Bank of Baroda Media Conference for Quarter ended 31st December, 2022

3rd February 2023

Participating members from the Management Team of the Bank

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

Moderator: Welcome to the media conference of Bank of Baroda's financial results for the quarter ended 31st December, 2022. Thank you for joining us. We have with us today Mr. Sanjiv Chadha – Managing Director & CEO of Bank of Baroda, and he's joined by the Banks' Executive Directors and the Banks' Chief Financial Officer. We'll start with a brief presentation. So Mr. Chadha will have a small presentation that he'll make followed by the media Q&A. Over to you sir.

Mr. Sanjiv Chadha: Thank you very much Phiroza. Very warm welcome to all of you on behalf of the Bank. It's been 3 years I think since we actually have got together here in physical form. So, we're very grateful to you that you have been able to come over.

Let me begin by introducing my colleagues on the dais, to my right I'll begin, Mr. Ajay Khurana who looks after our Retail business, to his right you have Mr. Lalit Tyagi, who you'd probably be meeting for the first time. He has taken over as Executive Director and he is in charge of International Operations and a lot of platform functions of the Bank, including Human Resources, Risk, Compliance, etc. To my left is Mr. Debadatta Chand – Executive Director who is in charge of Corporate Banking and our Treasury Operations and to his left we have Mr. Joydeep Dutta Roy who is looking after Digital, IT and the subsidiaries of the Bank. And to his left of course, is somebody who you are very familiar with, Mr. Ian Desouza – Chief Financial Officer.

Moderator: Sir, before we go to the PPT, the photographers just want one group photograph. If you'll can please stand.

If you could keep the PPT ready please?

Mr. Sanjiv Chadha: So, we'll try to keep it brief so that there's enough time for questions. As usual, we have about 8-10 slides which capture the key highlights for the Bank. In any case, you'll have a copy of the Bank's results and also the press release which captures things in more detail. Just by way of introduction, I think for us if you look at the Bank's journey for the last 2-3 years, I think the year before last, the challenge was that if you really had to grow, you had to compromise margins and we chose margins over growth. But this year, at the beginning of the year, we had guided that finally we are at that inflection point where it is possible for the Bank to grow aggressively while keeping margins intact, or possibly improving margins also. So, I think what you will see in the results actually is what we thought was a fair prognosis that the Bank can grow aggressively and also again can make sure that we have margins and profits which would grow along with that.

So we go to the 1st slide. This 1st slide is really the 1st slide of the presentation that you will see on our website. This is a fair summary in terms of where we are as a Bank. You would see that both deposits and advances have grown well. I think it is a fact that when we look at advances growth, it is broadly something the industry has profited from the cyclical upturn. We of course have grown probably a little better than the market advances. But what is equally remarkable is, along with that, the deposit growth is fairly good. And the challenge that we always discuss for the banks, that there is an expanding gap between deposit and advances growth, is less of an issue for us. So you'll see that our deposits have actually grown by as much as 17.5%, within that domestic deposits by about 14.5%. And, if you look at our CD ratio and we'll discuss it as we go forward, it's not very different from what it was 2-3 years back. So, the Bank is well placed in terms of business growth.

If you look at the margins, the margins continue to improve. The net interest income is up handsomely at about 26%. That largely is on account of the fact that you have had both, growth of business, as well as growth in margins. In this slide, what would be the other thing that you might again want to focus on, is again the profitability of the bank, which has possibly now reached benchmarks which we had promised for about a year later, but more as we go ahead with the presentation.

So this is again when we talk about advances growth. So, for us, I think what was important was, that the Bank really begins to fire on all engines. For us there were two challenges, if we were to go back a year. One was that a lot of segments were growing fast, but home loans, which is the mainstay of retail loans was not growing as fast. And the second part of course was, that as a matter of deliberate strategy, the corporate loan growth was a bit tepid. As we have discussed in the past beats, there was a choice – either you grow your corporate advances or you keep your margins intact. But now you would see again that the corporate loan growth is catching up and every single segment is double-digits.

But, when you to go retail advances that is where you see that there's a transformation of the balance sheet which is in progress. So, the overall organic retail growth is nearly 30%. And within that, home loans, which is about 70% of the retail book, is nearly about 20%. And the other extreme of the graph, you have unsecured personal loans which is growing at more than 150%. As we had guided earlier, this is the segment, unsecured personal loans, which is relatively new for us, and which is benefitting most from the digital intermediation which actually has transformed the Bank. And, this is something which is having a very salutary impact, not only on growth now, because now it is very substantial, I think our retail loan growth will actually on YoY be more than 10,000 crores. So, it's contributing handsomely to overall retail growth, but also in margins, it has a disproportionate impact. And also if you see the right side of the slide, you'll see on the top the growth, as far as segments are concerned, and on the bottom side again the disbursements. So, disbursements actually have grown much faster, which would mean that as we go ahead, we should see this growth sustain.

So, this is where the deposit piece is there, where I believe we are a little bit of an outlier in terms of what we have been able to achieve here. So as I pointed out, total deposit growth is 17.5%. So now, if you look at overall loan growth 20%, deposit growth 17.5%, which is a margin of just about 2.5% which is there. And therefore, what you find is that our domestic CD ratio is still about 74%, which means that even as we go ahead, there is enough scope for us to make sure that we can actually keep our foot on the accelerator. If you look at the CASA growth also, it is reasonable. But quite expectedly, as the difference between the rates that we offer on CASA deposits and that we give on our term deposits, as that grows, people would likely move their deposits from savings to term deposits, which is why you are seeing this in an accelerated manner.

