BOB Analysts Meet

24/01/2020

Sameer Narang: Good evening everyone. Welcome to Bank of Baroda's Analysts Meet for the quarter. Today we are joined by our new MD and CEO - Mr. Sanjiv Chadha, along with the Executive Directors - Mr. Murali Ramaswami, Mr. Khichi and Mr. S.L. Jain.

We will start with the brief presentation followed by opening marks by the MD and then we will open the floor for Q&A.

Figures of all three banks have been added for December 2018 for comparable purpose. On slide 5 of the analyst presentation, the major highlights show that operating profit is up by 8.5%, Non-interest income is up 28% within which fee income is up by 10%. However, we have a net loss of Rs.1407 crore because of higher provisions. Net interest margin at 2.8% is up on a YOY basis. At the same time, domestic cost of deposits is trending down and is down by 16 basis points sequentially. The global advances are up by 2.7 odd %. Retail loans continue to drive growth by growing more than 15%. Domestic CASA ratio is at almost 39% compared to 38% in the previous quarter. The gross NPA ratio has moved up sequentially to 10.43% from 10.25%. Net NPA is also up by almost 14 basis points to 4.05%. The provisions continue to remain high; the provisions including TWO is flat sequentially at77.8% v/s 77.9% and excluding TWO is marginally lower. Capital adequacy ratio is fairly comfortable; we have raised Rs. 3397 crore in terms of AT-1 bonds in the quarter.

Slide 8 refers to business performance, domestic CASA deposits are growing around almost 9% within which current deposits and saving deposits are growing at 8% 9% respectively. Similar trend is seen in average numbers with domestic current accounts growing at more than 11.5% and savings deposits at 8.7%. In the credit book on slide 13, share of retail continues to grow and is now at 20% compared to less than 18% a year ago. There is an uptake in credit and disbursals on a sequential basis. In terms of retail loan growth as per slide 14, auto loans are growing at more than 40%, education 13%, home loan at 10% and overall retail is 15.3%. The risk profile of the retail book continues to improve as visible in terms of GNPA. Risk profile of the MSME book is seeing some minor deterioration as visible on slide 16 and has more to do with the stress in the overall sector. Slide 17 highlights the rating profile for domestic corporate advances for Rs.5 crore and above; the marginal incoming book is actually of better quality than the average. And since we are on-boarding better quality, it is leading to capital optimization in terms of risk rated assets. Slide 20 shows the overall breakup of the NBFC book; we are seeing an increase in the AAA book and a dip in the BBB and BB below book in terms of percentage as well as absolute. There is a slight downtick in as our MCLR is down by almost 50 basis points from where we were in Feb. With the G-sec yields coming down, treasury continues to do well. It has had a very good quarter in December '19 which was the case in September as well. The overall duration is at 3.84 for the investment book as shown in slide 23.

As seen from slide 25, the international book is showing pickup on a YOY basis. Net advances are up by 14%. CASA deposits are increasing combined with shedding of high cost of deposits resulting in expanding of margins in the international book. There is a change in mix in the overall international book as shown on slide 27, with an acceleration in new trade credit whereas LCs and advances against SBLCs are coming down stable ECBs, an increase in loans to India, India related companies and non-India entities as well as local credits. Slide 28 explains the overall impact in terms of our strategy of rationalizing some of the international territories as well as discontinuation of LOUs as well as subsidiarization in UK which was a regulatory change resulting in the overall impact of Rs.66,000 crore on the international book. Now as that impact is running down, as visible in the last 2-3 quarters the book has started doing well. As shown on slide 29, with the yield on advances going up, cost of deposits going down, margins are trending up in the international book.

On the financial inclusion front as seen on slide 30, average balance in the zero balance accounts is increasing and adds to our CASA. Market share in the PMJDY accounts is 2X of the market share in overall deposits.

