## ANALYSTS' MEET Q4FY20
## 24.06.2020

### Participating members from the Management Team of the Bank

**Mr. Sanjiv Chadha – Managing Director & CEO**

**Mr. Murali Ramaswami – Executive Director**

**Mr. Shanti Lal Jain – Executive Director**

**Mr. Vikramaditya Singh Khichi – Executive Director**

**Sameer Narang :** Good morning everyone. Welcome to Bank of Baroda's Q4FY20 Analyst call. First of all, we thank you for joining us and taking out time to be part of our analyst conference call. We will start with the major highlights of the result in the quarter. The operating profit for Q4FY20 increased to INR 5121 crore which is an increase of 48% and it is driven by a large decline in operating expenses. Notably in Q4 of FY19 there was an amalgamation related one off because of which the operating expenses have declined substantially in the quarter. Trading gains for the quarter continue to remain point at 74% YoY increase. The global margins or the net interest margin has increased to 2.67% in the quarter from 2.62% in the previous year, so an increase of 5bps and the domestic margin is up by 10bps to 2.78% adjusted for the IT refund. The domestic of deposits have also fallen to 5.2% that is a decline of 33bps on a YoY basis. The domestic CASA ratio for the quarter ended Q4FY20 has increased by 181bps. The global advances have increased by 5.95%, they are led by international and domestic retail loans ex of portfolio purchase which grew by 21% and 16% respectively. Within retail, home loans have done well ex of portfolio purchase which have increased 11.5% and auto loans have increased by 41%. Notably the gross NPA ratio has come down to 9.4% as on March 31, 2020 as against 10.43% as on December 31, 2019. And net NPA ratio is also down to 3.13% as against 4.05% as on December 31, 2019. Notably the slippage ratio in the quarter has fallen to 1.9% compared to 6.8% in Q3FY20. And for the year also the slippage ratio has come down substantially. The PCR has gone up including TWO at 81.3% as of March 31, 2020 which is substantially higher than 77.8% as of December 31, 2019. The Bank reported a net profit of INR 507 crore in the quarter. The consolidated net profit for the bank for FY20 stood at Rs. 927 crore and the cost to income ratio has also come down substantially. The credit cost in the quarter has declined to 1.82% compared with 3.88% in Q3 of FY20. A similar decline of almost more than 90bps is visible in FY20 as against FY19. The integration is progressing as per plan and IT integration is supposed to be completed in the current financial year.

In terms of the major highlights in the business, we are seeing the retail term deposits have continued to see an improved traction at more than 8% and the domestic retail term deposits continue to show great traction in the year and the same is the case with the CASA ratio and the CASA have also continued to show a healthy growth led by the domestic saving deposits.

In terms of CA and SA ratio, all of them are showing an uptrend and we have seen a substantial increase in our SA ratio which was at 31.1% to almost 33% now. The quarterly costs of deposits as we have already discussed has come down both on a YoY basis and a sequential basis, so is the case with the yearly cost of deposits.

In terms of advances, the overall share of retail has continued to go up. It's almost at 20% compared to 18.3% in the last year. The retail loan growth, as you can see in this chart is driven by all three cylinders firing, so we are seeing a substantial growth ex of portfolio purchase in home loans and auto loans are growing at 40% plus. Even the education loan piece for us is growing in the mid-teens. The risk profile of the retail book continues to be strong. We are seeing the credit score above 725 continues to remain the overwhelming proportion of the book and also has gone up compared to what it was last year. The MSME portfolio as such all so you can see in CMR 1 to 4 has increased from 57% to 58.4%. The similar case is visible in our corporate book where the A and above outstanding book has increased to 62% and the onboarding in the last year A and above has been almost 75% of the overall onboarding in the previous financial year.

In terms of overall exposure to different industries we are seeing an infrastructure, the exposure has come down whereas in retail it has gone up. In terms of segment-wise break up we can see in the NBFC piece the overall share of AAA book has gone up to almost 57% and within the NBFC book the private others has come down by almost 10 percentage points. The yearly yield on advances has gone up by almost 20bps and on a sequential basis also the domestic yield on advances is up by 4bps. Though the global has come down because of larger margin pressure in the international business given the global liquidity conditions and the actions taken by different central banks. The treasury operations continue to generate reasonably good profit in the quarter and in the year and the overall duration of the HTM book is 4.75 and the total book is 3.6. The yield on investment is coming down in line with the decline in domestic yields and the global yields as well.

The international business has been a bright spot. It has shown an increase of 21% over the same period last year and sequentially also the advances have increased by 9%. In terms of deposits also there is an increase of 13.7% on a YoY basis with CASA deposits in the international business also increasing at 16%. These are the key ratios of the international business. As you can see cost of deposits has come down but the net interest margin is also lower because the yield on advances have also come out substantially in the global book because the readjustment in the global book is faster.

In terms of financial inclusion, the business has done actually really well compared to March 2019 where we had an average balance of less than Rs. 3200. The balance is up further 3650 in March 2020. And even in a sequential basis the business has done extremely well. So, there is almost a 15% increase in the balances compared to March 2019. The market share in the business continues to go up compared to 14.02% market share in the PMJDY accounts it is now increased to 14.75%.

Now we will come to the financial performance. So, on a YoY basis, the quarterly NIM has increased by 10bps from 2.68% adjusted for the IT refund to 2.78%. On a yearly basis also the NIM is up from 2.77% to 2.84%. In terms of operating performance, the operating profit for the quarter is up 48% almost and for the year it's up by 19%. The cost to income ratio, both in terms of sequential basis and in YoY terms has seen a large decline. In terms of fee income, the total fee income X of the IT refund has actually increased by almost 10%. As you can see the total fee income is up and so is the other non-interest income. So, the total non-interest income adjusted for the IT refund is actually up by almost 10% in the quarter. In terms of operating expenses there is a large decline in the quarter and for the year the operating expenses are pretty much flat and we can see that the large decline is driven by the provision which had to be made in Q4 FY19 which we saw in the first slide as well because of the adjustments for the amalgamated entity.

