**Bank of Baroda Media Conference for Quarter ended 30th September, 2022**

**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 Media Conference for the Bank of Baroda's financial results for the quarter ended 30th September, 2022. Thank you all for joining us. We have with us Mr. Sanjiv Chadha – Managing Director and CEO of Bank of Baroda. He will be leading the call today and he's also joined by the Bank's Executive Directors and the CFO. We'll start with brief opening remarks by Mr. Chadha and a short presentation. Followed by that, we'll have the Q&A session. Mr. Chadha, over to you.

**Mr. Sanjiv Chadha:** Thank you very much Phiroza and a very good afternoon to everybody. Thank you very much for joining us. I would have much preferred, now that things are back to normal, that we would've met face to face. But, we were conscious that there's a bit of a clash today and therefore, it may not work very well. So, I hope we can, next time around, do a face-to-face discussion, but thanks once again for joining us.

So, I'll just with, first of all, introducing my colleagues on the call. We have Debadatta Chand our Executive Director who is in charge of Corporate, International and Treasury. Mr. Joydeep Dutta Roy, Executive Director who is in charge of IT, Digital and all our platform functions, including HR. And, of course, many of you would be familiar with Ian Desouza our CFO. I'll just have maybe about 6-7 slides. We'll again the Bank's results in context, because I do understand that we've had a busy afternoon and we not have had full time to look at the results. So, just a few slides there.

So, the Bank's focus, again, has been as it should be, probably on 4 main themes. One is growth. The other is to make sure that while we have growth, we protect and improve our margins. The third is to contain costs and the fourth is to make sure that asset quality works well for the Bank. And, I'm pleased that in this particular quarter, all the 4 elements, which is rare, have come together, and that is responsible for the reasonably good result.

Now first of all, in terms of growth, I'm looking at the advances growth. So, our global advances have grown by 19%. Within that, domestic by 15% and international by 41%. But what is equally heartening is that the growth has been well spread out over various segments, with retail, which has been a focus for the Bank for quite a few quarters, clocking a growth as high as 28% and other segments having double-digit growth.

Within retail, again, it's a broad-based growth on personal loans, which is something that we have been pushing with BOB World over the last few quarters, growing by as much as 170%. Auto loans has been an area of particular strength for the Bank for very many years now, and there the robust growth continues at about 30% YoY. Education loan, again, has grown well by 23%. But, to my mind what's remarkable is that, home loans which are 70% of the retail portfolio and where we had pretty much system growth but not much better, have grown probably faster than the system this time by nearly 20%. If you look at disbursements, the disbursements growth rate over last year is even more robust, which ranges between 50 to 100% in most of the segments, auguring well for the future.

Moving on to deposits now, I think it is true for most Banks that the deposit growth has lagged behind advances growth, which we believe is perfectly normal. Whenever liquidity is abundant and economic growth is slow, you will find that deposits growth runs ahead of advances growth. And, it is quite normal for that to be the opposite when the economy improves. So, we are perfectly comfortable with the advances growth running a bit ahead of the deposit growth for a few quarters.

Particularly as you see in our CD ratio, while the overall CD ratio is 80%, but when it comes to domestic, it's about 73% now, although it's moved up by nearly 400 bps. Having said that, deposit growth is fairly okay, better than system, and we will continue to make sure that we focus on deposit growth while again, taking advantage of that window when you can actually have better margins with re-pricing of loans happening a bit faster than deposits.

So, the growth in loans and also again, the fact that deposit costs have been under a reasonable tight leash, has helped Net Interest Margins. If you look at cost of deposits and compare the 1st half of this year with last year, you'll find that deposit costs are exactly flat at 3.53%. As against that, in the similar period, the yield on advances has moved on by 21 bps, which is why you see a pickup in terms of Net Interest Margins.

In terms of employee cost, that's been an area in which our Bank has performed better than the industry. While with some Banks you'll find that the growth in business has come in tandem with growth in cost, for us the costs have been under tight control, particularly employee costs which have grown only by 1% in the half year, and by 2% for the quarter. Similarly, in other operating expenses, the physical build of the Bank, the growth is, on the face of it, a little high at 17%. But, actually this is exaggerated by the depreciation charge which is inflated because there's a revaluation of assets which happens once in 3 years which produces a higher depreciation charge. Otherwise, operating costs also are under control. And overall if you combine the two, you have a single-digit growth in terms of operating expenses.

