Bank of Baroda Analyst Meet for Quarter ended 31st March 2023

16th May 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: Good afternoon, everyone and welcome to the Analyst Meet for Bank of Baroda's Financial Results for the Quarter and Year Ended 31st March 2023. Thank you all for joining us.

We have with us Mr. Sanjiv Chadha, the Managing Director and CEO of Bank of Baroda; and he is joined by the Bank's Executive Directors and the Chief Financial Officer. We'll have a few opening introductory remarks by Mr. Chadha, and we have a short presentation, followed by the Q&A session. Over to you, sir.

Sanjiv Chadha: Thanks very much, Phiroza. So let me just begin by introducing my colleagues, you will be familiar, but let me do that. On my right, we have Mr. Ajay Khurana, Executive Director in charge of Retail Banking for us. On his right is Mr. Lalit Tyagi, in Charge of International Banking and all our platform functions like Risk, Compliance and Audit. To my left, Mr. Debaddata Chand, who is Executive Director in Charge of Corporate and Treasury and also who is our Managing Director designate. To his left, we have Joydeep Dutta Roy, who is ED in Charge of Digital, IT and all our subsidiaries. And to my extreme left, Ian Desouza, who most of you know, our Chief Financial Officer. Thank you.

Moderator: Can we have the PPT, please.

Sanjiv Chadha: So thank you very much for joining us this afternoon. I think it's after a long time, we have been able to get together without the pressure of all of you having to rush to another meeting. So thanks again for that. So we'll just start the presentation by a small focus on the growth numbers. I'm completely aware that you received these numbers at the beginning of the quarter, but just to put in perspective the profitability piece that we've declared today. So we have been guiding right through this period that from our perspective, in order of priority, we believe that the most important thing is underwriting standards and credit quality. Once we ensure that we try to protect our margins or improve them. And if it is possible after that to actually go for growth.

We had also guided at the beginning of the year that finally, after very many, many years, we believe it is possible for us to have margins and also to grow at a reasonable pace. So we are really, therefore, very satisfied with the kind of growth figures we have seen after a long period. What is equally encouraging again is that this growth that we see has come from almost all business segments. First of all, between domestic and international, domestic has grown by more than 16%, which is faster than the industry, while international has grown by 30%. As some of you might recall, we have been discussing that this robust growth in international was partly because of the fact that margins were depressed in corporate lending the last year. And therefore, we found better margins in the international book. Nevertheless, the growth has now moderated from about 40% to 30%. And we believe that as we go ahead as opportunities in domestic market improve, the growth in the international book should be pretty much in line with the overall growth as we go forward.

Equally important, if you look at the segmental growth, it is driven largely by retail. So organic retail continues to grow at a very robust pace by about 27%. This, again, is part of our Board-mandated strategy, which requires us to have a larger proportion of our balance sheet in retail. So this year itself, we have increased the percentage of retail loans by about 2 percentage points. We expect to continue to do that as we move forward. We have been guiding that if our growth is x, we would want our retail growth to be 1.5x, corporate about 0.7x. So that over a period of time, we can achieve this portfolio composition change that we would want to do. But what is equally satisfying is that corporate, which had been under pressure in terms of margin, therefore, we chose not to grow that very aggressively. This year has turned up a smart growth about 13%. And going ahead, we believe that corporate will be contributing more to the growth and also while ensuring that margins are intact or improved.

Within retail, the sustainability of this growth is largely predicated upon the fact that this growth is coming from a large number of business segments, which are largely unrelated. So you have growth from home loans, which is about 19%, which is the slowest of the segments, but the others are growing even faster, which means auto loans, education loans, personal loans, all of these are growing much faster, which means that as we move ahead, we can be a little more confident about sustaining this pace of growth, which is also something that is indicated by the disbursement momentum, which is again gathering pace.

The challenge for this year, of course, next slide, has been more by way of deposit growth, I think, for all banks. And there also, I think for us, it has been a relatively benign outcome. The gap between deposit growth and advances growth is possibly one of the least for us. So overall deposit growth is 15%, loan growth is 19%. And if you look at the lower quadrant, you will find that the credit deposit ratio and particularly the domestic credit deposit ratio, which really is key because international growth very often gets funded by instruments like medium-term notes. So the domestic credit deposit ratio is just about 75%. So there's a lot of room, which is still there in terms of growth, and we are under no pressure whatsoever in terms of liquidity as we move ahead.

Within the deposit growth, CASA growth is about 8%, and domestic term deposit growth is 17%. And this is something which is pretty much par for the course because as the differential between the saving rate, which is about 2.75-odd percent for us or 2.8% for us and the term deposit rates, which have moved north of 7%. As it expands, I think you would expect that more and more customers, who have been maintaining savings account deposits, would like to move them to term deposits to the extent possible.

In terms of -- next slide, please. Yes. So in terms of how we compare with the industry, you will again find that we compare fairly well with the industry. So our growth is better than both industry and scheduled commercial banks by a fairly significant margin. When we talk of industry, we have a set of 10 banks, public and private sector, who have declared results so far. So it's about 4 percentage points higher. Similarly, advances growth again is higher than both industries, the set of 10 banks as well as SCBs by a significant margin. So we have been gaining market share while keeping our margins intact or improving. In fact, margins have been improving as you will see in the next slide.

So if you look at margins again, we have had improvement in both yields as well as having a reasonably tight lid on cost of deposits. So NIMs for this quarter, actually, domestic NIMs were something like 3.6%, which is a record for us. And overall NIMs exiting this quarter was 3.5%. For the full year, it was about 3.31%. So given the fact that the exiting quarter NIM is significantly higher than the overall for the full year, we believe that we can be fairly positive about maintaining our year-end net interest margin into the new year also as we go ahead.

