visibility to roughly INR400 crores worth of incremental NPA that's likely to happen, again where visible signs of stress exist. There is one name that we have on the 5/25, which is part of the INR750 crores which is in stress.

But majority of these names are bigger names. So we don't have too many of these smaller names in value terms, in number of accounts. When you accumulate them, they will add up; but in number of accounts they will also be larger, but we don't see any trend. And one industry that we are seeing some stress in is this people who are in the importation of wood, timber. So, that's the one industry that we are seeing some signs of sustained stress on account of the fact that I think timber is dollar-denominated and most of these guys got caught out by the dollar rate movement. So, they lasted as long as they can and now they are showing some signs of stress because they have not have been able to pass on the increased cost of the goods that they imported to their buyers.

Jay Mundra, Analyst

But sir, actually I was asking more on the large corporate side, the INR750 odd crores expectation. This will not include INR25 odd crores

commercial trader kind of an account, right. So INR750 crores, as you said of which, INR400 crore is very let's say near-term stress and some of that you also said it is infra/construction segment. So I mean would you be able to quantify, sir, these INR400 crores which we are seeing? This would be relatively one or two or three accounts, right. Is that understanding, correct?

P. R. Seshadri, Managing Director & Chief Executive Officer

The INR400 crores that you're seeing is two large accounts and two or three small accounts. Our definition of corporate is any loan over INR25 crores or where the entity -- a smaller loan where the entity has a consortium or has a turnover greater than INR150 crores. So, it is a definition which is different from that in the market. Consequently, we can have these smaller ticket loans coming through for entities that are slightly different type of entities than what you would normally see in a larger bank for instance. So, majority of these accounts on the infrastructure side are by definition larger entities publicly honed where stress is building up and we expect them to give us some trouble as we go forward.

Jay Mundra, Analyst

Sure, sir. And this risk-based audit exercise, has that been over for our bank?

P. R. Seshadri, Managing Director & Chief Executive Officer

Yes, it is over. However, the reports have not come.

Jay Mundra, Analyst

Okay. And just last two things, sir. One is if you can explain the ARC sale. How much was the book value of the accounts, how much did you get in cash, and what was the write-off portion?

P. R. Seshadri, Managing Director & Chief Executive Officer

The total carrying value was INR434 crores. Total cash recovered was in the order of magnitude of -- just give me one minute.

Operator

Mr. Mundra, do you have any further questions?

P. R. Seshadri, Managing Director & Chief Executive Officer

Yes. We've just -- these are approximate numbers. I'll ask Mr. Sivarama Prasad to provide them to you if you should so desire. We sold roughly carrying value of INR434 crores, received approximately INR140 crores in total.

Jay Mundra, Analyst

INR140 crores, right?

P. R. Seshadri, Managing Director & Chief Executive Officer

Yes.

Jay Mundra, Analyst

Sure, sir. And last question, sir, on this -- sorry to come back again on this corporate stress. So you mentioned this INR400 odd crores are in near-term stress. Safe to assume that they would have defaulted to other banks, right, because you would have information on CRILC?

P. R. Seshadri, Managing Director & Chief Executive Officer

Yes. Safe to admit that they have default -- safe to assume that they have defaulted on other banks.

Jay Mundra, Analyst

Sure, sir. Thanks very much and thanks for the time. Thanks.

Operator

Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada, Analyst

Yes. Sir, thanks for the follow-up again. Sir, just a couple of more things. Sir, could you just give this nine-month period gross slippage for the commercial segment? I think a lot of discussion was around this segment. So, just if you could help understand what is the trajectory that we've seen in commercial slippage in the first nine months, gross?

P. R. Seshadri, Managing Director & Chief Executive Officer

Gross for the nine months, do you have the numbers with you?

Sivarama Prasad, General Manager & Chief Financial Officer

Nine months, I will get you Dhaval because...

Dhaval Gada, Analyst

Okay. For the quarter, sir, if you can give it?

Sivarama Prasad, General Manager & Chief Financial Officer

Quarter I have available.

Dhaval Gada, Analyst

Yes. What is it for the quarter?

Sivarama Prasad, General Manager & Chief Financial Officer

Yes. For this quarter, it is INR158 crores gross revision and recovery and upgradation is INR72 crores and net slippage is INR86 crores. Okay?

Dhaval Gada, Analyst

Okay, sir. So, I think the gross probably is around INR400 odd crores I think. I mean so first quarter was INR261 crores, this quarter is about INR158 crores, and last quarter was I think INR80 odd crores or something. So, is that sort of broadly...

Sivarama Prasad, General Manager & Chief Financial Officer

I'll just tell you -- Dhaval, I'll just call you and tell you. Okay?

