ANALYSTS' MEET Q2FY21

29.10.2020

Participating members from the Management Team of the Bank

Mr. Sanjiv Chadha – Managing Director & CEO

Mr. Shanti Lal Jain – Executive Director

Mr. Vikramaditya Singh Khichi – Executive Director

Mr. Murali Ramaswami – Executive Director

Mr. A K Khurana - Executive Director

Mr. Sameer Narang – Chief Economist

Mr. Sameer Narang: Good evening, everyone. Hope all of you including your families are well and safe. Welcome to Bank of Baroda's Q2 earnings. The team is led by MD, Shri Sanjiv Chadha and all the Executive Directors who are present on the conference call today. We will start with the opening remarks by the MD followed by Q&A. Sir, please go ahead with your opening remarks.

Mr. Sanjiv Chadha: A very good evening, first of all many thanks for joining this call with us. As Sameer said, first of all, we hope and wish that you and your families are well. I would also like to start by thanking all our staff members who, in these difficult and dangerous times have gone beyond their call of duty to serve the Bank and its customers. It has been a reasonably good quarter for us and I will just spend 10 minutes on the themes that I am going to touch upon which presumably might answer some of the questions that you might have and after that we will take your questions.

- **Financial Performance:** In terms of a recap of the broad numbers that we have seen, the NII has moved up by about 7% YoY, the operating profit moved up by 4%. The net profit, of course showed a jump by more than 100% but when we look at numbers, it is just not the broader growth numbers, but it is the quality of growth that I would really like to focus on.

  While our deposit rates grew by 7%, our CASA deposit grew by more than 12%. It is a liquidity surplus world in which we live, getting deposits is not really a challenge but we believe that there is still opportunity to make sure that whatever growth we see, it is of quality and this quality in deposit growth has come from CASA and also from retail term deposits. Retail term deposits have almost grown by 9%, in spite of Bank of Baroda having one of the lowest rates in the market.

  The second part that I would like to focus on is the net interest margins. They were under some pressure over the last quarter. We have also seen the asset quality hold up reasonably well but we are still really not out of the woods. We will see how the stress in the economy plays out over the next few months when we are through with both the restructuring cycle. The capital adequacy is something which has improved and there will be more about this later because we can gain comfort again from that.

- **Sharp Rebound from Lockdown:** There are two or three things that I want to touch upon. First, of course the sharp rebound that we have seen after the lockdown. When we met at the end of Q1, I think it was a fairly challenging quarter for us given the lockdown in terms of fee income that was impacted substantially. Fee income has not only rebounded sharply from the first quarter, but also if we were to compare on a YoY basis, we are doing better than what we were in the similar quarter last year. In terms of sanctions and disbursements of home loans, we are doing much better.

Recovery was again one of the big challenges in the lockdown period because of so many physical circumstances in which we functioned and there also we see a significant rebound. We may not be where we were last year but if we compare it with Q1, it is a growth of almost 200%.

- **Business Momentum Improving:** The other part is in terms of the sustainability of growth. I think the key metrics for us in judging whether this growth and whether this recovery is sustainable is, again how deposits and loans are doing and particularly areas which might have been more vulnerable to the downturn. As I mentioned, when it comes to deposits, it is not the deposit growth of nearly 7% which is important and pretty much in line with our guidance at the beginning of the year. What is important is the quality of our growth, our CASA deposit is up by 12% and retail term deposit is up by 9%. I wish to conclude that we have a very strong retail franchise which is now playing out very well, having access to low cost deposits. We believe we should be able to maintain this trajectory going forward.

In terms of advances, while the advances have grown by 5% overall, the Bank has been emphasising on retail loans and within retail loans, the high-quality and secured loans. The home loans which are 70% of our portfolio have grown on an organic basis at 13%. Auto loans growth is marked at 35% and even agriculture which has been the robust part of the economy has grown more than 16%. MSME growth has been about 8% but growth in corporate book has been lower. Corporate growth has been largely driven by very good names demanding very competitive pricing to the extent that you have to deploy liquidity for that pricing and hence we have resisted the temptation of locking into very low yields in the long term which is why, there actually has been a contraction of Rs. 20,000 crore in the corporate book.