Next slide, yes. So if you were to again have a look at how much have we really bettered the industry in terms of margins. So industry has improved margins by about 4 basis points for the quarter. Some banks did have a bit of a slippage. For us, they have improved by 16 basis points during the current quarter. Similarly, NII expansion has outstripped the industry, both in the quarter as well as in the full year. In terms of profitability, as a consequence of both growth and margin expansion, we have had a very robust increase in the quarter-on-quarter, quarter Y-o-Y growth, which is about 34%. Operating profit, again, has gone up very smartly during the quarter with a concomitant increase in profit before tax and profit after tax. So profit after tax at INR 4,700 plus crores plus is again a record for us.

Moving to the annual numbers, you'll find that this quarter was not too much of an outlier. And probably almost every quarter, we have been able to have a significant improvement as we have moved ahead with NII for the full year moving up by 27% and operating profit by 20%. I think this operating profit 20% is significant because, while we had been reporting profitability increases, it was mostly driven by credit costs coming down. Now we see the operating metrics also kick in. This is a function of both costs as well as revenues as we will see as we move ahead. For the full year, the profit has come out at about INR 14,000 crores, which again is the highest ever by a very, very big margin for us.

Now how do we compare in terms of profitability vis-a-vis industry? There again, whether we look at NII growth, OpEx credit costs, PAT, everything, I think, has worked out well for us. What I would particularly like to draw your attention to is the operating cost increase. I think this really has become the competitive strength of the Bank. I think there is, of course, this year's business environment is very favorable, credit costs have been trending downwards. But what was key difference for us was that while most, again, competing banks, have increased both revenues and costs in tandem, we have been able to contain our costs.

In fact, the number that you see, 13% vis-a-vis 19.6% understates the difference between us and other banks. This is because that this number -- our number is inflated, a, by the wage increase, which fully kicked in, in this particular quarter, and there were certain other one-offs, which Ian will take you through as we move along. But again, to reemphasize, we believe that the key competitive strength for us as we go through the cycle is, a, that we are growing faster than our competitors; and b, by very large margins, our cost growth is very well contained.

In terms of improving asset quality, this is something that we have seen even as we had gone through the COVID cycle. The gross net NPAs continue to trend downwards. Provision coverage ratio is very high. Slippage ratio, we had guided between 1% to 1.25%, I believe. So we are at the lower end of the range. And the credit cost, of course, has come down significantly below where we expected to at about 0.5%. I think the next slide is again something which is important because it gives you something of insight into what are we likely to see as we move ahead. So if you see the SMA figure, this used to be as high as 2%, has then been stabilized at about 0.44% - 0.48%. And this quarter, this CRILC figure has come down to 0.32%, which means that the improving trend when it comes to credit quality, in terms of future prognosis continues. And this is again driven largely by collection efficiency now stabilizing at a very high level.

So as a consequence of all this, the capital position is very, very healthy. What I would want to draw your attention to is the fact that this year was exceptional in terms of the asset growth that we saw. Despite that asset growth, despite our earmarking 20% of our profits as dividend, we have ended the year with a capital adequacy ratio and a CET1 ratio higher than what we started the year at. So if we were to now look at any circumstance in the next few years, I think we might probably again be agreed that this year's credit growth was probably the highest which we are likely to see. So assuming a moderated credit growth and profitability, which again seems to be strong, we are likely to be self-sufficient in terms of generating funds for our growth as we move ahead. And the CET1 ratio equally importantly, has actually moved up by 1 percentage point despite the dividend payment that we have done.

The next couple of slides are on, again, how we are doing in terms of digital. I think this has been the key enabler, which has allowed us to attain the twin objectives; a, to have growth, which is better than industry; and b, to have costs, which are lower than industry, and the lower costs, in particular, have been enabled by digital. Today, we have a physical footprint, which is substantially less as compared to what it was 2 or 3 years back. In terms of manpower roles, it is also lower, but nevertheless, we are able to have industry beating growth, and that's largely because a growing proportion of work is getting done through digital. It is through digital that we are able to reach our customers.

Today, bob World has got 30 million active customers. And we have done, I think our team has done a great job in terms of the penetration. But I think in terms of the leveraging of that penetration to get better cross-sell, better revenue opportunities, we are just about scratching the surface. So I think there's a lot of upsides, which is left as far as leveraging this digital footprint is concerned. Equally importantly, I think in terms of some things that we have, the metrics that we see. For instance, the best proxy for a straight through process digital loan is the e-sign, and we are #1 there. So we're the fourth largest bank, but counting all banks, public and private sector, we are #1 in terms of e-sign. So a lot of, again, positives when it comes to the digital story of the Bank.

So that's in terms of opening remarks. Thank you very much and now open to questions.

Moderator: Thank you. If you can please raise your hand, if you have a question, we'll get the mic to you and you can ask, and if you can please also introduce yourself. Yes.

Ashok Ajmera: Compliments to you, Chadha Sahab and the entire team here for the fantastic results of Bank of Baroda. I think it is befitting to congratulate and complement you. Even personally also, I think you will be presenting the results of this quarter as your last results of Bank of Baroda, and you have done a fantastic job, sir. Not only made the Bank very, very strong, the balance sheet very strong, but even the business growth in this environment where barring some small public sector banks, others could not reach this kind of credit growth and this kind of asset quality. So my compliments to you.

Sir, now the question comes, number 1 is that on the Treasury front, like I think this -- especially in this quarter, our Treasury income is INR 297 crores as against INR 1,142 crores. So going forward now when the things are easing out, I mean, the rates are also softening or rather stable, where do we see the profitability coming and the Treasury contributing to this profit more. So some color on that, our book, H2M, HTM and AFS book? And what do we see in the coming quarter the Treasury performing? How do we see it? This is one.