So this is the slide on operating profit as well as the provision so we are seeing a decline in provisions for the quarter by 69% and so is the case for the yearly number which has seen a decline and because of which both the net profit in the quarter and for the year has seen an improvement.

Now we'll come to asset quality. In terms of asset quality, we have seen sharp decline in slippages to Rs. 3050 crores from more than Rs. 10,380 crore in the last quarter. And for the financial year also there is a large decline in the overall fresh slippage number compared to last year. So, as a result the slippage ratio in the quarter is down to 1.94% and the credit cost is down to 1.82%. The provision coverage ratio shows that we have taken a substantial amount of provision and this we have already seen earlier. This is the overall sectoral and industry-wide contribution of NPAs. This slide we would have already seen so I don't have to discuss it in detail here. The exposure to NCLT accounts we have a large provision there as well. In terms of the overall number stands at 12,500 crores. And this is the movement under SMA which has come down to 1.2% both for 1 and 2. In terms of overall capital adequacy we are adequately capitalized and the CRAR is at 13.3% for the quarter ended which is higher than what we have seen in September and the June quarter.

In terms of integration, the integration is progressing fairly well. We have already done a branch migration of a certain number of branches and we are looking at the entire IT integration in the current year. In terms of sales and initiatives this is the geographical coverage and the international coverage so I would just like to bring your attention to the supply chain business which is showing a healthy traction in terms of the sanctions as well as the revenue. And this business, we expect it to continue to show a reasonable growth in the coming quarters and the years. Same is the case with our cash management business which is showing a very-very healthy traction. As you can see there is a large increase in fee income in the month and the year both in terms of contribution to treasury income and to the fees. And you can see the number of customers steadily keep on increasing this just shows the value proposition of the proposition to the customers. And same is the case with our credit card business which is showing a large traction. We have also seen a large increase in our digitized footprint in the quarter. Our mobile banking app now is ranked top three amongst the large banks and we can see there is a large increase in customer onboarding in the quarter and it has continued in the month of April and May where we are likely to see much higher traction in terms of user onboardings. Same is the case with the merchant onboardings. The footprints was very-very robust growth as you can see in some of the numbers in YoY terms. And this is the quality of the app and some of the user feedback which we have received. This is some of the impact that we have analyzed post the COVID on our vertical. So, I would leave this for you to be seeing at a later stage. It's just that we would like to bring your attention to our consolidated profits as well and that would be the last slide before the open it up for the remarks of the MD. If you see for the year as a whole the consolidated profit after tax is at 977 crores. And the overall capital adequacy ratio on a consolidated basis is also higher than what we have seen for the standalone entity which is that 13.3%. These are some of the awards. So, at this point in time I would like to ask our MD, Shri Sanjiv Chadha to please give his opening remarks before we open the floor for Q&A.

**Opening remarks by Mr. Sanjiv Chadha – Managing Director & CEO, Bank of Baroda:**

Thank you Sameer. A very good morning to all of you. First of all, thanks very much for joining the call. I have been now with the Bank for about four months but if you look back at the last one year it has been very eventful. The amalgamation of course were the key event and I think if we are to judge the performance we must see it in the context of the amalgamation. To my mind by some key measures the amalgamation seems to have achieved the purpose for which it was executed. One was, of course, to see how you can integrate the banks and to make it a more efficient balance sheet. I would like to draw your attention to the liability side first where what you see is increase in the CASA ratio by about 180 bps. So, BOB had a reasonably healthy CASA ratio traditionally about 39% but then Vijaya Bank was driven more by wholesale deposits with the CASA ratio which we near 25%. So, therefore for the combined entity to move up from 37% to 39% in a matter of 12 months even while the amalgamation is in progress, I think is creditable. And we expect to further strengthen the CASA franchise in the coming year.

The second area in which the amalgamation seems to have worked very well is in terms of management and cost efficiencies. So, the cost to income ratio of the combined entity has come down to under 50%, it's near to 48%. Now this will be seen in the context or the fact that one of the amalgamating entities which was under PCA had a cost to income ratio which was as high as 70%. So, I think to that extent the benefits of amalgamation have already flowed very significantly and we expect them to continue to accrue during the current year.

On the credit side also there seems to be reasonably good traction. Retail, as Sameer mentioned, has gone very well overall. But even apart from that, that is nearly 15% but these particular segments where the bank focused, car loans grew by nearly 40%, educational loans by 16% and this was as compared to an industry growth of -2%. And the credit deposit ratio also is upwards of 8% showing efficiency in fund utilization. The credit quality also has improved. Gross NPA is around 100 bps, net NPA is almost as much. The provision coverage ratio including technically written off accounts is up to 82% which would indicate that the downside from the existing portfolio is limited. Going ahead we feel comfortable with the credit quality and we remain conservative in our provisioning practices. As against the RBI norm of 15% for substandard assets Bank of Baroda continues to provide 20% against all substandard assets. And also, the accounts where the bank benefited by way of the standstill clause of RBI amongst about 4000 crores. This is where instead of the 5% that we were supposed to provide this quarter we have gone ahead and provided 20% because 20% is what is applicable as I mentioned for our substandard assets as against 15% mentioned by RBI. We remain cautiously optimistic in terms of the asset quality outlook going ahead in the current year. We are acutely conscious that the stresses caused by COVID are going to have an impact and they are going to tell upon asset quality in some measure. But on the other hand, we believe that is going to be balanced by the fact that unlike last year we are not exposed to as many chunky potential NPAs. So overall, when it comes to ratio our assessment is that it may not be any higher than it was the last year despite the impact of COVID. In terms of capital we remained well provisioned. We have a capital adequacy ratio of 13.3% and we have approved from the Board to raise up to 13500 crores about third of which will come from a possible AT1 issue which we might consider in the quarter starting July. So, we believe that there is an opportunity for the Bank to strengthen the balance sheet. The amalgamation is on track. We are mandated by our Board to completely execute it in the current financial year. And we believe that despite the dislocation caused by COVID which will be in about three-four months in terms of lost time, we still believe, it is still possible for us to complete the integration entirely by 31st March 2021. And therefore, we would expect that the benefits of the amalgamation would continue to accrue during this year as well as in the coming period. We also are very strongly focused, on this particular juncture, as an opportunity to rethink the bank to expand the digital footprint. We are setting up a digital lending department which will focus on digitally delivering home loans, car loans, education loans, MSME loans. We also again are focusing on our mobile app. I would request you to download it and use it. It is a first-rate product. It's ranked number three again among the large bank apps. So, we feel very confident that it's possible for us to establish a digital ecosystem around the app. In terms of even, currently, current account and savings bank account opening between 80-90% are opened through tab-banking which means without any paper being used. So, I believe the bank is well positioned coming out of this cycle, both in terms of asset quality as also in terms of business, capital, and its ability to take advantage of the current situation to be a much more digital bank going ahead. So, that's my opening remarks. Really welcome any questions going ahead. Thank you.