- **Collection Efficiency:** The next piece which we want to touch upon is the credit quality and there the collection efficiency is probably the best proxy over how the credit book should unfold over the next few quarters. If you recall, Bank of Baroda had very high moratorium, particularly in the first instance, where it was as high as 65%. Our own understanding was that the moratorium was high on two accounts as we had an opt-out at the beginning of the period and also because of the fact that our customers chose to conserve liquidity. We believe that our assessment has been borne out by the collection. So, our collection efficiency was 95% for the same period of last year, now it is up to 91%. For the book which was not under moratorium, collection efficiency is as high as under 94% and for the book which is under moratorium, it is under 87%. An overwhelmingly large portion of our clients who had chosen to avail the moratorium since we offered it to them actually responded and 90% of the clients under moratorium have paid back. That is a lot of comfort to us in terms of how the next quarters are likely to play out. Therefore, the increase in SMA1 and 2 is marginal, part of the moratorium book will probably come back, part of it, might get restructured and a smaller portion may have slippages but overall, we seem to be in a very good position and we believe as we go forward, we should be able to absorb whatever stress there maybe.

- **Capital Adequacy:** How these stress are likely to play out in terms of capital is again an important question. We have taken an enabling resolution from our Board that we may raise up to Rs. 13,500 crore in the year should it be required depending on how the book performs. Of these Rs. 4500 crore was by the AT-1 issues and the balance by way of equity. Given where we stand, we have raised Rs. 1,700 by the way of AT-1 bonds. Also, during the current quarter, we have significant internal accruals; we believe that during the subsequent quarters also, internal accruals should be able to support the loan growth of the Bank very substantially and therefore our need to access capital markets maybe much lower as compared to what we had anticipated at the beginning of the year. In fact, without counting the impact of the internal accruals, our capital adequacy ratio stands at 13.26% which is almost exactly where it was at the beginning of the current financial year.

Just small remarks again as anticipating some questions. In terms of restructuring, I think our commentary is pretty much in line with what you have heard from other banks that so far, we have not seen much by way of restructuring as far as the retail book is concerned, the extent of restructuring will be known possibly by the end of December. Our current estimation is that, whatever we had anticipated, it is likely to be a substantially lower figure. As far as the moratorium is concerned, it is something which is behind us. There is no moratorium today and in terms of how the book has responded post moratorium is something that we have already discussed as far as the collection is concerned.

The last part before I open the house to questions is the fact that the amalgamation is now very nearly complete. All Vijaya Bank branches have been fully integrated into Bank of Baroda. Merger of 335 branches of Dena Bank took place over the last weekend and the merger should be completed in all respects by the end of the calendar year. Though we had been mandated by our Board to complete the merger by 31st March 2021, we believe we should complete it one quarter ahead, by 31st December 2020 despite COVID. This means that a large proportion of the synergy benefits could start playing out now onwards and should be an additional momentum to the Bank's performance going forward.

I hope I have answered some of the questions that you might have. But, I would be happy to take the questions that you would want to pose now. I and my colleagues who are on the call are Executive Directors, Mr. Murali Ramaswami, Mr. S. L. Jain, Mr. Vikramaditya Singh Khichi, Mr. Khurana, our CFO Mr. Subrat Kumar and Sameer who is on the call. We should be very happy to take them as a team.

Mr. Sameer Narang: Thank you so much for the opening remarks. So, we will open the floor for questions. I would request everybody to keep their mics on mute and only those whose name will be taken, please unmute the mic and ask the questions. , The first question is from Mr. Ashok Ajmera. Sir, you may please unmute your mic and ask your question.

Mr. Ashok Ajmera: Congratulations Chadha saab, Jain saab, Mr. Murali Ramaswami, Khurana saab and Khichi saab for the fantastic performance. In fact, in spite of these gloomy days where many of us are still not venturing out too much to either meet our clients or the bankers, you have given a picture as if the worst is fully over. Congratulations to you for the same because the results and the figures are speaking about it.

Do you see that the same trend in consistency to continue for the remaining two quarters of this year and later on? Sir, the provisions have come down by almost Rs. 1,200 crores and there is a handsome recovery in the written off accounts, plus some investment profit. Will the same trend of recovery and investment profit continue? Also, how much percentage of the total loan book was under moratorium and how much percentage out of that has started paying regularly from September, October onwards. The last question is what is your take on the new restructuring scheme announced in August 2020?

Mr. Sanjiv Chadha: Thank you Mr. Ajmera, it's always a pleasure to see you. I think the first part of your question is more significant in terms of, whether this performance is sustainable or not. This performance has come from firstly reduction in cost of deposits which has decreased by 53bps QoQ. Given the fact that we are in surplus liquidity scenario, there is no reason why the banks would need to bid high rates to get deposits.