International, again, is something which has been growing well, but here also the deposit growth actually is supporting that mostly as we go ahead. So, if you look at the overall global CD ratio, it is somewhere in the region of 80%. So 80% is quite reasonable, being that there's still scope for us to push it up by few more percentage points.

The margins continue to strengthen. If you see the yield on advances and what is the uptick as compared to the cost of deposits, the improvement in yields is still higher as compared to deposits. Which means, we might still have a quarter or two run of getting advantage of the fact that there's a rising interest rate regime, which will help margins as we go along. And if you look at the NIMs and also recall our conversation in the last quarter, we had disclosed that our NIMs for the last quarter had some one-offs that the NIMs on an actual basis were in the region of 3.17%. So there actually is an improvement of about 20 bps on the NIMs. I think, given the trajectory of yield and cost of deposits, I would believe that this is largely a sustainable number as we go ahead. This is also ahead of the guidance that we gave at the beginning of the year, when we had said that there will be a 10 bps improvement.

This is the profitability slide where you see again significant improvements right across the slide. The net interest income has grown, as I mentioned in the opening remarks, 26%. Given the fact that you have loan growth at 20% and margins have improved by about 20 bps, that's what translates into NII growth of 26%. Fee income growth is a little tepid, and I think that's something which I hope can improve going ahead. There has been a little bit of an issue in terms of where the growth has been coming from. So in terms of project finance, that gives you upfront piece. I think that is still something which is yet to take- off, and I hope this is something that should improve as we go ahead.

The Profit before Tax and Profit after Tax have both grown by about 100%. The bit of correction that you see on the right hand side that is again some adjustments which were there, some one-offs which were there. You'd find that as a result of the one-offs, the Operating Profit is actually a little lower than the figure which is there and the PAT is higher. So, there's actually a Reserve Bank of India dispensation which said that holding one's SRs, the security receipts which you get from ARCs, that needs to be accounted differently. So, the provision used to actually happen before the Operating Profit, now it is after the Operating Profit. So that is the correction which is there. Similarly, there were some one-offs in terms of taxation, which should not get repeated, which is why you see that the PAT, apart from these one-offs, would have been a bit higher. But I think what is important is that it will show you that there's a reasonable possibility of these kinds of margins, this kind of profitability persisting in the future.

So, this is the 9 month figure which again is important, because again, it's important to see that whether the quarter that we see is something that is in line with trends. And you will see that the performance is something that has been gathering pace over the last few quarters. Each quarter our profitability has gone up, and therefore even when you look at the 9 month figures, they pretty much replicate what you have seen in the quarter under review.

This is asset quality, where I think we see the most stark improvement. We had, very frankly, expected that we would reach these kind of numbers possibly by the end of the year. But I think the improved profitability of the Bank has allowed us to be even more aggressive, again making sure that we provide for all unforeseen situations in the future. Which is why you'd find that the Gross NPAs have dipped well below 5% and Net NPAs are now below 1%. Which means, that the downside that can come to the Banks' portfolio from the existing stock of loans, is extremely limited. Equally again, you would see that the slippage ratio is pretty much towards the lower end of our guidance. We had guided that we might be having a slippage ratio between 1.25 to 1.50%. We had 1.22%. So, I believe now something between 1% to 1.25% should be a more reasonable guidance for the year. Similarly, the credit cost actually has fallen far more sharply than we had anticipated and it is far below the figure of about 1.25%, we had guided for. We believe now we should be guiding for possibly 1% and under.

This is again a slide which demonstrates the longevity of the improvement that we have seen. The collection efficiency and the SMAs again, have seen now quite a few quarters of very steady improvement and levels which again seem to augur well for the future, particularly SMAs, because this is the lead indicator for any stress which might be developing in the balance sheet.

So, as a consequence of the profits, you find that the capital position is fairly robust. And the actual capital position, if we would take into account the Bank's accumulated profits, is still better. So our assessment as of now is that we will end up with a capital adequacy ratio at the end of the year which will be north of 16%. It will be higher than what we started the year with. And, this is in a year where we have seen very very strong loan growth at 20%. Now, if you were to extrapolate that to the future, which means that loan growth possibly might again moderate a little bit as we go ahead and profitability might improve a little bit, I think we are at that stage where we can see whatever we see as the foreseeable growth for the future and also be confident that that can be funded entirely from the Bank's internal accruals. We may not need go to the capital markets unless we see growth which is much much larger than what we expect as of now.

So, a couple of things which again are important to see in the longer term perspective. We are trying to answer the question – are we simply benefitting from a cyclical upturn or is there much more to the Bank's performance? Now if you look at the left side of the slide, you'll see that our branches actually have come down over the last 2 ½ years by a substantial number, our number of employees has come down. But in each of the metrics on the right side, you actually have very very good growth. And, mind you, this very very good growth is when we actually had very slow 2 years; it's only this year that the growth has accelerated. Now if you were to extrapolate this trend to the future, which means that you keep on gaining from the fact that your physical build actually is not growing and has actually come down over a 3 year period, and you see the acceleration that you're seeing now, I think augurs well for the Bank and for us to say that what you're seeing in terms of performance of the Bank is not only the advantage of the tailwinds by way of cyclical recovery, but also in terms of relative performance if you compare to peers we should actually be doing substantially better, which we'll demonstrate in the next 2 slides.

