



ANALYSTS' MEET Q2FY23

5th November 2022

Participating members from the Management Team of the Bank

- *Mr. Sanjiv Chadha, Managing Director & CEO*
- *Mr. Debadatta Chand, Executive Director*
- *Mr. Joydeep Dutta Roy, Executive Director*
- *Mr. Ian Desouza, Chief Financial Officer (CFO)*

Moderator: Good afternoon, everyone, and welcome to the Analysts Meet for Bank of Baroda's financial results for the quarter ended 30th September 2022. Thank you all so much for joining us.

We have with us today, Mr. Sanjiv Chadha, the Managing Director and CEO of the Bank of Baroda. He will be leading the call and he is also joined by the Bank's Executive Directors and the CFO. We will start with brief opening remarks from Mr. Chadha. We have a short presentation for you and followed by that we will have the Q&A session. Over to you, sir.

Mr. Sanjiv Chadha: Thank you very much, Phiroza, and a very good afternoon to everybody. First of all thank you very much for joining us. Frankly, we would have preferred that from now on, we can have physical interactions. But we understand that there would have been a rather difficult clash, we thought that this quarter we might do it in virtual mode and hopefully again we will be seeing you with us from next quarter onwards.

So, let me just begin by introducing our team on the call. We have Mr. Debadatta Chand, our Executive Director on the call who looks after International, Corporate for us and also Treasury. We have Joydeep Dutta Roy, Executive Director, who looks after Digital, IT and a lot of our platform functions. Ian, is our CFO with whom most of you would be familiar.

So let me just begin by a few opening remarks. I have a few 3-4 or 5 slides for you and then we can open it up for questions. I understand that the presentation would have been uploaded, the full presentation maybe an hour or more back so that may not have been enough time. So I think it would be useful to just go through the key highlights. So we will have the first slide.

So, our focus again has been on four areas for the Bank. One has been growth, the other is to make sure that even while we grow we preserve our margins, third has been to keep costs under control and fourth has been in terms of improving asset quality. I think this is a quarter where all the four elements seem to have come together rather well. So, starting with growth as you would see on the screen, if it is visible to you that our overall advances growth has been 19%, a little better than the industry. Within that domestic advances have grown 15% and international by as much as 41%.

The other good part of course, is that the growth has been well spread out as has been our emphasis for the last few quarters, retail has had the most robust growth at nearly 28% with agricultural, MSME, corporate all having double digit growth. The corporate is actually the slowest which also again shows that there is still some upside in terms of as corporate credit picks up, demand picks up, I think there is scope for us to maintain or even better this rate of growth. The other interesting point again is that pools have grown by a slow 3.9% which would mean that the organic growth of the Bank's loan portfolio would be a tad bit higher as compared to the headline growth that we have just discussed.

Within retail advances again for the last few quarters we have seen unsecured personal loans which was relatively new area of emphasis for us, continues to grow at a very, very good pace with growth now coming to this quarter at about 170%. We believe that we actually can have triple digit growth this year given the kind of pace we have set. Auto loans which has been a strength of the Bank is nearly at 30%. Education loans is again good at 23%. But Home loans and Mortgage loans which if you might recall last year, has been an area of some concern for us that we were not really growing in line with the fastest in the industry that also is nearly at 20%. So, I think overall it looks good in terms of growth.

If you look at the disbursement YoY figures in terms of growth they are even better with growth ranging from 50% in terms of growth in disbursement for education loans to more than 100% for home loans and mortgage loans.

When it comes to deposits, I think for the industry, the deposit growth is a little slower as compared to loan growth, so is the case with us. Although our growth again at 13.6% is a bit better than the system. Within that international deposits have grown in tandem with the growth in loans at 38%. Domestic deposits have grown 10.9%. The change of course is that now finally as term deposit rates have started increasing, term deposit growth rates have moved a little ahead of the growth rate for CASA which is something which is understandable and that's what we expect to continue.

In terms of the prospect of the bank continuing to support robust growth in advances, I think what is interesting is while our overall global CD ratio is 80% but in the domestic market it is actually at about 73% which leaves some room for us to continue to grow our loans at a pace faster than our deposits. The international CD ratio of course are above 100% because a large part of loans there, are funded by instruments like medium term notes and money market borrowings.

Again, what has been a matter of emphasis for the Bank is that even while you grow it is not at the cost of margins. Last year we had tamped down our growth just to make sure that we protected our margins. This year as we had guided in the first quarter we believe that it is possible both to grow in an aggressive manner and also to improve margins. We had guided that we would be improving our net interest margins by about 10 basis points during the year. The growth that you see in the net interest margins is at 3.33 substantially better than that although I must caution that there are some recoveries which are there. So, our overall guidance continues to be that we would be improving our margins by about 10 basis points or maybe a little better than that as compared to last year during the current year.