The second part is the advances growth and one of the large portion has come from retail loans, of which, 35% is from auto loans. The fact that this loan is broad-based and has come from retail loans, despite the fact that there was a de-growth in corporate loans because we chose not to be aggressive indicates that things are sustainable. As you rightly said, treasury gains are of the order of nearly a 1,000 crores. But as we mentioned, the collection efficiency would seem to suggest that we are possibly in a reasonably good place. Our overall collection efficiency is upwards of 90% as against 94%

which it was in normal times. And even in the moratorium book, it is 87%. So it means nearly 9 out of 10 accounts which are in the moratorium have paid us. So therefore, I think there's room for cautious optimism as far as that is concerned. But there are some known unknowns such as how the restructuring will play out. It's early days, hardly anybody has come to us for restructuring. We do not know how many accounts may not get restructured and there may be slippages, which may lead to some impact on interest reversals, on the margins, and also, on the provisions that we hold.

There's around Rs. 15,000 crores where the bank had benefitted from the asset classification not being changed on account of moratorium. A significant portion of that has become standard. But we hold a provision of about 12%, which translates to Rs. 1,700 crores as specific provision. We'll see how it plays out, but we believe in terms of at least business, in terms of loan growth and deposit growth, and the improvement we have seen in margins, I think a large proportion of that is sustainable.

Mr. Ashok Ajmera: Thank you sir for a very elaborate answer and the confidence which you have provided, and thank you Sameer for giving me this opportunity and all the best to you all. Thank you.

Mr. Sameer Narang: Thank you very much sir. The next question is from Mr. Mahrukh Adajania from Elara Capital. Mahrukh, you may please unmute your mic.

Ms. Mahrukh Adajania: Sir, my first question was on collection efficiency. In terms of collection efficiency, when you say 91%, it's 91% of total billings of September or is 91% relative to the March or pre COVID levels. So how do you define collection efficiency?

Mr. Sanjiv Chadha: I'll pass it on to Mr. Jain and Sameer to respond to that.

Mr. S L Jain: Collection efficiency we calculate based on demand, and demand is on account of interest which is in turn on account of instalments. This is the ratio of collection efficiencies.

Ms. Mahrukh Adajania: Okay. Sir, just to recall, when you had announced your moratorium and you had given us the figures, that included the working capital loans as well, right?

Mr. Sanjiv Chadha: There have been different definitions at different times by different banks. But what I would want to again emphasise is that, moratorium as a phenomenon is behind us. I can repeat what we said the last time when we met in terms of the Q1 results. I had also emphasised that this seems to reflect the fact that we had given an opt out to accounts even in the second phase below 10 lakhs and that people were trying to conserve cash. And I think, the collections that we have seen in the month of September in particular is a function of the composition of the book. If you look at our book and retail in particular, 70% is secured by home loans and there are car loans. Only 1% or less is unsecured loans. So therefore, our confidence comes from two things. First, how the collection efficiency speed out and second the nature of our book where unsecured loans are a very small part as compared to some of the banks.

Ms. Mahrukh Adajania (Elara Capital): Okay sir. And last time you had downgraded an NBFC to the watchlist. Any progress on restructuring of that NBFC?

Mr. Sanjiv Chadha: Again, I don't think we will get into client specific questions. So, could you excuse me there Mahrukh.

Ms. Mahrukh Adajania (Elara Capital): Okay sir. Thank you so much sir.

Mr. Sameer Narang: The next question is regarding any indicative watchlist. Considering the moratorium was not extended beyond August, what is the nature of Rs. 86,000 crores of loans which were SMA/overdue, and where moratorium/deferment was extended? Considering the moratorium is over, what will happen to these loans? What will be the classification of these in Q3FY21?

Mr. Sanjiv Chadha: I think I have answered the question partially. I think the key metrics for us to now track has to be collection. Since the moratorium does not exist, the watchlist does not really give you a flavour in terms of what is the likely risk. So, we are very closely focusing on collection. You talk of watchlist in normal times. But now, ultimately what is important is, are people paying up?

And I think that is where we are deriving our comfort from. We believe that a large portion of the book which was actually under moratorium and the watch list was a relatively small figure. Going ahead, there could be restructuring, they could again start performing perfectly well or there could be some slippages. As of now, that our collection is very nearly back to normal and we have the option of restructuring for our clients who might want restructuring, I think that gives us room for optimism. Timely interventions by the Reserve Bank of India (RBI) first by allowing moratorium when it should have been allowed, and two, by making the restructuring option available provides us all the tools at command to address the situation.