**Sameer Narang:** Thank you sir, for the opening remarks. Now, we can open the floor for Q&A. And sir, we have received some questions while more are coming on the way. So, I start with the first question sir. It's by Ms. Mahrukh Adajania from Elara Capital.

1. ***What is the moratorium on total loans at end-April and end-May? What will it be in June?***

**Reply by Mr. Sanjiv Chadha**

Okay, so I think the moratorium is obviously the elephant in the room. So, let's address it first. So, it's very good that it will be the first question. So, I think we have gone on record to state that our book which was loan book which is under moratorium of the accounts which are eligible for a moratorium was about two-thirds, about 65%. We've recognized the fact that this is higher than most peer banks. The reason is as follows: we had allowed an opt-out clause to all our customers which meant that unless there was an explicit specific request from them, we would not raise the demand. Now in the case of most banks, the retail loans in particular, they are normally funded by standing instructions which means your saving bank account is debited and your loan account is credited. In the case of BOB our practice is that we actually don't have as many SIs and instead of that we have the option of drawing money from the accounts of our customers. But that withdrawal of money can only happen once you actually raise the demand. And since our system actually stipulated that you don't raise a demand unless there is explicit instruction from the customers, the demand was not raised which is why our moratorium ratio is high. It is not on account of the fact that the money is not available to fund the loans. It is simply the system that the technology still that the bank operates. Now this ratio of 65% actually in May has already come down to about 55% and we are talking about the amount, not the number of accounts because we believe it is the amount which is the most useful indicator in terms of moratorium. And we believe that as we go ahead it will come down and that is for the following reason. For the next second quarter which means between June 1st and August 31st, the dispensation we have adopted is that instead of a uniform opt-out we will have an opt-out for loans up to 10 lakhs and for the balance amount, balance loans, we will request customers to opt-in. We have the dispensation on our website. We have sent messages to our customers. So, therefore we believe that will achieve a significant difference in customer behavior because customers are conscious that there is an increase in interest cost on this account. So, our assessment at this point in time is that our moratorium will come down from currently 55% which was in May, overall, it was 60% odd for the quarter, to about 35%. So, this is really the reason why our moratorium was higher and why it should, during the quarter which we have now begun, quarter in terms of moratorium quarter June to August, why it should trend down towards the industry level.

**Sameer Narang:** There is another question from Mahrukh Adajania, you answered the second question. So, she had three questions. The next question is,

2. ***What is the amount of MSME funding done by BOB under the emergency scheme and what is the amount eligible?***

**Reply by Mr. Sanjiv Chadha**

So, we are talking about the emergency scheme which has been guaranteed by the Government of India. So, our total portfolio, which is eligible under that, which means that loans which are up to 25 crores in terms of total credit limits, fund credit limits from banking system and 100 crores in terms of revenue is about 50,000 crores. So, these are the loans which are eligible which means that the total amount that we can put out under this scheme is about 10,000 crores. And as things stand about two-thirds of that has already been sanctioned. So, we are seeing very good traction and we believe that for the MSME segment as well as for the Bank it is something which is very supportive. It will allow us to address the liquidity issues of MSMEs while making sure that our own book is fully protected since these lines are guaranteed by the government.

**Sameer Narang:** We have got another question that is from MB Mahesh of Kotak Securities.

3. ***Could you give some color on the upgradation for the quarter and the pipeline on resolutions that you have for FY 21?***

**Reply by Mr. Shanti Lal Jain**

About this recovery was around 6,000 crores and the slippage around 3,000 crores. So, our recovery is basically in all accounts. We have done recovery through compromises; we have recovery through some NCLT and through upgradations as well. In upgradations there are few accounts where the recovery is small. Big accounts 2500 crores is a big account.

**Sameer Narang:** Then we have another question from Dev from Horsepower Securities.

4. ***How do you save so much on employee cost?***

**Reply by Mr. Shanti Lal Jain**

In employee cost we are making provisions as per the actual valuations. We have done the actual valuations based on the IBA guidelines and in fact there was slightly higher provision in the 2nd and 3rd quarters, in 4th quarter it is slightly less, but it is based on purely on actual valuation.

Last time the employee cost was higher by around 300 crores because ESPS we came out in the third quarter and whatever discounts we have given, ESPS was a part of employee cost in 3rd quarter, that is why 3rd quarter is slightly higher.

5. **How much were the MSME special loans under the COVID19 package in the quarter?**

**Reply by Mr. Sanjiv Chadha**

I think we have answered the question, right? So, the total amount which could be disbursed under the scheme is about Rs. 10,000 crores, we have already sanctions about Rs 6,500 crores odd as things stand today.