Just to the previous slide I think another just we can go back to the previous slide, another interesting part is that if you compare the cost of deposits and yield on advances you would find that the cost of deposits has remained pretty much constant over the half year. It has moved by about 7 basis points as compared in a quarter-to-quarter comparison. But for the half year at 3.53 it is exactly the same as last year. On the other hand for the half year the yield on advances have moved up by 21 basis points. Our sense is that, as is generally expected, you would expect loan margins to improve as compared to deposits which would increase with a lag in terms of costs. I believe there is possibly another quarter or two to run, where we will have the advantage of loan re-pricing outpacing deposit re-pricing.

In terms of costs, I think this is again one part of the story which is underappreciated, you will find that while growth has been good for all Banks but in the case of some Banks you will find that costs also have increased largely in line. I think for us the good part is that the costs have again been under very, very tight control. You might notice employee cost is up only 1% half year and 2% for the quarter. The other operating expenses are higher in terms of 17% growth but a significant part of that is on account of depreciation because we revalue assets once in 3 years and therefore that results in a higher depreciation charge. But overall if you would see even despite this depreciation impact the overall cost growth is just about 8% for the half year and 9% for the quarter. So, we do expect that over next few quarters we should be able to maintain a significantly higher growth rate in both the asset levels as well as in terms of income as compared to costs.

The collection efficiency has been again one of the things which have had a significant improvement over the last few quarters, it continues to improve and it stands at about 98%. SMAs which you might argue are the best lead indicator of any stresses that might be developing are now down to again a historical low of 0.42% which would seem to suggest fairly positive prognosis for the future.

The asset quality again has continued to improve, it did so even through the COVID period and now even more so. We have been aggressive in terms of taking provisions because of the fact that the profits have been good, and as a consequence net NPAs are now down to 1.16% while gross NPAs are down by nearly 300 basis points about 280 basis points on a YoY basis. The provision coverage ratio, in consequence, including TWO is at a high of 92 % and if you were to exclude that it is nearly at 80%.

Similarly, slippage ratio has been trending downwards. We had guided for the slippage ratio to be between 1.5 to 2%, so it has come out at the bottom of the range for the half year. And as far as credit costs are concerned, so they are also lower than what we had expected. Going ahead also we would expect credit costs to trend downwards. We had earlier been guiding at between 1.25 to 1.5%, now possibly we would want to revise that to between 1 to 1.25% even taking into account some mishaps in the coming quarters. But for the moment we believe that the book is robust and things are pretty much under control so credit costs should continue to trend downwards through the coming quarters of the year.

In terms of profitability, the net interest income has had a very smart increase of nearly 34% which again is automatically a corollary of the robust growth we have seen in loans as well as the improvement in terms of margins. Fee income at 12.3%, we normally expect fee income to target a growth of about 15% here or thereabouts. Core operating profit that is excluding items like treasury gains, losses, interest on IT refunds, that's come up at nearly 44%. I think this is a figure which to my mind is significant in terms of the sustainability of the improvement in operations and operating profit that we have seen.

Of course, in terms of the reported operating profit that is again something which there's a little bit of a qualification. The figure is 6%, but that is depressed by one item where there was an asset which was upgraded and because of that there was an equity valuation impact which was there. If we would discount that operating profit growth even taking everything else into account is about 20%. Our net profit, of course, as you would see is again at a record quarter level is at Rs. 3,313 crores an increase of 60% over what was a good quarter last year for us also.

These are the half year corresponding figures which pretty much show again figures which are pretty much in line in terms of the quarter, the quarterly figures of course being better because the second quarter has been better for us even as compared to the first quarter.

As a consequence, the capital position continues to be robust. The CRAR is 15.25% but in case you also add the accumulated profits it comes to about 16.1%. So, we are in a position now where despite having very, very good loan growth our internal accruals are enough to fund that loan growth.

The last point again is in terms of digital. The fact that we have been able to contain costs is largely on account of the fact that we have made great progress in terms of digitalization of the Bank. It means that you can grow your business without growing your physical footprint without growing your staff numbers. So, I think this in really so many ways is the foundation for cost control and for

making sure that increasingly, there are widening jaws between our income as compared to our costs.

That's pretty much it. Thank you very much and open to questions now.

Moderator: Ladies and gentlemen, we are now open to take questions from the participants. I request everybody to restrict to two questions per participant. Please unmute yourself to ask the question or type your question in the Q&A box.

The first question is from Ashok Ajmera, please unmute yourself and ask the question.

Mr. Ashok Ajmera: Good afternoon, Chadha saab.

