Bank of Baroda Media Conference for Quarter ended 30th June 2023

5th August 2023

Participating members from the Management Team of the Bank

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

Moderator: Good Afternoon everyone. Sorry for the short delay. Thank you everyone for joining us for the Media Conference for Bank of Baroda's financial results for the quarter ended 30^{th} June, 2023. Thank you all for joining us. We have with us today our MD and CEO – Shri. Debadatta Chand, and he is joined by the Bank's Executive Directors and the CFO. We will start with a short presentation, followed by brief opening remarks by Mr. Chand, and then we will have the Q&A session. Over to you sir.

Mr. Debadatta Chand: Yeah, good afternoon ladies and gentlemen. Let me introduce the management team of Bank of Baroda. I'm D. Chand – MD and CEO of Bank of Baroda. Along with me is Mr. Ajay K. Khurana, who is the Executive Director looking after Recovery, MSME and Agri vertical, along with the platform function. Then we have Mr. Joydeep Dutta Roy, who looks after the IT and the Digital piece, along with Retail Assets, Retail Liabilities and some platform functions. Along with him, Mr. Lalit Tyagi, who looks after Corporate Credit, Industrial Banking, Treasure and some of the HR functions. And as you know, Mr. Ian Desouza, the CFO of the Bank; you know him well. So, for this conversation, we all are available. Over to Ian for taking you through the presentation, and thereafter, I'll have my opening remarks.

Mr. Ian Desouza: Thank you so much sir. First off, we've had a very good set of numbers in terms of business. Our global advances grew at 18%, domestic grew at close to 17% and international advances grew at around 23%. In terms of our domestic numbers, they were led by strong growth in our Retail, of close to 24%, and also supported by growth in Agri, MSME and Corporate. As you will see, across segments, we have grown in Retail, led by home loan, mortgage, education and auto loans. In terms of unsecured, our book size is quite small compared to some of our larger peers, in terms of total proportion, but we grew at 82%.

In terms of our deposit growth, our total deposits grew at 16.2% and our domestic deposits grew at close to 16%. As you will see our domestic CD ratio is very comfortable, we are still at around 75-76% levels. But it has improved in terms of deployment from a year ago. We are about close to 3% higher than a year ago. Our global CD ratio also improved significantly demonstrating that we have put to work our deposits.

In terms of yield on advances, from a year ago, we have smartly grown our yield on advances to 8.4%, and this is higher than our full year average for FY23 of 7.54%. In terms of cost of deposits, as you probably know, cost of deposits have gone up in the market, and the same has happened at BOB as well. However, if you see the net outcome of all this, which is our Net Interest Margin, that has gone up by 25 bps year on year.

In terms of our Net Interest Income that has grown by close to 25%, Operating Profit is up by close to 73%, Profit Before Tax is 106% up and Profit After Tax is almost 88% up year on year.

Now we come to some of the asset quality and balance sheet strength ratios. Our GNPA has come down tremendously, it's almost half to reach 3.51%, and NNPA is below the 0.8% mark. We've seen our provision coverage go up smartly, it's now almost 93.23% for all our loans, including the technically written off loans. In case of slippage, that ratio has come down. So basically, lesser loans have slipped during the quarter as compared to the quarter a year ago. So, our slippage ratio is 1.05%. Our credit cost, our reported credit cost is 70 bps, but we have taken significant provisions for strengthening our balance sheet, and we've taken a INR 200 crore floating provision. Net of these, our adjusted credit cost would be just 44 bps.

In terms of SMA, we've been reporting lower SMA numbers trending quarter on quarter. This quarter, there was one large account, an aviation account for which we'd already taken provisions last quarter, and have ramped up those provisions this quarter. Excluding that one account, our SMA 1 and 2 above 5 crores would be 29 bps. In terms of collection efficiency, our collection efficiency has been 98% throughout, and this quarter as well, there was just one account which was collected a day after the quarter end, which pulled down our collection efficiency. But for that one account, our collection efficiency would have been little above 98% at 98.86%.

Another number to look for is the capital adequacy. That has continued strengthening on the back of internal accruals. As of the end of the quarter, our capital adequacy was reported at 15.84%, but however, if you include the profits of the quarter, net of the dividend pay-out percentage, our capital adequacy would've been higher than the last quarter, and would've been 16.29% and our CET would be 12.39%.

Thank you very much for being part of our presentation. I'll hand it over back to Phiroza.

Moderator: Thanks Ian. Chand saab, would you like to make some opening remarks?

Mr. Debadatta Chand: Yeah. So, once again, good afternoon ladies and gentlemen, and thanks for sparing your Saturday afternoon for us. Though the June quarter is normally considered a moderate quarter, but then, I'm very happy and delighted that we have a very strong all-round performance, focus on robust profitability and a strong growth momentum. And also, we are maintaining our journey towards asset quality. The result is reinforcing our commitment for excellence and sustainable growth.