Going forward, it is seen from slide 33 that global margins are pretty much stable at 2.8% v/s 2.81% in the previous quarter and domestic margins are at 2.88% v/s 2.9% so a minor change. Looking at the operating performance on slide 34, NII has increased by 9% due to shedding of high cost deposits and as we gain more CASA traction, NII is showing positive increase. Fee income is also up by 10% which is a positive movement and non-interest income is up by 28% because of which the operating income is growing at 14%. Operating expenses seem optically higher at 19.5% for they include the ESPS which was booked in the quarter. Excluding ESPS, the operating expense increase is less than 13% which is in line with the overall operating income.

Slide 36 highlights the breakup of non-interest income. Fee income is increasing in the each of the buckets and that is a positive sign. Trading gains too in the quarter are up 28% so that explains total non-interest income increasing by 28% in the quarter.

Operating profit is up by 8.5% however provisions are up by 54% as seen from slide 38. Provision for NPA is up at 47% to Rs. 6621 crore and that has driven the loss in the quarter. The NPA flow chart on slide 40 explains that we have had fresh slippage of Rs. 10,387 crore in the quarter out of which Rs. 4,509 crore is on account of RBI divergence. Excluding that we are pretty much in line with how things were in the last few quarters. Recovery continues to maintain last quarter's momentum and so is the case with upgrades. So we see an overall closing balance of Rs. 73,000 crore compared to an opening balance almost Rs. 70,000 crore. Slippage ratio has been elevated this quarter annualized to 6.8% and credit cost was also elevated at 3.9%. On an overall basis, slide 41 shows that we maintained the provision coverage ratio at the same level as the previous quarter 77.9%, and this quarter is 77.8% and excluding TWO we are almost at 64% in both the quarters. In the NCLT exposure on slide 44, we have the overall NCLT mark up by Rs. 50,000 odd crore but we are very well provided at 89%. In September quarter, we had a far higher watch list, now the watch list stands at Rs. 10,500 crore, seen from slide 45. And 85% of the slippage in December quarter has happened from the watch list of September. That is why you are seeing reasonable decline in the overall watch list to Rs. 10,500 crore. The overall trend in the movement of SMA on slide 46 shows that after surging in September, it is coming down now and is also visible in the watch list. With regard to capital adequacy as highlighted on slide 48, we raised Rs. 3397 crore through AT1 bonds in Q3 and are seeing an improvement in our overall capital adequacy ratio in December, Tier 1 is at 11.45%. On progress of integration starting from slide 51 onwards, we have seen reasonable momentum in terms of the plan that we had chalked out. We are working on achieving and ensuring that the revenue and cost synergies are realized. Already the corporate accounts have been migrated to Finacle 10 on a single system and we have begun with branch by branch migration, and the plan is being rolled out and we will see cost synergies playing out through network optimization in the coming year. In terms of IT which is the core of the integration we are seeing the CBS migration is in full swing, the payment system migration which is prerequisite for the CBS migration is also in progress.

The domestic branch network has expanded visibly as can be seen from slide 55. In terms of our subsidiaries there is reasonable momentum in the BOB cards portfolio and the same has been shown on slide 59. We are booking reasonably better amount of cards every quarter and the spend every quarter is moving up so the subsidiaries are working on new tie ups and cross selling cards to our existing customer base. In terms of Baroda DigiNext as explained on slide 60, we are seeing an almost 40% increase in the overall fee income and the transaction value and CASA acceleration is also happening. And same is the case with supply chain outlined in slide 61, we are seeing reasonable momentum in increase in terms of the overall business. In Fintech also we're launching new initiatives and continue to attract customers and acceleration in business. In shared services also the transformation journey continues which helps the branches to focus more on customer service and sales rather than processing. Slide 66-67 show the consolidated financials and slide 67 shows the overall capital adequacy ratio; it is almost at 14% for the consolidated entity.

So on that note I think the presentation is done. Sir, can we have some brief remarks from you and then we can open the floor for Q&A, thank you.

