"Bank of India Q4 FY-21 Earnings Conference Call"

June 4, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the Bank of India Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

We have with us today, Shri A. K. Das – Managing Director and CEO; Shri P. R. Rajagopal – Executive Director; Shri Swarup Dasgupta – Executive Director; Shri M. Karthikeyan – Executive Director; Smt. Monika Kalia – Executive Director; and other Top Management team from Bank of India.

I would now like to hand the conference over to Shri A. K. Das – Managing Director & CEO. Thank you and over to you, sir.

A. K. Das: Thank you very much. Good afternoon. I extend a very warm welcome to each one of you for today's interactive session and share with you the financial results for Q4 of last year and the entire full financial year FY 2021. At the outset, let me thank all our customers and stakeholders including our analyst fraternity, for their unstinted support during the challenging times. During the financial year, the Bank, among others, extended financial support to various sectors of the economy for alleviating stress caused by the pandemic.

The Bank, at the same time, continued its core strategy of improving asset quality and reorientation of advances growth towards RAM segments and other segments. The gross and net NPAs of the bank during the year witnessed improvement both in quantum and percentage wise. The net NPA ratio declined from 3.88% in March 2020 to 3.35% in March 2021. The Bank maintained a high PCR of more than 86%. Slippage ratio came down from 4.61% in March 2020 to 2.40% in March 2021.

There has been a marked improvement in credit costs also, which came down from 4.06% in FY20 to 1.80% in FY21. Although pandemic induced stress on various economic sectors is inevitable, the bank remained always vigilant for moderating its impact, especially on overall asset quality. As a deliberate strategy, the bank, apart from catering to the corporate segments redirected in a more reinvigorated way, higher credit flow towards RAM segments, which witnessed a credit growth of 10.57% and its share in advances increased to more than 50%. Credit to MSME segment went up by 12.7% and retail credit by 11.9%.

Bank has taken several initiatives to enhance its competitiveness in the area of IT. We are upgrading our system to Finacle 10 very shortly, to be precise during the month of July. E-platform is being instituted for providing our customers an end to end digital journey in lending processes apart from enabling bank to widen customer outreach through improved MIS system and data analytics. Specialized processing centers in the field of MSME, Retail and Agri has been revamped and their number is being increased. It is these centers that will prove to be key drivers of growth with improved TAT and margins.

During FY 20-21, the bank's capital has been augmented through AT-1 bond of Rs. 1,352 crores and coupled with infusion of capital by Government of India to the tune of Rs. 3,000 crores and plough back of internal accruals, as a result, the capital adequacy ratio has improved from 12.51% in December 2020 to significantly higher at 14.93% in March 2021 with Tier-1 Capital of 11.96% in March 2021 from 9.90% in March 2020.

We will continue to build and maintain the bank adequately capitalized to support growth and boost resilience. I am happy to share that the bank has posted a net profit of Rs. 250 crores for the Quarter 4 of FY21 and Rs. 2,160 crores for the full year of FY21.

I thank again, all of you for your continued support and place on record my sincere thanks to our customers and other stakeholders including Government of India, Reserve Bank of India, and our staff pool of 51,000 plus who battled all odds during COVID times for helping the bank to reach the present stage. I think with this opening remarks, we open up the floor for interaction. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ashok Ajmera from Ajcon Global. Please go ahead.

Ashok Ajmera: Good Evening, Sir. The performance of this quarter is little dismal. In fact, it came much below our expectations. Because this quarter, I mean the last quarter, we were very gung ho, but this quarter, I think we have missed on most of the parameters. So, straight away like the advances, like in the last time you had assured that there will be good growth of the advances even the profitability front also we are a little bit disappointed. And if you look at, I mean, all the ratios, everything in this quarter has become negative. Whereas, the COVID effect for the second wave started only from April. So, my first question is what was our collection efficiencies?

A. K. Das: Our collection efficiency overall was 91%.

Ashok Ajmera: In March, April, and May?

A. K. Das: 91% overall in the month of May. March April and May it is over 90%.

Ashok Ajmera: The collection efficiency is giving a good assurance, if it is good in April and May also. Having said that, on recovery front, on the written off accounts, it has been much lower than the expectation and if you look at the proforma NPA, provisioning on proforma NPA, the actual NPA is above that. How much was the miscalculation in the judgment of the proforma NPA over and above how much we had to provide?

A. K. Das: Rs. 7,198 crores to be precise were the proforma NPA that crystallized soon after the SC judgment. Overall it has been Rs. 8,540 crores plus slippage compared to about Rs. 16,300 crores the previous year. If you have observed the numbers of other banks it is much, much better and Rs. 8,540 crores slippage is a good number according to us.