If I talk about the credit growth in our loan book, the growth has been 2.2% sequentially, quarter to quarter, and 18% YoY with a retail growth of 3.4% quarter to quarter and 24.8% YoY. We continue to maintain our guidance of growing above the industry by 1-2% on the overall book, and also 4-5% higher on the retail book. Our overall guidance for FY24 estimate is that loan growth would be almost at 14-15%, corporate growth would be around 12-13%, retail would be 18-20% and international would be around 15% in line with the book growth. As far as the mix of the book is concerned, we have also earlier given guidance that, we wish to grow robustly on the retail side. So, on a medium-term, we're looking at a corporate 30% and non-corporate 65%.

As far as NIM is concerned, we have seen, a marginal reduction on a quarter to quarter. But, the NIM margin still continues to be very strong. Last year, the full year NIM was 3.31%, and far as our guidance is concerned, we continue to maintain the guidance of the NIM to be around 3.3%.

Cost to income is one of the prime focus as far as our strategy is concerned going forward. We have seen a reduction in the cost to income ratio, where although not giving any guidance in terms of numbers, but then we strongly believe that the process automation journey that we've undertaken, it would give us a substantial leeway to reduce the cost to income ratio.

Another important aspect for the corporate book is that, we have introduced the concept of Share of Wallet (SOW). And, we also announced the year FY24 as the year of Fees and Flows i.e. F&F. We are focusing significantly on the CMS business. We are also focusing on the wealth side of the business, and also the commission and fee business. This quarter has also seen some kind of significant movement on the fees and flows, and will drive the fees and flows concept this year very aggressively. The branches are also getting into a bit of sales culture, and we're moving away from transactional banking to more of an engagement-based relationship banking.

The profitability almost doubled, the growth has been 88% as you've seen in the presentation. Our profit is INR 4,070 crores. And, for consecutively two quarters now, the March quarter and the June quarter, we maintain a net profit of about INR 4,000 crores. And also, we're happy to note that, in terms of the full year profit, this quarter profit is almost at 30% of the last full year profit.

Asset quality is a very important aspect as far as the Bank is concerned. Ian already made a comment that we are trying to strengthen the balance sheet also at this point of time. The net NPA improved to less than 0.8%, the GNPA improved by 275 bps YoY.

As we said earlier, we do have a collection vertical, which is one of the important aspects as far as the recovery and collection mechanism that is yielding positive dividend. And, because of that, the target for the net slippage, which is the fresh slippage and the recovery and upgradation, would be very negligible or very minimal. Rather, we'd like to pursue more recovery as compared to the slippages.

Deposit growth is one of the important aspects in this financial year; that's an industrial trend. And, most of the banks have a lower CASA this time, so do we. We'll be pursuing very strongly on the CASA side by trying to leverage our corporate relationship for CASA. We're augmenting our distribution channel, at the same time we're also augment our relationship business based deposits. And, we hope that we'll improve the CASA growth going forward. The deposits, although being behind the asset growth in this quarter, but we expect some kind of a growth of 12-13% as the FY24 estimate.

With this, I once again, thank all of you for joining us on a Saturday afternoon, and we'll now go for the Question & Answer session.

Moderator: We now open the floor for Question & Answer session. I request everybody to limit their questions to two, and we will give you the chance to ask your question. You may also ask your question in the Q&A section. Thank you.

The first question is from Joel Rebello. Please unmute yourself and ask your question.

Mr. Joel Rebello: Sir, if you could elaborate a bit more on this fees and flows model which you'll will concentrate on this year and what has been the growth? If I'm not wrong, I think the fee income has grown by about 18% year on year this quarter. So, in fees and flows what is the target like? How quickly do you'll expect it to grow this year? Can you tell us anything?

Mr. Debadatta Chand: That's the concept that we have driven in this financial year. If you look at the fee-based income growth, which is part of the PPT, the growth is 18%, and this is the highest growth in any quarter, if you compared the past 5-6 quarters. So, the focus is with regard to leveraging on the relationship side. We're pursuing the Cash Management Business because we do have the CMS application which is very strong.

Recently, we on-boarded a very large customer also who is part of CMS. CMS earlier was more of a corporate product, but now we're pushing it to mid-corporate and MSME also. So when we have CMS, flows are part of CMS; all the cash flow of that company would be routed through the CMS. So, this is the flows that we're talking about, that my systems would capture the maximum flows that company would have. So, the drive for that is fees and flows. So, the fees concept is to augment the fee side of it, and the flows concept is to augment the entire cash flow of any entity who are banking with us. So, this is precisely the fee and flow. There's no target in terms of achieving any number, but the trend would be positive, because the outcome is in terms of a higher fee-based income, at the same time, higher cash flow within the system. Thank you.

Mr. Joel Rebello: Okay. A couple of clarifications on the numbers. Is there any prudential provisions that you'll have done or extra provisions that you'll have done, that you'll can share, in this quarter? I think, I heard that there's been some extra provisions done on a prudential basis. Can you explain that? And also, because the bank attrition has been in the news for some time, I just wanted to understand, what has been your attrition for the last year, if you can tell us? Thank you.

Mr. Debadatta Chand: Before I hand it over to Ian, I just want to give a comment that, we made efforts to strengthen the balance sheet. So, that has typically been our focus, and Ian will tell you the numbers on that.