So this is again how our growth measures up with the 9 major banks – private and public sector, who have declared their results so far. As I have told you, it is our deposit growth which actually stands out really very much in comparison. So these 9 banks have an average deposit growth of 6.8%, we have grown by nearly 10%. Our advances growth is also 1 percentage point faster, which is again where the last slide comes in, that what we are seeing is much more than a cyclical recovery, the Bank actually is now outperforming peers by a reasonable margin. And this is again how it translates into profit.

Similarly, you will see that whether it is in terms of NIM growth, costs, credit costs, profit, we are substantially outperforming peers. And it is here that the operational piece is the most important, because this tends to be rigid. It is very difficult to remove these rigidities from the system. So, the fact that our operating expenses are growing only half that of peers which our growth rate actually is faster. In fact if you were to look at the total business growth of the Bank in this 9 month period, it is the fastest among all banks – private and public sector. So, there are two things to see together a) Opex is growing by a very very low number as compared to peers and b) our growth rate top line is actually fastest or faster than everybody. I think HDFC pretty much compares in terms of growth, but nobody else. So, it think these are the things which give us comfort that as we go ahead, we should possibly be seeing that this trend is sustainable.

Before I close, I will just address one question, which I believe that if I don't address it, it will come from at least 10 of my friends here. This is something that you might know from our past interactions that we do not at all comment on any specific accounts. But, I do believe that you have a right to ask questions about the Bank, its portfolio and also what it means for the Bank. I think that's a very legitimate question that you would ask. So, I would just put a few facts before you, few numbers before you, that should give you enough reassurance that what you see here in terms of trend lines is unlikely to change.

So with regard to the business conglomerate that has been under discussion, our exposure there is currently $1/4^{th}$ of the Large Exposure Framework (LEF) ceiling of RBI. So, the LEF ceiling normally says that you take into account what are your outstandings, what are your undisbursed loans, what are your non-fund based limits and the RBI puts a fact to that, that counts as the LEF exposure. So our LEF exposure here, is $1/4^{th}$ of what is the permitted figure for us. So, that is factoid no. 1 that you might want to take into cognisance.

Number 2, as a percentage of our balance sheet, this exposure has come down over the last 2 year period. That's again something that you might want to bear in mind.

Number 3, of the exposure that is there, 30% is either in joint venture with a public sector company or is secured by guarantee of a public sector company. So, 3 things I would again repeat because I will not be really saying much beyond that. You're of course free to ask as many questions as you might.

I'll again repeat: Our exposure again to the group is $1/4^{th}$ of what is permissible under LEF guidelines. It is spread over a large number of companies. Within that 30% is either in joint venture with public sector companies or secured by a guarantee of public sector companies and this exposure as a percentage of our book has actually come down over the last 2 years. So thank you very much for your patient listening. We are open to questions now.

Moderator: Thank you sir. This is the Question & Answer session now. If you have any questions, please raise your hand. Please try and limit your questions to just one.

Ms. Siddhi Nayak: Hi sir, this is Siddhi from Reuters. I want to first ask about your credit and deposit growth guidance. This is my first question, then I'll come to the next.

Mr. Sanjiv Chadha: So actually, our guidance was that our credit growth should be in line with the industry or little better. When we began the year, we thought that credit growth would be in the region of 15-20%. It obviously has surprised us on the upside. But what is good is, that it continues to be a little higher than the industry growth rate and that's how we would want to position ourselves. This is what we have consistently held that for us in terms of order of importance, the most important is asset quality, second come margins and third come growth. But, we still want to protect our market share while keeping the other two intact.

The deposit growth again is something which we anticipated is going to be slower than credit growth this year, which is again very normal, because there are periods when credit growth is faster and there are periods when deposit growth is faster. In aggregation if you look at 3 years or 4 years as I mentioned, you'll find that our CD ratio is pretty much where it was 3 years before. So in aggregation, deposit and credit growth has largely matched up, there's not too much of a difference. And that's how we would like to keep the next year also – make sure we grow better than the industry in terms of loans, make sure deposit growth is again something which our CD ratio allows us to do. And as of now, given where the CD ratio is, I would anticipate we can still have another year of faster loan growth as compared to deposit growth.

Ms. Siddhi Nayak: Okay. Sir my second question is, as you expect, it's on the Adani Group. Sir, if you could help me understand, is there any concern right now about payment? You said 30% are public sector ventures, right?

Mr. Sanjiv Chadha: So what is the question there?

Ms. Siddhi Nayak: Sir, is there any problem?

Mr. Sanjiv Chadha: Not at all. As far as we are concerned, given how the portfolio is, we are completely reassured in terms of the quality.

Ms. Siddhi Nayak: And, has there been any issue?

Ms. Sanjiv Chadha: Absolutely there is no issue for the moment, these are early days. But again, the fact is that, if we look at our portfolio… and now I'm not going to again refer to the group, let me again put it in a broader context – whenever you look at large groups, one of the ways you manage the risk is to make sure that in a large group, particularly if it has the advantage of being a diversified group, that you make sure that exposure is spread over a number of companies. And in a large diversified group, these companies normally belong to different market segments. Those market segments tend to behave differently, again. So, there's a risk mitigation which is there in that diversification strategy.