Mr. Sameer Narang: The next question is that only 1300 to 1400 crore of incremental loans would have become NPA as per our understanding. How do we reconcile this figure with the Rs. 14,000 crore of loans we had asset classification benefit extended?

Mr. Sanjiv Chadha: There are two angles we're looking at. One is Rs. 14,000 crore which benefited from RBI which means because of the moratorium accounts did not slip into NPAs. Then there was the category of accounts which, due to the Supreme Court proceedings, could not be classified as NPA even though they would have slipped as on 30th September, that is Rs. 1500 crores. So as far as the accounts which would have slipped but did not slip on account of moratorium, that figure is 1400 crore and we hold Rs. 1700 crore of provision against that. And as against, and as for accounts which would have slipped, but for the Supreme Court proceedings we have treated them just like normal NPAs in terms of provisioning, which means as per Bank of Baroda policy we have provided 20% not 15%. We've also taken the provisioning impact for the interest reversal which would have happened if these accounts would have been NPAs.

Mr. Sameer Narang: Thank you. Another question is regarding the provisions that have come down quite sharply in the quarter. What would be the sustainable quarterly run rate for the provisions?

Mr. Sanjiv Chadha: Tough one, because ultimately as we discussed there are three denouements which are possible in terms of the books. Either it performs normally or it is restructured or again it slips into NPA. But in terms of our current position we seem to be in a reasonable shape on account of two things. First, the book you might say is the most vulnerable, which is where the asset status was protected because of the moratorium, we're holding provision of 12%. In terms of the restructuring book, we would be required to make a provision of 10%, given the fact that the restructuring is not likely to be of the order of which we had anticipated earlier. The third part of course is the collection efficiency, which even in these early days has picked up well and I believe should pick up further as we go ahead. I would repeat the point I made, given where we are we believe that our internal accruals should be able to support since it's been in proportion of the provision requirements going ahead. And therefore our requirement for external capital should be limited.

Mr. Sameer Narang: The next question that we have made 2500 crore of provisions for Government guaranteed accounts over last two quarters. Will it be reversed during FY 21? Apart from this, we had made significant provision in divergence for some chemical company in Q3FY20. When is this likely to be reversed?

Mr. Sanjiv Chadha: Well the Government guaranteed accounts, I don't believe that we are in a position to have a timeline in terms of when it's likely to be reversed. But needless to say that since it is Government guaranteed, we do believe that it should be reversed at some point in time; when is it likely to happen is something that as of now we cannot say with any degree of clarity or conviction. As far as the chemical company is concerned my own understanding was that the provision was made in the December quarter and reversed in the March quarter. But Sameer can possibly confirm that or Jain Saab can possibly.

Mr. S L Jain: Yes, the chemical company account was upgraded last year itself in the fourth quarter.

Mr. Sameer Narang: The next question is on what kind of provisions are likely in the second half of the year.

Secondly would you be raising any equity in the next six months considering the stock price is low? Another related question to that is also in terms of the book value per share and for raising capital is the Bank looking at the rights issue or a QIP?

Mr. Sanjiv Chadha: So I think as far as capital raising is concerned we have raised Rs. 1700 crores out of the Rs. 4500 crores of AT-1 bonds. We may access the market over the next few months for some more raising as far as AT-1 is concerned. As far as QIP is concerned that is something we will see possibly in the fourth quarter. By then, we should have reasonable visibility in terms of restructuring, performance of the book, need for external capital apart from AT-1 funds that we can raise. As of now it appears that the AT-1 as well as our internal accruals should take care of the funding requirements. That's what our present prognosis is. But I think it's a question which I can answer better possibly when we meet at the end of next quarter when we have enough clarity both in terms of slippages as well as in terms of restructuring.

Mr. Sameer Narang: Right. We have two questions. One is, what is the average yield on new auto loans and home loans? And what is the share of digital in the two?

Mr. Sanjiv Chadha: Yield on auto loans and home loans, I think Sameer I won't have that figure readily. If you have it, then provide it. Otherwise we can give that later.

Mr. Sameer Narang: Right sir. Another question is what is the success rate of recoveries? Please share update on RHFL of which you are the lead banker and they have funds of Rs. 800 crore in your MF.

Mr. Sanjiv Chadha: So I pass it on to Jain Saab.