The second aspect, in terms of attrition, we don't have ready data, but I think it's very negligible or absolute NIL at this point of time, that is what my belief is. But, Ian, if you can share on the provisioning side?

Mr. Ian Desouza: Yes sir. So Joel, on the strengthening of provisions, what we did is, account specific provisions were around INR 420 crores, and we made a floating provision of around INR 200 crores. So totally, around INR 620 crores of additional provisions were made.

Mr. Joel Rebello: Okay. Attrition, if I've seen your Annual Report, it shows 1%. I just want to cross-check whether that number is correct?

Mr. Debadatta Chand: No, it would be correct, but then, it's very negligible in terms of that. Any further data, I'll update you, but then, you go by the percentage you took a note of.

Mr. Joel Rebello: Okay. Thank you so much sir. All the very best for this year.

Mr. Ben: This is Ben from PTI. Can I have my question?

Mr. Debadatta Chand: Yeah Ben, please go ahead.

Mr. Ben: I would like to know, that your wage talks are over and that would be hopefully effective by November, what is the provision that you made for wage increase?

Mr. Debadatta Chand: That's already listed therein. So, that is a total provision that we've made. I believe, that is INR 760 crores, Ian?

Mr. Ian Desouza: Yes, correct. So, we have made provision in this quarter of around INR 460 crores. In the prior year, we made provisions of around INR 500 crores.

Mr. Ben: Okay. And, how much was your recovery, and how much was cash recovery?

Mr. Debadatta Chand: Khurana saab, can you just respond to this question?

Mr. Ajay Khurana: Yes. Cash recovery is INR 986 crores towards the NPA accounts.

Mr. Ben: Okay. And total recovery?

Mr. Ajay Khurana: Total recovery is INR 1,937 crores, and INR 663 crores is for written off accounts.

Mr. Ben: Sorry, what is the total?

Mr. Ajay Khurana: INR 1,937 towards NPA, and another INR 663 crores from written off accounts.

Mr. Ben: And what is your recovery target for the year?

Mr. Ajay Khurana: INR 12,000 crores.

Mr. Ben: Okay. Anything that you have planned or identified for sale to NARCL?

Mr. Ajay Khurana: Yeah. Two accounts we have already identified and selected. Rest others are under process.

Mr. Ben: How much is that sir?

Mr. Ajay Khurana: Total amount actually, from the earlier list, all now have gone. New list, new accounts are getting identified and then they are getting evaluated. So, the exact data cannot be given at this juncture.

Mr. Ben: And how much is your exposure to Go Air?

Mr. Debadatta Chand: See, that was clarified last time. Actually, already data was given last time. Out of that, we had a substantial ECLGS provision. Out of the balance amount also, there is a hard collateral to the extent of 50%. Balance, we have already provided more than that. But, as far as the account is concerned, going forward, we expect full recovery.

Mr. Ben: Do you have exposure to Bombay Metro Line 1? Ambani Group Metro Line 1?

Mr. Debadatta Chand: I mean, that's a bilateral thing, we don't discuss, neither we share the exposure therein, sorry.

Mr. Ben: Either way, there is NCLT. That has gone to NCLT, so, why not?

Mr. Debadatta Chand: There is hygiene around that, but then, I would say that, bilateral things we normally don't discuss. So, NCLT, the details would be available to you otherwise, right?

Mr. Ben: Okay. And, what is your treasury income?

Mr. Debadatta Chand: So, treasury income, the entire treasury is INR 1,152 crores, out of which, the recoveries are roughly around INR 625 crores, treasuring trading profit INR 331 crores, exchange profit is INR 196 crores. So, it's summing up to INR 1,152 crores.

Mr. Ben: Okay.

Moderator: I request you to join the question queue.

Mr. Ben: Yeah, I'm done.

Moderator: The next question would come from Vishwanath Nair of BQ Prime.

Mr. Vishwanath Nair: Hi, the question I had was with regard to your corporate portfolio. Now, the composition of the portfolio shows that A and above rated is over 85%, I think 87%, if I'm not wrong. Is that one of the reasons why your margins have dipped also, because pricing in those segments is becoming finer and finer?

Mr. Debadatta Chand: No. See, the issue is, NIM bit of around 3 bps is not because of anything on the loan side. In fact, it is mostly because there is a cost push happening on the liability for all banks. See, all the liability that we raised last year, the impact would not have been full year for the last year. So, that's a trend for all banks in this year where the cost is catching up, because the cost of deposits slightly moves with a lag time. So, that's precisely the reason for a bit of compression that is on the NIM side. But, as far as full year's profit is concerned, if you compare the NIM vis-à-vis June quarter last year, it has improved substantially, right? If you look at the exit NIM of March 2023, then there's a bit of compression there. But then, overall NIM of 3.3%, we're holding that guidance 3.3% for FY24 also.

Mr. Vishwanath Nair: Okay. The other part is on the international book. Now obviously, that is growing faster than your domestic portfolio. Just yesterday, the largest lender in the market highlighted lot of evolving scenarios in the international markets, and they are going to go slow as far as their lending is concerned. I'm trying to understand what Bank of Baroda's strategy is?