One of the focus areas for the Bank has been collection efficiency and the SMAs also, which are the lead indicator in terms of any kind of build-up of stress. So again, the collection efficiency continues to be very high at 98%, and the SMAs, they continue to trend downwards indicating that even in terms of any kind of prognosis for the medium term, the bank is fairly well placed in terms of asset quality.

This improving asset quality is something which has been apparent for the past very many quarters, even during COVID. But, I think that improvement has now gathered pace, and that is particularly clear in the Net NPA ratio which has now come down to 1.16%. So, I think this is something which, to my mind, is important, because it would mean that in terms of any kind of provisioning, the Bank is well provided. Incremental provisioning ought to be low. The provision coverage ratio overall is about 92%, and if we were to discount the TWOs, it's about 80%. Similarly, slippage ratio has continued to trend downwards. We had guided that the slippage ratio should be somewhere between 1.5 to 2%. So, for the half year it has come at about 1.53%. The credit costs also continue to trend downwards. We had guided for a credit cost of between 1.25 and 1.5%. This half year it has been significantly better; we have had very good recoveries. But, for the full year, we would still wish to be conservative and our guiding for a credit cost between 1 to 1.25%.

In terms of profitability, it has been an outstanding quarter, with NII up 34%. Fee income continues to grow at a reasonable pace at about 12%. But what is significant is, that if we exclude the impact of treasury gains/losses, the core operating profit of the Bank has actually gone up by 44%. The headline operating profit has gone up by 6%, but that's because there is a single item which is a little bit of anomalous. So, there was an upgrade in an account which happened and account of that there was an equity provision which moved up from below the line to above the line impacting operating profit. But for that, even the operating profit, including after taking into account treasury, would have been about 20% growth YoY. The profit before tax and profit after tax have moved up by about 50 to 60%. So, I think it's been a good quarter on top of what was actually a good quarter in the same quarter last year also. So, with a reasonably high base, the Bank has shown about a 60% growth in terms of net profit.

It's a similar trend for the half year, where we again find robust growth in Net Interest Income, and also growth in core operating profit actually being better than the reported operating profit and PAT and PBT are up about 60%.

So, all in all, this has translated into a strong capital position. While the capital position is about 15.25% overall capital adequacy, if you were to add back the profit that has accrued in these 6 months, the capital adequacy of the Bank is about 16%. So, we remain well capitalised equally. I think it is important to note that despite having robust growth in loans, the internal accruals of the Bank are enough to fund that growth.

The last point, again, would be in terms of the digitalisation of the Bank. The fact that we have been able to grow at this pace while keeping costs under control, is largely because of the progress in the digitalisation agenda of the Bank, which has meant that increasingly customers are being serviced by digital means. We do not have the kind of requirement that normally would have occurred in terms of increasing either the manpower or the physical build of the Bank. We believe that this digitalisation progress that we have seen, in particularly success of BOB World, will over the next few quarters and years, continue to help us in terms of pursuing our growth agenda while keeping costs under a tight leash.

So, that was pretty much from me in terms of general remarks. I'd be very happy to have questions from all of you 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 you may also type your question in the Q&A box. We will wait for a couple of minutes for the line-up to populate.

The first question is from Saloni Shukla of ET. Please ask your question.

**Ms. Saloni Shukla:** Hi sir, good afternoon. Sir, I just wanted to understand, on this entire wedge between deposit and credit, now we are seeing Banks play catch up and a lot of Banks have raised deposit rates, which is why we have seen, especially for this quarter, Banks seeing higher margins. Do you see that is something that will play out in the coming quarters or do you feel that margins could take a hit because now we are seeing almost on a system level, a big wedge between deposit and credit?

**Mr. Sanjiv Chadha:** So, it is my view that I think for maybe another quarter or two, we should again see margins being better as compared to normal, because of the lag effect which is there in terms of deposits costs going up. Of course, eventually, deposit costs will go up, but I think equally we are likely to see the impact of the normalisation of interest rates.

The fact that, as you said, deposit growth is lagging, that would mean liquidity returns to normal, and that would also mean that pricing power in some measure returns to the bank. So, to the extent that the margins are being exaggerated by the lag effect between advances being re-priced and deposits being re-priced, to some extent, yes, that would moderate. But on the other hand, the upside in terms of the normalisation of liquidity and the pricing power coming back, that should also begin to assert itself.

If you look at our loan growth, you would find that the slowest loan growth is still in corporate where it is about 10%. That is because we continue to exercise a strong discipline in terms of pricing of loans, and therefore to my mind, there's an upside which is still there, particularly in the corporate segment in terms of better margins.