Dhaval Gada, Analyst

Okay. No problem sir. Just the other thing is, sir, on recoveries, how much are we budgeting from NCLT sir, because that would also help us on recoveries?

P. R. Seshadri, Managing Director & Chief Executive Officer

Can we sort of revert to you on that because we have to go through the names and that...

Dhaval Gada, Analyst

Sure, sir. No problem, sir. And just one last thing on growth, sir, in case we see that the credit loss is coming out to be slightly higher, I mean, in the sense that recoveries are delayed or slippage is coming out to be higher than what we anticipate, will we sort of look to pull back on growth? The reason I'm asking it is I can see a need for capital at the end of next year, probably in the second half or fourth quarter, so just trying to understand will we take first a precaution on balance sheet rather than going on growth. So, just some thoughts around that.

P. R. Seshadri, Managing Director & Chief Executive Officer

We had some leverage on the growth side in the sense that currently our capital is about 14.6%, most of it is Tier 1. The risk weightage that we are carrying on some of our assets are such that we can -- with some work, we can reduce the risk weights that we are carrying. So we think that we have some leeway on the capital side, but that requires some work because we have to go back to our customers; where they are unrated, we have to get them rated; where they are rated at a particular level, we have to incentivize them to bring in capital et cetera, et cetera so that rating structures can improve. So, currently the carrying value that we have is higher than what we would like. So I think we have some, as I said, ability to reduce risk weighted assets with concerted action which we've started doing as it is.

Dhaval Gada, Analyst

Correct.

P. R. Seshadri, Managing Director & Chief Executive Officer

So, we've started looking at names that are BB for instance, which require 150% risk weight, and sort of working down those kind of lines. So, that flexibility is a limited flexibility. It's not too much, but there is that limited flexibility that we do have. So, we think that -- yes, go ahead.

Dhaval Gada, Analyst

No, I was just saying that when do you think you will need equity capital infusion, sir? In your budget plans, when is it that you need equity capital?

P. R. Seshadri, Managing Director & Chief Executive Officer

In our plans, we need equity capital two years from now.

Dhaval Gada, Analyst

Okay, understood. And sir, the ESOP approval which was pending with RBI, has it been approved or it's still awaiting approval?

P. R. Seshadri, Managing Director & Chief Executive Officer

Which one?

Dhaval Gada, Analyst

There were some ESOPs that were allotted and were pending RBI's approval, have that been done or what's the status on that front?

P. R. Seshadri, Managing Director & Chief Executive Officer

ESOP approval pending are -- ESOPs pending RBI approval are ESOPs pertaining to me.

Dhaval Gada, Analyst

Correct.

P. R. Seshadri, Managing Director & Chief Executive Officer

Unfortunately, there has been no movement on that so far.

Dhaval Gada, Analyst

Okay, sir. Got it. Thank you so much, sir. All the best. Thank you.

Operator

Thank you. The next question is from the line of Akash Dattani [ph] from HDFC Securities. Please go ahead.

Unidentified Participant

Yes, hi. Good evening. So, most of my questions have been taken up by previous participants so I just have a few data related questions. So in this quarter your capital adequacy ratio has gone up, I'm assuming that is because of a fall in the risk weighted assets. Am I right? Hello?

P. R. Seshadri, Managing Director & Chief Executive Officer

Correct. That is right.

Unidentified Participant

Yes. And so what would be the quantum of interest reversals in the quarter?

P. R. Seshadri, Managing Director & Chief Executive Officer

Quantum of interest reversals? Ma'am, can I sort of -- we have not disclosed it in the document. Can I just say that it was roughly twice of what it was in the prior quarter. So in spite of that, our NIMs went up by 3 basis points so you could sort of estimate.

Unidentified Participant

Fair enough. Okay. And my next question is regarding the exposure to the infra group. So, I understand a certain portion of it is to the holding company while the remaining is to the SPV/subsidiaries. So, there has been a recent announcement by the NCLT or NCLAT regarding grouping of these exposures into green, amber, and red buckets. So where would the bank's exposures fall in which bucket, would you be able to tell us that?

P. R. Seshadri, Managing Director & Chief Executive Officer

Both of them, unfortunately, are in the red bucket.

Unidentified Participant

Okay. And also so there have been -- my last question is regarding the MTM. So there have been write-backs this quarter of about INR270 million -- just a minute of about INR270 million?

P. R. Seshadri, Managing Director & Chief Executive Officer

Yes, right. Correct.

Unidentified Participant

Sorry. Yes. And so there is still an amount that is to be amortized, right, from the first quarter. So I just wanted to understand how that would -- what was the reason it would not be -- it wouldn't have been amortized in this quarter?