Mr. Debadatta Chand: See, we've also aligned a similar strategy. In my opening address also, I said the growth in international would be in line with the domestic growth. So, the growth we are expecting for FY24 is around 15%, which is the domestic growth also, unless and until the currency fluctuation impacts that growth. But on an organic scale, we'd like to grow at around 15%.

Mr. Vishwanath Nair: So, are you saying that going ahead, it might slow down a little bit? Maybe this is just a quarterly…

Mr. Debadatta Chand: Slow down as compared to last year, yeah.

Mr. Vishwanath Nair: Understood sir, okay. And, one last question on the asset quality outlook. You said INR 12,000 crores were the recovery targets, but overall by the end of the year, where do you want your GNPA and NNPA to be at?

Mr. Debadatta Chand: Khurana saab, can you take this?

Mr. Ajay Khurana: Yes, it is INR 12,000 crores. Any question on that?

Mr. Vishwanath Nair: My question was, on your GNPA and NNPA targets for the year?

Mr. Ajay Khurana: See, GNPA and NNPA level you are asking about?

Mr. Vishwanath Nair: That's right.

Mr. Ajay Khurana: See, the guidance for gross NPA is, total recovery is INR 12,000 crores. Guidance will be around 3 and a half. And, for net NPA also, we're presently at 0.78%, so 0.75%, is what we initially thought of, that was our plan.

Mr. Vishwanath Nair: Would you be revising these guidance going ahead?

Mr. Ajay Khurana: No, this Go Air has already hit for us. So, let us see. This we can do in Q3. Q2 of course not, Q3 we might consider that.

Mr. Vishwanath Nair: Alright. Thank you so much.

Mr. Debadatta Chand: If I supplement Khurana saab, the overall guidance is trending downward is the guidance we give, both on the GNPA and NNPA, but this is based on the outlook as on today, right? So, depending on the scenario, it can change, but the efforts would be to trending both GNPA and NNPA downwards.

Mr. Ian Desouza: If I may just supplement sir?

Mr. Debadatta Chand: Yeah, please.

Mr. Ian Desouza: In terms of guidance, typically what we do is, we give you a credit cost guidance and we give you a slippage guidance. I think, GNPA and NNPA are more an outcome. So, I think if you look, our guidance is consistent of slippage of between 1 to 1.25%, and you already have a guidance on recovery. So, whatever else, will be more an outcome rather than a metric.

Mr. Debadatta Chand: See, as far as the credit cost is concerned, last year it was 0.53%. But, the guidance also we'd given last time that was maintained below 1% and that guidance would continue. And, as far as slippage is concerned, the guidance that we'd given last time, we're maintaining the same guidance of 1 to 1.25%.

Mr. Vishwanath Nair: Alright sir. Thank you so much.

Moderator: The next question is from Abhijit Lele of Business Standard.

Mr. Abhijit Lele: With regard to the international territory, you will align it, that is clear. But in terms of the territories, which are the ones which will see a marked slowdown and you will recalibrate the strategy?

Mr. Debadatta Chand: I'll make my initial comment and then I'll ask Tyagiji to supplement that. The initial part is that, our major growth territories have been the US, UK and UAE, and to some extent Singapore and Australia. So, as on today, as far as the outlook is concerned, all the territories which I mentioned, in terms of NIMs are doing pretty well. In Africa, we have the entire business on the subsidiary mode. Wherever, but the Bank is very clear, wherever we are not getting the requisite return on capital, possibly may look for downsizing or putting less focus therein. But, where we are getting substantial return, both in terms of ROA and NIM, we'll continue to grow in those markets. So Lalitji, anything you want to supplement on this?

Mr. Lalit Tyagi: One thing I could say is that, you would've noticed, that as we progress in the year, probably the base effect will also have its own course. That will moderate the growth in terms of percentage. And also last year, some amount of growth in Rupee terms was witnessed due to the Rupee depreciation vis-a-vis the Dollar and other major currencies. And, we hope that this year, probably this may not be that large. So, all in all, we maintain that our international book should grow around 15%, what we have guided.

Mr. Abhijit Lele: Okay, fair enough. In terms of the CASA, yes, it is a secular banking phenomenon. But, are you witnessing some kind of a slow movement of money from the SA to the term, now that interest rates are more or less stabilizing?

Mr. Debadatta Chand: No, that's very fair thing for a market. But, as far as the outlook on interest rates in Indian conditions, as on today, it's very stable now. But the focus, as far as the Bank is concerned, because we do have large digital penetration and also networking, we'll try to augment with regard to CASA growth. So, Joydeepji, if you can slightly highlight with regard to strategy we have on the CASA side that would be useful.

Mr. Joydeep Dutta Roy: So, just to add, on the CASA, of course, as we'd already discussed earlier, the guidance on the NIM is there of maintaining that NIM. So, we are looking on the deposit front, strategies which would be NIM accretive. So, on that side, CASA and the low cost deposits, assume a lot of importance. So, from that point of view, even though the CASA growth that we have seen is around 5.5%, but the focus of this year is to get it to double-digit growth on CASA through a combination of a few strategies that we would like to implement throughout the year, and that will definitely help us in improving the CASA.