Second is, sir, on the employee cost, it is increasing in every bank because of the wage revision and also the additional pension. So going forward, now here it is, I think, INR 3,000 crores in this quarter as against INR 2,520 crores as far as salary is concerned, and total employee costs also increased by about INR 500 crores. So whether it is stabilized now at this, like can we take that every quarter, it will be around INR 3,800 crores or some more provisioning is to come because the -- you, of course, you control the cost overall, you said as compared to the business, but still in absolute terms, it is increasing. And similarly, the other expenses also, which is from INR 2,800 crores to INR 3,100 crores. So whether going forward is stabilized.

Now third one is on the slippages, which is more or less under control, but in this quarter increased a little bit, so -- and slippages and vis-a-vis the recoveries also. So on the NCLT, now when the things are progressing, though, of course, we again read there is some problem with the government guarantee and some issues are still there. So with the NARCL and NCLT. So some color on the, going forward on the recoveries and credit growth sustainability. So these are the few observations and some questions, sir, in this round.

Sanjiv Chadha: So I think that pretty much covers the full presentation. Thank you very much for those questions. So I'll just make a general remark and then I'll hand over to my colleagues to answer specifically in terms of Treasury, employee costs, slippages, NARCL and the rest of it. The general remark, again, I would make is only this that we have tried to construct a business and a balance sheet, which can absorb certain one-offs, which might be there because of the environment. This year, the one-off was on account of the Treasury losses because of the fact that rate increases, which normally happen for a 12-month period, pretty much got compressed in the first quarter and the results that you see are despite those Treasury losses, right?

So I think as we move ahead, and if interest rates were cycled worse to reverse, which seems to be likely, I think that is an additional upside, which is available to the banks. But as far as we are concerned, we would want to make sure that we plan again for the future without accounting for these positive one-offs. You might want to take into our negative one-offs, but the positive one-offs are what you don't normally account for when you plan for your future. Now coming to the specifics, I'll again hand it over to my colleague, Treasury first, Chand Sahab.

Debadatta Chand: If you look at Treasury, there are 3 components, which are charged to the PL, one is the interest income on the investment and then the trading profit, and third is the depreciation. If you look at the current financial year that we have declared, the increase in interest income is almost INR 5,000 crores, which is 25% increase as compared to a book increase of roughly around 15%. The trading profit is something around INR 1,100 crores, and the depreciation provided is something around INR 900 crores. So as a Bank, what you're looking to a different scenario is to how do I optimize all 3 components, right? So the moment you sum it up, the depreciation is only the negative item out of this 2 positive item. As a Bank, the only last time also we articulated that, can I create a, what you can say, delta vis-a-vis the book increase? And precisely, we have done that in this year. The interest income increase is so substantial, even if there is a dip in terms of trading profit vis-a-vis last year, the income is far more than the dip in the trading profit, right?

So that is what actually we are going to optimize. And earlier also in one of the conversations we articulated that we do have a higher FRB book, right? So that gives me a substantial upside in our interest scenario. So going forward also, 2, 3 scenarios can happen. If the interest rate goes down, then the trading profit would go up, but the interest income, again, would take slightly a beating. If the other scenario, the same way it would continue. So broadly, the contribution out of Treasury would continue the same. And our strategy would be to how do I optimize the, I mean combined contribution vis-a-vis the book increase, and that has to be higher than the book increase that you heard the stance, we carry.

Sanjiv Chadha: Employee cost, I think, Joydeep, again, this year you can comment.

Joydeep Dutta Roy: So on the employee cost, I think, while there has been an increase in the last quarter, largely, that's because of the wage revision that kicks off every 5 years for public sector banks. So we have started taking provisions for that in the last quarter and in the December quarter also. So that is a new thing which has got added. Secondly, there is -- as per the service conditions, depending on the increase in the operating profit, employees are eligible for a performance-linked incentive of some days of the year. So that again has been factored in this time in this quarter's results.

So both these are new things which have got added in this quarter because of which you would probably see a little bit of increase in the employee expenses of the staff cost for this quarter. But for the year, if you see the 11.5% increase, the net of these 2 being the one-off expenses or the expenses that have come this quarter itself, and the increase is only 5%. So that way, we are very, very well contained as far as the employee cost increases are concerned, and we see that being able to be maintained. And going forward, since now we have started the provisions on the wage increase, et cetera, and PLI also has been taken into account. So that's also baked in for the future, for the coming year also. So any abnormal increase, won't happen now.

Sanjiv Chadha: Slippages. Khurana Sahab.

Ajay Khurana: Regarding slippages and recovery. If you have seen our overall whole year, 10,100 is our total recovery as against INR 8,100 our total slippages. And in fact, the recovery in written off accounts has also increased substantially around 27% from the last year. So going forward, the trend is going to remain the same. Our recovery will be -- that is what is the guidance recovery will be more than the slippages. And also the recovery in written off account also will be almost a similar amount. And as far as NCLT and NARCL is concerned. NARCL, as of now, our -- there is no account we got settled in our bank in '22 - '23. So '23 - '24, there are 5, 6 accounts, which are under process. The process, which includes even the other ARCs also because of method it has to run through. So we are not sure that how many accounts are going to -- actually going to NARCL as of now. This is the status.

Moderator: We'll take the next question at the back.

Nitin Aggarwal: This is Nitin Aggarwal from Motilal Oswal. A few questions. One is around the loan growth. You talked about that FY '24 can be relatively moderate in terms of growth. But FY '23, we have already grown like 5% higher than the system. So do you want to talk about as to what levels of growth are you looking at in FY '24?