Mr. Sanjiv Chadha: Good afternoon, Ajmeraji, my apologies we are not having you in person. Next quarter we will make sure.

Mr. Ashok Ajmera: Yes sir, no, no it was required because immediately after this, the State Bank meeting is also there which is physical this time. So, any way thank you very much for having considered it, but definitely we will meet physically in next quarter.

Sir, I will begin with very rich compliments to you and your team for showing, I mean, not showing but for giving us fantastic results in spite of all these problems which are being faced. Not only on operating profitability or profitability but other parameters also the Bank has worked very well, even the asset quality has improved a lot. I have got just a couple of observations and questions.

Sir, our international book has grown little higher, which in most of the other Banks we have seen. But ours being the next largest international Bank next to State Bank of India, having the maximum overseas branches, where do you see this growth is coming in and what kind of yield, with the interest rate going up there also, are we in a better position to make more money on the international business.

And secondly, we must be having large investment in our international branches or subsidiaries, so with the provision of mark-to-market of 100% on those investments, what kind of a hit you have taken in this quarter and the half year on that account. So, a little bit clarity on the entire international book, this is my first thing.

Secondly, sir, you know last time I had mentioned that our auditors are giving emphasis for those two notes which are basically allowed as per the RBI policy only and which every Bank is doing it. But why a special emphasis is required for that because it is as per the RBI circulars. And I don't think, like for additional pension liability of amortize of 1018 crores and also that fraud amortization of about 91-92 crores, I think we can have a little discussion on that, why emphasis is required. Because this is generally you know treated as I mean emphasis are generally for the negative points not for the positive or for standard points. So, this is something.

And one is on the note no. 3 on the hedge policy which the Bank has adopted. Profit on the derivatives contract would have been lower by 63 crores, so is this only this quarter phenomenon now started as per the approved policy or it was a regular event in the past also. Because we have not seen this note in the past.

So, a couple of other things if I may be permitted. On the treasury front, our treasury has performed well in fact even in the segment wise profit also there is a profit of 1460 crores against a loss of 169 crores in last quarter, and I think in trading book has also been good. But, now going forward this further pressure coming in now with in fact increase in 75 basis points we might also see 50-60% basis points increase, where do we, where are we placed as far as the I mean how much are we cushioned for our AFS book or other investments.

So, these are a couple of questions and observations. I have many more but then my other colleagues are also there. If permitted in the second round I will come back, but if you can answer some of these questions.

Mr. Sanjiv Chadha: Thank you, Ajmeraji. I will just again try to answer a couple of them and then hand it over to my colleagues. In terms of the international book, I think we have for the last few quarters been reporting high growth. The reason for that was two-fold, one was that we found that in the domestic market, particularly in the corporate segment, the margins were very depressed. So as compared to the margins in domestic markets we were finding better margins in the international book.

The second part to your question is how our NIMs are, so, actually if you were to look at our NIMs and the trajectory over last few quarters, our NIMs in the international book have increased from over 1.3% to more than 2% now. Now, if you juxtapose this 2% NIM against the fact that as against 50% cost to income ratio domestically on an average you will have less than 20% cost to income ratio abroad. You end up making again a margin after cost of operations internationally which is higher than what we have done domestically. So, it is on a net basis margin accretive rather than margin dilutive. So, it is something that was an opportunity for us because of the fact that we have a fairly good international footprint and therefore what we have built up is a very diversified granular portfolio which again is reasonably well protected in terms of credit risk. So, it achieves diversification, it also improves the margins for the Bank on a net basis.

Now the second part was in terms of the international investment book. So, there we have tried to be disciplined. I think the fact that interest rates were likely to increase was something that we were aware of, for some time. So, we have made sure that either we are fully hedged or again the duration is kept at an appropriate level to protect the books of the Bank. So, we see very little downside there as far as investment portfolio is concerned. In most jurisdictions, except for one or two, the investment portfolio is largely to take care of regulatory requirements, for instance by way of high-quality liquid assets. There is not a very large investment portfolio which might be there, besides that.

In terms of the point of emphasis, I think you can almost take it as a good news, that if auditors believe that this is something that is to be emphasized, it would give you comfort that apart from this there's nothing much, which is to be emphasized. But I will again request our CFO to give his take. But of course in terms of your point this is something which is entirely routine and can be dispensed with and we will see whether we can take it up with the auditors.

In terms of the 63 crores derivative figure and of course the treasury I think I will request Chand saab and Ian to take it forward.

Mr. Ian Desouza: Yes, sir, I will just take the points of emphasis matter, so largely Mr. Ajmera is right it is a very routine matter. But essentially this is a dispensation provided by RBI which overrides the

generally accepted accounting standards. So it is permitted by regulators, so with the auditors consensus and the contention we have accepted that it is non-standard but permitted by regulations. So, as Chadha saab said given that this is the only thing that they need to bring to attention, it is a good thing.

