"Bank of India
Q1 FY'24 Earnings Conference Call"
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Management Team Represented by

Shri Rajneesh Karnatak, Managing Director & CEO

Shri P R Rajagopal, Executive Director

Shri Swarup Dasgupta, Executive Director

Shri M Karthikeyan, Executive Director

Shri Subrat Kumar, Executive Director

Ladies and Gentlemen,

Good evening and welcome to BANK OF INDIA Q1 FY24 Conference Call. I would like to thank you all for taking out time and joining us today.

We have with us Shri Rajneesh Karnatak, MD & CEO, Shri P R Rajagopal, Executive Director, Shri Swarup Dasgupta, Executive Director, Shri M. Karthikeyan, Executive Director, Shri Subrat Kumar, Executive Director and other Top Management team from Bank of India.

Participants, we have placed all microphones on mute. At the end, during the Q&A session we will be sending you a request to unmute yourself in order to ask questions. I will take you through this process before the Q&A Session. However, the management will continue to remain unmuted throughout the session. I would now request Shri Rajneesh Karnatak to address the gathering. Thank you & over to you, Sir.

Shri Rajneesh Karnatak, MD& CEO:

Thank you so much. Good afternoon to all the Analysts present over here.

Ladies and gentlemen, I extend a very warm welcome to each one of you for today's interaction and share with you the financial results of Bank of India for Q1 23-24.

The global economy has shown resilience and is recovering slowly led by the services sector amid persisting challenges and widening divergences among economic sectors and regions. The tighter financial conditions with hawkish monetary policy stance & lull manufacturing and investment has stalled global growth momentum. Though the global headline inflation has moderated but the core inflation is still stubborn hurting the economy. The global economic weakness is also reflected in trade forecast of IMF with expectation of decline in growth in world trade volume from 5.2% in 2022 to 2% in 2023.

IMF, in its latest World Economic Outlook of July has projected a decline in global output growth rate from an estimated 3.5% in 2022 to 3.0% in both 2023 and 2024. The Emerging market and developing economies are expected to grow at a better rate, i.e., 4.0% in 2023 and 4.1% in 2024. Global headline inflation is expected to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024.

Despite potential headwinds from weak global macroeconomic conditions, Indian economy is poised to be the fastest growing major economy in the world. Several high frequency indicators point towards a strong rebound in the industry sector. There has been pick up in capital formation in the economy due to significant increase in production of capital goods and infrastructure and construction goods. The economy is having twin balance sheet advantage with strong balance sheets of banks and corporate sector. The GDP growth rate for FY 23 has been estimated at 6.5% by the RBI on account of high capacity utilization, strong growth in services sector, growing manufacturing sector and high growth in agriculture sector. There has been a comfortable forex reserves. Headline inflation is also within RBI tolerance level at 4.8% in June 2023.

I am happy to announce that the Bank's Net Profits for Q1 FY24 stood at Rs.1551 Cr up by 176% YOY from Rs.561Cr in Q1 FY 23. There has been improvement in NIM by 49 bps from 2.54% in Q1FY23 to 3.03% in Q1 FY24. Domestic NIM also improved by 50 bps from 2.87% in Q1FY23 to 3.37% in Q1 FY 24.

Asset quality further improved with reduction in Gross NPAs, both amount wise and percentage wise. The Gross NPA Ratio was brought down to 6.67% in June'2023 from 9.30% in June'22 and Net NPAs to 1.65% in June'23 from 2.21% in June'22. Slippage ratio improved from 0.69% in Q1 FY23 to 0.53% in Q1 FY24.

During this quarter, the Bank has expanded its global credit growth to 8.48% YOY, with increase in RAM advances share to 55%. We expect credit growth of 11-12% during the current year. To enhance yield on Advances and NIM, the Bank continues to align its assets growth to high yielding areas with focus on RAM advances and Mid Corporate advances. With the Bank's continuous drive for managing asset quality, we expect Gross NPA ratio to be contained below 6% and credit cost between 60 bps to 70 bps. We aim at maintaining NIM above 3.0%, thus ensuring a sustainable growth in profits. I would also again thank you for all your continued support. And now the floor is open for discussion and question and answer. Thank you.

Moderator:

Thank you Sir.

Participants, we would now like to open the Analyst Meet for Question and Answer. All of you will notice a small icon on the screen, a hand sign. Once you press it, it will alert us that you would like to ask a question. We will go around one by one. The analyst asking the questions will be unmuted. You will get a notification on your screen to unmute yourself. Kindly click on Unmute and identify yourself before asking the question. Each participants will be allowed to ask three questions. If they have more questions, they are requested to join the queue again. As soon as someone presses a hand icon to ask a question, we will enter the participant in the questioning queue.

The first question is from the line of Mr. Ashok Ajmera. Sir, you may proceed. Mr. Ajmera, you may proceed. We will move to the next participant. Next in line, we have Mr. Ajay. Sir, you may proceed.

Mr. Ajay Verma

Thank you for the opportunity. This is Ajay Verma. Sir, NII has increased on absolute basis on QoQ basis. But our NIM is down during same period. So any reason for that, Sir?

Shri Rajneesh Karnatak, MD& CEO:

You are right that NII has improved. Net Interest Income which was Rs.4,072 crores in Q1 FY23 has improved to Rs.5,915 crores. In the Q1 FY 24 there is an increase, healthy increase of 45%. However, our NIM has been at 3.03% in June. But if you see the Q1 FY 23, it has improved from 2.54% to 3.03%. This is the improvement which is there as far as NIM is concerned. So, otherwise the NIM was for entire financial year was 3.01%. So in that way, the NIM has been protected by us. And for the guidance sake also, the NIM will be protected at 3.03%, at this level only, for this Financial Year 2024.