Sanjiv Chadha: So our sense is that the system growth might be about 12% to 13%. We would want to make sure that if it is possible, keeping the other 2 metrics of underwriting standards and margins in perspective, we might want to grow a bit faster than the system. So I think if the system is 12%, 13%, we might be 13% - 14% there or thereabouts. That's what we are as of now putting in our projections.

Nitin Aggarwal: All right, sir. And secondly, on margins, is it fair to say that margins have peaked out this quarter? And you can see the trajectory reversing from Q1.

Sanjiv Chadha: So I think what you are saying is probably correct, although let me also confess that this quarter, the margin surprised me on the upside. But our sense is that we have the overall margin over 3.31% for the full year. And we have an existing margin of 3.53%. So even allowing for some moderation, I think we should be able to protect our margins as far as the full year margins are concerned.

Nitin Aggarwal: Right. And sir, over here, if you can also talk about your international book yields and as well as the cost of deposits, overseas deposits, because there is a very big change that is happening quarter-on-quarter on both the aspects. So where do you see this settling somewhere and what is really driving this big move?

Sanjiv Chadha: So I think when we look at our overseas book, we look at it in 2 perspectives. One is, of course, in terms of how the overseas opportunities are in the context of the domestic market. Last 1.5 years, the overseas opportunities were more attractive. So we allocated more capital there. I think now possibly time has come when we're looking at in line growth. But as far as the profitability is concerned, the broad calculation that we have is, we have a net interest margin of 2% there, right? But our operating cost there is less than 20%, which means you are left with 1.6% post operating cost. Credit costs are negligible, right? And we have seen this right through. We have tested our portfolio in terms of interest coverage. We're very confident of that. So effectively speaking, you are ending up with an ROA, which is higher than the domestic book. So as the domestic conditions become more benign, there are more opportunities, particularly on the corporate side, we believe that probably on the domestic side, the opportunities are going to be as good or better. So we would expect in-line growth as far as the international book is concerned, but the international book for us is not margin dilutive at all.

Nitin Aggarwal: All right. And sir, lastly, we have been having a very strong asset quality. This quarter, we reported a very sharp decline in provisioning, so did we not think to make some extra contingent provisions this quarter because the ECL requirement will be taking in some time and even the troubled airline and the other exposures are there. So did you not think about making some extra provisions.

Sanjiv Chadha: If you have think, then we have to think also. But let me put it this way, I did again, I omitted to mention it. So this year, we have made INR 500 crore provision for the airline account, although it is a standard asset for us. So we normally do not discuss specific accounts. But in this case, there is an NCLT filing. So there's information in the public domain. Apart from what is guaranteed by the government, our exposure is about INR 1,300 crores. And we hold again tangible collateral security, not primary security. Primary security coverage is full. We have tangible collateral security and corporate guarantee, which is nearly about INR 1,000 crores, so we have made sure that we are more than well provided for any possible downside as far as that account is concerned. So we have taken your advice. Thank you very much.

Nitin Aggarwal: And do you also want to clarify the ECL provision requirement number also?

Sanjiv Chadha: So I think that's something which is still in the realms of future RBI dispensation in terms of what do you calculate, how do you allocate provisions, whether you can hold them and then draw upon them when the requirements come in? So we shall wait for that. But let me just put it this way. So in our view, the normal cycle credit cost should be about 1% for us, right? As of now, we are below that. I believe that whatever ECL requirements might be there, we should be able to absorb them within this figure so that the current trajectory of profitability that we have that remains intact.

Moderator: Saurabh had a question.

Saurabh Kumar: Just one question. On the subsidiary business, there was some news that you are looking to do something with the credit card business. Can you talk about that?

Sanjiv Chadha: So Joydeep?

Joydeep Dutta Roy: So the credit card subsidiary, I think we have started a process to get in some investors. We're looking at both strategic as well as financial investors, who could add value to the company as it moves on its growth path. And I think the company has been doing pretty well over the last 1 or 2 years, as you would have seen. And in the last year, I think our credit card company in terms of growth, registered the highest growth in the industry, among all the credit card issuing banks in terms of growth percentages. So its growth rate was somewhere around 76%, but as industry average was maybe just around 14% or so. So that's the growth that the company has shown. And in terms of the investor process, I think we are in the midst of the process. We have got a fair amount of interest from the market. There have been some investors who have applied. We are going through the diligence process. Our data room has been created where the financial and the legal diligence, et cetera, are going on. And after completion of that process, we will probably be able to announce the investor. Thank you.

Moderator: We'll take a couple of questions from Zoom, Mahrukh, you had a question.

Mahrukh Adajania: Sir, congratulations to you and your team on a very strong set of numbers. Sir, just had a couple of questions. Firstly, in terms of your personal loans, of course, that portfolio has done very well in terms of growth. But are there any niche segments or niche areas that you cater to? Of course, I am looking for the breakdown between salaried and non-salaried, but even within that, if there's any particular geography or any segment of customers that you would be targeting because this is a very competitive segment already?

Sanjiv Chadha: So thank you, Mahrukh. Thank you for joining us. So I think for us, this is still a portfolio, which is in its infancy. So the Bank had invested again in a data lake, some years back. Now we are able to put all that data to use to identify the right customer and also to determine the kind of exposure we might want to take on that customer. So it is pretty much driven by data analytics, which takes into account everything, including, again, the profile in terms of employment, the kind of transactions that you have, et cetera. For the moment, again, we are fairly satisfied with how this portfolio is performing. I think if you would look at the analyst presentation, you will find one data point which might be useful that if we look at NPAs in the home loan segment, they are about 1.5%. Currently as we speak, we do acknowledge that this is a growing portfolio, not fully seasoned but currently, as we speak, the NPAs there are about 0.89% odd. So for the moment, the portfolio is performing very well. And our loans are limited only and only to our existing customers, who have their accounts with us as we speak. As the account aggregator opportunities presents itself, we might want to go beyond our customer base. But in terms of our own customer base, to my mind, there are enough opportunities for growth in the next few years. So for the moment in terms of customer profile, all of these are BOB customers, and our choice is based upon the analytics that we derive from our data lake.