The second thing in terms of the international book we have adopted the ICAI guidance note on derivatives, as per that it is permitted that the hedges that we have taken on international investments can be used to offset any losses in the underlying book. So, that is that note that you see, this is a board approved policy and hence the disclosure to indicate that if we had not adopted this policy. So, this disclosure will be there till the end of the year, wherein from next year it will become business as usual, but essentially it is IRS swaps which are offsetting losses in the investment book of the international territories.

And lastly just as an additional point in this quarter we did have an impairment in international territories in terms of mark-to-market but that was more in terms of a corporate bond which had to be valued as per RBI norms and hence there was a loss. But otherwise largely there was no significant loss in our investment book in international.

Mr. Sanjiv Chadha: Chand Saab?

Mr. Debadatta Chand: Just to give outlook with regard to the domestic treasury and also international treasury book, you would have seen that this quarter the income on investment has been quite strong, and that is rather higher than the increase in book, in that way. So, in rising interest scenario typically this happens in terms of higher income at the same time the trading profit is lower. So, going forward also considering the interest rate will still be elevated, we will try to optimize on income side more. As earlier we already articulated that growth in FRB book which is a substantial portion. So, that component that delta is going to be there in the book for the coming quarters.

On the international side, Ian has rightly clarified on that, our normal investment is totally hedged in terms of hedging instrument so any profit/loss out of that would be duly controlled except barring one investment which was a loan plus investment kind of thing out of restructuring which was appearing below the line earlier in June, it has only moved above the line. So, in terms of net impact on the book net profit hardly anything because it is only accounting because September the loan was upgraded at the same time the NPI, I mean the valuation and the investment continued to be there in the same way which has just gone from below the line to above the line, otherwise remaining investment we do have adequate cushion in terms of value instrument and these are all duly covered.

Moderator: The next question is from Saurabh Kumar, please unmute yourself and ask your question.

Mr. Saurabh Kumar: Sir, a few questions, one is you said that there were some one-offs in the interest income, could you comment on what the magnitude of those one-offs is. Second is 808 crores charge you have taken, could you comment on what's that. And the third is basically could you comment on the ROA which is 1%, obviously great, do you think there is sustainability around this number from hereon. Thank you.

Mr. Sanjiv Chadha: Thanks, Saurabh. I think the first part, sorry, I lost track. Saurabh, if you can just repeat the question, I will make a note of it, if you don't mind.

Mr. Saurabh Kumar: Yes, the first is on the interest income, you said that there are one-offs in the interest income, could you comment on that. Second is 808 crores write-off, if you can comment on

that. And the ROA 1% how sustainable is it do you think. I will probably just add one more, sorry. What is your restructured book. Thank you.

Mr. Sanjiv Chadha: Okay. So, I will just take two of these, this 808 crores write-off I think I will hand it over to Chand saab or Ian to take that and also the restructuring one. So, in terms of the interest income normally again I did say one-off and that is correct, you have at times slightly chunky items, so there was a large upgradation on account which was there. On account of that there was an accretion to the interest line. You can argue that that is something which would happen every quarter, but again I think just to sound a note of caution we believe it is always good to mention that because there's always a possibility that in the next quarter you might not have as much accruing as in terms of that particular line.

So, if we were to take that figure, so there's again that recovery and also what Ian mentioned that I think there was one swap that we unwound which again added to the interest line, both taken together would be about 20 basis points, 18-20 basis points which were there. Some of this could come again in future particularly in terms of recovery, but may or may not, so that's what the quantum is.

Even if we were to entirely remove that we would still be pretty much in line with our guidance that we expect a 10 basis points improvement in the net interest margins. What we see this quarter is a substantially larger improvement, therefore we thought that in terms of disclosure it is best to qualify that.

Now in terms of the sustainability of the return on assets I think we have been guiding that we expect to hit a 1% ROA and a 15% plus return on equity in the next year. Now because of the fact that is a good quarter, we have hit that figure in the current quarter. We expect improvement to continue. But as of now, we would be guiding that we should end up with an ROA, maybe a little below 1% this year and cross the 1% threshold next year. But in terms of trajectory, we expect to maintain the upward trajectory and fairly strong reporting in terms of results. Over again to Chand saab and Ian in terms of a) that write off that we spoke of and b) the other part which was in terms of restructuring.