Mr. S L Jain: Yes, we have received expressions of interest for this RHFL and we are analysing it. We have recovered over Rs. 200 crores from the NCLT accounts. Of course there are around Rs. 5000 crore where the NCLT approval has already been received. So we'll be expecting recovery in the third, fourth or maybe some part in the next year.

Mr. Sameer Narang: We'll take the next question now. Have we taken any interest income reversals in the current quarter? If yes, then what is the quantum? What is the outlook on the cost of funds trending hereon with deposits, card rates remaining at current levels?

Mr. Sanjiv Chadha: I'll take the cost of funds question and then I'll pass it on to Mr. Jain in terms of the interest reversal. So I mentioned at the outset we believe that the gains that we're seeing in terms of cost of funds should be enduring. It is simply the nature of the liability book. A large part of the benefit of the cost of funds has come from the repricing of saving bank deposits, where our rates are very competitive and despite the repricing of the saving bank deposits we had a growth rate of 12% as far as CASA is concerned. So clearly in the term deposit also, retail term deposits have grown 9%, again despite having very competitive deposit rates. So we believe that the cost of funds improvement is something which should sustain going forward over the next few quarters also. There's enough liquidity and I don't see any reason why we should be in any kind of bidding situation to get liabilities.

Mr. S L Jain: So total fresh addition was around 900 crores. I'm not having exact amount but may not be more than even 50-60 crores.

Mr. Sameer Narang: Another question is- when do we see healthy returns on equity on a sustainable basis? I understand concerns on COVID that provisions remain.

Mr. Sanjiv Chadha: As far as return on equity is concerned I think what we have seen in the current quarter would translate into a reasonable return on equity. The question of course is whether this quarter becomes sustainable. But nevertheless I think we are in a situation that's subject to how things play out by December. We should be generating a reasonable return on equity going forward. But then again I would want to suspend my judgment till the next quarter. And I think we can make some kind of forecast with a little more confidence. But for the moment given that the improvement seen in the Bank's performance around reduction in cost of funds and the nature of the growth of the loan book would suggest something which is sustainable.

Mr. Sameer Narang: Right Sir. Moving on the next question, is there any outlook on recoveries this quarter specially from Dewan and Bhushan Steel?

Mr. Sanjiv Chadha: I think these are tough ones, right? I think these are names which we would have been talking about over the last few quarters also. I think there is a possibility that we will have this same question next quarter. So I'll leave the next quarter to answer that one.

Mr. Sameer Narang: Next question is - any numerical guidance on potential restructuring? With home loan growth accelerating, what kind of growth should one expect in FY21?

Mr. Sanjiv Chadha: I think restructuring is again something we need to leave for next quarter, simply because as of now we do not have any numbers to have a reasonable sample to make a prognosis on. But in terms of home loan growth it's something that we have been emphasising very consciously. We've been emphasising that our home loans need to grow because we want a more sizeable retail book and we want to make sure that the growth in retail is secured to the extent it can be. So the home loan has been doing well. We've also been emphasising on quality. As I mentioned, 74% of our borrowers have a credit score of 725+. We would want our home loan growth to be within these parameters by making sure it is of good quality. Given the momentum that has been generated we should be able to have an above industry growth rate in home loan going ahead also.

Mr. Sameer Narang: Another question is about the sharp sequential decline in corporate book?

Mr. Sanjiv Chadha: I think I had touched upon it briefly. We have seen is that there's still a broad depression as far as corporate borrowing activity is concerned and banks are flushed with liquidity. Typically when it comes to the highest rated corporates they can actually command a very good price. While we are happy to commit some funds for the short term at lower rates because the yields in the money markets are low, we are reluctant to commit in the long term at these low yields because we believe that something which may work well for us in the current quarter but may not be the in best interest of the Bank in the long term. Therefore while we are sanguine that our corporate book should be bound over the next two quarters, we would want to make sure that the quality of underwriting is not compromised and it does not result in our forsaking the hard won gains.

Mr. Sameer Narang: Sir the next question is from Jai Mundhra.

Mr. Jai Mundhra: Yeah sir. Hello sir. First question is some of the banks have started providing on the expected restructuring pipeline that they may have. Now while you may not have received the restructuring finalised request but if you can provide some sense on the quantum of the potential restructuring. Could it be like 2%, 3%, 4%? Can you provide an early signs there?