Kindly compare this number with other major peer banks numbers also. The slippage is one area where we have done exceedingly well over last years.

Ashok Ajmera: Good to know that. Sir, on the operating profit also, I mean, the cost to income ratio has gone up to 58% from the 51% in Q3. What could be the major reason for that?

A. K. Das: Quarterly trends show it has gone up to 58% although for annual it is 49.92%. The major factor there, first, was payment / provision for wage settlement. Second, more important factor, was the denominator aspect where our operating profit has been lower for various reasons which I will come to little later.

The income part, our net interest income also was affected. So, that has affected the ratio. 49.92% is the overall full year cost to income ratio which we are planning to bring down below 47% by the end of current financial year.

Ashok Ajmera: Yes, because as against the income of which has came down to Rs. 11,380 crores from Rs. 12,310 crores, the interest expended remains almost the same except Rs. 110 crores. So, total net income is only Rs. 4,990 crores as against Rs. 5,807 crores in this quarter. So, what exactly went so much wrong? I mean that is what we were wondering?

A. K. Das: Nothing, wrong, except the core fact that our advances grew at 1.28% which was very low that we acknowledge and a lot of rate transmission happened. And over the last year, we tried to switch over many of our accounts. For example, in MSME, 63% of our accounts are now RBLR linked. Similarly, in retail about 31% of our accounts are RBLR linked. So, obviously, it will have an impact on the income level.

But the major factor is low advances growth, which we tried our level best. We did a lot of sanctions. For example, in the corporate segment we sanctioned about Rs. 92,000 crores, but off take was only to the tune of Rs. 46,000 crores, so 50%. Similarly in line of credit, OD/CC, the availment is 63% only. It has remained like that for the entire year. All of us are aware of the demand issues, the real sector uptick is not there.

So, I think it is a matter of time before things start picking up and accordingly we will move. Our credit book is also a function of the overall demand scenario. So, this being the case and rate transmission, compared to 250 basis points policy rate cut, we have passed on about 135 basis points in our MCLR. That also has affected income. I think it is temporary phenomena. But gradually, we have to move down to lower spreads. Like in most advanced countries 3% is slowly becoming kind of a luxury. So, we need to operate more efficiently within a narrower spread. That is what is our take and we are alive to that reality.

Moderator: The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: I have a couple of questions. Firstly Sir, if you can tell us the one time restructuring that we have done so far and what is the number under implementation? I mean, where we have received the proposals?

A. K. Das: Okay, I will hand over to my Executive Director Mr. Karthikeyan. He will respond to your queries. Please.

M. Karthikeyan: Totally we have done restructuring which are eligible accounts amounting to Rs. 23,400 crores of which we restructured about Rs. 4,428 crores as on 31st March 2021. The segments being personal loan segment, it was about Rs. 738 crores, in MSME we did about Rs. 3,050 crores and in corporate credit it is about Rs. 640 crores. Thus the total came to around Rs. 4,428 crores.

Jay Mundra: I did not hear the number correctly what is the total number? So, Rs. 4,400 crores which have been implemented, is there anything which is over this in pipeline etcetera?

M. Karthikeyan: Yes, going forward probably in the COVID 2, yes. Initially if you could see the percentage of availment of restructuring was a little bit less because the impact was much lower, but going in the COVID 2 scenario probably yes, the severity is going to be a bit harsher. So, our COVID 2 restructuring will give a lot of scope for that. Nearly about 19 lakh accounts are eligible for us and book of about Rs. 91,000 crores.

So, we feel about 60% of them will undergo restructuring. We can see about good number of responses coming in for accepting this portfolio.

Jay Mundra: And sir, secondly on your SMA-2 front, you have given the number which is CRILC data, but if you can give the number which includes below Rs. 5 crores exposure also if you have that number?

M. Karthikeyan: Yes, presently you should appreciate that our SMA book, last year was around 20% of the total loan book, but due to our efforts, we have reduced it to about 12% on 31st March 21. And going forward in the couple of months we have reduced it to 11.5%. So there is a good fresh slippage control, which is happening. As our MD & CEO told in the opening remarks that our fresh slippage is much, much better, even compared to the peers in the market. We have the numbers. In SMA-2 we have total of Rs. 16,460 crores, which is the SMA-2 portfolio of which the retail is about Rs. 4,076 crores, agriculture will amount to Rs. 3,091 crores and corporate credit will be around Rs. 6,423 crores. So, there is a good numbers happening and we are sure that this ratio we intend not to cross more than Rs. 3,000 crores. That is our plan for Q1.