Mr. Debadatta Chand: The restructured book, if I talk about it, it is something around 17,000 crores as compared to 20,000 in March 2022. So, it has gone down. With regard to the one off that we talked about in terms of we already clarified with regard to a provision impact which is below the line and above the line in the other income which is appearing is actually the revaluation investment which is minus because of this particular impact, although there is nil impact on the Net Profit, because it was earlier appearing in June below the line.

With regard to the IRS, as sir has already said, that's a one off. But the remaining again, whatever international investment we do have, we're adequately cushioned in terms of having proper hedges against that. So, given a scenario of further rate hike happening and there being depreciation on both investments, we do have also on the IRS, covering of those depreciations. So, in a broad sense the book is quite stable.

Again, on the income side, if I focus on investment more, the growth in investment income has been almost 27%, which is higher than the book increase. And, this is a rising interest scenario where typically you're trying to optimise on the income side more as compared to the trading profit, and that would continue for this quarter also, that is what our hope is. Ian, do you want to add anything further?

Mr. Ian Desouza: No, nothing sir.

Moderator: The next question is from Jay Mundra. Please ask your question.

Mr. Jay Mundra: Hi sir, good afternoon. Sir, I wanted to check on the sustainability of the growth. So far in last quarter and this quarter, we have clocked 19.6 and 20.6 kind of a number, part of that could have been because of the lower base. So sir, I wanted to check your thoughts on as to how do you see the growth by March end?

Mr. Sanjiv Chadha: So, I think we can see it in two contexts. One is of course, you're right, that the first two quarters for us was bad, putting the 1st quarter of last year where we had negative growth in terms of loans. 2nd quarter I think QoQ we grew by about 5%. But, if we were to take the full year growth last year, it was, I think below 10%; maybe 7-8%. So, if we have grown 20% in this 1st half, then you pretty much have grown at equivalent to what we did last year. So, anything which comes after this is a plus. So therefore, we can safely say that we should grow at a substantially higher rate as compared to last year. Now, that we compared last year.

Then if we were to look at this quarter, and how could things be in the next quarter, I think the kind of rates we have seen in some segments, I think they are exceptional to my mind, 20% home loans, 30% car loans, some moderation is possible because there was pent up demand. For instance in cars, because there was semiconductor crisis, there were availability issues. But, I think there is some upside for us in the fact in terms of the composition of our growth.

Now, our corporate loan growth continues to be slightly depressed at 10%. That is the segment which is the slowest growing segment, and it is 50% of our book. Now, as pricing power is returning, I think there is scope for us to increase that substantially. We have continued to be disciplined in terms of pricing, which is why our corporate loan growth is slower as compared to some of the Banks. But, we believe that is something that could translate into an upside in terms of yields also as interest rates are moving up. And remember, interest rate increase has not got translated into MCLR in any substantial manner yet. It will get translated into that over the next few quarters. So to my mind, if we were to backend the corporate growth a little bit, which I think will work out in our case, you have an upside both in terms of growth, as also in terms of margins.

Mr. Jay Mundra: Understood sir. So, is it fair to say that we would be growing as much as the system? Right now we are growing slightly ahead of the system. But, if the system were to end at 15-16%, can we expect a similar growth for BOB?

Mr. Sanjiv Chadha: I would believe that is something which you should expect, yes.

Mr. Jay Mundra: Sure sir. And secondly, on your EBLR transmission and also if you can give the breakup of the loan book by EBLR and MCLR and maybe the fixed rate and others? And, on 30th September, what is your EBLR transmission policy sir? The 30th September rate hike by RBI, when you would have, would you have passed on immediately or does that come after a certain lag?

Mr. Sanjiv Chadha: To my mind immediately, but let me again pass it on to Chand saab in terms of the full breakup on in terms of how is our benchmark – EBLR, MCLR and the rest.

Mr. Debadatta Chand: Yeah, we'll provide you the exact data, but all the retail loans are on the BRLR or the EBLR rate. And, the remaining, the corporate loan mostly, because earlier there used to be T-

Bill, etc, but these are now largely MCLR linked. So in that way, the pricing transmission is also happening, but the exact breakup we'll provide you.

Mr. Sanjiv Chadha: So Jay, broadly as far as I know, close to 30-35% is linked to EBLR. About 50% is nearly MCLR, and then you have other benchmarks, some of them including old BPLR and all. That's the rough thing. But, I think we'll give you the exact figures.

Mr. Jay Mundra: Okay sir. And secondly, on your overseas slippages, this quarter there seems to be a slight increase in the overseas slippages. If you can comment on the nature of these slippages? Because, we have grown our overseas book rapidly, is this some change in the NPA trajectory there?

Mr. Sanjiv Chadha: So, I think we continue to guide that our overseas book is very good; there are no surprises which are there. This was not a surprise. So, this was an asset which was restructured. It was also partially provided. Now it has slipped and it is fully provided. So again, we will continue to guide. We don't see too many surprises in the overseas book.