Mr. Ajay Verma

Sir, any interest we earned during the quarter from Income Tax Refund?

B. Kumar, CFO

Yes, Sir. We got Rs.472 crores income tax refund.

Shri Rajneesh Karnatak, MD& CEO:

This was our CFO Mr. Kumar who was responding to the question.

Just one more clarification, Mr.Ajay. On the NIM side, if you see our domestic NIM that we have given in the presentation also. So our domestic NIM has improved to 3.37% in Q1 FY24 as against 2.87% in Q1 FY23. And the overall NIM has come down because there was some stress in the NIM which was there in the overseas NIM, though it has improved from 0.97% in Q1 FY23 to 1.36%, though the expansion has not been much because of the overall stress in the Overseas book, because of the hardening of rates in the European and the American markets. So otherwise, overall the NIM is quite healthy at 3.03% in Q1.

Mr. Ajay Verma

Okay, one thing on this ECL guideline. Suppose if RBI implementing on a full swing ECL guideline, then what would be the position of CET1 and overall CRAR by this Q1? And in order to improve the position of CET1, when we are likely to take a suitable steps like fund raise by equity or any other mean to support the impact for both on account of ECL?

Shri Rajneesh Karnatak, MD& CEO:

So as far as our capital adequacy is concerned, Ajay, we have a very healthy CRAR which is at 15.60% presently. Out of which, the Tier 2 is 1.80% and Tier1 is 13.80% overall at 15.60%. So, as far as raising of capital is concerned, our Board has already approved raising of capital of Rs.6,500 crores in this Financial Year. Out of which, Tier 1 will be around Rs.4,500 crores and Tier 2 will be Rs.2,000 crores. As far as Tier one is concerned, for the capital part we will be looking at an opportune timing of the market to come out with whatever QIP or whatever we decide. But our Tier II bonds will be coming in the next three to four months. This is what we have decided as far as the ECL is concerned. See, ECL is a draft guideline which has been circulated by Reserve Bank of India presently to all the banks, scheduled commercial banks. So we are also seized with those guidelines and those back paper calculations have been done by all the banks including us also. So we are awaiting the final guideline from Reserve Bank of India and they are cognizant with the issue that once the ECL kicks in and if they do not provide any dispensation to the banks there will be some issue as far as the CRAR is concerned for all the banks. So let us wait for the RBI guidelines to come out and then we can give you a clarity on what the numbers would be.

Ajay Verma

That's it from my side. Thank you sir. I'll just move.

Ashok Ajmera

Compliments to you, Sir. You are fully now settled here. Because in the last meeting you had just joined as the MD & CEO. Sir, compliments for the fantastic performance. If you look at the operating profit, in fact it is looking lower than last quarter in numbers. But if you remove the one off component of last quarter's Rs.1,646 crores for SRs classified to NPI, then your operating profit has gone up by almost about Rs.1,200 crores in this quarter. Now this Rs.1,200 crores, how it went up in just one quarter so high. So it is because the employee cost has gone down by Rs.610 crores in this quarter and the overall expenditure has gone by Rs.200 crores and the net interest Rs.400 crores benefit. So this Rs.1,200 crores additional has come. So my question, sir and I would like to seek a guidance here. This thing that whether this trend of Rs.3,752 crores operating profit will continue with some more growth and whether the employee cost will remain down to Rs.2,251 odd crores with some minor increase and the expenditure also will be on control. Because your actual profit, operating profit is much higher than the last quarter. If that one off item is taken out.

Shri Rajneesh Karnatak, MD& CEO:

Ajmiraji, as far as our operating profit is concerned, you will see that in Q1 FY 23 our operating profit was Rs.2,183 crores. So for the Q4 FY 23 it had shot up to Rs.4,184 crores because of the one single item of Rs.1,646 crores which pertained to the SR provisions and the classification to NPI. So if we net it off, remove that item from there, our operating profit still was Rs.2,538 crores in Q4 quarter. So now it has improved to Rs.3,752 crores. You can clearly see our interest income, YoY basis, now it has touched total interest income Rs.14,359 crores. If you closely see our numbers, the growth in interest income of the bank alone has been 44% YoY basis. If you see the interest expenses, bank's interest expenses have touched Rs.8,444 crores and the YoY growth is 43%. The NII which is there, we have put it at Rs.5,914 crores with a growth of 45% and other income has grown by 27% to Rs.1,462 crores and operating expenses, as you know, they have grown by only 19% as you rightly said. Our operating profit could finally make it to a figure of Rs.3,752 crores. But we are very sure and confident that our operating profit will continue to grow and we are giving a guidance of having an operating profit growth of around 30% YoY basis in March 24 numbers.

Ashok Ajmera

Here also we can go almost up to say Rs.4,500 to Rs.5,000 crores per quarter in the next three quarters?.

Shri Rajneesh Karnatak, MD& CEO:

No, I would not say in that manner. See if you see our operating profit it was Rs.13,393 crores. So on that if you take a markup of 30% that is the guidance we are giving for the market for March 24.

Ashok Ajmera

Operating profit looks little conservative. But anyway Sir, in your major announcement, the policy thing when you came in the last meeting you said we are developing a concept of Town Hall Meetings with the staff and this thing and then simultaneously we are also going to have a lot of customer deliberation, customer meets and this thing. So whether those things have come in place and have started yielding the results and what is the roadmap for that sir?