So I would again say that as of now if you look at our broader loan portfolio, including this group, I think corporate is something which is performing outstandingly well. This quarter our slippage in corporate, which used to be thousands of crores, is something like 13 crores. If you look at our SMA figures, they are just 0.4%. So the fact is, I think all of us, and I would say this applies to certainly for BoB because I can that unambiguously, but certainly even for the banking sector, given where we are and given the nature of business that the diversified groups do, I don't think the corporate loan portfolio is going to be a matter of concern for banks at all.

Ms. Siddhi Nayak, Reuters: Okay. And one last question, has there been any communication from the group to the banks?

Mr. Sanjiv Chadha: The group's communication is something, I must apologise, I cannot discuss.

Mr. Abhishek Pandey: Sir, this is Abhishek Pandey, what is exposure to the conglomerate in discussion and the composition of portfolio.

Mr. Sanjiv Chadha: See, I've told you this before, if anyone asks us for information, we will provide that. But what information you have worked on, that we cannot comment on. My request to you is, you can ask me another 5-7 questions regarding this, but kindly do that towards the end of this meeting, as we need to attend to other questions too.

Mr. Abhishek Pandey: This time the concern is share price

Mr. Sanjiv Chadha: See, I will not talk about any group in particular, but if we were to talk in general, then any loan that we sanction/disburse is on the basis of their books and balance sheet. We don't consider what their stock price in the stock market is. We calculate your leverage ratio, how much have you borrowed from outside and how much is your capital, the group value is determined by the balance sheet. The shares keep fluctuating every day. Our leverage ratio is not dependent on the share price fluctuations of any corporate, that's one.

The second thing is, the loans that we sanction are most of the times secured. Since we give term loans and mostly working capital loans, our loans are also secured by the cash flow. So that's why bank's situation is a bit different. I understand, that you if you sanction a big amount to one company and if that company is in trouble, then that would affect you too. But if you take any big group like the Tatas, where we have sanctioned loans to 10-20 individual companies, if one company is in trouble, the others tend to balance it out. So I want to assure you, that in corporate banking and in the corporate sector and not any particular group, I have never seen the corporate sector in such a good condition in my 30 years of banking.

Hence, I would not want you to quote someone disproportionately or out of context, because ultimately, we in one way play the role of the press and the analyst too. It is our duty to do things the right way. So when you talk about the banks and the effect it would have on the banks, let me tell you that banks have corporates, agri sector, SMEs and we see it all on a consolidated basis. Besides, corporate banking is very important to us as it constitutes 50% of our balance sheet. I would like to reiterate, the corporate banking has never been in a better position than it is today. So we don't have to worry about anything.

Mr. Abhishek Pandey: My second question is different from this. Pre-COVID when the banking sector was working, and the banking experience post COVID, what difference have you noticed, and which sector's in banking has improved?

Mr. Sanjiv Chadha: That's a very deep question and I have two explanations to that. If you see the situation pre-COVID and now, there's been a cyclical improvement. The bank's balance sheets are better than what they used to be because all the problems in the last 10-15 years have been provided for, now. If you see our PCR (Provision Coverage Ratio), it is 92%. It means that if Rs. 100 of my loans are bad, I have provided for that. So if we recover 20-25% that would be accounted for in our profits.

Secondly, there's a lot of difference since COVID as banks has become more digitalised. For e.g. the number of customers using bob World in our 8,000 branches has increased 5 times. This happened during COVID itself because all of us changed our way of working during COVID. That has had a very positive impact on the bank's financial results and the bank's future. You must have noticed in one slide that despite a fall in the number of branches and employees, the business has grown 30-40% and we're talking about growth in business that was effected during COVID. Now as businesses are growing but our expenses aren't, that will have a very positive impact on the bank's books.

Moderator: Thank you. Amol, sitting in the front.

Mr. Amol Dethe: Thank you. I think Sir, the profit numbers are really good. Thanks. I think, congrats on that part. Sir, as mentioned the corporate loans is tepid and we had seen that main major CapEx was done by the large corporates in last one or two years but still your profit is really high. What are the major drivers behind your profit? Is it higher from the retail side? Also, the external factors added maybe the Insurance sell or the cross sells which the Bank has made.

Mr. Sanjiv Chadha: So, I think the improvement that you see is, I think, part of the transformation of the Balance Sheet. The fact that has become much more Retail-led, I think, is possibly the single biggest change that has occurred for the Bank and I think that was important because with corporate, given the fact that you have chunky loans, there's always a downside should things go wrong. So, I think there's a de-risking in which has happened but fortunately also along with the de-risking, given the fact that we are on the rising interest rate regime, we have also benefited by way of better margins, right.

So, even today it is tough to actually get pricing in corporate loans but in retail loans there has been a significant improvement as far as the pricing is concerned. And if you look at our figures, our retail loans have organically grown by 30% YOY and this is a trend that you have seen over the last few quarters. Within that you see, it is spread over all the categories. The lowest growing segment in retail loans for us is Home Loans which is 20%, right. That shows you how, again, diversified the growth is. So, to my mind this is the single biggest change.

The second part which to my mind particular to the Bank is, again, how we executed the merger. The figure that you saw in terms of branches and in terms of number of staff is because we delivered on our promise that when the Bank undergoes amalgamation we'll make sure that we get synergies worth Rs.10,000 crores over a 5-year period. It is those synergies which are now being reflected on the profit results of the Bank.