Jay Mundra: So, if I hear the number correctly, what is the total SMA-2 retail, corporate and total including below Rs. 5 crores?

M. Karthikeyan: I will give you the present numbers or you want March 31st?

Jay Mundra: No, March 31st and whatever numbers I want the total number I mean below Rs. 5 crores also?

M. Karthikeyan: Rs. 52,164 crores.

Jay Mundra: This is SMA-1, 2, 0 all put together?

M. Karthikeyan: Exactly.

Jay Mundra: Of this you said and this is the present number right April end or what is this, March, or May end?

M. Karthikeyan: March end.

Jay Mundra: And this would have gone up only, right because of the pandemic in the April-May?

M. Karthikeyan: It has come down. That is what I am saying.

A. K. Das: That is what Mr. Karthikeyan told you Mr.Jay that total SMA portfolio as a percentage of loans outstanding, it was 20.17% in December 2020. It has come down to 12.59% in March 21 and further to 11.51% in May 21. So, there is a progressive improvement in the stressed asset portfolio.

Moderator: Thank you. The next question is from the line of Praful Kumar from the Dymon Asia. Please go ahead.

Praful Kumar: Sir, just one question. Did you mention how much was the interest reversal this quarter?

Swarup Dasgupta: Interest reversal is around Rs. 660 crores.

Praful Kumar: And secondly, in terms of credit growth now, system credit growth is still close to 6%. For next year what are you targeting? What are the key levers? As you mentioned about sanction pipeline?

Swarup Dasgupta: Yes, 6% to 6.5%.

Praful Kumar: So maintaining what the industry growth would be next year is this something that you are confident to deliver?

Swarup Dasgupta: Yes.

Moderator: Thank you. The next question is from Kishan Choksey from Indus Equity Advisors. Please go ahead.

Sushil Choksey: Sir, this is Sushil Choksey, not Kishan Choksey. My first question is, you have consolidated the bank well over a period of last 12 to 24 months, including on COVID. And seems that bank's full top management team is now in place with new ED appointments. How are we capitalizing on the situation with sufficient equity available and our PCR is also there, recovery is being stable. And you are saying the recovery process for the current collection is also good. So how are you seeing if Covid is over and if India is going to grow at the GDP forecasted by RBI, how are we well placed to capitalize it?

A. K. Das: Yes, as Mr. Swarup said, we are at the moment projecting a guidance of about 6% to 6.5% growth in credit, but I am sure that the number will undergo some revision once we are through with Q2 when we will see the full impact of COVID going away. And lot of economic activity plus the RBI related dispensations and new schemes on COVID 2.0 becomes available. I think 6% to

6.5% will be a minimum, and we are aiming at, it should go up. We will need to revisit and maybe while we are sharing the Q1 numbers, we will be able to give a definitive kind of guidance on that.

And capital part, we are well capitalized. 14.93% is good capital and CET 1 of 11.5%. So I think there are no issues. Capital will help us expand our credit book and also resilience towards to take any kind of shocks, if at all there is any. So we are well poised I think. Only we are waiting for the demand segment to get revived and the normal activities to start.

Sushil Choksey: Secondly, there is media highlighting since yesterday that NITI Aayog has shortlisted two candidates, and one big bank and one small bank, so our name is surfacing in that. Do you have any cues or any indication if we are the candidate? How are you going to comment on that?

A. K. Das: Absolutely no cues. Because not two alone but there are different kinds of permutation and combinations making rounds in the market. So I think it is prudent to wait for the final call in black and white and then respond to that. As of now, we do not have anything official in this regard.

Sushil Choksey: The second question sir, with inflation likely to rise because of commodity inflation, specifically then if the demand is going to increase post COVID assuming everything stabilizes in next 30 days, and we do not face another phase after that. How are we placed in the Treasury because there is a rising inflation trend and the bond market will definitely have a turbulence? How are we placed in that?

A. K. Das: Yes, my treasury head will respond.

Harikishan, GM: Yes. The inflation expectations have been at elevated level since the beginning of the financial year. But RBI has been intervening with the market overtly and covertly and anchoring the 10-year yield at 6%. And RBI has today announced ESAP 2 also. With the kind of open market operations and conventional and unconventional tools that RBI is using we think treasury bill is poised to repeat its performance in this year too.

Sushil Choksey: So you are comfortable with RBI's directions rather than worrying about what led by intuition. That should I assume?