Shri Rajneesh Karnatak, MD& CEO:

Ajmeraji, we have already started that. To just give you a sense, myself as MD, I am also moving into the market and we have 13 NBGs which are handled by the field General Managers. I have already done five customer meets and town hall meetings, out of the 13 NBGs which are there pan India. Apart from that, the four Executive

Directors with us in Bank of India, all the CGMs at Head Office, all the General Managers at Head Office, they have also been assigned guardian role for the NBGs and the Zonal Offices which are our 82 offices. So, they have also started moving into the field. So presently there is no NBG or Zonal Office which is left unturned by the Top Executives at Head Office during the last three months. We have visited all the zones, we have visited all the NBGs. We are conducting customer meets, we are conducting Town Hall Meetings and the results are already showing. We have a pipeline in corporate credit of nearly Rs.40,000 crores as I told the TV channels today and as far as the fresh sanctions are concerned, during this financial year from 1st April onwards, we have sanctioned fresh enhancements to the tune of nearly Rs.30,000 crores, as we speak.

So definitely there is lot of traction even in the RAM sector, whether it is Retail, MSME, Agriculture. MSME also has started picking up. Once our numbers come for September 23, definitely you will see them in the Balance Sheet.

Ashok Ajmera

Sir, one question is on the investment. The profit on the sale of investment has come down drastically to Rs.297 crores as compared to the last quarter of Rs.1,700 crores and overall Treasury, if you see segment wise, alpha has come down little bit by about Rs.200 crores. So on the Treasury front, how are we placed and what is the status of our AFS book with the Modified Duration and how do we plan to reap the benefits now in the Treasury going forward? Sir?

Shri Rajneesh Karnatak, MD& CEO:

Ajmeraji. Our treasury head, Mr Sasidaran, will be responding to this.

Sasidharan – GM Treasury :

Yes, good afternoon Sir. The figures which you talked about the Treasury income from Rs.1,717 crores for Q4 FY 23 and it has moved to Rs.297 crores. And if you see the subtext below it, there is a Rs.1,646 crores which has accrued on account of provision of shifting of Security Receipts which has been classified as NPI which was a standard asset earlier. So taking that out, I think the profits are slightly more than what has been achieved last year. Now, coming to the specific question as to how we are placed with respect to the market dynamics, I would like to say that Sir, as on 31.03.23, the Modified Duration of our portfolio of SLR was 1.2 which has moved to 2.3. If you see the non SLR investments, this is slide number 14. The AFS M Duration has moved from 2.77 to 2.67 totally. The portfolio size also has gone up from Rs.44,669 crores to Rs.47,616 crores. The total AFS Modified Duration for us is 2.40% and we are sitting at a PV01 of 11 and we expect that the interest rates have neared the peak or it has more or less peaked out.

But the only thing is that we are waiting for the Fed and others to come out with their actions. The expectation is that the higher for longer, as far as Indian markets are concerned, the repo rates will be staying here at around 6.50 and we are well placed in terms of MTM. We don't have any MTM as far as our SLR securities are concerned and as things move down, we expect there's going to be good gains on the Treasury book.

Ashok Ajmera

Thanks a lot for such an elaborate listing. Last question in this round on tax angle. On the taxation our provision is Rs.1,376 crores on a profit of Rs.3,000 crores which comparatively seems to be very high and at the same time just to bring in that in other income we have got the interest on the income tax of Rs.471 crores. So on the tax front what is the tax calculation for the entire year because in just one quarter itself we are providing Rs.1,376 crore. So what is the DTA effect and what is the MAT effect that has been taken into it?

Shri Rajneesh Karnatak, MD& CEO:

Ashokji, our CFO will be responding to this.

B. Kumar, GM & CFO :

Sir, actually correctly pointed out that our tax rate has been high when compared to 35% normal tax rate. Actually the Bank make provision for tax based on the overall estimated profit to the Bank during the year. It is estimated during the beginning of the year and provided on a quarterly basis. And now this time what we have taken our call is that due to higher allowable deduction and tax provision there is a tax loss due to which the bank is not able to claim credit for the taxes paid abroad. Accordingly, the bank has chosen not to create the DTA on the tax losses. As a result, the effective tax rate is higher to that extent. Since it is calculated at the beginning of the year, it looks higher. It will be evened out when coming to the whole year. But our tax rate as of now is only 35%. That will be averaged out during the course of the year. And coming to your other point, yes there is a Rs.472 crores, we got interest from income tax refund that is already booked in our income.

Ashok Ajmera

This is just one off income I mean once in a year.

B. Kumar, GM & CFO :

Yes sir, correct.

Ashok Ajmera

This tax, whether the provision on the standard asset some of these provisions domestically also you said about global, some domestic provisions are also not allowed. So how much that component is there in that?

B. Kumar, GM & CFO :

Sir, it is not that. Overall we take for the year assessed and estimated, maybe going on, every quarter, we maybe able to give the details.

Ashok Ajmera

Problem these were some of my questions in this round if time permits I'll come back again. Thank you sir, thank you and all the best.

Moderator:

Thank you next in line we have Mr Chintan Shah. Chintan, you may proceed. We'll come back to Chintan. Next we see is Mr Suraj Das.

Suraj Das :

Thanks for the opportunity. Again the question is on the income tax refund. I mean your NIM if I see on the reported basis it has declined only by 12 bps but if I exclude this income tax refund of Rs. 472 crores, then roughly I think it has something like 20 - 25 bps impact on the NIM. So the NIM, if I exclude this, then NIMS have fallen more sharply on a Q-o-Q basis, while if I see the other PSU banks, there they have reported broadly stable kind of NIMs on a Q-o-Q basis. So just I wanted to know your view on the core NIMs going ahead in coming quarters as well as for FY 24 perspective and a consequent question would be you have given in your presentation that one third of the book is roughly MCLR linked. So I mean how much of that book has been already repriced and how much is yet to be repriced or do you find any challenge in rate pass on the MCLR side in the corporate book? That is my first question.