6. **How do you see the bank's loan mix going ahead?**

**Reply by Mr. Sanjiv Chadha**

So, I think the bank's loan mix is pretty diversified, so about 50% of the book is corporate and the balance is almost equally distributed between MSME, agriculture and retail with retail trending upwards. We do expect that this mix is something which would be enduring. Within that of course there may be differences of emphasis depending upon what the economic conditions are. For instance, as far as the current year is concerned we expect that the kind of growth we saw in car loans last year about 40% that may not persist. We expect the retail loan to be a little dampened going ahead, but the MSME loan growth and the agricultural loan growth should be stronger as compared to last year. But for all these segments we continue to emphasize upon quality. For our retail loan segment in terms of the grades for the customers they are very high and as you would have noticed in the analyst presentation, in the corporate book also the proportion of loans which are highly rated A and above has moved up significantly. In our NBFC portfolio, about 90% of our book is rated AA and above and 95% A and above. So, we would believe that we would want to of course trim our sales depending on which way the winds are blowing but our general proposition 50% in corporate and 50% in the broader definition of retail including MSME and the agriculture would continue.

7. **What led to the sequential decline in international NIM?**

**Reply by Mr. Sanjiv Chadha**

As everybody would be aware, is all central banks have flooded the market with liquidity, more so abroad as compared to in India which has meant that there has been a very sharp drop in terms of yields, particularly in terms of short-term asset deployment.

On the other hand, there is a lag in terms of repricing liabilities which is why there has been a sharp decline in net interest margins. Given the fact that the asset yields probably have bottomed out and there will be a repricing of liabilities which would happen, we would expect some recovery going ahead.

8. **In the NBFC rating composition what explains reduction in BB and Below Book from 2,900 crores to approximately 960 crores?**

**Reply by Mr. Sanjiv Chadha**

At the end of the day I think mostly it would be a function of maturities and also what the kind of fresh underwriting is. So, the emphasis has been in terms of making sure that any incremental growth in NBFC portfolio is very heavily biased towards high-quality NBFCs. So, as I mentioned the proportion of AAA NBFC exposure has moved up very-very sharply. So, I would believe that, that is the trend that would continue. Overall, we would expect our NBFC growth, we are conscious that it is significantly higher than what the market share in loans is. So overall the NBFC growth should not be happening, but within the NBFC portfolio we should expect steady improvement going ahead.

9. **Any large accounts that contributed to higher recoveries during the quarter?**

**Reply by Mr. Shanti Lal Jain**

Told you this one account where we have recovered, upgraded this account having outstanding of Rs 2,500 crores, this is one account. All others are small accounts where we have done number of compromises, even some amount received from NCLT as well.

10. **Can you share the additions and deductions from watchlist during Q4?**

**Reply by Mr. Sanjiv Chadha**

I think in terms of addition, because there has been a net increase of about Rs 2,000 odd crores, I think this is on account of fine international exposure that we have. I'm not entirely certain about the deductions but again Mr. Jain might want to give some color on that.

**Reply by Mr. Shanti Lal Jain**

As far as the slippage part is concerned, out of 3,050 crores, agricultural part is 500 crores and MSME is around 1,000 crores, retail is around 350 crores, corporate is around 311 crores and our international is around 800 crores.

In watchlist basically, one international account having an exposure of around 2,000 crores which we have added and the second point is that we have 4,053 crores where we have taken a stand still close, this is also a part of watchlist, because these accounts we have taken actual, of course we have provided 20% on that.

11. **Do you have any plan to raise capital?**

**Reply by Mr. Sanjiv Chadha**

We had at the beginning of the year taken approval from our Board to raise an amount up to Rs 13,500 crores, so we routinely have that kind of mandate from the Board every year, that comprises Rs 4,500 crores as a possible AT1 issue and the balance would be by way of equity. We would believe that even though we are well capitalized we are considering going to the market for the AT! bonds in the quarter beginning 1st of July, when it comes to pure equity that will is depended upon market conditions and I do not anticipate as visiting the market in the first half of the year.

12. **Reason for increase in provisions for standard assets in Q4 versus Q3?**

**Reply by Mr. Sanjiv Chadha**

So, the standard assets has gone up for a couple of reasons, I will just give two main points and then Mr. Jain can of course see if there is anything more to add. First, there is an account which has been provided for to the extent of Rs 1,500 crores on account of RBI June 7 circular. This account is we expect that this is entirely on account of technical reasons and there is a very fair possibility that this could be reversed going ahead, so that is one. The other part is the point that Mr. Jain mentioned that there was Rs 4,000 crore book which is under the standstill clause of RBI and as against the 5% required provisioning we have gone ahead and provided 20% which is the standard provisioning which is applicable to substandard assets for Bank of Baroda.

**Reply by Mr. Shanti Lal Jain**

The remaining is on account of increase in our credit.

13. **Outlook on the SME book based on CRIF high mark rating what proportion is CRIF rating is 6 and above, what is our experience on slippages in this segment, what we are doing to reduce the NPAs and also on including new customer, what we are doing to reduce NPAs and on loading new customers in this segment?**

**Reply by Mr. Sanjiv Chadha**

I think when it comes to the figures of the CRIF rating, probably Sameer you can provide that. But in terms of the SME book the fact is that we expect that opportunity that we have of addressing the requirements of our SME customers through the guaranteed loan facility which is being made available with the support of the government is a very good opportunity for us to address whatever incipient stresses might be there in the book, while keeping the bank's own capital buffers intact and also making sure that our clients can actually go through this equity support that they require. So, to that extent I would believe that the MSME book should remain reasonably well protected in the current period. Additionally, we also are the leading bank in terms of using the PSB 59 that form for SME loan underwriting. And the slippage ratio is there, the propensity of accounts to become NPAs for those PSB 59 loans is much lower as compared to or significantly lower as compared to our normal book. So we would expect that as the digitization agenda moves forward and I mentioned earlier that we are launching a specialized department called the Digital Lending Department which will focus entirely on making sure that we are able to digitally deliver loans for home loan customers, car loan customers but most importantly for MSME customers where you will also have an opportunity to draw in various data points which are not normally captured in underwriting. The process is based upon balance sheets. We expect this to have a salutary impact on our MSME portfolio going ahead.