Harikishan, GM: Inflation and supply concerns remain. But I think RBI has been reassuring the market with its open market operations, with its overt and covert interventions in the markets. And yields have remain anchored around 6%. And we expect yields to remain in this range.

P R Rajagopal: Considering the accommodative policies that RBI continues to accommodate.

Moderator: Thank you. The next question is from the line of M B Mahesh from Kotak Securities. Please go ahead.

M B Mahesh: Three questions from my side. One in your page number 26 there is a restructuring of an aviation exposure there. Did it move to the NPL line also?

A. K. Das: No, it has not.

M B Mahesh: It was restructured directly, is it?

A. K. Das: Yes, it was restructured last year only.

M B Mahesh: No, it is not visible in FY20, it is visible in FY21?

P R Rajagopal: See, it is not slipping in to NPA for very simple reason that there is a sovereign guarantee available for that particular account from Central Government. Under the IRAC norms, if there is a sovereign guarantee it need not be marked down as NPA.

M B Mahesh: And unlike some of the other banks, the recovery, or the income from written off accounts has been on the lower side this year. Any broad indication as to how are you seeing next year?

P R Rajagopal: Next year is likely to be good Mr.Mahesh since NCLTs have started. We feel that NCLT recoveries would actually bring us good recoveries in written-off accounts because most of these accounts are written-off accounts. Those that are gone to NCLT. Almost we have a kitty of around Rs. 40,000 crores there in the

NCLT, where we are looking at the substantial recoveries in the current year.

M B Mahesh: Any broad indications in numbers?

P R Rajagopal: It is very difficult to give indications. Let the NCLT start fully functioning. First quarter things will be clear.

M B Mahesh: Okay, my last question is on the NARCL. Any broad indication as to what would be the benefit for you, and would they have fold you anything with respect to how is the accounting of the same?

A. K. Das: Yes Hari, you can respond?

Harikishan: Yes, NARCL as the thing stands today. We have identified accounts aggregating with exposure of Rs 5500 crores.

M B Mahesh: Sorry, how much, sir?

P R Rajagopal: Yes. Mr. Mahesh, it is like this. The advantage in terms of exchange of these assets from bank to the NARCL books is very apparent in terms of gross NPA numbers coming down substantially in the asset side of the book. And in the investment side of the book anyway, NAV will be calculated and they are all valued properly, and whatever de-rating that is required with respect to those assets will be de-rated and then it will be booked at the value it is supposed to be booked over there in the investment books. So, there will be both reversal of provisions wherever possible and if there is an appropriation of provisions also in some cases. So accordingly in terms of my asset book, it will have substantial benefit in terms of reduction in the gross NPA levels.

M B Mahesh: The question was any quantum around it?

A. K. Das: Yes, we have in the first shortlist that have been drawn up, there are about 21 accounts amounting to Rs. 5,500 crores.

M B Mahesh: And these are all currently in gross NPAs or it is already been written off and moved out of the books?

Swarup Dasgupta: All the accounts are 100% provided accounts.

M B Mahesh: Okay, so at best, you are saying there will be some reversal on account for this?

Swarup Dasgupta: Yes.

M B Mahesh: And when is it expected to be completed?

Swarup Dasgupta: It will start functioning from the end of June, what we are envisaging. Let the things crystallize. In Q2, we will be in a position to tell how the things pan out.

Moderator: Thank you. The next question is from the line of Rahul Gupta from Morgan Stanley. Please go ahead.

Rahul Gupta: Couple of questions from my side. You earlier mentioned that around 4,400 restructuring is implemented until now. So what would be the restructuring which is invoked and not yet implemented under restructuring one?

M Karthikeyan: That is what earlier I had said that nearly 47 lakh accounts were eligible for restructuring in COVID 1. Only 15 lakh accounts were restructured. But now, going forward Covid 2 we anticipate a book of nearly about Rs. 91,000 odd crores lying with us. And of this, we anticipate about 60% of that will get fructified in the COVID 2.

P R Rajagopal: Further to clarify what Karthikeyan sir has said. Basically, we do not have any cases where they remain invoked or yet to be restructured. So whatever accounts where invocation has happened, where borrower has given consent for restructuring and where they have satisfied the criteria for restructuring, they stand restructured as of date.

There is nothing called the invoked or yet to be restructured. Of course in terms of COVID. 2, we are envisaging around Rs. 4,000 crores of outstanding book may opt for restructuring because again, all these schemes are opt in schemes where borrower have a right to opt in or opt out.

And in our case what has happened in the first COVID 1.0 restructuring many borrowers did not opt for restructuring. So we are just waiting and see whether COVID 2.0, there may be a demand for restructuring. That is what we are envisaging because there is a lot of stress in the MSME books from the borrower side.