Shri Rajneesh Karnatak, MD& CEO:

As far as the impact of this Income Tax refund on the NIM is concerned, let me explain again. Our NIM is 3.03% as on Q1 FY 24 and it has improved from 2.54% which was there in Q1 FY 23. So it has improved definitely from 2.54% to 3.03%. However the overall for FY 23 was 3.01%. But if you break up the NIM, our domestic NIM has closed at 3.37% as against 2.87% in Q1 FY 23 and overseas NIM also has improved from 0.97% to 1.36%. But if you factor in that income tax refund definitely there will be some erosion of that NIM but nonetheless overall it is protected and as far as Bank of India is concerned our guidance is that the NIM will be protected in FY 24 also and we will be above 3% in FY 24.

Suraj Das :

Okay understood. So basically if I see the core NIMs this quarter is around 2.8 - 2.9% if I exclude this Income Tax refund so that you were saying that probably 3% would be your protected NIMs for the FY 24 level which seems like in next couple of quarters there would be rise in the core NIMs part… Understood.

Shri Rajneesh Karnatak, MD& CEO:

On the MCLR I will be responding just the CFO would clarify much further.

B. Kumar, GM & CFO :

Sir with regard to the NIM, just I want to clarify that we have not taken that Income Tax refund when we were computing the NIM at 3.03%. If you add that one, our NIM is additional 20 bps. So we have not taken that Income Tax refund when we are working out the NIM. Otherwise my NIM is around 3.23%, entire global NIM. This is for clarification Sir.

Suraj Das :

Okay that is very clear.

Shri Rajneesh Karnatak, MD& CEO:

So on the second part regarding the MCLR, if you see our breakup of advances, only 6% of our advances are fixed rate. So, 94% of our total loan book is floating which is either MCLR or EBLR linked which is RBLR. As per RBI guidelines wherein we give it to MSMEs and Retail loans and some corporate book is on the EBLR side which is linked to the Repo Rate and others are Base Rate. The old ones which also get repriced. As far as the yield on advances are concerned, not much pressure will be there because as per the RBI circular we are resetting our MCLR also on a regular basis once the marginal cost of funds increases. So last time also we had increased our MCLR by 5 bps last month. And this month also we will be increasing the MCLR by another 5 bps post the ALCO meeting. So ALCO meeting has already happened. So we'll be announcing that also.

Suraj Das :

Okay. And most of the MCLR book has already been repriced. Would that be a fair assumption?

Shri Rajneesh Karnatak, MD& CEO:

So as far as the MCLR is concerned 47% of our MCLR book has already been repriced. The remaining 53% will get repriced in the next four to five months.

Suraj Das :

Okay. Understood. Now moving on to the second question. So if you look at the staff cost on a QoQ basis, it has declined. So just wanted to check if there is any kind of retirement provision reversal or there is something else. That is why I wanted to check.

B. Kumar, GM & CFO :

Sir, it is only a minor reduction. It is not some major reduction. So, over a course of period, certain provisions are added / deleted, there is not much of a variation. Whatever we are providing for family pension, if you see, we have given clearly in our Notes to Accounts. As against Rs.32 crores we have provided Rs.50 crores as well as we are also providing for wage revision of around Rs.186 crores. These are all provisions we are continuing and there is only few other expenses which may come during year ending time. Which may not happen during quarter ending time. That is why you may be seeing some aberrations.

Suraj Das :

Okay, understood. And the last question would be sir, on your slide 18 you have shown for Q1 FY 23 Yield on Advanced is 6.53%. Yield on investment is 6.40% but the overall yield on funds is 5.46%. Just wanted to check this 5.46%. Is there any printing error or am I missing something else.

B. Kumar, GM & CFO :

Yes Sir. That is correct Sir.

Suraj Das :

Okay, Thanks Sir.

Moderator :

Thank you. Over to you Mr. Chintan.

Chintan :

Thank you for the opportunity, Sir. Two, three questions from my end. Firstly, we had a strong deposit growth during the quarter of roughly four percentage & odd, QoQ. So is there any strategic changes behind it which led to this growth in this competitive scenario? Just one thing on that. And secondly, relating to that, we have also seen a dip of roughly 27% QoQ in the borrowings. So is it the strategy of raising deposits and offloading the high cost borrowings? Is it something like that? If you could just highlight on that.

Shri Rajneesh Karnatak, MD& CEO:

Chintan, you rightly noticed that there has been an improvement in as far as our retail deposits and overall deposit is concerned. Just to give you a sense, bank of India has a very strong franchise and we have 5200 branches. We have nearly eleven crores of customer base against which we have a very strong 44% of CASA base. And our CASA which has grown and touched Rs.2,60,000 crores in June 23 as against Rs.2,42,000 crores as on June 22. So the growth in CASA has been Rs.18,000 crores in the Y-o-Y. So that has been a very good number as far as the CASA is concerned. If you see further in the liability side of the book, only 12% of our total liability is bulk deposits. The remaining 88% liability is retail term deposits and CASA. So that is the strength of the Bank and this is what we are riding on and this is what we are trying to enforce through our franchisee. A lot of initiatives have been taken by the bank for improvement in customer service and delivery of the products. That is now resulting in better numbers for the Bank. As you said, that for the deposit and the borrowing side, reduction in the borrowing has been a conscious call by the Management to reduce the borrowing and optimize the overall returns.