**14. What is the assumed wage hike?**

**Reply by Mr. Shanti Lal Jain**

We have considered 12% wage hike.

**15. Despite interest decline pension provision has declined, any reason for the same?**

**Reply by Mr. Shanti Lal Jain**

I have already told in Q3 the cost was high because of Rs 300 crores out of ESPS provision which is one-time provision, first. And second there were slightly higher provisions and in the current quarter based on actual valuation we have done the AS-15 provision and met and in this 12% provision we have met and it is part of provisions.

**16. What is the outlook on the cost to income ratio?**

**Reply by Mr. Sanjiv Chadha**

The cost to income ratio has come down significantly and as of now I believe it would rank pretty favorably in terms of peer banks. Nevertheless, we believe that there is scope to bring it down further, we do not expect that the improvement is going to be as precipitations as it was in the last year but we are targeting further 100 bps improvement in the cost to income ratio.

**17. Can we know what are the major decisions that you have taken internally and what are the areas where you are likely to build focus for improvement of the bank in the next few months and/or quarters?**

**Reply by Mr. Sanjiv Chadha**

I think this is at the current juncture is a very important point because, one is of course that probably the world is going to change significantly and the including how we do banking. Apart from that it also gives us the time and space to actually strategize and to execute. So, we believe that going ahead the changes that we see would be significantly around seeing how we deliver services to our customers, the branch channel which is an overwhelming part of how we deliver services and also overwhelming part of our cost will over a period of time probably become less important. So, we will be focusing on how do we deliver services digitally, how do we deliver services through our business correspondents, how do we deliver services through lighter footprints in terms of branches which are actually much in terms of their footprint and in terms of costs. So, I think looking at service delivery is going to be one key part. The other part of course is as even the fact that we are having this conversation today through the Teams platform rather than meeting as we normally do, I think to some extent it has changed our way of working entirely. So, we will be leveraging technology more and more in terms of our customer interactions, interactions with our staff. Today it is possible to almost reach out to the entire 80,000 family of BOB through a platform like Teams. So, in terms of how we conduct our reviews, however we drive business I think we're looking at all those processes again. In terms of HR policies, what is going to be the composition of the workforce, can you actually leverage part-time workforce going ahead, and can you leverage skilled people who may not necessarily be available full-time to you. I think all these are going to be very important components, we believe over the next quarter we would be fashioning out our strategies to see how we can use this opportunity to drive efficiencies and prepare the bank for the future.

18. **What is the overall core spread that management intends to maintain for FY21? What is the guidance of NIM for the year? Is it possible to share if there is any larger slippages in the current quarter and if so from which sector?**

**Reply by Mr. Sanjiv Chadha**

I think as far as net interest margins are concerned, it is a very fine balance that will be to strike between maintaining net interest margins and also making sure that the credit costs are contained not only now also in the medium term. Given the liquidity overhang which is there and which is likely to persist and also given the fact that there is going to be emphasis on underwriting standards, on making sure again that the credit quality is such that can withstand the stress that we see around us. My own sense is that we do not see any expansion of net interest margins, not significantly. To some extent the international banking the net interest margins should recover, but overall, I would tend to believe that they may be flattish with also the possibility of possibly contracting a few bps as we make sure that our underwriting standards are right up there to ensure credit quality.

19. **Is it possible to share any large slippages in the current quarter and from which sector?**

**Reply by Mr. Sanjiv Chadha**

So, in terms of the slippages I would believe that in the current quarter and in the next two quarters for which you have reasonably clear visibility, the slippages should be trending downwards. And this is not only because of whatever dispensation which is there of the RBI. We do not in our book have the kind of large exposures which were teetering on the edge that we had in the previous years. So, I would believe that we should be looking at a fairly strong position in terms of asset quality going ahead. Having said that one would want to hastily add that the impact of COVID is not completely known. It is not completely apparent and it's only in the second half of the year that we will be able to make a full assessment in terms of how that is likely to play out. But as things stand today we have room of cautious.

**20. What would be the focus area for growing advances?**

**Reply by Mr. Sanjiv Chadha**

I think we have addressed in some measure in the previous questions. We believe that the growth in the retail segment is going to be lower than what is the trend line. MSME is likely to grow strongly powered by the guaranteed scheme of the government. As I mentioned, the amount that we can disburse under the scheme is about 10,000 crores which is about 10% of the MSME book. So, therefore 8% to 10% growth in MSME seems to be a very reasonable prognosis. Agriculture also seems to be in very good shape and we would want to aggressively target growth in the agriculture segment also which we would want to be in double digits. So, the emphasis is going to be on MSME and agriculture. Corporate book should be growing pretty much as per trend and in terms of market growth the retail segment really depends upon how soon again employment recovers but my guess is a little lower than pen line.

**21. If we look at slide 37, there has been substantial improvement in NPLs in the power and textiles sector. Could you specify which companies you saw these recoveries/upgrades?**

**Reply by Mr. Shanti Lal Jain**

Basically, I told you there is one big account of 2500 crores. Rest all other accounts are small accounts, maybe 50 crores, 60 crores, 100 crores.