Mr. Amol Dethe: Okay. Thank you, Sir.

Moderator: I think behind.

Mr. Ankur Mishra: Hi, Sir. My name is Ankur Mishra. I am from ET Now. One question regarding international deposits and advances that have grown handsomely, in fact robust growth is there, so whether there is any reason for that? If you can explain that?

Mr. Sanjiv Chadha: So, I'll just pass the question to my colleague. Actually, Lalit was heading our New York operations which has given probably most of the growth. So, he is best placed to answer that and then maybe if I need to supplement that I'll do that.

Mr. Lalit Tyagi: So, good afternoon once again and thank you for your question. The deposits in the international is driven by the asset creation. So, basically, unlike domestic operations banks do not raise deposit first in the international banking, they just go for the assets and once they find the asset, the deposit simultaneously they raise and fund it. And as MD said that our international book has grown on the asset side handsomely for the reason is that we found the opportunities across geographies and that's how we tap the market and we raise the resources to fund them. We are present across various leading centres U.S., U.K. U.A.E., Singapore, Australia and there were different, different opportunities and we went to that.

Mr. Sanjiv Chadha: And also I request Chand sahab to supplement it, actually, much of the growth has happened during his stewardship.

Mr. Debadatta Chand: See, a couple of facts that International Banking earlier, slightly we wanted the business to stabilize. So, major part of the action has gone in terms of stabilizing the book and that is what the growth that you're seeing. See, there was a de-growth till March'21 and there was a growth since then. So, it's more like stabilizing the operation in terms of and that's what the growth you're looking at.

Secondly, look at the absolute number, it's something also needs to account for the rupee depreciation part which also accounted in the growth. So, in that we have gained robust growth in that and it is basically slightly changing on the mix of the portfolio. More on the syndication space we have acted on and that has given a very robust growth and very composite and you would have seen the new growth also has been very robust.

So, broadly, that's a strategy in terms of stabilizing the operation and taking to a growth path and that is what we have achieved as on today.

Mr. Sanjiv Chadha: I'll just supplement that in terms of giving you a flavour in terms of what to expect for the future, right; that's something which is important. So, there was a context to, again, where why we grew international. To my mind it is true that in most times the margins that you get on the domestic books are better, right. This is true in most cases. But the last two years, the margins on our Corporate Lending business domestically had compressed because of the liquidity situation. You're not making money on the Corporate Lending business and the margins on the International Corporate Business were better. So, it makes strategic sense to deploy capital there. Now, as margins normalize in India that is something which may not necessarily be true to the same extent. So, you'll find that the out performance of international might come down, not because international cannot perform but because you might find better opportunities in India.

Number two, as Chand Sahab said, there is an overstatement about 10% because of the rupee depreciation factor.

Third is, again, the base effect that he talked of that we actually had shed some low yield assets and, therefore, the base had come down and therefore you see a YOY figure which is higher. Now, that base effect will start dissipating from March onwards. So, I think what you will be seeing in the international book is a growth which is more in line with the Banks overall loan book rather than much higher than that.

Mr. Ankur Mishra: Another question. You have met certain parameters including ROA, ROE ahead of schedule as you mentioned, now what is the target for the year and if you want to talk about the next year as well?

Mr. Sanjiv Chadha: So, I think what we are seeing is, we had said that 'Look, the guidance was that from next year onwards we would sustainably deliver return which is more than 1% in terms of ROA and more than 16% odd in terms of ROE' and as you mentioned we have hit it one year earlier. Going ahead, I think, there's enough room for optimism because the growth that we have seen this year to some extent will yield the income results in the next year. Having said that, it is also a fact that we have profited by the gap which has increased between the cost of deposits and yields on advances. Now, that rate of increase will come down. In fact, if you look at the last quarter the gap was actually 40 basis points which means our yields on loans had gone up by 40 basis points higher as compared to the increasing cost of deposits. Now, that gap has come down to about 20 basis points this quarter. Now, over a period of time this gap will come down, right. To that extent, that will be a little bit of a corrective which will be there.

But, I think, in terms of the fact that we made progress in terms of asset quality, the fact what I mentioned in terms of the operating costs of the Bank being actually very low. If you look at the detailed Analyst Presentation, our costs are growing only by about 6%-7%, right. If you now juxtapose that 6%-7% against likely growth in the Balance Sheet to the Bank, we should be seeing good margins.

So, we may not see improvement really of the order of what we saw this year but, I think, we are confident we can sustain this as we go forward.

Mr. Ankur Mishra: One last question on Adani Group. As you mentioned that it is one-fourth of the ceiling of large exposure framework limit, can you also quantify in terms of your loan book, how much of it is? Or you can give the exact exposure you have. Thank you.

Mr. Sanjiv Chadha: I am saying the same thing to you again that I can't give you the exact figure now. You are an intelligent person, so I think you will be able to calculate it on your own.

Moderator: I think, Preeti, you had a question? Yes. Yeah, the second row, Aneet.

Ms. Preeti Singh: Hi, Sir. This is Preeti Singh from Bloomberg. So, I had two questions. One was, I saw that the Collections efficiency is really improved, so if you can comment on that?