Mahrukh Adajania: Okay, sir. And I just had one more question. On this particular airline account, was it in SMA category in the previous quarter because you talked about a stress group in the previous quarter.

Sanjiv Chadha: So I think, to the best of my knowledge, there were no irregularities in the past. But the fact is that I think all of us are aware that this sector has been under stress. There are some airlines, which again are either backed by a large group or again, our market leaders. So there were some vulnerabilities that we were aware of. But I think the current challenges have come in some ways, from circumstances, which actually go beyond our market. I think the company has gone on record talk in terms of engine availability and those kinds of issues.

Moderator: Rakesh Kumar, if you can please unmute yourself.

Rakesh Kumar: Sir, just a couple of questions. One is relating to a couple of notes of accounts there. And just to reconfirm, what is the total standard stressed account number that is INR 10,000 crores approximately.

Sanjiv Chadha: Yes, I think, Khurana Sahab?

Ajay Khurana: Yes, INR 11,000 crore.

Rakesh Kumar: INR 10,700 crore approximately.

Ajay Khurana: Yes, it is INR 11,000 crore.

Rakesh Kumar: Okay. And the provision thereon is 10.7%, sir? Provision outstanding on those standard accounts?

Ajay Khurana: Those standard account provision, total provision...

Rakesh Kumar: No, the stressed standard account provision is 10% -- around 10.7%?

Ajay Khurana: See, are you talking about restructured account or the standard stressed account, SMA? SMA, we do not provide anything.

Rakesh Kumar: No, restructured numbers, what is there in the notes of accounts, couple of notes accounts. So there, the outstanding provision is 10.7%, just to reconfirm, sir.

Ajay Khurana: Total standard provision is INR 5,800 crore.

Rakesh Kumar: So excluding the provision for the standard account, the provision?

Ajay Khurana: It is all inclusive. All inclusive, accounts, which are standard, and the provision is INR 5,800 crores. Specifically, for SMA, we do not provide any account-wise, no provision is provided.

Rakesh Kumar: Okay. And secondly, sir, referring to the notes accounts number 15, there is a lot of reduction that we have seen from Q2, so similar notes of accounts, number 15 in Q2 and for Q4, there is a lot of reduction that we have seen in the exposure. So do we see further reduction in that number, the stressed account number, which was under resolution? And what is the impact of this reduction on the interest income line in this quarter?

Ajay Khurana: No. As far as restructure is concerned, restructure our book is reducing. Last year, it was INR 18,500 crore last quarter. This quarter, this is INR 16,000 crores. Overall, the stress, which was 4.67%, other than NPA, it has been reduced to 2.97%.

Rakesh Kumar: Correct, sir. So we see that there is a lot of reduction in the provision also that we have seen. So is there any impact on the interest income line also of this reduction?

Ajay Khurana: No interest income because provision is here, these are all standard accounts and interest is booked, so there is no risk of any impact on interest income.

Rakesh Kumar: Correct. Okay. Got it, sir. And sir, on this wage revision thing, like a total provision outstanding is only INR 500 crores. So we have made an additional INR 300 crores this quarter. That's it.

Ajay Khurana: Yes.

Moderator: Thanks, Rakesh. Who else has -- I think right, there.

Unknown Analyst: Hats off for an excellent performance to the whole team. A couple of things. In fact, you answered most of the questions. A few things on this wage revision, which comes every 5 years, you mentioned you have made a provision of INR 800 crores. What is the expected hike? And when is the agreement going to happen, if you can give an indication itself?

Sanjiv Chadha: So I think, Lalit, possibly? This toughest question goes to the newest ED.

Lalit Tyagi: So it goes like that. So there is one calculation, which goes into mind as what was the percentage in the last hike and what are the expectations going forward? That is one. The second one is that the provision, which we have booked in this financial year is for the 5 months only because the wage revision is due from first November 2022. So going forward, as the discussions progresses, we may build in the incremental provisioning as the discussion with the industry progresses. But as of now, we believe that we are adequately provided in terms of the anticipated wage hike.

Unknown Analyst: What was the last increase 5 years ago?

Lalit Tyagi: It was, if I am correct, around 15%.

Unknown Analyst: Okay. No inflation coming down, possibly it could be lower, right?

Lalit Tyagi: It's difficult to conjecture on that point.

Unknown Analyst: Sir, next is very excellent deposit growth rate 15.1%. What do you expect in the coming year because sustainability is the key here, advances is very easy to give, and what is the cost trends for the deposit growth?

Sanjiv Chadha: So we are conscious that we might be coming towards the end of the rate increase cycle. So we have tried to make sure that the incremental deposits are such that they can, again, get repriced should the interest rate cycle turn. So most of our deposit growth which has happened, CASA apart, has come from deposits with a maturity of 399 days, which is a flagship scheme, where we offer the highest rates or lower, which means that even if the interest cycle were to change, we have not tied ourselves into a scenario where we might, again, find that loan yields are coming down and deposit yields are stuck. So we have enough flexibility built into the balance sheet.

Unknown Analyst: So the number for the deposit growth ahead, some kind of indication.

Sanjiv Chadha: So I think for us, we would expect that again, as a general proposition, you would want to fund your loan growth entirely from deposit growth. This year also, despite the fact that deposit growth was challenged, rupee to rupee, our loans have been funded entirely by incremental deposits, and that's what we would want to continue, which is why you find that the domestic CD ratio, despite the tightness in the market, is just 75%, and there's enough room for growth there.