Mr. Sanjiv Chadha, MD & CEO of Bank of Baroda

First of all, thank you very much all for participants for coming over here and welcome to this analysts meet. Special warm welcome to a few familiar faces, who I remember very well from my time at State Bank of India, so thank you very much for again making time and coming over here. Still new to the bank about 3 days old, so in terms of my contribution to your understanding, it will be limited this time but I do look forward to interactions with you going forward.

Despite the fact that the bank is going through its merger activity which is very complicated and disruptive in nature and amidst challenging macro- situations in the country, I think it is a tremendous credit to the team here that we have figures which look fairly decent in the areas that matter. The CASA ratio is growing over the last 3 or 4 quarters. We are pretty much back to the CASA ratio that BoB had on a standalone basis. The consolidation has helped the Bank regain its CASA numbers as well as strong growth in particular categories, such as car loans. In terms of new initiatives, I think great credit goes to Mr. Jayakumar who was a very forward looking leader and who has actually delivered great value to the bank in terms of new initiatives. Fee income on the supply chain financing initiative has doubled. So lot of these initiatives that were taken, the talent that has been inducted from the market where again BOB has been pioneering, I am sure these are going to yield dividend over the coming years. So I am very positive about the BOB story and I hope that over the succeeding quarters I will have you here to share it with you, thank you very much.

Question from participant

1. Would you throw some more light on the RBI divergence and details such as why it has happened, how was it dealt and the chances of recurring in the future?

Reply by Mr. S.L. Jain – Executive Director, Bank of Baroda

Basically RBI has given divergence on account of 2 reasons. One is the short fall in provisions. The short fall in provisions occurs because of the value of the security. The security deteriorates with time. So, based on the difference in the value of the security, there were additional provisions. The second reason is the difference in asset classification due to interpretational issues in 3 or 4 accounts. However, all of the divergence amount as pointed out as been provided for in this quarter.

Question from participant

2. So if you reduce the divergence figures is it going to continue to be on the sliding side may be another 15 – 20% lesser than what is provided now?

Reply by Mr. S.L. Jain – Executive Director, Bank of Baroda

As seen from past, it has come down from Rs.16,000 crore to Rs.14,000crore and further to Rs.10,500crore this quarter. So it means that whatever divergence was there we have already classified as NPA excluding 3 or 4 accounts which were not a part of that because of interpretational issue.

However, these 2 or 3 accounts are paying regularly and they will be upgraded any time in the next year and that amount is a big amount.

Question from participant

3. So, what could be the percentage of this watch list of Rs.10,500 crore which can finally go bad I mean, some idea about looking at the past performance or readings or analysis?

Reply by Mr. S.L. Jain – Executive Director, Bank of Baroda

We don't have undue worry on account of these numbers as we are monitoring these accounts day in and day out. Some of these accounts are paying 60 days or 70 days, but they are paying, so we are not unduly worried on account of that.

Question from participant

4. Sir, one last question on this, what is the scenario now going forward. The last quarter had been good to some extent in recovering from NCLT some of the cases which have been resolved due to the court interventions. Going forward, how do you see those kind of surprise positives, negatives which we have already taken into consideration?

Reply by Mr. S.L. Jain – Executive Director, Bank of Baroda

From the recovery perspective, of course, from the industry perspective there is a good recovery but as far as BOB is concerned we were not having exposure on Essar because we had already sold it. In spite of that our recovery continues to remain around close to Rs. 4,000 crore. Going forward, we are expecting a good recovery in 2 or 3 big accounts any day and therefore we are expecting a better recovery in the current quarter as compared to the last quarter.

Question from participant

5. Presently what we are seeing is that the business figures are almost flat or negative quarter after quarter? The major income is going to ultimately come from the lending business all said and done, NBFC routes are limited now, in retail also there is a heavy competition so we cannot all the time keep relying on the retail business only, so how do you see and what kind of growth you look for the business in future.