P. R. Seshadri, Managing Director & Chief Executive Officer

So, we had a choice of either amortizing that and reducing the credit provisions that we were making.

Unidentified Participant

Correct, the write backs?

Sivarama Prasad, General Manager & Chief Financial Officer

(multiple speakers) disclosure, yes. So since we were allowed to amortize it by RBI, we decided to take that dispensation and provide more on the credit side. So, this quarter we should have more room and consequently we should be able to amortize and take it forward. This was a conscious choice and a decision made.

Unidentified Participant

Got it. Okay. That's all from my side. Thank you for taking my questions.

P. R. Seshadri, Managing Director & Chief Executive Officer

Thanks.

Operator

Thank you. The next question is from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal, Analyst

Hello?

P. R. Seshadri, Managing Director & Chief Executive Officer

Yes, go ahead.

Yash Agarwal, Analyst

Yes. Sir, just wanted to know the SMA 1 and SMA 2 book for Q2 and Q3 in the commercial side? Hello?

P. R. Seshadri, Managing Director & Chief Executive Officer

Sorry. We've not been disclosing it thus far, but maybe starting next quarter we will have to -- we will consider doing so. At this point in time whilst I do have the number, I will -- after discussion, we will come back to you with this.

Yash Agarwal, Analyst

Some qualitative color if you could, is it significantly higher in Q3 relative to Q2?

P. R. Seshadri, Managing Director & Chief Executive Officer

No. There is no significant growth in the Q1 SMA 1 and SMA 2 number and it's holding pretty much flat. So, there is no reason to believe that they are deteriorating at this point in time.

Yash Agarwal, Analyst

Sure. And one more question. So given the elevated slippages expected in the near term, what would be the net interest margin guidance? Would it be at this level or would it be under pressure going ahead?

P. R. Seshadri, Managing Director & Chief Executive Officer

My own estimation is, and I've been saying this consistently, that we've implemented risk-based pricing. We believe we have pricing power and our net interest margin this quarter has gone up by 3 basis points. We expect that increment to continue going forward. In fact, we believe that we will get slightly higher yields than what we're getting right now. And this increment happened in spite of the very large slippages that have happened this quarter. In spite of that, our net interest margin grew and I think directionally it will continue to grow as we go forward.

Yash Agarwal, Analyst

And you've made the statement that in the next five quarters if you contain your net slippages to INR1,000 crore number, you would be in a comfortable position. Earlier you made a comment about hypothetically the amount of provisions you could make, but would that get you near to the 1% ROA number by any chance if you contain your net slippages to INR1,000 crore?

P. R. Seshadri, Managing Director & Chief Executive Officer

If I contain my next slippages to INR1,000 crores and I provide only what is required, let us say we provide only INR600 crores -- INR600 crores and if our PPOP is roughly INR2,200 crores, then we have INR1,600 crores so it makes INR1,000 crores after tax [ph], which is (multiple speakers) five quarters, right. What?

Yash Agarwal, Analyst

There would be some aging provisions, right, on the current NPAs?

P. R. Seshadri, Managing Director & Chief Executive Officer

There may be. We make INR800 crores of provision let us say or INR900 crores of provision. We are providing now at almost 100% level. I mean at 60%, you will cover the aging provisions as well normally. The question is we probably will provide more than 60%. Let me be very honest, we want to do catch-up provisioning. Our provision coverage ratio is 41.5% -- 41.7%, right. So we want that to edge upwards, go closer to 60% so that we put this worry of the provisioning aspects behind. The yield drag that we are suffering on account of unfunded non-accruing assets is reduced. The P&L will start looking much better. Right now I have INR2,000 crores worth of assets that are not earning anything, which is suppressing the yield on the total book. So, our aim is to provide more aggressively. That in turn will have an impact on the ROA. So supposing it is INR1,100 crores and we provide INR1,100 crores or INR1,200 crores, then your ROA will drop to that extent I mean. But the aim is to provide more so that we can build this up and come to 60% once and for all and then go forward.

Yash Agarwal, Analyst

Okay. Thank you.

Operator

Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Abhinesh Vijayaraj from Spark Capital for closing comments.

Abhinesh Vijayaraj, Analyst

Thank you, Stanford. On behalf of Spark Capital, I thank the investor community for dialing into today's call. I would also like to specifically thank KVB management team for taking time out and answering all our questions. Thank you.

Operator

Thank you very much. Ladies and gentlemen, on behalf of Spark Capital Advisors, that concludes this conference. Thank you for joining us and you may now disconnect your lines.