Chintan :

Sure, Sir. So I think, Sir, we had a deposit growth guidance of 10% for FY 24 as per the last analyst call. So would we like to up the guidance on deposit and advance growth or would we continue with the current guidance?

Shri Rajneesh Karnatak, MD& CEO:

Chintan, our guidance for March 24 for both deposit and advances remains the same, which had been said earlier. So deposit will be growing at around 10% to 11% and for credit, 11% to 12% for March 24.

Chintan :

Sure. So if I'm not wrong, just one thing to clarify on the margins part, I think earlier we had a guidance of roughly around 3.10% on margin. So now it is more than 3% for FY 24, right?

Shri Rajneesh Karnatak, MD& CEO:

No, it was always three plus. So presently like we have shown a 3.03%, we are saying that our margins and NIMs will be protected.

Chintan :

Okay, sure. And so sir, have you mentioned any guidance, the guidance on this RoA and Cost to Income Ratio also remains unchanged. Right, RoA 0.75 and Cost to Income of around 47%.

Shri Rajneesh Karnatak, MD& CEO:

Yeah, that guidance remains the same.

Chintan :

If you could just help me with the book breakup in terms of fixed and floating and how much would be MCLR linked and EBLR linked that would be helpful.

Shri Rajneesh Karnatak, MD& CEO:

Yeah, that is slide number 12. To give you a sense, Our RBLR is 42% out of which corporate credit EBLR is 16%, MCLR is 35%, fixed rate is 6.31% BPLR which is very small, insignificant at 0.23% and others is 9.81% and base rate is 6.26%. This is how our loan book is broken up. So floating is 94% and fixed is 6%.

Chintan :

Sure, sir. So I actually missed that slide and one thing on the deposit cost. This quarter we had a deposit cost rise of 31 bps QoQ. But this should now slowdown from here on. Right, since now already we have grown four percentage and we are guiding for 10% – 11% deposit growth. So the deposit cost should kind of more or less peak around in Q2 or so. Can that be assumed?

Shri Rajneesh Karnatak, MD& CEO:

Yeah, there will be some uptick in the deposit cost but it will peak in the next coming one or two quarters as you rightly said.

Chintan :

Sure. And so one thing just to clarify on the tax regime so currently we are on the old tax regime, if I'm not wrong and is there any view as to when are we shifting to the new tax regime or would we be comfortable with the old only as of now?

B. Kumar, CFO

At present we don't have any plans to migrate to new tax regime but we'll be taking a call at an appropriate time, sir.

Chintan :

Okay, I think that's it from my side in this round. I'll come back in the queue for follow.

Moderator :

Thank you. Next in line we have is Mr. Sushil C. Choksey. Over to you, sir.

Mr. Sushil C. Choksey

Good evening to Bank of India team. Congratulations for very stable and good numbers and very positive guidance which you have given. What would be our CD ratio and credit cost at FY 24?

Shri Rajneesh Karnatak, MD& CEO:

Sushilji as far as the CD ratio is concerned, presently our CD ratio is 74.41%. If we knock off the CRR and SLR which is required as per the regulatory guidelines we can go as high as 77.5%. So with the growth of 10% which we are saying for deposit and guidance of 11% to 12% for credit, we are anticipating our CD ratio should be around 76% - 77% for March 24. .

Mr. Sushil C. Choksey

The credit cost which have been at 0.75 and 0.79 for last two years and 0.67 for current quarter. Will it be lower than them or will you maintain here?

Shri Rajneesh Karnatak, MD& CEO:

Our credit cost has improved significantly from 1.21% in Q1 FY 23 to now 0.64% in Q1 this year. But we are giving a guidance of 60 to 70 bPS only in this range for credit cost.

Mr. Sushil C. Choksey

That's excellent number. Related to that, your guidance on Q1 you have achieved 14.90% on RoE and RoA is 0.70%. Will you improve from here or it will be remaining stable here?

Shri Rajneesh Karnatak, MD& CEO:

Definitely it will improve. Already we have touched the RoA of 0.71% and Return on Equity of 14.90%. So definitely we would be improving on this number for March 24.

Mr. Sushil C. Choksey

Sir, very clearly visible that Bank of India is coming out of slumber or consolidation, whatever word you want to use in last two, three years or maybe a little longer. What kind of business mix are you likely to see that these numbers would beat your guidance? How much of public sector and private sector are we holding in our books where credit is concerned? Can you break up that divide?

Shri Rajneesh Karnatak, MD& CEO:

As far as the book is concerned, we have taken a conscious call that in FY 24 our loan book would look like 55% of that would be in RAM and 45% of that would be in Corporate. As far as the granularity of that is concerned, in this year number presentation you must have seen our state government advances. They have gone down by 15% YoY basis. And that is a conscious decision we have taken. So we want to build our RAM book which is Agriculture, Retail and MSME book. And also on the Corporate side it will be a balanced growth wherein we will be giving push to infrastructure and to industry. Also in industry there is textile, there is iron and steel, there is food processing, there is pharma and traders are also there and export is also there. So the growth would also be totally balanced as far as the Corporate book is also concerned. So we have robust ten Large Corporate Branches and we are also planning to restart our Mid Corporate Branches with 18 new Mid Corporate Branches will be opened up this quarter subject to the approval of the committee that also we are trying to do.

So the thrust will be on mid corporate advances Rs.50 to Rs.200 crores and also large corporate advances from the ten existing large corporate branches. Another thing which I would like to say Sushilji over here is that we are trying to give Corporate advances where we are finding some commercial sense. This is what we are trying to do. And our main thrust is improving the Net Interest Income, the Net Interest Margins, finally the operating profit and the net profit and also reducing the Cost to Income Ratio. So overall the package is for improving the profitability, improving productivity and operational efficiency in the system.