Mr. Sanjiv Chadha: So two parts to the question; whether we have an idea of restructuring. Very frankly, no, that the first part. The second part is in terms of provisioning. So we have not specifically provided provisioning as far as likely restructuring in the future is concerned. But there are two data points which I think are relevant. First, when it comes to our current NPA book, we have a relatively high provision coverage of 85% which means our ability to provide for any stresses and also restructuring is there. Second, part of the restructuring would have come from the loans which would have slipped but for the moratorium and against that Rs. 15,000 crores we hold currently a 12% provision, which is above the mandated 10% provision.

So as of now, we have not provided anything as far as the restructuring is concerned but given the kind of provision coverage that we have and given the provision that we hold against the book that would have slipped otherwise I think we are at reasonable place.

Mr. Jai Mundhra: Sure sir. And second question is on slide 16 the BB and below book in NBFC segment has risen by around Rs. 1000 crores. So if you can explain what is happening here?

Mr. Sanjiv Chadha: So let me address the issue of the NBFC book. Compared to last year, you would have seen that the AAA piece has come down a little bit and the double B piece has moved up. This was because we had a scheme whereby we could fund companies either under partial credit guarantee or through TLTRO funds and a certain proportion of funds was reserved for companies with a certain rating profile. So we have actually done some of that, it not a very large order, it is a relatively small book. But to my understanding it is reasonably risk mitigated.

The second part is the AAA book which has come down a little bit. That is on account of the fact when it comes to the best rated companies, including NBFCs particularly government sponsored the kind of rates that they are commanding would seriously compromise our ability to keep our margins intact. So we have had some of those loans being paid down and that is something which has brought down our corporate book outstanding also. We do not wish particularly to expand our NBFC book and also bring our margins under pressure simultaneously.

But in terms of the quality of NBFC book it seems to be holding reasonably well. If you were to look at the statistics the AAA and AA combined are still above 90% ,including the A it is above 95%. And so far I think in terms of whatever feedbacks we have had from our borrowers I think our NBFC exposure seems to be in good shape. I

Mr. Jai Mundhra: Just last question sir. I mean if you can explain this 'Notes to Accounts No.14, respective amount where the classification benefit is extended Rs. 14,000 crore. Is that number now let us say a subset of SMA 1 and 2 which we have reported at 5-6% or how should we look at this number?

Mr. Sanjiv Chadha: So I would believe so for the simple logic that ultimately these are accounts which would have become NPAs excepting for moratorium so they would have been SMA 1 or 2 otherwise they would not have fallen in that category. But again this is to the extent I should not be misrepresenting facts. I will just ask for endorsement from Sameer and Mr. Jain in that.

Mr. S L Jain: Let me clarify. Rs. 14000 crores of the accounts are the accounts where we have taken asset classification benefit in the month of September and the RBI says that we have to make 10% provisions. So we are having provisions more than 10%.

The second point is the Supreme Court decision the accounts which were not classified as NPAs on 31st August will not be classified till the stay is vacated and that amount works out to be around Rs. 1500 crores. So since this account cannot be classified as NPA, but we have made a provision of 20% on this, that is Rs. 1500 plus the interest part. From the Bank's point of view we have provided for both these categories.

Mr. Jai Mundhra: Sure sir, thank you so much and all the very best.

Mr. Sameer Narang: Sir we will take the next question now. The next question is from M. B. Mahesh. Mahesh you can unmute your mic and please ask a question.

Mr. M. B. Mahesh: Sir, just wanted to check the recovery levels that you have seen in this quarter of Rs. 1640 crores, if you could give us some colour on what drove these recoveries and how are you seeing the recoveries in your loan book in the second half of the year?

Mr. S L Jain: Basically we have received around Rs. 200 odd crores from the NCLT, Rs. 400 plus crore from our compromise scheme, close to Rs. 300 crores through asset sale. As I previously said, there are accounts worth Rs. 5000 crore where we are having virtually a 100% provision and these accounts have been approved by the COC and the NCLT recovery will come in the third or fourth quarter somewhere in the next year as well. We entered a number of compromises also and the recovery will come in the third and fourth quarter. In addition to that we have given permission to other banks also even for sale of assets at the reserve price. So going forward there are numbers still to be recovered. In addition to that, we are also coming out with OTS schemes for our small borrowers.

Mr. M. B. Mahesh: Any broad idea as to what is the quantum that we are talking about? Where are you expecting in terms recovery by the end of this year?

Mr. S L Jain: It is very difficult to tell the numbers. But recovery should be better than what was in the last quarter.

Mr. M. B. Mahesh: Okay. Sir, you have had two quarters of slippages in the international portfolio. Could you tell us, last quarter you had indicated that you will see some progress on this, I think it was a steel account or a mining account out there. What is the situation there and what has happened in this quarter as well?