Reply by Mr. Murali Ramaswami – Executive Director, Bank of Baroda

Retail segment for the Bank is doing well and the corporate segment reflects the picture of the industry. Disbursements in the retail and corporate segment are both on a growing trajectory. We are concentrating mainly on good rated accounts A, AA, AAA in addition to our existing renewals. And if you take our international portfolio we are doing very well. International growth mainly is coming from Australia, UAE, USA. We are doing well on the syndicated loans front. NBFCs are also repaying but we are not able to lend to NBFCs because they don't have fresh onward lending, many of the NBFCs are not lending now. Second thing, earlier there used to be pool buy out which is another constitution which now we don't have much big pool buy outs also. These are the areas, with all these constraints we are constant and we expect at least 4 to 5% growth.

Question from participant

6. Sir, your views on the future business growth. What is your perception and how do you plan this bank to be going forward in the field of advances or the future growth of the business.

Reply by Mr. Sanjiv Chadha – Executive Director, Bank of Baroda

The central challenge for all of us is how do you grow your loans in a manner which is risk mitigated so that your risk adjusted return on capital is positive Even when we have grown there has been a cost to that growth which has been a challenge for the balance sheet which we are seeing today. One opportunity comes from the fact that within the public sector banking space there is consolidation taking place so that means that you have the ability to fund large exposures, you also have little more pricing power as compared to what you might had in the past. Equally there are some banks in the private sector banking space which are actually evacuating the market, so BoB can aspire for higher share in corporate lending. Number two, we look at the NBFC sector which actually took large chunks of growth away from banks, despite the fact that NBFCs face an unfortunate challenge but that nevertheless opens up an opportunity for banks in terms of taking a part of that business which was accruing to NBFCs and by working closely with them in a cooperative framework such as co-origination and such devices address a part of the market thus leading to balance sheet growth of banks. Third, a lot of technology solutions have now made it possible to the MSME segment, where you can monitor those loans and also in a manner where less manpower is required. The ticket size of those loans and small businesses was simply not a viable proposition in the past and we have seen small business banks actually do it successfully. So I do think again that if we go look at things going forward it is not that the possibilities are not there, we, of course, need to get our act together but to my mind there is considerable potential for that.

Question from participant

7. Sir, I have a question on the NBFC sector, so if you see publicly available data then BOB's exposure to two private NBFC's, which is standard not DHFL; so one is an HFC and one is diversified, is around US$1.1bn that is around 75bn to the two top NBFCs and they are still headwinds in the NBFC sector, there are enquiries, there are litigations. So how do you expect to or how do you plan to manage risks in the NBFCs sector especially relating to these two NBFCs which are still standard.

Reply by Mr. Murali Ramaswami – Executive Director, Bank of Baroda

As far as NBFCs is concerned our exposure is constantly coming down and as told we'll go for co-origination mostly. Regarding major NBFCs which are in doldrums, we have already provided whichever is there in the NPA list and have also included them in the watch list. So we don't perceive any stress and for fresh lending to NBFCs, it will be based on their corporate governance, their onward lending practices and their credit quality rating

Question from participant

8. But the NBFCs that are standard do they have higher risks now?

Reply by Mr. Murali Ramaswami – Executive Director, Bank of Baroda

From the portfolio which we are having, most are the NBFCs which are public financial institutions and have AAA rating, Though the bank's exposure is Rs. 103,000 crore, the outstanding is only Rs. 93,000 crores in the NBFC segment and since all are either public financial institutions or it is a AAA or AA rated corporate, so there is nothing much to worry on exposure to NBFC.

Question from participant

9. Okay, sir, so and in terms of the June 7 circular how much of additional credit cost would you see on account of the circular in 4th quarter.

Reply by Mr. S.L. Jain – Executive Director, Bank of Baroda

So far only 3 accounts have been resolved right now and majority of our accounts either we have gone to the NCLT or we are having provisions. We are having even 100% provisions on some of the accounts. But we have signed around close to 20 ICAs.

Question from participant

10. Sir, any of these divergence accounts basically were from the erstwhile banks Vijaya Bank and Dena Bank or is it all part of Bank of Baroda.