So, one of the strategies that we are looking at, is as again, what MD sir was mentioning on the fees and flows concept. In the fees and flows concept, the flows again, come through a lot of the merchant flows that happen. So, on the merchant flow side, the current accounts become very important. So, we are targeting the merchant flows in a very active manner this year. The POS, IPG penetration, etc., we are looking to penetrate in a much more deeper way this year.

Apart from that, the salary accounts, institutional accounts, we are creating sales teams across branches, across various outreach points, etc. which would help us canvas more salary accounts and institutional accounts. Again, there's a flow concept here, and that again adds to the fee and flow concept that we have been speaking about.

And plus, the Relationship Manager concept at various verticals, whether it is corporate, whether it is MSME, because each of the corporates, MSMEs, there's a CASA leg there also for all the corporates, all the MSMEs also. So, the Relationship Manager would look at those aspects also and tie it all in as we look at the growth for CASA for this year. So, those are some of the strategies that we're working on, and I think, all those strategies would be very NIM accretive for the Bank also. So, that's how we plan to take it forward.

Mr. Debadatta Chand: Just to add to Joydeep's view, see, currently the current structure is that the branches are the retail branches, but there is no adequate sales support therein. So, the orientation we were trying to change is towards sales support so that they grow. And that, typically would generate the delta that you're talking about, slightly growing higher than the market.

Mr. Abhijit Lele: Okay. Last is a small about the state of Manipur. It has been in the state of disruption for long. What exactly is the exposure across altogether to the customers or entities there? And, how much has come for restructuring? Is there any data there that you can share?

Mr. Debadatta Chand: Sure. Nothing much to add at this point of time. Like any market participant, we are also a market participant, and frankly, I don't have that data as of this time. So, if there's anything that we can share, then we'll share. But, we're one of the market participants and we're playing in line with what the market does vis-à-vis the reference that you're making.

Mr. Abhijit Lele: Okay. Thank you.

Moderator: The next question is from Piyush Shukla of Financial Express.

Mr. Piyush Shukla: Thank you for taking my query. Firstly, I wanted to ask Joydeep sir if there's any update on the BOB financial solution stake sale that we're looking to do? Any update there?

Mr. Joydeep Dutta Roy: So Piyush, like we also shared last quarter, the process has gotten started. And, as part of the process, we had created a data room etc. where we had engaged consultants for doing the legal due diligence and financial due diligence. Those processes have been completed, and the data, etc. has been shared with the prospective strategic investors and bidders. So with that, the process has started. But again, there is a time which the investors would probably take to evaluate and come back with firm binding proposals or offers. And with that, I think we would be able to take it forward. So, that's where we are in the process. The process is on, very much.

Mr. Debadatta Chand: Just to add on this. See, all our decision triggers to all this would be based on two factors. One is, the valuation and the market conduciveness, right? So, that adding to in terms of evaluating everything. Thank you.

Mr. Piyush Shukla: Would it be possible for the sale to go through this year in H2, or will it take more time?

Mr. Debadatta Chand: My last statement was more towards that. All would depend upon, we are on track with regard to what Joydeepji said on that, and it looks very positive at this point of time. But, everything would depend upon the valuation and the conducive market therein. So, that may crystallise into the timelines that you're talking about, and it may also not be also in that way.

Mr. Ian Desouza: Can I add one point here? There would also be a regulatory process that we need to follow. So, this would all be subject to what Chand saab already said, and the regulatory permissions that is required. So, it's not something we can actually put a date to.

Mr. Piyush Shukla: Okay, fair enough. Just two queries. Firstly on treasury income, what is your guidance for the full year, because like you said earlier, 4-5 quarters was really negligible in terms of growth? And, we were actually saying the treasury income being in minus. So, what's your outlook there? And secondly sir, as a percentage of your OpEx, how much of spends will you make in the digital side on your app and upgrading your digital capabilities, sir?

Mr. Debadatta Chand: So, if I respond to the first point with regard to treasury, again, you know that treasury, both in terms of income and trading income, are both market-linked. So, it all behaves the way the market, the rate of interest structure moves, the income moves. But if you look at the last full year, where the treasury income in terms of profit not being very high, but the income growth has been very robust, if you look quarter to quarter. And, as a normal yardstick, what we follow within the treasury, is that my income growth has to be higher than the book increase. And, that's the delta that we talk about. And all the quarters, we are following this yardstick of the growth in income being higher than the book increase, at the same time, optimising on the trading profit.

So, if I see, as on today, the rate outlook looks very stable, as far as India is concerned, but, there are global headwinds in terms of the regulators in other markets may increase their rates. So, it's a very mixed kind of a scenario, but it's very stable at this point of time. Any rate reversal happening this year, then possibly, the trading income in terms of profit would go up. Otherwise, we'd hold the same kind of guidance in terms of the performance that we have done for the 1st quarter. And on the OpEx side, Ian can take this question. No, Joydeepji, can you take this question.