**22. What is the total quantum of loans where the bank has signed off ICA? Total quantum of loans where the bank has signed the ICA?**

**Reply by Mr. Shanti Lal Jain**

Actually, we are having 373 accounts where exposure is more than 2000 crore of banking system at all. Of the 34 NPA accounts, 5 are from basically ILFS group account and only 9 accounts were there. So, out of these 9 accounts, we already made a provision for 5 accounts. The remaining accounts the time period of 180 days has not been over.

**23. How much of the LTRO, TLTRO did the bank do till date?**

**Reply by Mr. Sanjiv Chadha**

The total was in the range of 6500 crores, 5500 odd was in TLTRO1 and 1000 crores in TLTRO2. I think as we speak, since we are coming towards the end of June, almost the entire amount is committed now.

**24. How is the growth path looking in the domestic corporate book and international asset monetization of the states or real estate?**

**Reply by Mr. Sanjiv Chadha**

I think when it comes to growth on the retail segment, I think for the moment, we are a little cautious. We would want to probably in a month or so before we actually see which are the segments we might want to aggressively push but particularly when it comes to car loans where we had seen very robust growth last year, we believe that it would be dampened simply because car sales are likely to be significantly lower as compare to last year. But we would expect that our home loan growth probably should continue as per trend going forward. In terms of the international book there was a again a sharp spike which was there in the last quarter but we would expect again the growth to be double digits, not really looking at 20% which was in the last year because part of that was driven by the devaluation of the rupee, the growth that you see is expressed in rupee terms.

**25. The moratorium in rupees crore for retail, MSME, Agri and corporate, these details we can share separately and you have already mentioned about them. How do you see the overdue loans which is 11.5% of total loans?**

**Reply by Mr. Sanjiv Chadha**

I think whenever we come to the SMA book, we may have the opportunity of actually addressing requirements of customers through again various instruments which are available to us. For the COVID situation has added some extra stress but nevertheless it is also given us the time and space to look at individual accounts and to see what is the solution which is best useful for them. To just give an indication of the 4000 crore of book which benefitted from standstill allowed by RBI, 1500 has already been regularized. So I think that should give us a fair idea that while COVID is creating stress nevertheless there is an opportunity for us to also to make sure that we can track with borrowers and try to make sure that we address their requirements and also pursue them to regularize accounts. So, I would like to believe that any worry raised in terms of a prognosis but we are looking at the activity that contains slippages.

**Reply by Mr. Shanti Lal Jain**

Out of this 11% what we are talking about is two third around 8% is basically SMA0 where there is basically one day default. So generally, it happens, so there is no big worry on account of that.

**26. The outlook on cost to income ratio post-merger, can we see it consistently below 50%?**

**Reply by Mr. Sanjiv Chadha**

Look, it's like this. We have seen cost savings already, a significant proportion of the cost savings are yet to come because when you are looking at the branch rationalization for instance, that is something which is a work-in-progress and we will see benefits. In terms of hiring we don't see significant hiring going ahead but nevertheless again they are at times imponderables which you may not necessarily have a handle on, for instances again how do rate spend, how do actual evaluation move, where exactly does the wage settlement come down and settle. So, these are imponderables which we do not really have a handle on but if we are looking at general trend given where we are today we believe that we should be insistent targeting a cost income ratio below 50% and even in terms of where we stand today. I think we should be looking at effecting more cost savings.

**27. Besides the NPA provision what is the total provision pool at the bank and of that, how much is for standard assets?**

**Reply by Mr. Shanti Lal Jain**

Provision on standard assets is Rs. 7248 crores. In addition to that we are having a provision for employee benefits, every quarter we are making provisions of Rs. 200 crore.

**28. What would be outlook on BBB and below exposure on 38% due to COVID disruption, do we see more downgrades and higher GNPAs. And how do you see recoveries in FY21?**

**Reply by Mr. Sanjiv Chadha**

So, to answer to second question first. I would believe that the recoveries would be worst this year as compared to last year because in terms of active recovery effort the first quarter has not really worked out very well because of the lockdown. Having said that the factor when we look at outlook for BBB portfolio I don’t think that is something which really should, because of the rating be a cause for concern. We have been looking at a number of accounts when we look at review their facilities, a lot of manufacturing is coming back and we would expect over next 3 to 4 months the manufacturing as a sector should probably be the one which should be recovering the fastest. So therefore, as of now we won’t really have too much room for concern but again the fact is that it is also true that all businesses, individuals they have certain capacity to withstand stress. Now therefore it is only after six months that we would really come to know whether there has been any significant disruption. But as things stand I would just want to repeat what I said before that we believe that while there would be an impact of COVID in our portfolio, it should be offset by the fact that we don’t see so much stress on our large corporate book.

**Reply by Mr. Shanti Lal Jain**

So, out of a provision of 7200 crore we are having 1922 crores on account of base revision purpose.

**29. How much of the retail book is unsecured and what is your expectation of stress from that group and the break-up between the salaried and self-employed of the unsecured book.**

**Reply by Mr. Shanti Lal Jain**

Actually, we are active in housing loan which is fully secured. We are active in auto loan which is fully secured. Only the education loan part is unsecured and we are not having major exposure in personal loans. So very small amount will be unsecured. It is around 3%.

**Reply by Mr. Vikramaditya Singh Khichi**

It's around 4000 crores of the retail portfolio is basically unsecured, so that comes to around 3%.

**Reply by Mr. Sanjiv Chadha**

Also, in terms of education loans although it is technically unsecured but the educational loan portfolio of the bank which we have grown aggressively is of very good quality. So, we are not really seeing any signs of stress there. So overall we are reasonably sanguine in terms of quality of underwriting. Of course, the fact that the how the COVID stress will play out is something that we will see. But in terms of underwriting standard, the credit scores that we insist on, I think we are in a reasonably good position.