Unknown Analyst: On this airline account, which we mentioned, we have been very ultraconservative. In fact, you gave the number. And being a standard account, and in fact, the industry is doing well. Now looking at a worst-case scenario, what the company says, there are a lot of collaterals you mentioned, corporate guarantee, of course, is difficult to implement but this collaterals and land. What will happen is what you have provided, ultimately, it'll come off in write-backs and recoveries with the actual profits in the coming year, right? These collaterals they have, what is the time frame it takes to monetize this collateral because they're talking about land, primary land in prime areas, like Worli, plus extra, you may be having specific known to you. What is the time frame to monetize this thing? Particularly the real estate cycle is very good now.

Sanjiv Chadha: Yes. So I think that's a hypothetical question. But from our perspective, we just try to make sure that whatever is the downside since you have room to make provisions, you do that. If this account had not been there, we probably may have made a general provision anyway. So it's really, again, so why our credit cost at 0.53% today. It is because whatever you could anticipate for the future, you took care of it in the past. So that's what we continue to do. But in terms of specific recovery cycles, I think that might be possibly a too detailed discussion for this quarter, okay?

Unknown Analyst: Now lastly, on a very important subject of ECL, which was raised. Now some of the banks – this is a very sweet spot in the cycle with very low credit cost. It's the best time to make provisioning, and RBI is making us ready for it. Although they had prepared us several years back and asking, regular financial models from us compared by IFRS 9. Now other banks, like Bank of India, Can Bank, Union Bank have given us a number to ponder. Now if you can also be transparent and share the number based on the models you have been reporting. Although we know we are the best bank compared to all the banks, and we have been doing accelerated provisions, including some account we mentioned. This is excellent provision. But number, again, given the number, so what we have prepared for, that transparency we expect from you.

Sanjiv Chadha: Normally, we would not give this number. You praised us so I can't refuse so I just hand over question to our CFO.

Ian Desouza: So we believe it's a bit premature to come out with a crystallized number because the regulations itself are in discussion with RBI. As you're aware, there's a discussion paper out. Banks have responded to the discussion paper. But I'd like to make 2, 3 points and attempt to answer your question in a different way.

One is if you look at our overall financial from an asset quality perspective, you would see NNPAs have been steadily declining. They are about 0.89% is the NNPA ratio. So the un-provided NPAs are very low. Secondly, in terms of our provision coverage is around 92%. And thirdly, the stress book, which is the SMA CRILC 1 and 2, where your ECL will actually hit you is at all-time lows at 0.32 basis points.

The other thing in terms of restructured book is around our standard restructured book is around 1.5%. So these are all elements where your ECL will push and create pressure. So all these elements, I think, are working well and should track better. And having said that, maybe our number, it's an estimate right now would be in the range of 1% to 1.5% of loan book at this juncture.

Unknown Analyst: Okay. This is really very good. I have one point on this, I'll just add. You're having consultation with RBI on that. No, there are lots of thoughts, which are coming on IFRS 9, ECL and the secular-based system. Now we are moving forward from a secular-based system to a principal-based system. But we should have clearly one, secular-based system is working very well or that IFRS 9 ECL. But if there's a thought process of a hybrid system, which has not been implemented anywhere in the world. So there should be one system. I feel if you do that, it will help a uniformity across the system and wishing you all the best.

Moderator: Thank you, sir. There in the second row. There's a..

Sharath Chandra: Yes. This is Sharath Chandra, Investment Adviser. Good that this year has been extraordinarily well. Your deposit growth has grown at 15%. Your bulk deposit rates, I don't know whatever they are, you have been able to grow at 65%. Credit, obviously, you have been able to match the industry. You showed comparison about industry and how your growth has been better. Now looking as a shareholder with a longer-term perspective, in the last 10 years, a full decade, your return on equity has been low-single digit. This is the first time that you have shown 15% return on equity, which is our expectation because as a risk capital holder, I expect a higher rate of return vis-a-vis my fixed deposit rate.

So I would like to ask you, why are you running after growth? Because bulk deposit at 65% growth is basically to match your credit growth. Why don't you just be more choosier about what things I will lend and what things I will not lend? And can you tell me that has the Board discussed and probably the management team has discussed is target return on equity, which you have in mind because if that is not in mind, this is a good period. And so that's how you've made good money. And so that's why the stock price has gone up and it's first time trading at more than 1x price to book. If you can tell me if there is a target which you have set in, what are the cultural and structural changes which has happened in the last couple of years in the bank that I'll be confident that you'll be able to maintain that double-digit return on equity. Thank you and all the very best. Apologies if I have been slightly blunt.

Sanjiv Chadha: No, not at all. I think, you're most welcome. So I think in terms of the mandate from the Board and also what we have been guiding, the mandate from the Board is that we would want to insulate the Bank from the cyclical development that we have seen, which was, as you said, responsible for extended period where returns were subpar. And if you were to go back and see what produced those subpar returns, it was largely the corporate credit cycle. So today, the corporate credit cycle is very good. It is working in our favor, but there's no doubt it will change again.

So as a Bank, what you can do is you prepare for the next cycle by making sure that you are less dependent on corporate loans as compared to what you were. So our corporate loan book used to be 47% - 48% of our book, to date it is down to 43%. So we believe that before the next cycle comes, if we can have a more balanced portfolio, then the kind of challenges that we saw the last time around, they are likely to be addressed. So that's number 1. Number 2, again, in terms of growth, we actually started again in my opening remarks by saying that for us, priority number 1 is underwriting standards; number 2, margins; number 3, growth. And we do not chase growth, which is why in the corporate book last year, we had a growth of only 5% because the conditions were not conducive to having growth with margins.