Rahul Gupta: So my second and last question is that you earlier mentioned that overall SMA loans outstanding would be around 11.5% by May end. So what would be this number only for SMA-1 and SMA-2 as of May end?

M Karthikeyan: The point is restructuring will definitely see that the fresh slippages are going to go down and as of now, I was just saying it will come to 11.5% in May itself. So going forward it will go much better. We anticipate lower numbers on this.

P R Rajagopal: Yes, historically if you see Rahul, the bank in the past years in the absence of COVID used to always have an SMA book of around 6% to 7%. It never exceeded that even in the worst of the times in terms of the twin balance sheet crisis the banking industry had. So it will continue to be at 6%, 7%. So what has happened is the Covid has actually a little aggravated, there is SMA added to that, the moratoriums given and then some MSME book coming into a little stress and then retail book also coming into stress. All these have added to this kind of percentage at SMA level. We feel that it will taper it down back to 6%, 5% going forward.

Rahul Gupta: Okay, I got it very clear. My question was that out of 11.5% overall SMA loans, what would be SMA-1 and SMA-2?

P R Rajagopal: SMA-2 is around 4.5% as of date.

Rahul Gupta: And what about SMA-1, sir?

P R Rajagopal: SMA-1 is less. It is at around 3%, 3.5%.

A K Das: In fact the entire SMA number is equally spread over 0, 1 and 2.

Moderator: Thank you. The next question is from the line of Suraj Das from B&K Securities. Please go ahead.

Suraj Das: I have a couple of questions. First question is on ECLGS. So sir, if you can just give us the amount which was sanctioned and disbursed under that total ECLGS?

A. K. Das: The total sanction was Rs. 5,200 crores out of which dispersal about Rs. 4,700 crores under ECLGS. And in the ECLGS 2.0 about Rs. 700 crores has been sanctioned and Rs. 500 crores has been disbursed.

Suraj Das: Okay, my second question is, Sir, if you can give us the absolute amount for BBB and BB rated exposure on the corporate book and what is the PCR on corporate GNPA?

P. R. Rajagopal: We will share with you Suraj.

A K Das: As of March AAA is Rs. 3,300 crores, AA 14 accounts Rs. 8,950 crores, A, 13 accounts Rs. 6,296 crores.

P R Rajagopal: BBB as of now is around Rs. 3,804 crores in absolute numbers.

Suraj Das: And BB, sir?

P R Rajagopal: BB is very, very less. It is less than Rs. 1,000 crores.

Suraj Das: And sir, my last question is on the you know moving to the new tax regime. So, what is your thoughts on moving on to the new tax regime and what is the outstanding DTA that you have on your balance sheet?

Sankar Sen, CFO: Currently, the applicability of MAT Credit in banks, is pending at the Court of law. Unless the Court decision comes on the MAT credit, there is around Rs. 845 crores pending to be effected in the books. We will go for New Tax Regime, once substantial tax saving is visible in future.

P. R. Rajagopal: Suraj, it is like this. Basically what we are looking at is the switch over to the new tax rate of 22%. Of course, the pros and cons of it, we are still weighing it and it will largely depend upon the decision of the court on Minimum Alternate Tax. So, if you are going to get that, then that benefit will be derived in terms of switching over to the new tax regime.

Suraj Das: Just one clarification. So, on this slide number 26, where you have given the restructured advances slide. So is it including the COVID-19 restructuring as well I mean is it the total restructured book that you have?

P. R. Rajagopal: Yes. It is Rs. 11,000 crores you are talking about?

Suraj Das: Right.

P. R. Rajagopal: Yes, it includes everything.

Moderator: Thank you. The next question is a follow up from the line of Ashok Ajmera from Ajcon Global. Please go ahead.

Ashok Ajmera: Sir, I would like to have some of your comments on the segment wise reporting of the profitability. Sir, while the Treasury profit has gone down from Rs. 1,564 crores in the Q3 to Rs. 844 crores, there is a major loss of Rs. 1,438 crores in the retail banking. Generally it all depends on the provision which you make into the various segments. So do you have any ready calculation for this that why the retail banking has given the loss in this quarter of Rs. 1,438 crores, wholesale banking has given the profit of Rs. 1,025 crores, Treasury Rs. 844 crores and unallocated items have given a loss of Rs. 166 crores. Whether someone can explain this that why is such a variance is there in the numbers of Q3 and Q4?