**30. With moratorium number being higher versus peers, what gives us the confidence that our slippage number will be similar to FY20?**

**Reply by Mr. Sanjiv Chadha**

So, as I mentioned to you, one is the circumstances in which the moratorium is higher. As I mentioned it is mostly on account of our accounting system and how are our technology system works whereby you need to raise demand before you can recover money from the customers' account. And in more than 95% of the cases we have the customers' accounts from which we draw the money. It is simply that we could not draw the money because with the opt-out clause you could not raise the demand. As I mentioned ,now the opt-out clause is available only up to loans of 10 lakhs, above that it is in opt in so therefore we should see a significant reduction in the effective moratorium, one. Two even if the moratorium was there, it was not because of the lack of to pay, it was simply that we were not able to make a demand effectively because of the system that we operate. That is something that changes from June onwards. And the another point again which I made earlier was if I did not you'll pardon me, it might have been in another interaction, the fact is even when we were sanctioning our emergency grade lines, which are available to corporates 10%, there were number of cases where we have sanctioned lines to corporates where their regular working capital limits are either not drawn or very substantially undrawn. So, people are looking to preserve liquidity. So, when you opt for a moratorium or when you opt for an emergency line, it is not because you cannot pay. It is simply that you recognize that these are difficult times, there is uncertainty and you would want to bridge the uncertainty gap by keeping a liquidity quotient. So that is what gives us room for optimism and also the confidence that the fact that people have opted for moratorium is not necessarily, on even in large measure and indication of stress.

**31. Addition to watch list from international book is high at 2600 crores what are the reasons for this and outlook on watchlist?**

**Reply by Mr. Sanjiv Chadha**

There has been again some large international book which have shown signs of stress, and it is something which will over a period of time get resolved so we have been fairly conservative there which is again the reason why that is high. Having said that, I would want to emphasize that a significant proportion of our international portfolio is composed of ECBs which are exposures on Indian companies, trade loans, which are secured by letters of comfort or letters of understanding from the banks, effective they are bank exposures. So as far as the overall book is concerned a large proportion of that is actually very-very safe and solid.

**32. What is the bank's exposure to DHFL and what is the provision held against this exposure, also is the account classified as fraud by the bank?**

**Reply by Mr. Shanti Lal Jain**

We have an exposure around 2000 crores in DHFL. We have already made a provision up to 500 crores in the accounts. We have already classified the accounts as fraud.

**33. What is the share of loans with ticket size higher than 10 lakhs in the overall book?**

**Reply by Mr. Sanjiv Chadha**

So, the proportion of term loans which are under 10 lakhs is about 10%, so those are the ones which again would be the mostly the one which are again there will be a moratorium one repayment. There will be of course working capital also but that is less impacted by moratorium because it is only interest which gets impacted.

**34. What proportion of our retail book is linked to the external benchmark?**

**Reply by Mr. Shanti Lal Jain**

Around 5% of our book is linked to our external benchmark as on date.

**Have you recognized exposure to Dubai based D R Shetty Group as NPA? Any plans to raise equity capital FY21?**

**Reply by Mr. Murali Ramaswami**

We have not classified it as NPA. The question is if you see that group accounts, it's all well secured, including DR Shetty finance company. Central Bank of UAE has taken charge and we don't think there will be any big problem there. Other group accounts also we have got NMC hospitals that is also well secured. We have got in other pharmaceuticals also, so all our exposures are well secured and I don't think there will be a big issue there. Though the companies in the news there is nothing much to worry, that is there.

**Reply by Mr. Sanjiv Chadha**

So, I think the sum and substance is we have our concerns but as of now I think we are still little early as assessing what the final is going to be.

**35. In the international book, what was the increase due to Rupee depreciation and what was due to fresh disbursements?**

**Reply by Mr. Sanjiv Chadha**

So, I think the Rupee depreciation is something which is well documented extent of that, but in terms of the exact break up we can come back on that.

**36. Please explain how NPA recognition will happen post moratorium period lapses, in Baroda reset the clock from 1st September for all the accounts or it would start recognizing all loans as NPAs where borrowers didn't pay interest during the moratorium.**

**Reply by Mr. Sanjiv Chadha**

So, I think Jain Saab will give a definitive answer. But let me attempt to answer that. So, the fact is there are two categories there, one there are term loans, right, so when it comes to home loans for instance effectively speaking the installments which have not been paid they get added at the back end of the loan pay. There is no extra demand which is raised at the end of the moratorium period only the regular demand is going to be payable which means that there is no stress which is being created on account of the payments which have not been made. When it comes to interest on working capital there is a provision for FITL which is there. So therefore, there is no cliff edge which is there where you fall at the end of the moratorium period, that's my understanding. But the definitive view will come from Mr. Jain.

**Reply by Mr. Shanti Lal Jain**

Yes, so what RBI has allowed standstill period exposure is around 29000, that is point one. Second point is there will be no demand of six months. When you have granted a moratorium, it means there is no demand for six months. So, what will happen that after 31st August those accounts which were on SMA2 may be having 60 days and 61 day will start from 1st September, but in between there is no demand, in between there will be no demand. So, wherever we have granted a moratorium, account will sit after 90 days from the date of demand.

**Reply by Mr. Sanjiv Chadha**

So effectively in terms of the SMA book where again you need to make sure that at the end of the moratorium period the account is WI driven 90 days from the period it was overdue but when it comes to standard assets, there is no stress which is created in the book, the installments simply get added to the backend.

**Reply by Mr. Shanti Lal Jain**

So, there is no demand for those accounts sir, at the end of the day there is no demand so whatever demand is at the end, it is shifted to the end.

**37. On the international slippages, with 25 billion additions to single account is from which geography and can you indicate which sector is this from?**

**Reply by Mr. Murali Ramaswami**

This is from a group which is dealing in hospitality, exchange house and pharma. And as I mentioned earlier that the exchange house, the administration is monitored by the Central Bank of UAE and I think that will come into control because all international banks are there in it. We have good security and cash in ESCROW also. So, I don't think…though we cannot say that we are out of books but I don't visualize a very big issue in that. That will come into order and we don't feel it's a grave concern at present.