Mr. Joydeep Dutta Roy: I'll take this question. So, on the digital front, see Piyush, I think investments in technology is actually now very much almost an imperative. All banks run huge technology infrastructure and a lot of the banking is now moving into technology platforms, etc. So, with that, our investments in technology, infrastructure, processes, security, all that is also going up very substantially. So, we will be making significant investments as far as the technology is concerned, both on the automation side, as well as on the infra side. So, both are being given almost a very disproportionate, sort of, share in the overall expenditure increase that we have for the Bank.

Mr. Piyush Shukla: Do you have any figure in percentage terms, sir?

Mr. Ian Desouza: So I would say, maybe a 50% increase is definitely there for this year, given that we are running very large projects on the technology side this year. We are having a very expansive project on the overall digital architecture for the Bank. We are also running a project for the entire cloud migration. So all that, again, have large investments. So, I think, at least around a 50% increase is definitely there.

Mr. Debadatta Chand: Just to add to the point, see, the current budget outlay on the IT and IT infrastructure is the existing strategy on the IT and IT platform. This year again, we have taken a task of a process automation. Lot of processes which are not fully automated, we'll try to automate that. So, any additional budgeting also required for that purpose, we'll be doing that. And secondly, when I took a call with regard to cost to income ratio, actually the delta that you're looking at, which would be lowering cost to income, can also come to a large extent from the process automation.

Mr. Piyush Shukla: Okay sir. Thank you so much, and good luck.

Moderator: The next question is from Ram Kumar of Hindu Business Line. He has typed his question, I'm reading it out. Why is the consolidated net profit down? Can you give us an update on divestment of Nainital Bank? And third, is the current level of capital enough to support 14% credit growth? Thank you.

Mr. Debadatta Chand: So, let me take the second and third point. The third first. The level of capital is quite adequate to take a 14% growth requirement. And, the current level of capital is almost at 15.85%, and if you add back the profit of this quarter minus some kinds of assumption on dividend, it is way above 16%. So, it's fairly capitalised at this point of time. Rather, we do have a mandate to raise INR 5,000 crores of tier 1 and tier 2, but that we are not doing because of the level of capital. So, as far as the growth capital is concerned, within the existing capital level, there is substantial component for growth capital; the Bank would be in a position to sustain.

On Nainital Bank, again I say, these are all on track. But, all would again, depend upon the market conduciveness, the kinds of regulatory permissions. So, definite timelines won't be possible, but the bank would be making all efforts to do that. Joydeepji, do you want to supplement anything further on Nainital Bank?

Mr. Joydeep Dutta Roy: Yes, of course. It would be very difficult to give a timeline to Nainital Bank, because there's regulatory permissions, etc. required. So, while the process is on, it will again require regulatory clearance, etc. So, we cannot put a timeline to that.

Mr. Debadatta Chand: And Ian, can you take this point, why the consolidated profit has been lower than the standalone profit?

Mr. Ian Desouza: Yes. So, there are two things. One is, if you look year on year, the consolidated profit is significantly higher. But, if you see quarter on quarter, there is a dip in the consolidated profit. A year ago the consolidated profit was INR 1,943 crores, and this quarter it is INR 4,452 crores. So, there's a significant increase.

But, if you see sequential quarter, it was INR 5,255 crores in the March quarter. But if you realise, Bank of Baroda is the biggest component of the consolidated profit. And, in the consolidated profit of INR 4,452 crores, Bank of Baroda itself is INR 4,070 crores. So, QoQ, Bank of Baroda profit was sequentially a little down, it was INR 4,700 in March, and now it is INR 4,070. So largely, that explains the sequential quarter dip. But, year on year, there's a significant increase.

Moderator: Thank you. Now we are moving to Ankur Mishra from ET Now.

Mr. Ankur Mishra: Hi, I just wanted to understand more on your retail strategy. You've mentioned in your guidance as well that you want to grow at least 3-4% there, and even the results in the current quarter shows that number. So, what steps are you taking for that kind of growth? Is your digital strategy working on that front?

Mr. Debadatta Chand: Thanks Ankur for asking this question. The strategy is very clear for us. Actually, a couple of things that we've done, yes, digital is also one of the main channels for the growth of this one.

Secondly, on the retail asset side, there are couple of new things that we're trying to do. One is, with regard to revisiting all our channels for that. The channel can be a branch, the channel can be some kind of a DST model, and the channel can be in terms of the way we look at the entire business growth to happen. So currently, if you look at the momentum for the last couple of quarters, clearly the momentum is on the upswing. Supposing, I give a guidance continuing the same momentum, the existing channel would be sufficient to drive that kind of a momentum. Secondly, as I said initially also, how do I look at the entire organisation to be? We are putting a lot of re-orientation towards sales focus. So, currently, we do have sales channel to support the growth in retail, but now we're going to augment the same.

Secondly, when I talked about fees and flows, particularly the aspect of flows, we are trying to capture that wholesomely for many of the customers. And the moment you get the flows, then you have the data points to customise products for the customers. So, there are couple of strategies wherein, possibly, if I say that I contain to maintain the momentum, that is already there for the last couple of quarters. But beyond that also, the Bank would be trying to create that so called delta, by initiating some new strategy to augment the growth on the retail front. Joydeepji, do you want to supplement anything further on this?