Mr. Sushil C. Choksey

Any outlook on international book? And one question to Mr. Rajagopal on digital spend. He's been answering that question for last four or six quarters. So I would like to hear his voice on the same. International book first. Sir, if you can.

Shri Rajneesh Karnatak, MD& CEO:

So international book see presently our International book is 16% of the total global book. And our guidance is that it will continue to be maintained in spite of the headwinds the global economy is facing, especially in the USA, Europe and other parts with the rising interest rate by Fed and other central banks. So in spite of that, we continue to give the guidance of 16% of our total book will be the International book.

Shri Rajagopal, E.D. :

Digital we have spent around Rs.800 crores and business also generated as good as that. And then we'll actually roll out by the end of this year all the end to end journeys. Three journeys have been rolled out end to end and the remaining we are planning actually 20 journeys. We'll do it by end of this month. We'd like to take it to a good number next year.

Shri Rajneesh Karnatak, MD& CEO:

To supplement our E.D. Rajagopal ji, I would like to say that recently we have hired a CTO from outside. So he has already joined the bank. So he will be strengthening the hands of our CGM IT Mr. Sudhiranjan Padhi ji. So that will also help the bank in transformation of the IT and Digital journeys. As Rajagopal ji has already said that some of the journeys we have already started and in the next six months we will be starting the KCC journey above Rs.1.6 lakhs. Then Kisan Wahan. We are starting the KCC renewal. We will be starting food agro. Will be starting loan against FDR, pre-approved personal loan. We will be starting home loan, top up loan, working capital above Rs.10 lakhs also and up to Rs.2 crores, that also through digital. We will be starting working capital review and also pre approved business loans. All these journeys will be starting in the next six months for the bank. So once all these things scale up, definitely the digital book of the bank will also start growing.

Mr. Sushil C. Choksey

My last reply to all your positive guidance is please do not consider a QIP at current market prices. There is good news for AT1 bonds which I've just shared and possibly your guidance will lead to a betterment. So please consider a rights issue to existing shareholder over a QIP if you're doing it in next two quarters.

Shri Rajneesh Karnatak, MD& CEO:

Noted.

Mr. Sushil C. Choksey

Thank you sir.

Moderator

Thank you. Next in line we have Mr. Jay Mundra. Over to you sir.

Jay Mundra :

Yes sir. On the operating profit guidance that you shared of around 30% YoY. Now if you see the component individually, you are seeing loan growth of 11 to12%, stable margins YoY and then staff cost. Ideally at this point of time, where in the yields in the G-Sec have been lower, so retirement liability will be a bit higher and then you have the wage revision which was there only for five months. This year it will be for twelve months full. So how are you projecting that 30% growth? That looks if you can elaborate that.

Shri Rajneesh Karnatak, MD& CEO:

Yeah rightly said Jay. But one thing which you have not taken into account is our NPA book that is the gold mine with the bank. So this is where we are trying to get some recoveries, good recoveries through OTS and other kinds of tools which are available as per the RBI guidelines. So if you see 90% already we have achieved our provision coverage ratio so most of the assets majority of the NPA book is already provided. so whatever the 10% is left for the recent NPAs which will be provided as per the ageing as per the IRAC guidelines. So we want to go aggressively for the recoveries both on the OTS side and also on the other settlement side. So once that happens, definitely some profit will be coming to the Bank and operating profit will be protected because of that.

Jay Mundra :

I agree sir, that operating profit should be protected. Maybe it will be grow at 10% in line with the advances growth. But for it to grow at 30% is the question, Sir. Last year our recovery in written off account has been the lowest within all PSU Banks at Rs.100 crores, Rs.66 crores, Rs.183 crores. So what can change so dramatically that operating profit increases by 30%.

Shri Rajneesh Karnatak, MD& CEO:

Yeah, if you see our NPA book and see this total slippage and other things, so last year, in the entire year we had a total reduction of Rs.15,888 crores, against which a total addition in the NPA is of Rs.7,900 crores. So this year we are targeting to keep this total addition in NPA at the level of Rs.8,000 crores only and we are targeting a cash recovery and upgradation of Rs.12,000 crores apart from the write off which will happen. So the numbers will be coming and the profit will be coming. We are going to the board for some OTS schemes, very aggressive OTS schemes so presently there was no OTS scheme for written off accounts. Let me tell you, two strategies are there apart from the other things which we are doing. So there was no OTS scheme for the written of accounts for that also we are going to the board shortly for a special

OTS scheme in written of accounts. There the entire money which is recovered will be going to the profit.

Apart from that, what we are doing is that the other two schemes also we will be pushing hard for the recovery and the OTS that will help us reduce the numbers. And finally, we have also opened new Zonal Collection Centres at all the 69 Zonal Offices which will help us reducing the SMA and fresh slippages. So that will also help us reducing the overall slippages and the overall gross NPA number.

Jay Mundra :

So Sir, this Rs.12,000 crores of recovery and upgrade that you said is comparable to Rs.7,000 crore that we did last year, right? Rs.7,000 crores plus Rs.1,000 crores of recovery in write-off accounts. So Rs.8,000 crores like to like number that you are saying that it should increase sharply, right? Because of new schemes and another thing.