Mr. S L Jain: Within the group accounts; we have classified one account as an NPA because of fund issues. So part of that group account has been classified NPA this quarter as well because it is based on the record of recovery.

Mr. M. B. Mahesh: Sir and my final question, in staff cost this quarter you have made some additional provisions related to the AS-15 part. If you could tell us where are you in terms of provisioning? It tends to be a very volatile number for you.

Mr. S L Jain: There are two parts in staff costs basically. One part is the provision on account of wage revision, we have provided 15% based on the information that we have. Second part is the AS-15 part which has slightly higher provision this time because the 10-year G-sec yield has come down.

Mr. Sameer Narang: The next question is from Gaurav Aggarwal.

Mr. Gaurav Aggarwal: Thanks for the opportunity. For your existing non-performing loans, what is your provisioning requirement for the next two quarters and FY 22, in terms of ageing provisions?

Mr. S L Jain: I don't have the exact number. But ageing provisions should not be more than Rs. 4500 crores.

Mr. Gaurav Aggarwal: Okay. I couldn't understand your clarification on this Rs. 1400 crores and Rs. 14000 crores which you were giving to Jai that Rs. 14000 crores was because RBI moratorium which couldn’t slip and which were SMA accounts and Rs. 1400 crores of NPA is you know which were because of Supreme Court. So how are these two loans related?

Mr. Sanjiv Chadha: Effectively what we were trying to assess was how much is the provision that we hold in these two categories. As far as the book which is under moratorium now it is possible to actually restructure that book. It is possible that some of that might slip. It’s possible something might get upgraded. So, against that 14,000 crores we hold a 12% provision which is Rs. 1700 crore. It would seem to suggest that in case of that book either getting restructured or slipping, it is largely provided for.

As far as Supreme Court is concerned, that is something which is an NPA. Only that Supreme Court does not allow you to classify it as NPA. So therefore we have treated just like any other NPA and we have made a full 20% provision the way we would do it on a substandard asset and also made provisions to the extent, interest would have been reversed.

Mr. Gaurav Agarwal: Just last clarification on the first question, Mr. Jain mentioned that Rs. 4,500 crore is the provisioning requirement for the existing loans for the next two quarters. What would be the amount for FY22?

Mr. S L Jain: The numbers presently we are not having for FY22 that we have to calculate everything.

Mr. Sanjiv Chadha: In fact, I would suggest even don't take that 4,500 also for the moment, let Sameer give you those numbers.

Mr. Sameer Narang: Sir, we have a couple of questions more. One is on the outlook on the international book and the treasury as well.

Mr. Sanjiv Chadha: I think as far as the international book is concerned overall, it has been doing well. We believe that if we take the normalised credit cost on the international book over a number of years, it is going to be significantly lower compared to the domestic side. We believe that in terms of credit quality, the international book actually acts as a risk mitigation and effectively spreads our risk. I believe that's something that should stand in good stead even going forward. 25% of the book is exposure on banks through Letters of Credit, Letters of Understanding that they have issued. That is part one.

The second part of the question as far as the treasury is concerned, as I mentioned, this time the gains were larger than the normalised figure. But the RBI seems to indicate that the low interest rate-high liquidity regime should sustain for some time. So, we would continue to have treasury gains, but they are unlikely to be of a similar quantum that we saw during the current quarter.

Mr. Sameer Narang: Sir, a few more questions. One is on the ECLGS scheme, how much has been disbursed?

Mr. Sanjiv Chadha: I think Mr. Khichi is there on the call. So, I think we'll just request him to take the question.

Mr. Vikramaditya Singh Khichi: We have sanctioned almost Rs. 8,500 crores to 3 lakh people and that constitutes almost 95% of all the eligible borrowers. And in terms of amount it comes to around 93%. Out of this Rs. 8,500 crores, Rs. 7300 crores has already been disbursed. This is regarding credit line guarantee.

Mr. Sameer Narang: Thank you so much. Another question is on the guidance on the NIM, what is the guidance on the NIM for the next 12 months?

Mr. Sanjiv Chadha: You might recall when we met in the last quarter we had NIM of 2.55%. That has improved significantly during the current quarter on the strength of reduction in the cost of deposits which came down by 53bps QoQ. As I mentioned earlier that benefit and that advantage of lower cost of funds is likely to endure. Therefore while there may be some pressure on NIMs to the extent that there would be some stress which would play out post restructuring, but nevertheless to my mind that should act on the margins, not again undo the improvement that we have seen. So, we believe that we should be able to sustain net interest margins which are in line with our historical levels of 2.8% even our next few quarters.