Mr. Jay Mundra: Right. And last question sir, on standard assets provisioning requirement, there were few sovereign, quasi sovereign, state government accounts for which other Banks seem to have provided an accelerated standard assets provisioning. Has that been the case with Bank of Baroda also, or do you expect accelerated standard assets provisioning for some of these state government or FCI or civil supply kind of an account?

Mr. Sanjiv Chadha: So, let me first give you a small answer and then I will pass it on to Mr. Chand again to give a more complete thing. So, to the extent it is required, we actually have done all provisioning which is required; either required by Reserve Bank or by our own auditors. But, if there's anything more to add to that, I'll request Chand saab to do that.

Mr. Debadatta Chand: See, standard assets provisioning we do have, but the reference that you're making in terms of the government accounts, we do have a higher provision therein, but not to the extent impacting anyway with regard to our already held provision or impacting the further provisioning for the Bank as a whole. Does it clarify?

Mr. Sanjiv Chadha: Jay, let's put it this way. There's nothing which we were supposed to provide, which we have not provided.

Moderator: Thank you sir. The next question is from Mahrukh Adajania. Please ask your question.

Ms. Mahrukh Adajania: Yeah, hello sir. Congratulations. Sir, I just have a couple of questions. Firstly to clarify, compared to the one off or slightly lumpy margin from one off in this quarter, what would it be last quarter? Roughly any idea, 1st quarter?

Mr. Sanjiv Chadha: So in terms of margins, I'm not sure whether I've understood you correctly. What we have been guiding that we would expect a 10 bps improvement in margins in this. So, we continue to stand by that guidance. But I'm not entirely certain whether you were implying something else. You can just clarify please.

Ms. Mahrukh Adajania: Yes yes. So, what I'm saying is, you said that 20 bps of this quarter's margins could be attributed to reversals and swap unwinding. So, was there any such reversal or unwinding in the last quarter, the 1st quarter of 2023, that's my question and how much was it?

Mr. Ian Desouza: We would have disclosed that sir and Mahrukh. So there was no such lumpiness in last quarter's margins.

Ms. Mahrukh Adajania: Okay thanks. And my other question sir is on the New Wage Bill. When will you start providing towards it? And basically, when do we have to calculate? Even if you assume a 10-12% increase, what do we apply that increase on? On what proportion of the employee expenses? 60%? 70%? So, just some clarity on the New Wage Bill, and what kind of per quarter provision you could see? Just a ballpark number.

Mr. Sanjiv Chadha: Ian, do you want to come in on that?

Mr. Ian Desouza: Yeah. So basically, if we go by the past trends, it could be something like a 200-250 crore provision per quarter. This provision will only be largely for the last quarter in a major chunk, because it will apply to full of Q4 of partly to Q3. So, it's not going to be a significant dent on the operating expenses of the company, but yes, it will have to be made.

Ms. Mahrukh Adajania: Okay, got it. And, just one clarification on the outstanding restructured book. The 17,000 crore is the all inclusive number including MSME restructuring of prior schemes?

Mr. Ian Desouza: Yes, it is.

Ms. Mahrukh Adajania: Okay, thank you so much.

Mr. Debadatta Chand: Jay, if you're still connected, you wanted that breakup on the different pricing, right? We have MCLR almost to the extent of 53%, the EBLR/BRLR that we talk about, that is almost 28%. The remaining are either a small component of fixed rate at 7%, remaining are all T-Bill and G-Sec based. So, roughly around 28% is the EBLR and 53% is the MCLR.

Moderator: Thank you sir. The next question is from Rakesh Kumar. Please ask your question.

Mr. Rakesh Kumar: Just few questions. We have done quite well on the margin front this quarter. Looking at some of the unamortised provisions that we carry, what is the reason that we are not in the family pension thing? We have not cleared it off instead of showing the kind of ROA we have done. Just a kind of a suggestion and just to understand from you why we are carrying it still?

Mr. Sanjiv Chadha: Ian, would you want to take that?

Mr. Ian Desouza: Yeah. So one is, these are not items which would help strengthen the company from a risk perspective. So, if you see, it's not that we have tried to take one-offs and overstate the profit of the company. For eg. when we had this large state-owned entity which was privatised, we released more than 2,500 crores of provision in Q3 and Q4 of last year, against which we built up our provisioning cover significantly.

Again, in this quarter, we had a significant release from one chemical international account which got upgraded. In the NPA line, we had a significant release though we made some provision in the MTM for the corporate bond. So, given any large release, we always build up provisions that will counter cyclically help the financial position of the company. So, this particular thing is a permitted accounting treatment. It is more accounting in nature. It doesn't either way strengthen or diminish the strength of the balance sheet of the firm or the financials of the firm. So, I hope I have answered your question.