**Ms. Saloni Shukla:** Sir, that was my next question. Your growth is obviously much better compared to what it was in the last quarter. And, I know you've spoken multiple times in the past where you've said that you don't want mispricing of loans to happen. But, now do you see that market improving on the corporate credit?

**Mr. Sanjiv Chadha:** Yes indeed. I think it is much better as compared to the previous years. But even now I would believe that the full impact in terms of pricing power as far as corporate segment is concerned, that is still to play out, no. 1. No. 2, if you see how the external benchmark rates have moved vis-à-vis the MCLR right, so the EBLR-linked loans have got re-priced, but the MCLR normally moves up with a lag in line with deposit growth and corporate loans are priced as per MCLR. Therefore, in terms of corporate pricing, we have still not seen the full benefit as far as accruing to the Banks are concerned. So, to my mind, there's an upside and given the fact that our corporate book is about 50%, I think that should be advantageous to us as we move forward.

**Ms. Saloni Shukla:** Okay. Sir, just one last question. There is a very strong growth on the international book. Is it one segment which is contributing to this? Where is it coming from?

**Mr. Sanjiv Chadha:** So, I think, this is really an outcome of what the situation was over the last 1 ½ to 2 years, where in India, when it came to corporate loans, a) there was slow growth, and b) there was pricing pressure because of the abundant liquidity. Therefore, we found that capital was better deployed in international corporate exposures.

Given our network, we were well placed to take advantage of that. So, if were to see the growth in international, it is of course very high at 41%, but what is equally important is, that YoY margins also would have improved by nearly 50 bps. So, margins were south of 1.5%, now they are above 2%. So, I think that is what is remarkable, that we have been able to have high growth along with margin improvement. And that's why, again we thought that capital was better allocated there. Now, as again things normalise in India, it is quite possible again, that there might be a change in emphasis again. But for the moment, we find good opportunities in the international book also.

**Ms. Saloni Shukla:** Okay, thank you sir.

**Mr. Sanjiv Chadha:** Thank you.

**Moderator:** The next question is from Pinak Ghosh of the Telegraph. He has written the question on the Q&A. Bank has total exposure of 51,000 crores to accounts referred to NCLT. What kind of recovery are you expecting this fiscal? What is your view on the pace of recovery from NCLT accounts? Do you expect write-offs to increase?

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

**Mr. Joydeep Dutta Roy:** So in NCLT, this year we have had a recovery of almost around 950 crores in the last 2 quarters. As compared to last year, I think it was around 2,500 and we are well poised to make almost a similar figure in the next two quarters also. So, that's on the NCLT accounts.

**Mr. Sanjiv Chadha:** Just one more point I'd add to that. If you look at the provisions that we hold in NCLT accounts, they are well above 90%, nearly I think 98% now. Now, historically we have seen that, on an average, you get about at least 25-30% in terms of recovery on NCLT accounts. So, I think there's a significant upside which is sitting there in terms of recovery, as and when that recovery comes.

**Moderator:** Thank you sir. The next question is from Rajesh Yadav. Please ask your question.

**Mr. Rajesh Yadav:** Hello. I have two questions. One is, the bad loan segments are the highest in which segment, corporate, retail, MSME or individual. Secondly, how much loan has been written off by the Bank in this segment and what would that amount be? And, I have a personal question to you Mr. CEO. Can I ask you a question on a personal level?

**Mr. Sanjiv Chadha:** What would you like to ask me on a personal level?

**Mr. Rajesh Yadav:** Personal level in the sense, for the ones looking to avail a loan from the branch, what kind of help would they receive if a branch doesn't support them? What would you like to say on that?

**Mr. Sanjiv Chadha:** Definitely. I'll try to answer both your questions. As far as our NPAs are concerned, if we see historically, our NPAs are more in corporate. As you all may be aware, in the last 5-7 years there's been a considerable stress in the corporate segment. However, that stress has reduced, and if we were to look at slippages, it is the least in corporates. Since the impact on COVID was more on the small and medium segment, the MSME slippages have been more than expected. So that's as far as NPAs are concerned.

As far as taking loan from the network is concerned, our branches are available for that. Along with that, as far as small loans are concerned, you can avail a long from the website without having to visit a branch. If you want to take a small MSME loan, there's a website psb59 which is for all Government banks. You can apply through that and you'd be able to find out the status of your application too from there. If you want to avail of an unsecured personal loan and if you're a depositor of the Bank, then you can apply through BOB World too.