P. R. Rajagopal: See there are two, three things. Of course, you know what the Treasury numbers are. On the corporate book, it continues to be at a particular level and there is a switchover in many cases because of Retail to RBLR and the quantum of interest that we gained in these loans have come down substantially.

In the last quarter also because the lag effect was there and then it got into net interest income. Apart from that, you are also aware what happened in Q3, Q4. You also asked the question earlier on this point. Say that there was a moratorium for six months from RBI and there is a Supreme Court moratorium also continued with respect to loan accounts, okay.

Hence, they were not marked out as NPA, they continue to accrue interest in the books. At the last quarter, when Supreme Court judgment came, we have to actually mark down many of these accounts as NPA.

If you see, whatever mark down has happened, then, there will be a reversal of interest. So, there will be a loss to that extent. So, this reversal of interest which would otherwise have been tapered over four quarters were accumulated and had to be reversed in the last quarter.

So, if you see around Rs. 660 crores or Rs. 700 crores of interest, which were otherwise been normally disaggregated against each quarter that accumulated in the last quarter will have to be reversed. This is the major reason for loss being shown from Q3 to Q4.

Ashok Ajmera: And mainly in the retail book?

P. R. Rajagopal: Yes, naturally, not only in retail because in corporate book moratorium was not there. Many people did not avail moratorium in MSME book. So, this is basically a book where moratorium was availed where Supreme Court order stay was there from marking down the NPA.

Ashok Ajmera: My second question was Sir, that there is a transfer of the securities from HTM to AFS of almost about I think Rs. 15,200 crores if you take both the Central and State Government. So, at the time of transfer is there any process of either booking a loss or profit on that transfer pricing and the holding price? And is it connected with the profit from the sale of investment of Rs. 2,447 crores?

Harikishan, GM: No, at the time of transfer of securities from HTM to AFS there is no booking of loss. These are transferred at amortized cost. In case the value of the security is above par, these are transferred at amortized costs. If the securities are transferred from AFS to HTM we have to transfer it at market value. If the book value is higher than market value, then there is a loss which we book. And that in 2020 was a small number. In 2021 also it has been rather insignificant kind of number. If we net off the MTM gain on the securities transferred from HTM to AFS, with the capital loss on account of transfer of securities from AFS to HTM, the difference in MTM gain is substantially higher.

Ashok Ajmera: So after the transfer to AFS, I mean the securities were, that is why the profit on the sale of investment is higher in this quarter as compared to the last quarter?

Harikishan, GM: You are talking about Q1 of this current year?

Ashok Ajmera: In the current quarter.

Harikishan, GM: Securities are transferred once in a year at the beginning of the financial year, so we had sold off the securities that were transferred in 2020 by the third quarter. There is no profit that has accrued to us on account of sale of securities that were transferred from HTM to AFS in the fourth quarter.

Ashok Ajmera: Sir, in note number 15, as per the RBI circular those, I think, six accounts were beyond 30 days to 180 days period, beyond 180 days period, which is not expired on March 1, 2021, it is written. Number one. What is the significance of March 1, 2021 in this note? And secondly, this six accounts of Rs. 9,836 crores what is the probability of this account getting resolved or restructured or what is the NPA component of it? Note number 15, sir.

P R Rajagopal: See most of these accounts, they are in restructuring process. As you are aware of the RBI Prudential framework circular of 7th June, where 180 days is given. The significance of 1st March 2021 is because of the fact that 1st March was reckoned for the purpose of additional provision that we may have to make in these accounts. There was a reckoning as to whether additional provisions in terms of 5% prescribed by Prudential framework circular has to be made or not. So that quarter there was no requirement to make additional provisions in terms of the RBI guidelines. Therefore provision was not made and then subsequently also most of these accounts are likely to be restructured. They are in the path to restructuring. Like typically Future got already restructured, Shapoorji Pallonji already got restructured, those accounts only.

Moderator: Thank you. The next question is a follow from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: Sir, in your Agri portfolio of Rs. 55,000 crores if you can break that up into crop loan or maybe gold loan or basically any other cuts how much is backed by gold and how much is crop loan and how much is other things? That was one. The entire loan book of Agri?

P R Rajagopal: See the gold loan portfolio is around Rs. 11,000 crores so only that much. Remaining is all crop loans only.

Jay Mundra: Sure. And secondly what would be your expectations of slippages in absolute amount and credit costs in absolute amount? I mean, you can give a range also if you have that number?

P. R. Rajagopal: Which quarter you are talking about?

Jay Mundra: Full year 22, sir?

