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PRESENTATION

Sameer Narang - *Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting*

Good evening, everyone. Hope all you, including your families, are well and safe. Welcome to Bank of Baroda's Q2 Earnings Call. The team is led by MD, Shri Sanjiv Chadha, and all the EDs who are present on the conference call today. We will start with the opening remarks by the MD, followed by Q&A, and then we will close the presentation.

Just before, sir, you start, first of all, the safe harbor statement that all the disclosures have been given and I take that the safe harbor statement has been read. And the other one is that in terms of organizing this conference call, we would request you to -- whenever you want to ask a question, you write your name and the company name in the chat box so that we can queue it up and then one-by-one, we will be answering the questions.

So sir, please go ahead with your opening remarks, and we have a short presentation for all the analysts, which has been uploaded.

Sanjiv Chadha - *Bank of Baroda - MD & CEO*

Very good evening. First of all, many times for joining this call with us. As Sameer said, first of all, we all of us hope and wish that you and all your families are well. I would also like to start by thanking all our staff members who in these difficult and dangerous times have gone beyond the call of duty to serve the bank and its customers.

It's been a reasonably safe -- reasonably good quarter for us. And so what I'll do is I'll just spend maybe 10 minutes in terms of the 4 or 5 themes that I'm going to touch upon, which presumably might answer some of the questions that you might have. And after that, we'll take it to questions and answers. So Sameer, we'll move to the first slide, please.

So just in terms of recap of the broad numbers that we have seen, the NII has moved up by about 7% Y-o-Y. The operating profit was up 4%. The net profit, of course, showed an [increase] by more than 100%. But I think that when you look at numbers, it is just not the broader growth numbers, it is the quality of growth that I would really like to focus on and spend a couple of minutes on. So while our deposits grew by 7%, you would notice that our CASA deposits, they grew by more than 12%. And that is the focus. It is a -- it's a liquidity surplus world in which we live. Getting deposits is not really a challenge, but we believe there is an opportunity to make sure that whatever growth we see, it is of good quality, and it is the quality of the deposit growth, the fact that the growth has come from CASA and also from retail term deposits. Retail term deposits also have grown by nearly 9% despite Bank of Baroda having one of the lowest rates in the market. That is something which has not only helped (inaudible) which should also help us going ahead in terms of the sustainability of the performance.

The second part I would really want to focus on is the net interest margins. I think they were under some pressure over the last quarter. We have seen a sharp rebound and, obviously, it has been [powered] by the containment of the deposits, which fell sharply. We also have seen the [asset quality] hold up reasonably well. I think we are still not really out of the woods. We will see how these stress in the economy plays out over the next few months when we are through with both the restructuring cycle as well as any stresses that might be there. But to my mind, in terms of earlier prognosis, they don't appear as bad as they did maybe 3 or 4 months back. So that's (inaudible) also. The capital adequacy is something which is -- has improved, and there will be more about this later because we take again a lot of comfort from that.

Sameer, to the next slide, please. So this is -- I think there are 2 or 3 things I would want to touch upon. First, of course, a sharp rebound that we have seen after the lockdown. When we met at the end of Q1, I think it was a fairly challenging quarter for us, and that challenging quarter was on account of a lot of things that had to do with the lockdown, for instance, in terms of a fee income that had (inaudible) very substantially. But what we see is that many parameters, not only have they rebound from the quarter -- first quarter being very sharp, but even if we were to compare on a Y-o-Y basis, which means if we compare the September quarter -- the September quarter of last year, actually, we are doing better than what we were in the similar quarter last year. In terms of sanctions of home loans, in terms of disbursement of home loans, we're actually doing much better. Similarly, in terms of car loan sanctions (inaudible). The fee income, as I mentioned, had fallen sharply, but it has rebounded. And in fact, our fee income Y-o-Y is in positive territory.

Recovery was, again, one of the big challenges in the lockdown period because of so many difficult circumstances under which we function. And there also, we see that there has been a significant rebound. We may not be where we were last year, but if you compare it with Q1, you find that there's almost a growth of 200%. This is the first theme I would want to emphasize that while we talk of recovery in the economy and there may be (inaudible), but in terms of the recovery of the bank, I think it has been very significant. I would not say it is complete, but I think we actually are pretty much in terms of activity levels back to where we were in the similar period of last year.

Next slide, please. The other part, of course, is in terms of the sustainability of the growth. I think the key metric for us in terms of judging whether this growth and whether this recovery is sustainable is, again, how our deposits and loans are doing and, particularly, again, areas which you might say would have been more vulnerable to the downturn. As I mentioned, when it comes to deposits, it is not the deposit growth of nearly 7%, which is important, which is pretty much in line with what our guidance was for the beginning of the year, what's important is the quality of the growth, CASA deposits are up 12%, retail term deposits 9%. And this is something that we would wish to continue. We have a very strong retail franchise. And that is something which is now playing out very well in terms of having access to low-cost deposits. We believe we should be able to maintain this trajectory going forward.