**Mr. Rajesh Yadav:** My second question was about how much loan has been written off.

**Mr. Sanjiv Chadha:** We'll answer that to you later in writing.

**Mr. Rajesh Yadav:** Okay. I had a complaint on a personal level too. This is related to the Ghatkopar branch. I need about Rs. 4 lakh for an education loan. It's been 6 months since I applied and the loan has not been disbursed yet.

**Mr. Sanjiv Chadha:** As far as education loans are concerned, you must have seen that our growth rate it is almost 23%. So the Bank is doing education loans and there is quite good growth. As far as your application is concerned, we'll check on it. If it's as per our documentation and is still being delayed, then we assure you that we'd sort it out.

**Moderator:** Thank you sir. The next question is from Aparna Iyer. Aparna, please unmute yourself and ask your question.

**Ms. Aparna Iyer:** Am I audible?

**Mr. Sanjiv Chadha:** Yes Aparna, you're audible.

**Ms. Aparna Iyer:** Hi sir. I wanted some colour on the corporate loan growth side. The general discourse is that we have seen some recovery over there, but what kind of growth is being seen? Is it still working capital? Are capex term loans coming in, demand from capex is coming in? How much of capex pipeline do you have? And, if it is still largely working capital, we hear that this is mostly because companies take this working capital so that they have been seeing input cost increases and all that. So, when those things subside, what happens to these loans?

**Mr. Sanjiv Chadha:** So, I think in our case, most of the growth actually has been investment led and it has come in growing cross section of segments. For some time we have seen good growth, for instance, in the road sector, in renewable energy. Now, increasingly again you are seeing growth in other sectors also. What is interesting again is, that this growth is coming from relatively larger corporates because we have seen a fair bit of consolidation over the last few years, we have also seen a fair bit of deleveraging over the last few years. So, the growth is coming from well-rated corporates, good quality growth.

As far as working capital is concerned, from our perspective, we believe that the increase in working capital utilisation is still to play out. For us it is still in the range of about 55-60%. I think it has not really taken off to the extent that would suggest that the growth that we have is actually volatile and is on account of the fact that commodity prices have gone up, and therefore companies need to stalk up. To my mind, there is still upside in terms of corporate loan growth through increased working capital utilisation. But, I would request Mr. Chand again, if he would want to amplify the point.

**Mr. Debadatta Chand:** Yes sir, you said right. The growth has been, if you look at the corporate growth this time, it was around 10% and if you look at December 2021 vis-à-vis September 2021, the quarter-to-quarter growth was 6%. We believe that this is start of the business season and a bit of utilisation happening on the working capital also. So, we'll be in a position to deliver similar kind of growth for the December quarter also. And, the demand is coming across all sectors and may not be to a very large extent, but the demands are there. We're quite hopeful in this current scenario that we'll be in a position to deliver a similar growth like we've given in September and December also.

**Ms. Aparna Iyer:** Okay. So, I'm just confirming that this is not just sanctions, but also disbursals that are happening?

**Mr. Debadatta Chand:** I'm talking about disbursements only.

**Ms. Aparna Iyer:** Disbursements, okay. Can you give us a sense of what kind of pipeline do you have on capex related? For eg. If today you're giving a Rs 100 loan, how much of it is towards capex or how much of it is coming from working cap?

**Mr. Debadatta Chand:** See, we have term loan and working capital, typically, and term loan we give for a capex reason.

**Ms. Aparna Iyer:** Yeah.

**Mr. Debadatta Chand:** So, working capital as Sir has said that it has increased a couple of percentage vis-à-vis the last quarter in terms of utilisation. And if I believe that this is the start of the business season and the utilisation is normally high, so we see traction out of that in the December quarter. That would be one comfort that we're looking for a better growth in December. But at the same time, term loan again are all disbursed for a period of time depending upon the project cycle, the implementation time. So, if you compare the December 2021 growth vis-à-vis September 2021 for Bank of Baroda, the quarter to quarter growth was almost 6%. That's a normal cyclical thing that can happen. So, considering that, we're quite hopeful that December also our corporate growth would be around the growth that we have given in September.

**Mr. Sanjiv Chadha:** Aparna, just to confirm your point, the growth that we have seen so far, largely again is project growth, more term loan growth. As far as working capital is concerned, that is more again cyclical linked to the busy season, and we expect to see more of that in the next quarter.