P. R. Rajagopal: Full year 22 it is very difficult. We will have to again see. The impact of Covid 2 is very, very difficult to predict as of now. We will let you know because as on date, I do not foresee a great problem in terms of the corporate book because corporate book is fairly good now. That has become wonderful because earlier last year and earlier years also most of the credit cost used to come from corporate books. Even last year the credit cost was very high because of one single account. So that is not an issue now. So we are looking at the stress in the retail, Agri and the MSME book very seriously and if restructuring succeed and then the economy grows and everything is on right path in the first quarter we will have to sit within the first quarter and observe how this pans out.

So once it happens, then we will be able to know what will be the slippages. As on date the slippage ratio is around 2.4% that continues to be there. And I do not think it will be huge in so far as we are concerned because our retail book as well as the MSME and Agri book is fairly okay. And there is a stress no doubt in that because of the COVID.

Once COVID reverses, we see substantial improvement in this book. If there is a substantial improvement in the book naturally, the slippage ratio also will not be as much and then the credit cost also will not be as much. Another thing I would like to share with you that we used to always have what is known as a salvage ratio substantially at 12% to 13% of the slippages book.

So, that has come down substantially due to COVID. So, again if it reaches back to 12%, 13% salvage ratio, we do not foresee a great slippage ratio as well as the credit cost going forward in 2022. So, that we will know the clear picture only in Q1.

Jay Mundra: So sir, if I were to look at your book, so corporate is probably taken care of. Agri as you said Rs. 11,000 crores is backed by gold. And in retail hopefully should hold on. What could be your rough sense on the MSME stress, I mean, could it be large enough to have the full year slippages slightly higher than 20 - 21 or even if that were to go, it should not outweigh the improvement that you will be seeing on your corporate book?

P. R. Rajagopal: It will definitely not outweigh 2021 slippages. 2022 will be perfectly okay because there is a lot of support that is coming to MSMEs. No doubt MSME book is under stress as of date. And our composition on MSME book is such that we have a huge micro loan and small loan segment over there where we see a lot of stress, as of date.

So, one there is a lot of support from the Government, another stimulus package is also expected and added to that there is an extension that is given to ECGLS and all by the Government and they will also have a credit guarantee support that will come to MSME substantially. And you are also aware that today RBI has declared a special dispensation to SIDBI by Rs. 16,000 crores of TLTRO. There will be a lot of support to MSME. So we do not see that book behaving very badly in 2022. As you already observed, Agri and retail book will be taken care substantially.

Jay Mundra: And last thing sir, what would be your recovery expectations? I mean, apart from Dewan is there any account where you are seeing near term recovery or maybe over the next six to nine months?

A K Das: Dewan of course is very close to resolution. We will be happy if it gets resolved in this quarter itself. Other than that, Rs. 8,000 crores is what we are looking at, our recovery target. But again, I think it has an upside going by the fact that and similar things are going in ILFS also where we have more than Rs. 3,000 crores exposure.

In essence, I feel as you know Rs. 38,000 crores is locked up in NCLT and in that about eight or nine big accounts, which are at various stages they aggregate to about Rs. 18,000 crores. So, through the year if NCLT is reactivated I think there will be substantial gains in terms of NPA reduction as well also at least partial write back there.

This apart, if NARCL happens this year, then as we told earlier, Rs. 5,500 crores that could be hived off from the NPA numbers and also with some attendant benefits of write back there. Plus another two, three schemes we have launched for the remaining amount of NPA where traction was not happening till recently because of COVID, the lockdown in various places. Now, people are moving into different areas reaching out to the NPA borrowers. So, that also will help in this quarter. For example, we had a target of about Rs. 3,000 crores out of which about Rs. 2,100 crores or Rs. 2,200 crores we have already achieved in Q1.

And similarly, ARC sale also we are contemplating about Rs. 500 crores worth of ARC sale. If not this quarter, early next quarter and we are having mega e-auction every month. The first two such auctions have happened but again few states put some curbs in such exercises. So I think from next month onwards July 15th is our next mega e-auction, where 600, 700 properties are being put up for auction. I think all these things definitely will improve the recovery climate quite significantly during the current financial year.

Jay Mundra: So sir, just two clarifications. This Rs. 8,000 crores number that you said is the recovery plus write off or it is just the plain recovery that you were saying? Is this the entry reduction or?

A K Das: Plain recovery.

Jay Mundra: And second things sir, this Rs. 2,100 crores that you have already achieved, this would include this large retail account, which would have moved to restructured, right? Is that the right understanding?