Reply by Mr. Sanjiv Chadha – Managing Director, Bank of Baroda

Though most of the accounts are from BoB but the fact remains that there are common accounts from erstwhile Dena and Vijaya Bank as well.

Question from participant

11. Okay, sir, which sectors are these accounts basically from?

Reply by Mr. S.L. Jain – Executive Director, Bank of Baroda

One account is from chemical and another account is from the road sector and they are paying regularly, repayment is regular and is on date.

Question from participant

12. Okay, sir. Sir, anything on the resolution front that you can talk about so one large account which we already having some signs of resolutions and apart from that there are a lot of accounts particularly in the power sector where there is some headway happening in terms of resolutions, so can you talk just briefly about some pipeline in terms of resolution with names and maybe possibly even exposures.

Reply by Mr. S.L. Jain – Executive Director, Bank of Baroda

That is why we have entered into the ICA and some of the accounts, even based on ICA, we have sold our exposure in 2 or 3 accounts based on lack of expression of interest from the public and then based on the competitive bidding and we realized our NPAs.

Question from participant

13. No, but specifically into power account if you can really talk about the exposure that you have and where you are seeing some resolutions happening, leaving the ICA aside, sir.

Reply by Mr. S.L. Jain – Executive Director, Bank of Baroda

Nothing that we see as of now.

Question from participant

14. Sir, question to Chadha sir, basically you retailed in the past in SBI. You've seen the focus that Bank of Baroda actually had in terms of retail after Mr. Jayakumar joined the Bank, but from outside the bank what are the areas of improvement that you really see possibly for Bank of Baroda that you will like to bring in at least in the next 12 months or so.

Reply by Mr. Sanjiv Chadha – Managing Director, Bank of Baroda

It is important to build upon the initiatives that have taken over the last few years since it involved time and investments. Hence, it is important to keep the momentum going. For instance, as mentioned earlier, supply chain financing has been a very successful initiative that was undertaken. Similarly in terms of funding commercial vehicles, which are areas where actually NBFCs had a very strong hold so we have an opportunity to actually do loans and with better margin than was possible in the past. There are opportunities in the corporate loans too; these loans cannot be avoided despite their chunky nature. However, we want to make sure that the risks are controlled. So along with the emphasis on corporate loans, we also need to strengthen our risk management considerably as compared to the present situation today. So I think there will be a focus equally on growth, making sure that we don't lose out on the existing opportunities but to also make sure that we strengthen our systems so that we do not have the same kind of experience, the consequence of which we are discussing today. So it would be my endeavour to make sure that whatever experiences that BoB has had both positive and negative that we learn from them and the institution should get strengthened thereby.

Question from participant

15. Sir, you have a separate subsidiary by the name of BoB cards. Now you know SBI cards has come with their IPO, they have grown so big, do you have any plans in your mind basically for BoB cards that you want to scale up this business. I know it will take time certainly but do you have plans?

Reply by Mr. Sanjiv Chadha – Managing Director, Bank of Baroda

You are absolutely right, I think State Bank of India has made great success of not only SBI cards but of all of its subsidiaries. So when you analyse SBI's business, the value attributed to the subsidiaries is quite considerable. And though at BoB, we have not an equal success but nevertheless the potential is there and these subsidiaries would again be a matter of focus and we need to see how we can partner with likeminded companies to make sure that the competencies can be brought to bear around these businesses.

Question from participant

16. Can you please tell the performance analysis of 3 verticals, mutual funds business, wealth management and lending through credit cards particularly collections and NPAs.

Reply by Mr. V.S. Khichi – Executive Director, Bank of Baroda

From the wealth management perspective I'll share with you, we have a very ambitious target of almost seeing 70% growth on YOY basis as of March and we are pretty much in line with that. We have a target of around Rs. 240 crore vis-à-vis Rs. 140 crore last year. And by December we have touched Rs.110 crore on that. The credit card business is still in the nascent stage. We have not been able to grow that as much as we would have loved to do it. But there has been traction in the last 2 quarters, we have seen a pretty good growth and now the credit card growth is basically being supplemented by the bank's retail liabilities department who are also taking it as CASA enabler and marketing it. In the last 2 quarters we have seen a little traction but still a long way to go on that front.