Mr. Joydeep Dutta Roy: Yeah. So, just to supplement what the MD said, I think on the retail growth, we have been growing very well. Of course, the market is also buoyant. And as guided, we will go higher than the market, at least 4-5% which we have been doing over the last couple of quarters also. Some of the steps, I think on the processing centres, we are making some changes in the way we used to process the loans, etc. We had a centralised processing centre. We are now making it much more decentralised, which will speed up the amount and volume of loans that we can handle, and also in much quicker time than earlier. So, we are going into a concept called RAPC – Retail Asset Processing Centres, across all these zones and regions. So, that itself will be a sort of a big milestone in our efforts to decentralise and have a much more quicker processing of the retail loans, and with that we'll be able to help our retail growth strategy also.

Plus, as the MD mentioned, there are various channels we're looking at, the DSA channel, DST. Project approval is a very big piece which we are looking at. We are revamping how we do project approvals with creating small teams for project approvals at various levels, which again will help us take the number of approved projects in the Bank from the current figure to almost three times. So, those are some of the strategies that we are putting in this. I think, we'll continue the growth momentum as we have showcased in the last few quarters.

Mr. Debadatta Chand: Just to add to what Joydeepji has said, actually, it's not exactly decentralisation, but we're trying to have more processing centres in different geographies with the same control mechanism in place. So, to that extent, please take it in that way.

Mr. Ankur Mishra: Okay, got that point. And, another thing at the risk of repetition, I would like to ask about net interest margins sir? What has been the reason for a decline QoQ? And, can you also elaborate a bit on how you'll be able to maintain the margins at this level or even better?

Mr. Debadatta Chand: So, that's a very fair question. As we initially also said, June is normally a moderate quarter. But, we booked the trend and have given very fantastic numbers this time for June. Typically, the Q4 of last financial year and Q1 are typically not comparable, because the NIM also, to a large extent, depends on lot of income that we booked in the last quarter, a one-off kind of thing. So typically, it is not comparable, because, if you see, the last quarter NIM on a global scale was 3.51%. So, that is typically not comparable with Q1. So, Q1 should be compared with Q1 of last financial year, particularly on aspects related to income and cost side of it, one.

Secondly, there is no denying the fact that, the cost of deposit would catch up with a lag. But, there are two numbers which typically can satisfy your requirement. That's as far as the repricing of large components of MCLR loans are concerned, these are not fully repriced as on today, because there is a reset that has to happen after one year. So, there's a bit of offside available on that count also.

Thirdly, when I talked about NIM and cost to income, these are both linked, and we are making substantial efforts to reduce the cost to income ratio. So taking all together, I believe that the NIM can be maintained, but we said it's around 3.3%. And, also as Joydeepji said, we have taken lot of measures with regard to NIM accretive measures. NIM accretive measures, one can be slightly growing higher on the CASA front. I mean, slightly also, when I talked about fees and flow, overall profitability, beyond NIM if you go to the RoA level, then we're augmenting the fee side as a focus area for this year. So, to sum it off, we maintain the NIM. At the same time, our guidance of ROA above 1%, I believe, is a sustainable one going forward.

Moderator: Thank you sir. We have a couple of questions in the Q&A box again. This is from Kshipra Petkar of Informist. Could you please repeat the target for advances in FY24? Also, where are you seeing slippages coming from? Our fresh slippages increased on quarter. What is the Bank's outlook on cost of deposits? When do you see it falling? Thank you.

Mr. Debadatta Chand: Thanks Kshipra. The target of advance, already I said, although we have a track record, because of the good market conditions we are in, delivering more than the guidance. But then, the target loan growth would be overall book size 14-15% for FY24 estimate. The corporate out of the entire book would be growing at 12-13%. The retail would be growing, 18-20%. The international, which is also a substantial book as far as we as a Bank is concerned, would be growing at 15%. On the slippages part, I think, Khuranaji, would you want to take this up?

Mr. Ajay Khurana: Yes. Actually, if we look at YoY, slippages have reduced from 1.71% to 1.05%. Sequentially, from March, there's a little increase i.e. a few accounts in corporate and few slippages in retail, which we could control in March, they have slipped. Otherwise, there is no big increase in any slippages.

Mr. Debadatta Chand: Just to add, if you look at the absolute slippage, always the book has gone up. Because the book has gone up, absolute also, marginally somewhere it would increase, somewhere it would decrease. So, in that way, we don't foresee much of slippage going forward.

And the third aspect, cost of deposit, again, cost of deposit is all a factor of the rate cycle in the entire economy. But I believe, it has stabilised at this point of time, because you are seeing no further movement for the last 3-4 months, and we believe it will continue to be so. One thing last time we said is that, as far as the high-cost deposits that we have raised, these are all short-term in nature. Rather I would say, there's much more traction in terms of the reduction in cost of deposits the moment there's a reversal happening on the rate cycle.

Moderator: Thank you sir. I'm now going to Hamsini Karthik from HBL.

Ms. Hamsini Karthik: Hi sir. You gave a very nice strategy on your approach to corporate banking. This is pretty much at par with what most private banks do. There is a bit of CMS, CASA, everything that banks buy. So in that case, where does BOB really sort of get its right to win? Is it just on the pricing part? How else do you find yourself differentiated sir?