A K Das: No, mostly it is cash recovery plus upgradation that is the overall number and when last year also we arrived at OTS with lots of clients and all. There are milestone payments. So there also money is coming in. So all these put together plus we have weekly recovery camps for smaller accounts. So all those things put together about Rs. 2,100 crores is the recovery number as on date.

Jay Mundra: So, what happened to the large retail account? I mean, is it NPA or upon restructuring it has become standard or where is it now, I mean, what is the status?

A K Das: It has been restructured, and status will be standard.

Jay Mundra: Sorry, standard restructured, right?

A K Das: Yes.

Moderator: Thank you. The next question is a follow up from the line of Praful Kumar from Dymon Asia. Please go ahead.

Praful Kumar: Sir, just wanted to check on margins. Now you said that lot of re-pricing has happened on the yield on advances. Do you have any levers to grow margins from the contraction we have seen is close to 45 basis points in this year? So, any way you can recoup 20, 25 basis points in coming year in margins?

A. K. Das: Ideally speaking, if we reach a level of 2.6, that should be quite significant. Again, I will reiterate that this 3% benchmark, the paradigm is completely changed. At times, it may be easy because of one off accruals and all. But on a stable basis, I think we should be happy if you are maintaining a margin of 2.5% to 2.6%. That is what we will be aiming at.

Praful Kumar: In that view, in terms of you reaching to maybe a target ROA of 0.7%, 0.6%?

A. K. Das: 0.5% is what we are targeting. See let us be realistic with these kind of uncertainties. For us also it is quite a tricky exercise to give specific numbers.

Praful Kumar: My point here is given the fact that it is a new paradigm of a 250 to 260 basis point of margins. So improved profitability what the levers that our management had except the current cycle that it is playing out in all you know, anything that you can do in terms of saving cost or augmenting fee income, so that the overall profitability of the franchise can be better because 30, 40 basis point of structural margin shift downwards. I just want to pick your thoughts on how do you think you can mitigate it by other levers if you have on the cost side or any other?

P R Rajagopal: There are two, three things I would like to add, what Sir has told. Praful, it is like this.

See, the interest expenses have not come down because there is a lag effect on the interest that we pay on the liability franchise. And we have been reducing or even the industry is also reducing substantially the interest expended on the liability franchise.

So, the real benefit of that the interest reduction in the liability franchise will accrue to us during this current year. That is one point. Another thing is there is a very, very palpable shift from corporate book to retail book. You see RAM has also gone up to 51% today for the bank. And there the margins are better compared to the corporate book.

Corporate has actually squeezed our margins substantially and we have a lot of problems in terms of our yield on advances due to corporate book. So yield on advances is likely to be anywhere between 8%, 8.5% going forward, if we actually shift our focus to MSME and retail with all kinds of support that we get in the stimulus from the government.

We see a lot of scope there in MSME and Retail book growing substantially because last year also we have grown substantially around 11% and 12% respectively. So we continue to grow and we actually aim to grow at around 18% in the case of retail book. We also aim to grow around 15% to 16% in MSME book considering the support we have where margins are good.

So that is where we are looking at and we try to improve the margins over there. This is our basic focus in terms of improving our margin from present 2.4% to 2.6% what MD Sir has told. Okay, this is the idea. And in so far as your other aspects of it, leveraging the cost aspect of it, they have substantially brought down the cost. The costs that are attributable is only the wage cost that we had to incur last year. So wage cost will be there in the current year, number one.

Number two, as the net interest income goes up then naturally the cost also going to come down because we have not actually envisaged the huge expansion in the physical network that we have. We are shifting our focus to digital from physical. So, from that perspective, there will be a complete cost reduction during the current year. So, accordingly our margins are likely to improve this current year as well as in the next coming year.

Moderator: Thank you. We take the next question a follow up from the line of M B Mahesh from Kotak Securities. Please go ahead.

M B Mahesh: Just one question. On the Rs. 3,800 crores of corporate slippages which happened this quarter if you could give us some color on sectors which drove those slippages?

P R Rajagopal: See there is no big account that has actually slipped in the corporate book. There are around five, six accounts that are slipped. We will give you the sector details.

A K Das: Kindly send a mail then we will send the reply.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Shri A. K. Das for closing comments. Over to you, sir.

A. K. Das: Thank you very much, all analyst friends. Today it was almost 1.5 hour very interesting session. And we are happy to get your feedback on certain areas of strength also grey areas where we need to work further. So, we value your suggestions and feedback and we look forward to your support also. And hope to see you soon after Q1 numbers have finalized. And once again, thanks from Team Bank of India to all of you. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Bank of India, I announce that this conference call is concluded. Thank you all for joining us and you may now disconnect your lines.