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HeadLine: Bank of Barodas net NPA is expected to decline from March, says CEO Jayakumar

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Bank of Baroda's net NPA is expected to decline from March, says CEO Jayakumar

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CNBC-TV18

Linking home loan rates to the repo rate did not affect the margin quality for Bank of Baroda across several years, says P.S. Jayakumar, managing director and chief executive officer. In an interview, he also spoke of the challenges in mergers, bad loans and an economic recovery. Edited excerpts:

INTERVIEW

We believe your bank had a conference with other bankers on 5 September and they wanted to learn from you the secret sauce of mergers. What were the key takeaways?

It was not any secret of merger. It was a common discussion around the whole amalgamation process and how should banks prepare for it and both State Bank of India (SBI) and we were there, both of us shared our feedback.

However, as I have been telling in the earlier discussions as well—three things to my mind stand out, one is how do we define new business proposition that shows the amalgamation throws a real significant benefit and there is some kind of a superordinate goal for people to chase.

The second thing is around the people integration and the third but also very equally important is the technology integration. If we can get these three things sorted out, I think the amalgamation process would go quite smoothly.

What do you think is the biggest challenge between people integration and technology integration?

I think two things, one is being able to articulate the new business model post the merger or amalgamation as it is. So that we can see some clear benefits and values coming around the whole process of this consolidation.

In our case, it is around the breadth and the depth, the synergies and the cost structures, cost savings and the revenue pickups that are coming in, better opportunities for employees etc. and to the customers, of course, the benefit of a larger product platform and the overseas banking platform that Bank of Baroda (BoB) has got.

P.S. Jayakumar, MD and CEO, Bank of Baroda. ABHIJIT BHATLEKAR/MINT

So I think that story coming in place is critical. However, of all the challenges that we have faced, getting the technology is probably the more difficult one because it takes that much of effort and energy to get the alignment with respect to the core banking systems etc but there are workarounds one can deploy, which then provides a certain degree of hedge against a longer time it takes for the overall total technology integration to take place.

You all had already announced a home loan product linked to repo, so it was not news for you but now generally for the banking space, do you think margins will be crunched a bit?

I was looking at a five-year data and four-year and three-year from March 2014 to March 2019. During this period, the lending rate of the banks or the weighted average yield of the banks on the loan portfolio and the repo rate change were by and large similar.

So, over a period of time, the monetary transmission does take place. What we are now seeing is the changes in the pricing to an external benchmark to accelerate this monetary transmission taking place.

So, I do think there could be some challenges with respect to margin but on the other hand, a lower interest rate and a better treasury portfolio gives a good room for some kind of a catch-up but also the most important thing from an earnings perspective rather than the margin perspective is the kind of dilution that happens because of the non-performing assets (NPAs).

As that part of it is managed, I think there is a pick-up that is coming in and then of course for certain banks, there is an infusion of capital which in a kind of an indirect way also helps in preserving the net interest rate margins.

At the SBI conference, the chairman was telling that there is a limit below which I cannot cut my liabilities rate. He started off by linking his repo rate to both his savings deposits and his loan. Now he has put a floor for the savings. The savings rate cannot go down to 2.5% he says. The Indian saver is not used to it. Is there for the entire sector a margin issue?

On this point around margin, let us wait and watch. I would think from here onwards a general consensus view seems to be there is a further 50 basis points (bps) decline expected in the repo rate.

There is also this sense that rather the facts are that our real interest rates continue to remain very high.

The other aspect that has been discussed with margins for the bank in general have to decline and there has to be greater degree of efficiency coming around.

So all of these, we need to factor but just talking from a short-term perspective, let us say April of 2020, given the improvement in the treasury portfolio and given some of the resolutions we are expecting, I do expect we should be able to handle the net interest margins (NIMs) story at least for this year.

'The long-term view is that linking the repo rate to home loan rate has not affected the margins at BoB and has ensured that monetary transmission takes place.'

Longer-term, as I mentioned to you, when you look at the five-year data and the four-year data, the monetary transmission indeed has taken place and has not affected the margins of the bank.

What is your own prognosis of which way the industry is headed, are we seeing some more build up in terms of NPAs or is the worst over?

There are two elements to the net NPA number. One is a slippage number and the other is the recovery number. I am hoping that the recovery number would start moving up in Q3 and Q4 as the insolvency and bankruptcy code (IBC) process and the changes then on resolves itself.

Should that happen as we are expecting it to happen, I think the net NPA numbers should not increase, indeed should decline for the banks as the recoveries and the slippages even off and further provision is taken on account of aging and variety of things. So net NPA number should indeed come down.

That at least is our expectation with respect to the BoB portfolio. That we expect the net NPA as of March to be lower than the prior period or prior March and going towards the 3% or sub-3 % percent level.

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