Mr. Rakesh Kumar: Got it sir. Sir, another question was pertaining to Notes of Accounts no. 16. So, we have delinquency from RF 1 and 2 to an extent of around 16-17% in the 1st half, and we have an outstanding of close to around 8,400 crores now. So, what is the provision just of this number that is outstanding? The outstanding provision on this number?

Mr. Ian Desouza: We'll come back to you on this exact provision number, but your numbers are right. We have about 8,000 crores in RF 1 and 2, and we have NPAs also in that. We'll come back to you on the provisions.

Mr. Rakesh Kumar: Sure sir. Thanks a lot and that's it from my side.

Moderator: The next question is from Anand Dama. Please ask your question.

Anand, please unmute yourself and ask your question.

Mr. Anand Dama: Hello, am I audible?

Mr. Sanjiv Chadha: Yes Anand.

Mr. Anand Dama: So the first question is, basically how much is our LCR, and what is the strategy going forward on the deposit growth front? Our credit growth is pretty strong, but we also need to accelerate the deposit growth. And, if the rates are going to go up, then basically your guidance of the 10 bps margin expansion hereon, does it hold good going forward?

Mr. Sanjiv Chadha: Broadly again, we believe that it is normal for advances growth to lag deposit growth when the economy is slow and liquidity is abundant. And, vice versa when the economy is improving and liquidity is tightening, right? So, this is exactly what we see now. And to my mind, again, the continuation of this trend for a few quarters is far for the course and should not give us any reason for disquiet. Having said that, we are focused on deposit growth. And, as we saw in the numbers, our deposit growth has been possibly a little better than the system.

We'll continue to focus on deposit growth while being fully conscious that this is a time where discipline in terms of rates could give disproportionate benefit in terms of impact on the bottom line, because to the extent that the re-pricing of loan stays ahead of deposits, I think there is profit again, which is likely to accrue. So, without again in anyway compromising our efforts in deposits mobilisation, we would want to make sure that any increase in rates is directed wherever there is a rate elasticity in terms of deposit growth. So, I think we'll try to be very intelligent about it, but try to maximise deposit growth. So we are fully conscious of that.

The second point I'd want to draw your attention to is another figure that, in my brief presentation that we had made, that while our overall CD ratio is 80%, when it comes to the domestic book, it is about 73%. So, we have some scope in terms of allowing advances growth to be a little faster than deposit growth.

Mr. Anand Dama: Yeah. Sir, your LCR number.

Mr. Sanjiv Chadha: LCR is about 135% I believe. Ian, if you could confirm that.

Mr. Ian Desouza: Yes. It is 135%.

Mr. Anand Dama: Sir, second is that your term is going to end in January 2023, but I think you have an option to take an extension. Are you going to exercise that option?

Mr. Sanjiv Chadha: I believe that the option is more with the government than with me. But yes, should that possibility be there, you might probably see me for another quarter or two.

Mr. Anand Dama: Sure, great sir. Thanks a lot.

Moderator: The next question is from Abhishek. Please ask your question.

Mr. Abhishek: Hello.

Mr. Sanjiv Chadha: Yes Rahil.

Mr. Abhishek: Sir, this is Abhishek.

Mr. Sanjiv Chadha: Okay Abhishek, please.

Mr. Abhishek: Sir, my question is back to wage revision. I think Ian said 200-250 per quarter in couple of quarters, Q3, Q4. But my question is, what is the overall impact? I'm sure it will be amortised over several quarters. So, what will be the overall impact and what is the assumption you would be taking? Is it going to be around 10-12% or is it likely to be higher maybe 15-16%? So, just some clarity around that.

Mr. Ian Desouza: To begin with, let me talk about the accounting perspective before Chadha saab comes back in terms of his expectation. So, this is not an amortisation. This is actually a current period cost. It's just that the wage arrear amount will be crystallised after negotiation that would stretch over 6-12 months. So, at that point, it will be a back-dated payment. So, it's not wage arrears as of now, it will become wage arrears maybe 2 years from now. So at that point, Banks would not like to take a hit all at one go. So, on a prudential basis, they start making the provisions from now. So, there's no amortisation involved.

Mr. Abhishek: Yeah Ian, that I understand. I just wanted to understand the total hit or total provision that you would estimate. Because of course, when the actual comes, you will make the balance provisions, but the overall estimate is what I wanted to...

Mr. Ian Desouza: No no, this is per quarter, right? So basically, if you presume there is no long lengthy negotiation and it all got sorted out in one day...