Mr. Sanjiv Chadha: Yeah. So, I think, one is of course, Collections. I think the second is what the Bank is doing in a larger context. So, we recognize that as Public Sector Banks we have some advantages but there are also areas in which we had lagged behind. Collection was one area and our stance has been that if we have to build new competencies, we will actually go and hire talent from the market and see how we can make sure it delivers for the Bank and that's what has happened in the Collection department. We actually went out to the market, hired a very senior professional to run the Collection department for us and who has built the department which is why you see not only there is an improvement but there's a sustained improvement and I think there's scope for it to actually improve further.

Another area, where I think that has delivered results for us, again is the Wealth Management. Virendra from the Wealth Management department is sitting here. This is again an area which is not the traditional competency of Public Sector Banks but we believe that, a, we must have the humility to accept where we are not as good as some of our competition and, b, we must also access talent and not just be providers of talent to the market.

If we put these two things together, we can actually make sure that Public Sector Banks can perform as well and even at times outperform Private Sector Banks.

Ms. Preeti Singh: Great. My second question is related to like we just had the budget and I'm just curious how you're thinking about some of the provisions in the budget and how that can impact negatively or positively the Bank's growth in the coming year.

Mr. Sanjiv Chadha: So, look, normally when it comes to budgets, I don't think there's much which impacts banks directly. It's always a second order impact which is there and the key areas which impact banks are again, a, CapEx, right, because the last three or four years we have seen a Capital Expenditure deficit as far the private sector is concerned. The government has had to do all the heavy lifting. I think there's still some room before the private sector investment really takes off and the fact that the budget provides for such a handsome increase in the outlay for CapEx, I think, is going to have a very salutary impact.

To some extent what you see in terms of numbers of growth for the Bank is because of that, right. Areas like Roads and all have performed exceedingly well and that's largely been driven by government CapEx through the NHAI.

The second, again, is environment which is predictable and which is stable both on the fiscal side and the monetary side and, I think, that has been one standout feature over the last few years. When the entire world has seen cataclysmic changes, ups and downs, government opening their purse strings and then struggling to see how they can meet their budgets. We have had an environment which has been very calibrated, very stable and, I think, what you see in terms of the performance of the banking sector is in large part attributable to that.

Ms. Preeti Singh: Thank you.

Participant: Sir, question related to budget for a common man is, because in the budget for start-ups or for semi-scale industries and SMEs many things were there, what is expected opportunities after this budget for the small-scale businessmen in Bank like yours?

Mr. Sanjiv Chadha: Yes. See, in my opinion the announcement of policies where MSME up to Rs.2 lakhs will have government guarantee is very important. I am saying this because during COVID a new thing was in talk and that was ECLGS where banks were told that 'You give money to MSMEs because this is a hard time for them. We take the guarantee for them'. So, in my opinion that has been a very successful scheme from two viewpoints. One, MSMEs got support of that. Second, it proved that when we extend loans to them it is not necessary that those are bad loans. In current date, if we see ECLGS scheme, so earlier in that we had advanced loans of Rs.14000 crores and in current date that Rs.14000 crores is now reduced to Rs.10000 crores; we have received back Rs.4000 crores. In this Rs.10000 crores, the count of MSMEs is just 4%.

So, in my opinion giving guarantee for the MSMEs by the government will be very profitable. Because in current date the problem is, as far as Retail is concerned, banks are offering many loans for that. Corporates never had an issue related to loans. It is just MSME segment who will either go to NBFCs and will pay high rate of interest or they have no other alternative. So, in my view this policy will be very successful and it will have a very good impact.

Moderator: Aneet, you can give the mic to Joel here on the first. And just one note to online participants, if you have a question please raise your hand on Zoom.

Mr. Joel Rebello: Sir, this is Joel Rebello. I write for The Economic Times. I just wanted an outlook on asset quality. I think, it's simple, it's improved for the whole sector as such. I mean, we've been seeing this trend. If you can give us an outlook for next year? I think if I have heard you right, in your presentation you mentioned you should now look at credit cost below 1%. So, if you could give us some outlook on NPAs credit cost and slippages, Sir? Thank you.

Mr. Sanjiv Chadha: So, thanks, Joel. Good to again see you. I think we've been speaking for the last one year. Good to see who Joel is, right.

Mr. Joel Rebello: Thank you.

Mr. Sanjiv Chadha: Great.

Mr. Joel Rebello: Thank you so much.

Mr. Sanjiv Chadha: So, I think, there are three or four parameters which we can use to make a prognosis in terms of what asset quality is likely to be, right. One is, again, in terms of your current book what is the downside. Now as far as the current book is concerned, with a 92% provisioning there is no downside and probably an upside, right, as and when you get recovery which we're already seeing now.

Second, I think, you see again the credit cost which you saw has come down to 0.37% for this particular quarter. I think that's a fair representation in terms of how things are going to be going forward.

Third is, again, how does your present book look like? Are there any issues which might be developing? We might be in good times but, again, are there any problems around the corner? That is when you look at your SMAs and see how they have been. They have come down precipitously and now for four quarters they have been coming down marginally each quarter- 0.48%, 0.42%, 0.40%. So, I think, that's something which is working very well.

Fourth, as I mentioned to you, there are things that have been put in place. The Collection mechanism, that's again something which is going to stand you in very good stead.

And lastly, which is probably the most important factor, is the fact that corporate is always the elephant in the room and the fact that in slippages, corporate slippages are by far the lowest segment even among others. I think that should give us reasonable reassurance.