Question from participant

17. And second thing is for Mr. Chadha, the previous MD on-boarded lot of veterans from private sector, foreign bank and subsidiaries as full time executives and also as consultants. Now what would be your view on continuing the tradition or experience or encouraging the hard core bankers within the system?

Reply by Mr. Sanjiv Chadha – Managing Director, Bank of Baroda

So I think that the flow of talent can never be a one-way street. Traditionally the talent has flown from the public sector banks to the private sector banks and to that extent public sector banks have done a huge favour to private sector banks. But at the same time if you have to compare to the market you'd have to make sure that even while you do supply talent then here is nothing wrong with that there is equally an inflow of talent and that's where I believe that Mr. Jayakumar was a visionary and he also had the courage to do things which are not easily done in any public sector. So in my mind I would want to build on that, make sure that BOB is possibly the best combination of public sector values and private sector talent.

Question from participant

18. Fine, I think SBI has also the same system. Lastly I would like to come on the NPAs. The second NBFC, housing finance company which slipped, these are Reliance owned finance, in which you were the lead bank. Now that has slipped basically apparently they are saying it is because of huge divergence in assets of the group of companies. Although there is no fraud but the point is there is a huge setback on the recovery process and that business. So what is your view about the business continuing and whether you can be able to get the diverted assets back in the system/

Reply by Mr. S L Jain – Executive Director, Bank of Baroda

Yeah, this company basically we have signed the ICA and under the ICA they have submitted the resolution plan. There's an improvement on that resolution plan which we discussed in the lenders meeting we had around few days back. As far as this divergence part is concerned, this also we have discussed in the last meeting and some of the information we have sought from the company.

Question from participant

19. So the business is going to stabilize and grow or it could be a big hit because you have not provided for fully yet.

Reply by Mr. S L Jain – Executive Director, Bank of Baroda

No, we have provided as a substandard asset because it has slipped last quarter so we have provided 20% in this account and we are working on a resolution plan. And we have to finalize this plan before 31st of March.

Question from participant

20. Hi sir, if you can give the breakup of slippages in terms of retail, FD, MSME and large corporate.

Reply by Mr. S L Jain – Executive Director, Bank of Baroda

So Agri side our slippages is around Rs.552 crore, right, MSME around Rs.1000 crore, retail is Rs.450Cr, corporate is Rs.5100 and international book is Rs.3300Cr.

Question from participant

21. And, sir, if you can talk about the ICA pipeline that you have where you have signed or which are likely to get signed, so you could have some NPA where the ICA is signed or being signed.

Reply by Mr. S L Jain – Executive Director, Bank of Baroda

So we have signed ICA for PA and NPA both, right. My point is that we have to complete the exercise within 180 days. The flip side is if you are not able to do then you have to make the provision or you have to refer to the NCLT. So in most of the cases we are having even 100% provision so there is from the provision side there is no major issue but fact remains that the account has to be resolved; for that we are working.

Question from participant

22. Sir, those accounts which are standard what is that quantum because there in the provision would not be more than standard assets provisioning

Reply by Mr. S L Jain – Executive Director Bank of Baroda

Standard assets with account is beyond Rs.2000 crore then the account is a regular then we have to go for ICSI, right. So some of the accounts what we have seen they are regularizing within 180 days. Some accounts are coming back as well and some of the accounts are in the process of resolution.

Question from participant

23. And, sir, there was change of LIC table in terms of annuity so have we also looked at that and is there any implication in terms of retiral provisions for them.

Reply by Mr. S L Jain – Executive Director, Bank of Baroda

We are continuing with the old table and all banks are still continuing with the same table, nobody has changed, this is based on actual revaluation, we get it revalued every quarter and that whatever is the shortfall we provide.

So thank you so much for coming over.