Mr. Sameer Narang: The next question is on the observed collection efficiency across retail portfolio, is there any differences across different segments?

Mr. Sanjiv Chadha: We have some figures that we have them readily at hand, if you would want to write them now you can do it now or if you would wish to do it later you can do it later whichever way you might choose please.

Mr. Sameer Narang: I think we can distribute the data later on, but there's any which way not much of a difference in terms of the overall efficiency.

We've just got another question, please, if you have any guidance on the loan growth and ROA.

Mr. Sanjiv Chadha: I think we have addressed the question on deposit and loan growth. But let me repeat it for clarity. We had started the year with a guidance that we would be targeting a growth of 7% in terms deposits as well as for loans. We believe we can stand by that guidance. The additional information we want to give is that it is not only the quantum of growth which is something which one can manage, the fact that you are in a liquidity surplus situation, but the quality of the growth. Because we believe not only can we do that growth but we can make sure that a large proportion of that comes from the growth in CASA, which would mean that we should be able to also sustain our margins, which was the earlier question.

Mr. Sameer Narang: Mr. Ajmera wants to ask a question again.

Mr. Ajmera: Please provide color on the overseas business because we have a lot of overseas branches. What is the trend there and what do you see the future of our global business, our overseas business? Second is, how are our subsidiaries performing?

Mr. Sanjiv Chadha: Thank you very much Mr. Ajmera, first of all for staying on the call for so long. So, as far as the overseas business is concerned, that's a very significant part of our balance sheet. It's about 15% of our balance sheet, and we expect that the overseas operation should in terms of profitability contribute equally, which means we expect our overseas business to contribute about 15% of our operating profit also. Given the fact that we expect the credit costs to be lower, the overseas business is actually a net contributor to the Bank in terms of its profitability and return on equity.

When it comes to the subsidiaries in particular, there are two or three subsidiaries which are key to us, they probably correspond to 90% of the capital outlay as also assets. So, one is the Kenyan subsidiary, the others the Ugandan subsidiary, and then the UK subsidiary. The UK subsidiary is the newest which came into being only about two years back. So, performance in terms of return on equity for that subsidiary is relatively muted, around 4% or 5%. But both Kenya and Uganda have been contributing about 15% return on equity. So, we believe that these subsidiaries should actually also in terms of return on equity be pulling their weight or punching above their weight going forward.

Mr. Ajmera: Sir, just one observation while going through the segment-wise reporting, in the wholesale banking, there is a lot of fluctuation. As against Rs. 1,873 crore of loss, there is a profit of Rs. 95 crore. It is for the CFO basically to explain such fluctuations.

Mr. Sanjiv Chadha: Let me try to answer the question and then the CFO can give you a more educated answer. The fundamental point is that the wholesale book is prone to fluctuations in terms of provisioning. Hence, we have strategically very high provisioning, so the wholesale book on the whole has actually been making a negative contribution in terms of return on equity. Now during the last quarter the provisioning has been muted which we have seen in the provisioning figure. This also underlines and reemphasises our strategy going forward, we would want the retail book to grow to be a little larger proportion and the wholesale book to become a little lower proportion so that the volatility in earnings gets diminished as we go forward.

Mr. Ajmera: If you see all the 4-5 quarters, there used to be losses in the wholesale book of Rs.1,800 crore, Rs.1,400 crore, Rs.1,700 crore. A profit of Rs. 95 crore has come suddenly for the first time in last 6 quarters. So, the basic structure is changing and as a reporting or calculation, because so much of difference cannot be because of the provision, basically which has come down now this quarter.

Mr. Sanjiv Chadha: I think that's exactly the point. Going forward, given the fact that we are provisioned to the extent of 85% of our non-performing assets, the pressure from the wholesale book in terms of provisioning should also come down and therefore we hope that we should be seeing better performance going forward.

Mr. Ajmera: Okay, thanks a lot sir and all the best to all of you.

Mr. Sameer Narang: On this note I would like to thank the management and I would also like to thank all the participants. Sir, would you like to have some final comments before we exit the call?

Mr. Sanjiv Chadha: Just want to thank everybody who has been on the call. I do hope that they keep safe and I look forward to seeing them again next quarter.

Mr. Sameer Narang: Thank you, sir. Thank you everybody.

(END OF TRANSCRIPT)