Shri Rajneesh Karnatak, MD& CEO:

That we have done just to keep you more updated is that we have shifted all our large NPA accounts, substandard accounts to the ARBs. Presently all Rs.50 lakh and above accounts, the entire Pan India we have shifted to our ARB branches. From there only all these accounts will be monitored. Earlier what was happening was that these large accounts, even NCLT accounts and corporate NPAs were parked in the large corporate branches and other big branches - AGM branches. Now they all have been shifted at these ARB branches which are dedicated NPA branches. All Rs.50 lakhs and above book will be there and another 18 ARB branches we are opening shortly in the next six months. So with these kind of a strategy there will be lot of pressure and focus from the Top Management side from the whole time Directors to the CGMs and GMs on the recovery. And with this recovery, definitely the operating profit and the overall profitability should improve for the Bank. See as you rightly said, there will be lot of pressure on the margins as far as the NIM is concerned and also as far as the Treasury income is concerned. So the differentiator would be the recovery in the NPA accounts and if you are able to crack that for this financial year, definitely the operating profit which we are giving a guidance will not be far away.

Jai Mundra :

Okay. And sir, then I noticed that you have a gross slippages and net slippages in one slide. The difference is that the account or amount which would have been recovered during the quarter itself, right? The Rs.4,000 crores and Rs.2,500 crores difference is the same quarter recovery. Okay. I think sir, most of the banks have shifted to gross slippages only. You and SBI report the net slippages. All other banks have now shifted to reporting gross slippages and showing that recovery as a part of recovery. But anyway so that is good. And lastly sir, if operating profit increases the way as per your guidance then and your credit cost is of course your asset quality continues to improve in the way that you see then your RoA of 70 bps or 75 bps again does not seem fair. I don't know. Are you building some Prudent non NPA provisions in anticipation of Ind AS?

Shri Rajneesh Karnatak, MD& CEO:

Jay, in the guidance we do not want to give a guidance which we are not able to achieve. So I agree with you that RoA guidance which we have given is a conservative one. But definitely whatever the number has been given we will achieve it.

Jay Mundra :

And sir, basis information that we have, some of the Banks have calculated the ECL provisions. Of course that is subject to the draft guideline. What would be your ballpark number? I hear you that of course the guidelines have not been finalized but you have done your initial working. So what would be the extra credit provisions that you need to make if the guidelines were to be implemented today?

Shri Rajneesh Karnatak, MD& CEO:

Our CRO will be responding to that.

Shri Harikishan Pinapala, CRO :

The incremental provisions that would be required to be made under the ECL regime would be roughly around Rs.15,000 crores. But I must add here that in the present regime, apart from the provisions that we make as per IRAC norms, there is incremental provision done on various items based on RBI guidance and our own Prudential requirements. So if you knock off that the incremental provision requirement would be around Rs.10,000 crores.

Jay Mundra :

Okay sir.

Moderator :

Apologies Jay, we will have to come back to you later. Request you to join back the queue. Next in line we have Mr. Himanshu Taloja over to you.

Himanshu Taloja :

Hi sir, thanks for the opportunity. Most of the questions have been answered. Just a few ones. Since you mentioned already that since you have a pressure on the margins delivery, although looks to be optimism. Sir, what's your outlook on this Government Guaranteed Advances which is a low yielding portfolio although we are seeing a decline. So how we are going to trend in the coming quarters? And if the declining trend remains, do we see a gradual sort of a decline or there will be a possibility of a sharp decline in this portfolio? That's my first question.

Shri Rajneesh Karnatak, MD& CEO:

So as far as this Government Guaranteed Advances is concerned, if you see our page 7 of the slide, it has come down from Rs.48,000 crore in June 2022 to Rs.41,000 crores in June 23 which I said that it was a conscious call taken by the Management to prune down those advances. Basically the issue is that it is not any issue of the State government Advances but it is more of an issue of the guidance which we had all the banks received from RBI regarding the funding to the State Government and their entities. So that was the issue. So we have segregated these State Governments into certain categories - Red, Amber and Green. So wherever our exposure is in Red, immediately we are trying to prune down and getting the payments off. So this is the strategy or the States which are Green states, which are healthy States as far as their fiscal deficit and overall debt is concerned, there we will continue to fund.

Himanshu Taloja :

Okay, so broadly overall, sir, if you have to give some guidance, how do we see this book from Rs.41,000 crores to run down in the coming quarters. Can we keep it at Rs.41,000 Cr?

Shri Rajneesh Karnatak, MD& CEO:

We have not thought about it much. There are some accounts in Red category where we have reduced our exposure. Some of the categories in Amber also we have reduced so even if the number stays at 40%, it is well within our threshold. See our loan book, it is at Rs.5,15,000 crores as on June. So Rs.41,000 crores out of that Rs.5,15,000 is not even 10%. So we are within a reasonable number within 10% of the total overall loan book. So Rs.41,000 crores number seems to be okay as far as the guidance is concerned.

Himanshu Taloja :

Yeah. The second question is on the capital only. Since you have a Tier-1 of more than 13%, you broadly looks very much comfortable from a growth standpoint. But I just wanted to reiterate as well from the earlier participants. In order to reduce the Government holding, if you want to go for an equity route, just would request to go for a rights issue rather than a QIP. And thirdly, if you raise the capital, what sort of amount shall we look out around?

Shri Rajneesh Karnatak, MD& CEO:

So as far as that is concerned, we have not yet decided. As I told you that we have a Board approved plan. As per this approval, we can raise Rs.4,500 crores in Tier-1 which includes raising of equity capital plus AT-1 bonds. So we have still yet to decide what the amount is and the number and what would be the timing. So it will all depend how the market is there and how the banking index and other things perform. There are a host multiple of things which are beyond our control. So looking into that only we will decide the amount and the timing of the issue.

Himanshu Taloja :

Sure, sir. Thanks.

Moderator :

Thank you. Next in line we have Mr. Rakesh Kumar. Sir, you may accept the unmute and proceed.