Third, we never take a growth target for the year. But also in my opening remarks, I mentioned that we will like to grow at industry or better, right? So maybe 1 or 2 percentage points more than that. So you try to make sure that you are not setting yourself targets where, as you said, by chasing your targets, you end up in a situation that you had not bargained for.

And in terms of the changes that have happened in the Bank, which should give us confidence for the future. I think, first of all, is the technology piece, which I think where the Bank over the last few years has emerged at par or better than probably any other bank, and we had some metrics that we spoke about. The second to my mind, apart from technology and more importantly, applying that technology again to do business is really talent. That is what distinguishes one bank from the other. And I can say it without hesitation that this Bank, public and private sector, included, is the best example of a bank, which is able to attract quality talent, retain it and use it to build businesses.

Particularly, I think the biggest risk for any bank is the CEO, right, even if I say it myself. And how do you mitigate that risk by making sure that people like the Chief Risk Officer, again, are experienced, they have industry standing, and they can give advice without hesitation. But today, as we speak, our Chief Risk Officer is a market professional with enormous experience. Our Chief Financial Officer, again, is a market professional with an enormous experience. So we have tried to build a team, which can insulate ourselves from this cycle, but we welcome any feedback, and we believe it will help us become better.

Sharath Chandra: -- target.

Sanjiv Chadha: So as you said, you give targets again and you get into the trap that you outlined for us, right? But we will try to make sure that we outperformed the market. We bow to market conditions, but we believe in any market condition, we can try to outperform the market.

Moderator: Thank you, we will take last couple of questions, I think Saket Kapur is online, Saket if you can unmute yourself and ask your question.

Saket Kapur: Sir, you spoke about the net interest margin for the next year to be in the trajectory higher than what the average for this year was. So we are looking for a band above 3.31%, and it will be lower than 3.6% that we exited for this year, that should be the number we should work for the next year?

Sanjiv Chadha: Yes. So I think what you are saying is correct. We believe that the 3.31% average NIM that we had, we should be able to protect that, which means we should end up there or maybe a little better than that, and we do believe that the 3.53% exiting NIM that we saw gives us a little bit of room to, again, make sure that we can absorb a moderating interest margin regime.

Saket Kapur: Okay. And sir, on the ROA front, sir, what should be the trajectory, we exited this year with 1.34 annualized number for the quarter and 1.03 was for the year, so what should be the ROA trajectory?

Sanjiv Chadha: So I think we had guided that we would want to hit a 16% ROE and a 1% ROA in '23-'24. We have hit that one year in advance. Now we believe we should be consolidating around those levels. So I would believe that our guidance continues to be 1%. And as a consequence, the ROE, which is as of now about 18%.

Saket Kapur: Come again, sir. I missed the number, sir, what it should be?

Sanjiv Chadha: 1% and between 16% - 18% ROE depending on what a capital base is.

Saket Kapur: Sir, now for your equity investors, sir, I think so the dividend payout is also significantly higher. Thank you to the Board for declaring a dividend of INR 5.50 per share. Could....

Sanjiv Chadha: I hope I'm speaking to analyst, not a shareholder.

Saket Kapur: I'm a shareholder.

Sanjiv Chadha: Okay. Both hopefully.

Saket Kapur: Sir, no, sir, I'm a mere shareholder, but I'm trying to learn the language and the terminologies. So the moot points as an investor, I would like to understand, firstly, sir, in the current banking cycle from where the NPA to the cleaning up exercise and now with the credit cycle and the higher interest regime, what should investors look forward in terms of they being investing in the equity of the bank, particularly Bank of Baroda in particular because these stock prices have not been the normal course. We have not seen these prices for a very long time. So how sustainable are your earnings, what is the quality of the number that will continue so that investors can contain with remaining invested. Am I connected, sir?

And sir for the ECL point also, sir, I would just like to understand, sir, what should investors keep in mind when this ECL implementation has been spoken about. There is a lot of ifs and buts about it. If you could just give for the benefit of investing communities. There's some basic understanding of what is this all about, and these were the only points.

Sanjiv Chadha: So thank you very much. I think from our perspective, we believe that as far as the banking environment is concerned, it is very benign, and we should continue to see good returns from banks as we move ahead. Speaking of Bank of Baroda, I think, while, of course, we benefit from the broader conducive environment, as I mentioned in my opening remarks, there are some special circumstances, which make BOB again, a particularly good investment. And the key differentiator as far as BOB is concerned, is on the cost side, where we have been able to contain our costs far better as compared to our competitors. So therefore, I think there's a delta, which is available to investors in BOB, which should give them confidence as far as the future is concerned.

As far as ECL is concerned, to my mind, given where we are in the cycle, and particularly, the corporate credit cost cycle is likely to sustain for the next few quarters and years. I think this has got implications which are, again, very positive, both in terms of the historical book to also in terms of ECL, in terms of the historical record on which losses might be estimated. So I think we should be able to continue to report decent profitability numbers, notwithstanding whatever guidelines come in from the RBI in terms of ECL.

Moderator: Thank you. I'm sorry, we'll have to close now. It is 4:30...

Sanjiv Chadha: I think there’s one at the back

Sushil Choksey: Congratulations to team BOB for an excellent performance. Sir, we've done a lot of transformation, whether it is digitization, human resource and we are reaping rewards today. You highlighted that we are touching a few numbers of customers from our existing base where all the loans are concerned. So if you can highlight a little -- elaborate that 5%, 10%, having reached the capabilities far higher. Secondly, a lot of facilities with BOB started over a number of years, led to this transformation. So without getting into details, can it lead to a substantially higher income within Bank. Second thing, we are doing a lot of digitization where SME loans up to INR 1,500 crores are concerned and most of the PSU banks have lost their market share in the last 3 years in that business segment. How are we reenergizing that BOB captures those loans back from private sector and our earnings get better?