And last I'll mention more, although I said last, is that, again, when it comes to Retail which is growing aggressively and legitimately people can ask the question 'Look, could this become a problem in the future?'. I think our experience in COVID is one which is most reassuring because the COVID period when it came to Retail segment was the most testing time. People lost their jobs, right, their salaries were delayed and despite that we are where we are today. So, I think we should actually look at the future with a fair degree of reassurance.

Mr. Joel Rebello: Numbers?

Mr. Sanjiv Chadha: Numbers are the things that ought to be better tomorrow than they are today.

Mr. Joel Rebello: So, lower than 5%?

Mr. Sanjiv Chadha: I would believe so, yes. So, I think gross NPA is really a function of how you again handle write offs. You see that gross NPA have come down by 275 basis points over the last one year. I think there's room for it to come down substantially. Thank you.

Moderator: Vishwanath. Aneet, right there. Yes.

Mr. Vishwanath: Hi, Sir. Since you mentioned the quality of the corporate portfolio and you said that it's been the best it has been in years, I'm just curious to understand I was looking at the presentation sectors like Power, NBFC and Iron and Steel are the segments where a large part of the growth has come from and each of these segments have also led to the last cycle of problems that the we have faced. What has changed now? I mean, I saw that things your ratings are better in terms of the corporate but these were great the last time also, so I don't know how relevant that is in terms of future credit quality? So, I just wanted to understand that.

Mr. Sanjiv Chadha: I think very fair question. So, I think, some things have changed. So, the biggest growth actually has come from the Road sector where we actually had a really rough time in the last cycle. That rough time came from two major sources. One was, that Road projects were launched without land being completely acquired. The other was, that the traffic did not really come the way it was supposed and the new schemes under which you have now lent, the HAM projects, actually have taken care of both those risks. So, projects can now be launched only if 90% of the land acquisition is complete. And, again, since there is a Hybrid Annuity Model projects, once the completion is done then in terms of traffic risk it becomes a non-factor. So, I think that is what is most heartening. Any crisis from which you don't learn is a wasted crisis, right.

The other question is, why is it that Roads actually have boomed and so many other sectors have not? It is because the kind of issues that there have been taken care of. Similarly, in the Power sector you will hardly find any project under implementation which is on our books. All of them are running, yielding projects. The issue was if you had looked at our books 10 years back, Power projects might have been the same percentage but there would have been all projects under implementation, right. That's something which has changed.

Third, as we go ahead there'll be hardly any Greenfield capacity which is going to come from Thermal Power Projects. Most of it is coming, again, from Solar Power Projects which means you are also aligned to the future.

So, I think there are a lot of reasons why we should be much more sanguine in terms of future as compared to the past.

Mr. Vishwanath: And, Sir, thoughts on economics of renewable powers?

Mr. Sanjiv Chadha: Actually, the fact is the economics of renewal powers are making so much sense that the economics of thermal power are being challenged.

Moderator: Thanks, Vishwanath. I think, Ajay had a question. Ajay, do you have a question? No? Okay, Shahid has one question. Aneet, here on the right.

Mr.Shahid: Hi. I am from Financial Express. So, nice to be here. Just a couple of questions. First, somebody mentioned CapEx, what is the demand of capacity utilisation from corporates and the outlook? Will this expansion be different from previous instance?

Mr. Sanjiv Chadha: So, I think, probably the time of irrational exuberance is gone, right, where you assumed that demand would come anyway, right. That, I think, is not going to be there. So, there's going to be calibrated expansion of capacities.

B, this is going to come from larger players who are able to absorb the uncertainty that might still be there.

C, you now have a new class of sponsors. Earlier you had the family groups which, again, we're putting out their money and now you have Private Equity funds which have again global standards in terms of due diligence and in terms of return expectations. So, I don't think you're going to see the same kind of, again, the cycle that we saw maybe 10-12 years back.

Having said that, we now are reaching a level where capacities are reaching about 75%-80%. So, it is natural that the pace of growth will be much more in the next three or four years as compared to the last three or four years. Also, we are seeing that the number of sectors where capital investment is happening has started broadening. So, I think we can be confident that there will be a significant uptake to private sector investment but what we saw 10 years back, I don't think that is likely nor is that healthy. Rather than happening in spurts, if it happens on a sustained manner, I think, it is good, again, both in terms of managing the supply-demand gap and also in terms of the health of banks.

Mr. Ajay Ramanathan: Fair enough. Just another question on the personal loan side of things everything seems to be increasingly digital, can you give some colour on that?

Mr. Sanjiv Chadha: Yeah. So, let me again pass this on to Joydeep and then I might supplement if it is required.

Mr. Joydeep Dutta Roy: So, personal loan growth basically has been on the digital side and it has continuously increased in the last 1-1.5 years. So, with that base of customers as we look into their balances and look at the data in terms of their spendings and the balances that they keep with us, their income levels etc., we have quite a few data points on which we can actually give them offers. So, that's been sort of a good improvement that we have seen in the personal loan space where we have been able to give out offers for pre-approved to our customers and there has been a good uptake on that. So, that has been a significant proportion of our personal loan growth. Since, we started on a small base the base the percentage growth that we're seeing is as high as 160%.

Apart from that, we are now also looking into the NTB segment. So, apart from the existing bank customers we are also looking at new to bank customers. So, that's again a space which we see there's a lot of potential for growth in the future because the data points are available publicly and as we use those data points and with digital, I think, there's a lot of traction that we can see there.