Mr. Debadatta Chand: I believe, this is a very fair and strategic question. Again, CMS is part of my overall strategy with regard to fees and flows, right? So, if you look at most of the PSU peers, the fees as a percentage of the total income is slightly lower in comparison to some other private sector banks that you talked about. So, my corporate banking now leverages me in terms of both, fees and also flows. Flows would give me slightly more data points to move away from asset-based finance into cash-flow based financing. Those are all important for me.

So, the winning strategy here, I believe, is not only the strategic part, but also on the delivery side mode. On the delivery side mode, when I talked about process automation, the entire corporate process credit delivery is under focus now to improve efficiency there. The second is the service side. Mr. Joydeep also talked a bit on the TAT side. So, TAT is one aspect that we're very closely looking at.

The third is with regard to the more, we have segregated the relationship management from the underwriting side. We have hired a market professional on the relationship management side. So, the relationship management concept is not only going to be on the corporate side, it's going to be on the mid-corporate side too. Last year, we also announced one strategy saying that we opened 19 odd mid-corporate branches. This year again we'll be scaling that up. These are couple of strategies, which I think, would be a winning strategy to create that delta right for me, and that differentiation that you're talking about, in terms of me or any other bank in that comparison.

Ms. Hamsini Karthik: Thank you sir. The second question is, this is also your first quarter that you're addressing media post results, and first quarter since you've taken charge. Would you want to redefine the focus of the Bank? That's because, BOB has seen a massive overhaul in terms of approach, etc. in the last 3 years. Where do you think there is still gaps to be filled here?

Mr. Debadatta Chand: Absolutely. Let me also say that, I was part of the earlier management also. So, I've spent almost more than 2 ½ years in the Bank. And, everything that we have done with regard to creating efficiency in the Bank, all this strategy stance would continue. So absolutely, since I was part of the earlier management and now MD & CEO, the focus on the same would continue. However, the dividend has been very positive for the Bank.

There are two aspects that we talked about, slightly giving some kind of an extra focus. What is that extra focus we're talking about? One is the fees and flows. So, this is a concept that we built in this year with regard to fees and flows. The second aspect we talked about is the process automation. See, we have the best of products, best of people, but at the same time, I need to look back at the process part of it. So, we are trying to create a huge journey in terms of creating the process automation. So, I believe, with these two extra focus, we can still create the right. See, the market is always in some kind of an agile mode, competitive mode. We as a bank also need to be agile and competitive, and are trying to change ourselves to the extent of the market demand changing. So, I think this is a combination of few things; continuation of all strategies which are giving very positive dividend at this point of time, changing my requirement of strategy depending on the market condition evolving, and also keeping in mind some of the structural things like process. Fees and flows would give us the right dividend, is what I think, going forward. And thank you, this is my first press release. I'm very happy that we've given very strong results in the first press meet. Thank you very much.

Ms. Hamsini Karthik: Great sir. Sir, one more question as an add-on. You've also slipped in terms of your business size post the HDFC merger. Now you are in the No. 3 level, and the differential with PNB is also sort of gapping down. Is that something that, at a strategic level, you would want to get back to the position? You'd held it for quite a bit of years now.

Mr. Debadatta Chand: So, this is a fair question. Actually, if you look at the earlier articulation which my predecessor also mentioned multiple times, in terms of business strategy, we clearly look at three building blocks. The first thing is the asset quality and the underwriting scheme. The second block is with regard to the profitability and the margin, and the third is the growth. So, growth has never been our key target, but then, sometimes it's an outcome of the first two strategies. So in that way, we'll maintain the position. We'll continue to guide the market, guide us with regard to all these three pillars. And in the process, suppose we again get some more market share, we'd be very happy to do that. But, there is no specific strategy to be getting into No. 2 or any other position, for that matter. But, I believe, our focus has been quite strongly on sustainable business, our focus is quite strong with regard to all the three building blocks that we talked about, and that would help us to possibly close the gap in the near future.

Ms. Hamsini Karthik: One last question sir, this is more from an understanding perspective. What would be the differential in interest cost on your SA over INR 1 crore and your lowest tenure TD, term deposit?

Mr. Debadatta Chand: Can you come again?

Ms. Hamsini Karthik: Sure. What would be the pricing or the rate differential between a savings account more than INR 1 crore, and your lowest tenure term deposit? I'm trying to see if there is a narrowing of rates

Mr. Debadatta Chand: Yeah. You're talking about 7-14 days deposit cost and the SA cost, right?

Ms. Hamsini Karthik: Yes.

Mr. Debadatta Chand: It may be 0.25 to 0.5% at best.

Ms. Hamsini Karthik: Okay. Thank you sir.

Moderator: Thank you everyone. We'll have to leave it here. Thank you all for joining us. There are few questions we couldn't take, sorry about that. Thank you all for joining us. Have a good day!

Mr. Debadatta Chand: Thank you all. Thanks for sparing your Saturday afternoon, and hope that we'll meet physically sometime later. Thank you very much.

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