Sanjiv Chadha: So thank you very much. So I think in terms of the capabilities in the bank and what that -- how that could actually translate into better earnings and revenues. First of all, I think, as you very correctly have said there have been a lot of investments that happened in the Bank, not now, not in the last 3 years, but over the last 5-7 years, which actually are paying dividends now. Among them, I would again like to highlight two. One was, again, the investment that we made in creating a data lake, which we have been able to leverage now. If we had not made the investment then, there's no way we could have produced these results today.

Similarly, again, investments we talked in terms of the fact that in the physical footprint, manpower, we are efficient and able to contain costs. That again was because the Bank had the foresight and the management team then had the foresight to, again, invest in a shared services company, which again is taking a large part in terms of making sure that we are efficient and our expenses remain under control.

In terms of the upside of what we are doing, I'll just give you the example that today as a proportion of our loan book, unsecured loans are probably just about 2% or there or thereabout about 3%, right? About INR 25,000 crores as against the loan book, INR 9 lakh crores. Now the corresponding figure in SBI might be 5-6x higher because SBI was able to start that very many years before we did. So that is again an upside, which remains unexplored as far as we are concerned. So there's still a long runway, which is there in terms of, again, reshuffling our book, making better margins. So today, we have a 3.6% domestic NIM, but that is despite the fact that, a, the credit card business sits outside the bank; and two, the unsecured loan book is far lower as compared to some of the competing banks. So these are upsides, which are still there for us to explore as we move forward.

Third is, again, what you alluded to in terms of technology, which has now been brought to bear, mostly on the retail book. But in terms of it having a transformative impact on MSMEs that is still to play out. We have started doing that, but that is still, again, something which we are targeting relatively smaller micro MSME loans. Now for us to move that to the mid-segment, again, is an enormous upside that is available to the Bank.

Sushil Choksey: Sir, my next question is based on the global market outlook and domestic outlook, which RBI and the government is saying, the interest rate cycle you already highlighted. Do you anticipate that the loan book growth, what we see with the view of election next year would be more front-ended in the current year first half rather than the second?

Sanjiv Chadha: So tough to say. Maybe again, we have our Chief Economist, Madan there. He has been sitting quietly for a long time. Maybe we can ask him to give his views.

Madan Sabnavis: In fact, for the current financial year, we are looking at overall credit growth being in the region of around 11% to 13%. If you're asking whether it's going to be loaded in the first half or in the second half? Is that the question? Yes, we would tend to believe it will happen more during the second half. The reason being that both in terms of the consumption cycle as well as the investment cycle, whatever turnaround is going to happen, it's going to happen more likely in the second half. Okay?

So that's when we would see the demand for credit really picking up, if at all, I mean, when we are talking in terms of one half being better than the second half. So therefore, it will be happening more in the second half. This will be based on the assumption that when we are talking of consumption increasing because probably of a good monsoon that is the basic consumption, which you're making, there will also be good rural demand coming in. So as your consumption increases, there'll be higher capacity utilization, which in turn will generate greater demand for investment. That's how bank credit would keep increasing. So it will be more in the second half rather than in the first half.

Sushil Choksey: We have a lot of news about our credit card, insurance and other related services about IPOs. RRB also being spoken about. Anything we are likely to monetize partnership in the credit card, I understood. But the other wings?

Sanjiv Chadha: Joydeep?

Joydeep Dutta Roy: So I think on the life insurance subsidiary, we are on the path of an IPO. We have received the DRHP approval from SEBI in March. We have a 1-year runway to get it on the IPO. But of course, given the conditions in the market, et cetera, we are again seeing when is the right time. So we will be taking analysis of what is the right time to enter the market and then we'll go for the IPO in the insurance side. BFSL and Nainital Bank, I think the processors are on for getting a partner into both these entities. And I think we should be shortly seeing some positive results there also. So that's on the monetization side.

Moderator: We will request our Chief Financial Officer...

Sanjiv Chadha: At the end, one more, I think, we can...

Ramesh Bhojwani: Sir, Ramesh Bhojwani from Mehta and Vakil. 2 important things. One, today, the wholesale price inflation has fallen to negative, and the retail price inflation has come down to 4.9. And RBI on June is very likely to announce a rate reduction, maybe 25 basis points, if not 50. And if we have a good monsoon, this reduction of rate cycle will continue going forward. In this situation, how is the Bank looking at the overall rate cut scenario, number one. And the second question is little elementary or little away from this. Sir, no bank has taken steps to reevaluate their assets, which are long-standing in their books when they were made. Are we looking at revaluation of our assets?

Sanjiv Chadha - Managing Director and CEO: So I think the first question, I'm not sure whether June is the time when there might be a cut, maybe Madan can talk about that. But you're right that we probably are again at that inflection point where the cycle is going to turn. And it's a very relevant question, how are we, as a Bank, prepared for that cycle. Now this is something we have been acutely conscious of when we were constructing our liability portfolio. So today, the major part of the incremental growth that we have seen in our liability book that has come from liabilities, which have tenors of 399 days and below, right? So which would mean that should the interest rate cycle change, we are very well insulated from any adverse impact on our book, right? So the second part again was, I'm sorry, just lost that.

Unknown Analyst: The revaluation of assets.

Sanjiv Chadha: Revaluation, I think that's something the CFO can, along with his thank you, maybe he can address the question.

Ian Desouza: So, like all the organization, you mentioned, we do have a policy for that, and we do it once in three years.
So coming to my closing remarks. Thank you, everyone, for coming for our in-person session. It's not always easy to travel in Mumbai. Thank you for being here. And look forward to seeing you again in the next quarter. Thank you so much.

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