Moderator: So, I would le to just take one last question from online.

Mr. Sanjiv Chadha: Yeah, I think, there…

Moderator: Okay, thanks.

Mr. Sanjiv Chadha: That lady, yeah, I think she has been…

Moderator: Okay. I will just ask Hitesh’s question. Hitesh is from The Indian Express. His question is, one is, CASA ratio falling and what is the outlook on CASA?

Mr. Sanjiv Chadha: Yeah, I beg your pardon. I'm sorry, I thought the question was coming from there. I forgot it is online. So, I think when it comes to the CASA ratio, it's important to remember the ratio, right. It's a ratio between what is your Term Deposit and what is your Current Account and Saving Account deposit. So, two things to appreciate, a, CASA has gone up, right, so about 7%-8% which is pretty much in line with what is the overall deposit growth for a lot of banks. What has happened is that because of the fact that now Term Deposit rates are substantially higher as compared to Saving Bank rates, there's a movement which is happening from Saving Bank to Term Deposits. At a time when you would get 3.5%- 4% on a Term Deposit and Savings Bank was 3% why would you take the trouble of moving that deposit? But where the differential now is 3% and 7.5%, it makes a lot of sense to do that.

So as long, again, rates remain a little elevated, I think, it is quite natural. So, I don't see this as a surprise. I think it is something that also helps the Bank because if you see again where the growth is coming from, it's coming from, again, largely Term Deposits with maturity period of between 1 to 2 years which means we are able to make sure that we are able to match the expectations in the current interest rate regime but we are not committing funds at rates which might become out of market after two or three years.

So, this kind of growth that we are seeing, to my mind, is at par for the course, it works well and as long as you find that the Net Interest Margins are improving, I think, it's something that works well for the Bank. But request Khurana Sahab, if he might want to just supplement that.

Mr.Ajay K. Khurana: Yeah. I think MD Sir has covered what actually is the issue. Overall we have been growing, our CASA is growing, but this ratio is a concern because our Term Deposits have increased; that is how it has happened.

Moderator: Okay. I think we will take that one last question.

Participant: Yeah. Sir, would you be looking at raising capital this year, next year? This year, this calendar year?

Mr. Sanjiv Chadha: So, this calendar year, I don't think that there's a possibility because as we saw that even with the kind of growth we have had. Sorry, my mic is off. Yeah, so I will just repeat hat. So, I think this calendar does not seem to be or this financial year does not seem to be a possibility because as we mentioned we had about 16% in terms of Capital Adequacy.

Going ahead also, if our current prognosis that there may be a little bit of a slowdown in terms of loan growth as compared to what we saw this year. We have seen loan growth of about 20%. I think there might be a little bit of a slowdown there and if profitability were to sustain or to improve then I think we should be self-sustaining in terms of funding our growth.

Ms. Hansini: I have one last question. Hi, I am Hansini from Hindu Business Line. Your presentation gives me split of all the NPAs on the retail side but can I get an overall number? So, Retail NPA, that's one. The second part of the question is, slippages from retail and Agri loans seem quite sticky at that 500-550 odd crore levels and at 700, is that the trend that you are you likely to see through FY24 as well?

Mr. Ajay K. Khurana: Overall number of Retail NPA is Rs.4000 crores; Rs.4100 crores

Ms. Hansini: As a percentage of asset, Sir?

Mr. Sanjiv Chadha: That is 2.35.

Ms. Hansini: 2.35?

Mr.Ajay K. Khurana: Yes. And the second question was slippages. See, when the rates were increasing and that there could be, delinquency could increase. But if we look at our last three quarters how our agriculture or retail, the NPA addition is almost the same. So, there is no increase in these two sectors as far as NPA is concerned.

Mr. Sanjiv Chadha: So, just to supplement that. So, if you look at two things, right, one we underwent two years of COVID and now we are seeing a time of rising interest rates. So, even with these two changes, you have seen that actually retail NPAs, accretion has not gone up. As you said, it is stable.

Number two, it is stable on a book which is growing very fast. So, you have a 30% growth rate in the overall book but the accretion you're seeing has not gone up. So, to my mind, again, it is something that works well from the Bank's viewpoint.

Third, normally what you find is that the stock of corporate NPAs gets impacted by write offs. The stock of retail NPAs does not. So, what you're seeing is also an accumulation of the past.

Ms. Hansini: Okay. If I can ask one more question, Sir? You spoke about a large corporate group, has any of the group companies slipped into even in SMA level for a fortnight or whatever in the past two years?

Mr. Sanjiv Chadha: So, as I said nothing specific in terms of group and companies but if you look at our figures of SMAs, right, which you can see for the last four quarters, if there had been any large corporate movement that would have got reflected very clearly. Apparently, it's not there.

Ms. Hansini: Thank you.

Moderator: Okay. Thank you. I'm sorry, we have to close now. Thank you everyone for joining us. Some tea, coffee outside, so please join us. Thank you.

Mr. Sanjiv Chadha: Thank you very much and look forward to seeing you next quarter.

Mr. Lalit Tyagi: Thank you very much.

Mr. Joydeep Dutta Roy: Thank you.

Moderator: We have the Analyst Meet at 3.30, so request all the CGMs, GMs, and Heads of Departments to please come back at 3:30. Thank you.

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