**Ms. Aparna Iyer:** Okay, fair point. Thank you sir.

**Mr. Sanjiv Chadha:** Thank you.

**Moderator:** The next question we've received from Mayur Shetty of Times of India. What is the reason for revising deposit rates through limited period special deposit scheme? And the second question is, is there any migration from REPO linked rates to MCLR among the borrowers? Thank you.

**Mr. Sanjiv Chadha:** I think in terms of deposit rates, I think the fact is, it is a changing scenario. It is yet to stabilise in terms of where would deposit rates end up? So therefore again, it does make sense that you are a little bit flexible in terms of the increasing deposit rates so that you can align to whatever is again the stable state in the coming months. So therefore, I would believe that as we go through this cycle, till such time again as we reach a stable state, the growth, the change in deposit rates will be again to make sure that you're able to attract incremental deposits, and also to align with whatever loan growth might be.

For the moment, the loan growth has been very robust this quarter. But, I think for us to assume that that is going to be indefinitely extrapolated to the future may not be fair. So therefore, we would want to be guarded and also calibrated in terms of deposit growth, for the moment at least. That is what our sense is. So that is the first part. What was the second part of the question? If you don't mind, please repeat that.

**Moderator:** Mayur is asking, how many people have migrated from REPO linked rates to MCLR among borrowers?

**Mr. Sanjiv Chadha:** Yeah. So, normally the migration is more again in terms of corporates who would tend to migrate from say T-Bill rates to MCLR, because when the liquidity was abundant, a lot of corporates again, since MCLRs tend to be more sticky, they had the bargaining power to actually migrate to lower T-Bill rates. Now, as T-Bill linked rates actually are a little more volatile, and there's larger transmission there, now there's a trend to migrate from those T-Bill rates to MCLR. So, that is the movement that we have seen. But again, I would just want to confirm my understanding with Chand saab.

**Mr. Debadatta Chand:** Sir, you are right. Particularly corporate because retail loans are all EBLR or REPO rates, so there is no question of migration there. Only corporate wherein, as a Bank we had larger segment in terms of T-Bill linked as compared to REPO. In the same scenario currently, the percentage of T-Bill linked is less than 3.5% of the book. So, mostly they migrated to MCLR. So, migration we have seen, but MCLR migration from a T-Bill would be quite income positive for the bank. So, in that way, we appreciate that kind of a movement and that would happen because of rising interests in a normal scenario that people would try to migrate to MCLR, and that happened to our portfolio also.

**Moderator:** Thank you sir. We have Kumud Das asking the next question. Please ask your question.

**Mr. Kumud Das:** Hello, am I audible?

**Mr. Sanjiv Chadha:** Yes Mr. Das, you're audible.

**Mr. Kumud Das:** Good evening sir. I just wanted to know, Bank of Baroda was one of the 9 Banks who have launched the digital Rupee. I mean, you have participated in the launch of the digital Rupee off late by RBI. So, what has been the response? And what according to you, are the pros and cons of the digital Rupee?

**Mr. Sanjiv Chadha:** My understanding is that, for the moment, what is launched is a pilot project, right? So, therefore, we should not be talking in terms of response for the moment. But, there is a technical capability which has been established. That is what the current status is, but again, this was a deal which was done, the first deal was done between SBI and BOB. So, I would request Chand saab again, if he would want to add to that.

**Mr. Debadatta Chand:** Sir, that's right. Actually, it's a pilot thing going, so let's wait for the time to come to gauge the response. RBI is monitoring everything with regard to this. So, we'll wait for the outcome and communication from RBI on the matter.

**Mr. Kumud Das:** Thank you sir.

**Moderator:** The next question is from Falaknaaz. Please ask your question. Falak, please ask your question. Sir, we have received another question on the chat. The question says – Congratulations on your record quarterly results. Many congratulations to the management. The question is, as per news reports and your notification to stock exchanges, IPO of insurance subsidiary is expected to hit the market by the end of this year, and that has been filed and it has filed the DRHP. Can you elaborate upon the plans to include primary and secondary issuance proposed? Further to that question, are you aware of any government plans to dilute their stake in the bank?

**Mr. Sanjiv Chadha:** I think we are aware that IndiaFirst Life has filed its DRHP. And once the DRHP is filed, I would suppose that IndiaFirst Life is best placed to answer questions in terms of their plans. For the moment, in terms of our own Bank, we are not aware of any plans in terms of divestment of stake by the government.

**Moderator:** Thank you sir, thank you so much. That was the last question that we'll be able to take today. Thank you all for joining us. Thank you.

**Mr. Sanjiv Chadha:** Thank you.

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