

'BoB aims to bring down net NPA to ₹15,000 crore in FY20'

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P.S. Jayakumar, managing director and chief executive officer of the Bank of Baroda, says the bank will look to consolidate net non-performing asset (NPA) below ₹15,000 crore in FY20. Edited excerpts from an interview:

Your loan growth has been good at 13% but it is lower than the previous years. I am only looking at domestic loan growth.

In the past, the focus was on terminal balance sheet, which is not necessarily the wisest thing to do. Now our focus is on average balance sheet. On an average basis, our balance sheet grew by 18.75%. The terminal numbers were lower because last year the growth happened entirely at the point of the terminal number, while this year it has been consistently growing. So that is one metric to look at it.

The second data to look at is net interest income (NII), which has gone up by 25%. That is reflective of the fact that the underlying assets have been both strong and also that the margins have improved. So the combination of these two things has resulted in that and has automatically resulted in a substantially improved operating profit as well.

Overall now our focus is to tell people don't push for last day balance sheet. Just focus on average to average and we only look at that data point. As our internal measurements have gone average to average, we only look at that. We don't look at the end of period number.

Post elections, almost every important person in the financial sector only spoke about liquidity not being available. When you ask the regulator, the regulator says we have given the ability to bring down LCR (liquidity coverage ratio) and lend but most of the banks have not used it. Have you used this LCR reduction window?

We have not stopped lending. We continue to focus on growing the balance sheet both on the deposit side and the loan side. So that aspect continues.

But not as fast.

The base is also different but if I were to look at it, the average balance sheet growth of 18.75% is good. It is possible that at end of the period we didn't push hard to retain some numbers and it went down. My guidance for the next year is to continue to see a 15% type of growth.

How would you answer the accusation that risk aversion is there among bankers or that just caution is not allowing too much of deposit or loan growth?

The loan growth has been around 18.3% and even if you were to take the end of period number around 13%, but our growth has been less than 1%.

It doesn't signify risk aversion. Rather I would say it signifies the fact that we have been focused on higher



P.S. Jayakumar, MD and CEO, BoB.

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quality assets and given the point we have with respect to non-performing assets (NPAs) and we cannot take more margin of error being what they are, even risks that you consider to be high can effectively be lowered if the structuring is done better. So now we are trying to focus more and more on eco-banking, the entire ecosystem. So, whatever we finance, it turns out to be of a better quality than before.

When Dena Bank and Vijaya Bank get into, which they are from 1 April, is the treatment of bad loans across the board similar? For instance, vis-à-vis Infrastructure Leasing and Financial Services (IL&FS) or any of the housing finance companies or Anil Dhirubhai Ambani Group (ADAG) companies, which have defaulted, have they recognized it like you have?

We did explain to the auditors of the company and the chief financial officer that here are the policies that we had. In fact, we identified at the time of computing the stock swap ratio and to my understanding all the changes that need to be done have been done. Not only on account of treatment of provisions for NPAs but also for example taxation treatment or accrual for expenses. It is possible that something has been left behind but as far as we know, those have been covered completely. So we start on a same basis when our opening balance sheets were made on 1 April this year.

You have taken a giant provisioning and improved your provision to almost 80%. Now with the merged entity, how good will the provision cover look?

Here is what it is doing to us. On the net NPA number, we are at 3.3%. I think the consolidated net NPA of all the three banks put together is around

3.63%. So that has increased, but not to a very significant extent. It is a 10% liquidity ratio if you will.

In terms of absolute net NPA, which has been the one area that I prefer to focus on, we have been able to bring it down to ₹15,000 crore this quarter in BoB or the legacy BoB, which is the lowest we have had in many quarters. That number moved back to ₹23,000 crore. So we have a lot of work to do in the next quarter to come back to the ₹14,000-15,000 crore of absolute NPA because at the end of the day, the risk is represented by absolute NPA.

I know it is a little difficult but are you reasonably confident that you will not see a jump in the standalone BoB if it is possible because we still hear of stress in some of the housing finance companies (HFCs) in IL&FS, the unrecognised bit or real estate companies. Will there be this surprise NPA springing up?

With respect to the real estate sector, our exposures in BoB has been very muted. We have not traditionally lent too much to the real estate, construction site. The bulk of the real estate exposures have been connected with the loan against discounting of rental incomes and financing properties till the time they became eligible for rental income. So I don't see that as an issue now.

When you come to non-banking financial companies (NBFCs), we have got three hot accounts we need to talk about. One is IL&FS and the IL&FS exposure is quite high. It is about ₹5,700 crore but the positive thing of it is only ₹2,500 crore or less than that ₹2,300 crore or thereabouts is to the

financial sector and the IT and all. The balance is with respect to projects that are generally completed and in good shape.

However, what is happening with respect to provisioning is that some of these are marked as or classified into red, yellow and green. Therefore, though the projects are on the yellow side, we end up having to create provisions because we don't get paid notwithstanding the money being in the account but as secured creditors, we don't have any real problem.

So is that why you have only 24%.

That is right. The balance on the ₹2,300 crore—truth be said we need to take more. We just don't want to shy away from it, but given the high coverage ratio we have got particularly in the ₹900 crore of provisions we have taken which would hopefully get realized in June or July, I think there is sufficient headroom for us to bite that provision in this quarter or the next when those amounts get realized. So we are not very alarmed about it.

The last element of this provision is the underlying nature of the asset. When we take Dena Bank's assets and distribute them over the rating curve and take our assets and distribute it over the rating curve, the numbers are different. So there could be some acceleration from standard accounts in those portfolios relative to ours because of the way the rating is distributed and those are all the data we have shared.

But I still think those are not of sufficient magnitude to change the directions we have generally given to you, which is that we expect net NPA numbers to come down to 2.5-2.75 and to minimum as we go into the next financial year and the absolute net NPA to trend towards ₹15,000-16,000 crore, so we see that happening.

I hope that there are some positive surprises and we will manage it.

So this 3.6 won't go to 4 before going to 2.75?

I hope not but as I said we must realize that we have given the fact—the scoring patterns are different especially on the MSME side, portfolios may be standard and they may be the same but one can throw up more NPA

relative to other. So we have to prepare ourselves for it and I won't say there is going to be a surprise but we have to keep cognizant of the fact.

Your SMA-II is only 1.9% and in several quarters, your SMA-II becomes the NPA a few quarters down the line. Going by that should your NPA not be more than 1.9%?

We are forecasting for the next year, on a consolidated basis, for guidance. Our expectation is that our loss rates will be closer to 1% on the asset balance sheet basis. This assumes our balance sheet would be in the ₹7.25 trillion level. So maybe ₹7,000-7,500 crore of provisions next year overall is what we are expecting.

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