Rakesh Kumar :

Thank you. So the first question, Sir, is with respect to the guideline which you mentioned just now, the RBI guideline for the Government Guaranteed loan. So what about the SDLs that Banks are holding for the States which are in Red category?

Shri Rajneesh Karnatak, MD& CEO:

So for that also it is the same guideline basically. So Red, Green and Amber is the same thing which is there for all the states. This is a generic guideline from RBI to the Banks. Normally that guidance is predominantly on the credit side, not on the SDL side.

Rakesh Kumar :

But we keep credit or we keep credit substitutes. The difference is not much. We have to make the provision for loan or the investment, it doesn't matter actually. So I'm just trying to understand which are those States, Sir?

Shri Rajneesh Karnatak, MD& CEO:

So that is an internal note for us. That is an internal metrics which we have formulated within the Bank. That is something which is for the internal document of the Bank.

Rakesh Kumar :

Okay, so out of the total Government Guaranteed Loan that we had before this guideline and after Pruning so what percentage we have pruned of the original number.

Shri Rajneesh Karnatak, MD& CEO:

So it is there in the slide. We have reduced our exposure by 15%. Slide 7.

Rakesh Kumar :

Okay, understood sir. And the second question that I had with respect to your slide number 13 where we have given this RBLR thing. So the corporate loan out of which it is 16.31% so is it this mid corporate or this is MSME? So which are the corporates where we are giving loan on the RBLR instead.

Shri Rajneesh Karnatak, MD& CEO:

This is EBLR lending as per the RBI guideline. So in Bank of India we have taken the benchmark as the Repo Rate. So these are all large corporates, Rs. 50 crores and above where we have given, typically these accounts are AAA and AA rated. So RWA up to 30%. These are those accounts.

Rakesh Kumar :

So why are we not taking it on the MCLR?

Shri Rajneesh Karnatak, MD& CEO:

See, the simple thing is the market. AA rated corporates, they are getting funds at a very cheap rate. So other banks have also started doing the EBLR linked so some of the banks have linked it to G-Sec, some to T bill, some to EBLR Repo Rate. So in Bank of India we have linked it to the Repo Rate. So this is how we are giving to the AAA and AA rated corporates, typically who are public sector enterprises like oil companies, HPCL, BPCL, IOCL, all AAA rated or Gas Authority of India Limited or other kind of corporates who are AAA rated. So this is that kind of lending.

Rakesh Kumar :

No, but I'm not able to understand, instead of taking interest rate risk, why don't we give credit substitutes instead of taking credit exposure to these companies? So if we take like say bond, NCD instead of taking the Repo Rate exposure because if the repo Rate is coming down, we will have to either curtail this exposure or we have to take the interest rate risk. So why did not we go for Credit substitute.

Shri Rajneesh Karnatak, MD& CEO:

Credit substitutes also we are giving in the sanctions. Typically it is the NBFCs which are taking a combo offer wherein we are giving them some NCDs, etc. So that also we are doing but as far as that is concerned presently what we are doing is these Repo exposures are all short term. We are not giving any exposure on the Repo link EBLR more than twelve months.

Rakesh Kumar :

But the twelve month is quite high. Sir, like suppose from March 24 if the Repo Rate is being cut then what will you do about the 16.3%? Either we curtail this exposure and reduce the credit growth or we take the credit risk on the book.

Shri Rajneesh Karnatak, MD& CEO:

No, see this is not only Repo, there is a markup over the Repo. Business Strategy Spread.

Rakesh Kumar :

Spread you cannot change, sir, for a given kind of client, you cannot change the spread. Spread will remain the same but the Repo will be reduced. And you will have to reduce the rate.

Shri Rajneesh Karnatak, MD& CEO:

Automatically whenever the Repo will come down. You are right. The rate will come down definitely. But these are all predominantly short term exposures. Only within a year. Within twelve months?

Rakesh Kumar :

Even if it is for six months Sir, I am saying that even six months it can take away your good amount of margin or you reduce the exposure. That is the only two ways you can do the things.

Shri Rajneesh Karnatak, MD& CEO:

So our CRO will further elaborate in this Rakesh?

Harikishan Pinapala, CRO :

Rakesh, you seem to be suggesting that the interest rates will definitely fall. See, as a Bank we hold a view on interest rates. And our view is that the Repo Rate will remain at the same level until the first quarter of the next year. That is until August. This is a conscious call we are taking. And if you have observed over the last four quarters banks have made windfall profits on account of the rise in interest rates, right? To assume that the interest rates are definitely going to fall would be a kind of wrong estimate of the direction the market might move.

See, you are suggesting that we replace loans with a credit substitute which is investment. See, investment in fixed rate instruments carry their own risk, right? In case the inflation shoots up and the interest rates do not move down and they in fact go up there'll be diminution in the value of investment. So it's a very conscious call. We manage our books in a very dynamic way and we balance it out. If you look at our book, advance book only 41% is linked to RBLR. Balance is linked to MCLR where the transmission is not immediate. This is something we do dynamically and the book is managed in such a way that the volatility in earnings is actually managed well.

Moderator :

Thank you Sir. I would like to hand over the conference to Sri Rajneesh Karnatak for closing comments. Over to you, sir.

Shri Rajneesh Karnatak, MD& CEO:

So thank you so much for the entire fruitful discussion. So I think we have taken most of the questions and most of the slides are also very clear and transparent enough. So we'll be happy to take any questions later on through email or any other way. Thank you so much for joining.

Moderator :

Thank you, Sir. On behalf of Bank of India, I now announce that this Conference is concluded. You may log out. Good evening. Have a good day.