**38. Are you concerned about Moody's negative watch where the agency said that essentially the ratings of bank is a large capital influence by the state?**

**Reply by Mr. Sanjiv Chadha**

The fact is that, a negative watch is obviously something which suggests that one needs to be vigilant and take whatever proactive action is required. But from my understanding the negative watch was driven more in terms of the overall economic environment rather than any bank specific concerns, having said that we remain fully conscious that even though we are well capitalized and we do not see a very high concern but nevertheless if there is an opportunity to build capital buffers, we want to do that and therefore as of now are proposing to access the market for AT1 issue.

**39. In the evolving economic environment how is the bank gaining up to meet the challenges?**

**Reply by Mr. Sanjiv Chadha**

So I think, one we will be very conscious of where these cases are developing and we need to draw very fine balance between supporting your customers, making sure that they have enough liquidity support to get through this difficult period but at same time not over-exposing the bank and in any way creating any stress on the Bank's balance sheet. It is a very fine balance. It is easier said than done but I would believe that would be our view and that is I believe probably would be the strategy of all banks. The good part of course is that as I had mentioned the guarantee line of the government for MSMEs there is an opportunity to address a very large part of our client base through support which is backed stocked by the government. The segment continues to do well. Our corporate book has very large exposures to government and quasi-government entities which we believe again is a source of strength in the present circumstances. There is a very significant increase in the improvement in the rating profile of the Bank's portfolios where A and above rated companies have gone up. As I mentioned in our NBFC portfolio which is again large for us, the AA and above book is 90% and A and above book is 95%. So, I believe these are all sources of strength and we can take it selectively while making sure that our book is not unduly exposed during the coming crisis.

**40. What is the expected credit loss and outlook considering the COVID?**

**Reply by Mr. Sanjiv Chadha**

It is a bit premature to really talk of the COVID impact. One is I think reminded of that famous saying which was I think it was on the Chinese leaders, I think it was Chow & Li when he asked about the French revolution, a full 200 years after the revolution occurred that what do you think about the impact of French revolution, he said 'It's too early to say'. So, if it was too early to say after 200 years, I am sure that it is a little premature to have a definitive assessment of the impact of COVID. We will see how it is going forward but on our part we are making sure that we are fully prepared.

**41. What is the total amount of advances lent to PSUs as government accounts and how much of the loan is guaranteed by government in the State or Central Government and whether the bank is aggressively lending to PSUs, government organizations?**

**Reply by Mr. Sanjiv Chadha**

I think under the present circumstances, if you have to see that where do you have assurance and visibility in terms of credit quality over the next 2 or 3 or 4 quarters that the PSUs again seem to be a good bet so that is something which does make sense. In terms of the exact figures I believe off hand which is there I think at the bottom of the slides, that 37% of our non NBFC exposure is probably government PSU but I think Sameer will give you that correct figure.

**42. What is the overdue number as of May end as a lot of customers who have paid the dues, outstanding DTA numbers as of 4Q and in your notes to account you have mentioned that there is no virtual certainty of the profits and hence you have not claimed DTA, how should we look at this?**

**Reply by Mr. Sanjiv Chadha**

So I think as far as the DTA is concerned the fact is that we do not have a taxable profit in the year that we have just closed. That was, to some extent on account of a provision that we made on a standard asset which we believe is a protectable basis which was a very significant provision which reduced the scope of any taxable profit. And going ahead in the current year, our current assessment is that we would be having a taxable profit and therefore our present assessment is that we should be looking at moving to the new tax rate where it comes to the current year which means the next assessment year. This is my current prognosis but again Mr. Jain would probably again give the definitive view on that.

**Reply by Mr. Shanti Lal Jain**

Yes, you are very right sir. We will be moving to the new tax regime in current financial year because we will be having a taxable profit, last year we were not having taxable profit so there was no point of moving to that.

**43. In working capital, can the amount be deferred for six months and be paid up to 31st March 2021?**

**Reply by Mr. Shanti Lal Jain**

Yes, sir this is as per the RBI guidelines whatever interest for this period will be accumulated in a FITL account and it will be paid up to 31st March.

**44. What will be the impact of waiver of interest on moratorium loans with respect to Supreme Court cases recent outcome?**

**Reply by Mr. Sanjiv Chadha**

I don't believe there has been a judgment which is there as far as Supreme Court is concerned.

**45. What is your view on funding to NBFC sector? Given the current environment will you increase funding to NBFCs? Do you see any systemic risk emerging in the NBFC sector?**

**Reply by Mr. Sanjiv Chadha**

So, our NBFC book is a large, so which means that we have had a fairly positive business transaction as far as NBFC is concerned. The book is as of now 15% of our loan book which is significantly higher than most peer banks. But as I had mentioned there is a very significant bias towards quality. 90% is AA rated and above, 95% A rated and above. So, one is because of the ratings and the quality of book. Number two of course is the fact significant liquidity cushions were built by NBFCs in the post at ILFS scenario. Three there have been instruments that have been made available by RBI including the TLTRO funds. TLTRO2 was specifically meant for NBFCs, so I think there has been an opportunity to address any issues that NBFCs might have. As things stand we remain very confident about the quality of our NBFC portfolio.

**Sameer Narang:** Right sir. On that note, sir we have come to a close in terms of the questions that are being asked of the panelists. So, we will end the analysts call on that note. So, in terms of closing comments, I would like to thank all the analysts who have logged down to the call and asked questions. We really appreciate the efforts that you have put in and thank you for your time and we also thank the entire top management who is on the call and taken out time to explain the results. So, we will hope to see you in next quarter probably in person in our auditorium. So, on that note we end the conference call, thank you for your time and hope to see you soon. Thank you sir.

***END OF TRANSCRIPT***