Mr. Abhishek: Oh, okay.

Mr. Ian Desouza: We are presuming the Wage Bill per quarter would go up by 250-300-350 crores. So that's the way...

Mr. Abhishek: Okay, so till it happens.

Mr. Ian Desouza: We are building a kitty that will work that way.

Mr. Joydeep Dutta Roy: Just to add to what Ian was saying, this is just an estimate, this is not an actual figure. So, 12-15% is basis what has happened in the past wage negotiations. So, we take a cue from that and make a conservative estimate of 12-15%.

Mr. Abhishek: Understood. My second question is, this NARCL, approximately how much would you be selling and what kind of realisation do you expect or provision release.

Mr. Sanjiv Chadha: So, I think last few quarters I've been saying don't hold your breath. It is of no large significance for us. So again, given the nature of our balance sheet and how it has evolved, for us it's not going to be a very large figure. So, marginal impact.

Mr. Abhishek: Okay sure. And finally, just how much additional liquidity are you carrying? Approximately how many quarters until this runs off, because that's the space you have from even raising deposit rates; you can hold off till that.

Mr. Sanjiv Chadha: Chand saab, would you want to take that.

Mr. Debadatta Chand: Yeah, we do have adequate liquidity and that would continue. See, liquidity is a management. It's not like keeping liquidity for something, it's management of liquidity and we are adequately cushioned. We do have adequate liquidity, and depending on the loan growth and our resource strategy, accordingly it will be managed. So, absolutely, on liquidity we run in a very optimised way or a very efficient way.

Mr. Sanjiv Chadha: And, just again, I think we probably come back to our previous question. I don't believe that this pace of loan growth is something which is likely to be sustained indefinitely, and also, I think in terms of deposit growth again, I think that's also likely to pick up as rates get revised. So, I think, at some point in time, we'll find a convergence.

Moderator: Sir, we will now take some questions from the Q&A chat. The first question is – What is the value standard restructured book and how much repayment of restructured book and ECLGS book happened this quarter? And, outlook for restructured book and ECLGS. What percentage of restructured book is either SMA 1 or SMA 2? And the second question is, what is the outstanding standard loan provision including standard restructured provision? And the final question is, what is the latest outstanding ECLGS?

Mr. Sanjiv Chadha: So, Joydeep or Chand saab do you want to take it? Otherwise, the detailed questions I think we can always provide answers in writing, because it's a bit of complex information set that is required. But, if there is any heads up you want to give, please do that.

Mr. Debadatta Chand: Joydeep ji, would you like to add something?

Mr. Joydeep Dutta Roy: Right now, the standard restructured book as we had said earlier, was around 17,725 crores. And, the SMA 1 and 2 there is actually very negligible. It's around 0.4% of the total standard advances in percentage terms if you look at it; the SMA 1 and 2. So, from that perspective, again, it's not very significant. The ECLGS book that we have currently is around, the outstanding is 10,000. We had sanctioned around 16,000 of ECLGS book, of which around 14,000 was disbursed. The current outstanding right now is around 10,453 crores.

Mr. Debadatta Chand: And just to add, the SMA 1 and 2 is very insignificant compared to the outstanding; very very insignificant.

Moderator: Thank you sir. Now we take the last question for the evening from Mona Khaitan. Mona, please ask your question.

Ms. Mona Khaitan: Hi sir, good evening. Just two clarifications. If you could share slippages from the restructured book for each of the last 3 quarters. And on the EBLR loans, what is the typical reset period?

Mr. Sanjiv Chadha: Chand saab, anything?

Mr. Debadatta Chand: The slippage in the restructured is only something around 18% that we have seen as an average of the past couple of quarters. But quarter wise we'll provide you in case you require that data.

On the EBLR reset, it is scheme driven. So, absolutely when the scheme due date would be there, it would reset. But the benchmark rate would pass on the moment there is a REPO rate increase happening. So, in case, typically you're looking at re-pricing, the re-pricing has immediately when there is a REPO rate hike. At the same time, the reset would happen depending upon the scheme that we have announced for different schemes.

Ms. Mona Khaitan: Okay, so it's typically T+1?

Mr. Sanjiv Chadha: Yeah.

Ms. Mona Khaitan: Okay, thank you.

Moderator: Ian sir, now we request you to do the vote of thanks please.

Mr. Ian Desouza: Thank you everyone. We've had an excellent set of results as usual. Thank you for spending time. It has been quite engaging interacting with all of you. Looking forward to meet you again in the near future. If you have any questions, you can reach out to me or Rakesh Shinde who is on this call, for any follow up questions. Thank you so much.

Moderator: With this, we announce the end of this quarter's analyst meet. Have a great weekend ahead. Thank you.