Similarly, in terms of advances, while advances have grown by 5%-odd, the bank has been emphasizing on retail loans, and within retail loans, the high-quality loans and particularly secured loans. Home loans, which are 70% of our portfolio, have grown, on an organic basis, 13%. In terms of pool purchases, our home loan growth is 13%. Auto loans is market-leading at 35%. And even agriculture, which has been the robust part of the economy, has grown by more than 16%. [MSME] growth has just been about 8%.

But what has been lower, you might say, than trends is corporate piece, but that is largely because corporate growth has been driven by largely very good quality AAA names demanding very competitive pricing to the extent that if you have to deploy liquidity for that price, we are okay, but we have resisted the temptation of locking into very low yields in the long term, which is why there actually has been a contraction of INR 20,000 crores in the corporate book, but that's something which we believe we can correct going forward. So overall, we believe that in terms of the business momentum, the quality of growth is good and it's something that should continue in the second half of the year.

The third piece, which we want to touch upon, is the credit quality. And there, I think, the collection efficiency possibly is the best proxy for how credit book should unfold over the next few quarters. If you might recall, Bank of Baroda had a very high moratorium, particularly in the first (inaudible) where it was as high as (inaudible) down significantly in the second half. But in terms of how it would play out, that was a matter of question. Our own understanding was that the moratorium was high on 2 accounts, a, that we had opt-out at the beginning of the cases; and b, because of the fact that our customers chose to conserve liquidity.

We believe that our (inaudible) has been borne out by collection we have (inaudible). So our collection efficiency was 95% during the corresponding period of last year. It is now up to 91%. And if we were to differentiate between the book, which was under moratorium and the one which is under

moratorium, the book which was not under moratorium, was as high as 94%. The book, which is under moratorium, is 87%. Overwhelmingly large portion of our clients who had chosen to avail the moratorium which was offered to them have actually responded and have paid their dues. That gives a lot of comfort to us in terms of how the next quarters are likely to play out.

Now that's something again (inaudible) 90% of the clients under moratorium have paid up. Therefore, the increase in SMA1 and 2 is marginal. Now part of this (inaudible) book will probably come back (inaudible) come back. Part of it might get restructured and a smaller proportion, there may be slippages. But overall, I think I would want to reemphasize (inaudible) might have been our apprehensions in terms of the (inaudible) COVID would play in the credit book of the bank, I think our -- possibly, I think, the current reality is beyond what our optimistic estimates were. And we seem to be in a reasonable position. And we believe as we go forward, we should be able to absorb whatever stresses (inaudible). While we see -- this is something which I will discuss as we go forward.

How now these stresses are likely to play out in terms of our capital is again an important question. We have taken an enabling resolution from our Board that we may raise up to INR 13,500 crores during the year, should it be required depending upon how the book performs. Of this, INR 4,500 crores was to be possibly by way of AT-1 issues and the balance by way of pure equity. Given where we stand, we have raised INR 1,700 crores by way of AT-1 bonds. And also during the current quarter, we have significant internal accruals. We believe that during the subsequent quarters also, internal accruals should be able to support very substantially the loan growth of the bank and, therefore, our need to access capital markets may be much lower as compared to what we had anticipated at the beginning of the year. Our internal accruals should be able to support much of the loan growth that we anticipate this year. In fact, without counting the impact of the internal accruals, our capital adequacy ratio stands at 13.26%, which is almost exactly where it was at the end of March, at the beginning of the current financial year.

Yes, Sameer.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

So that ends the presentation...

Sanjiv Chadha - Bank of Baroda - MD & CEO

So I just [want to make some] more remarks again to just anticipate some questions. So in terms of restructuring, I think our commentary is pretty much in line with what you have heard from other banks, that so far, we have not seen much by way of restructuring as far as the retail book, in particular, is concerned. It is not that it will not play out over the next few months, but in terms of what is the extent of restructuring we'll only know possibly by the end of December, by which time restructuring needs to be invoked. But our current estimation is that whatever we had anticipated, it is likely to be substantially lower figure. What that figure can be is entirely speculative and is something that we cannot give any kind of number on. We will see how that plays out. As far as the moratorium is concerned, it is something which is behind us. There is no moratorium today. And in terms of how the book has responded post moratorium is something that we have already discussed as far as the collection is concerned.

The last part I would touch upon before I open the house to questions is the fact that the amalgamation is now very nearly complete. As we speak, all Vijaya Bank branches have been fully integrated into Bank of Baroda. The Dena Bank retail book -- branch merger is something which has already started. In fact, during the last weekend, we integrated [335] branches. And we believe that we should be able to complete the merger in all respects by the end of the calendar year. So we have been mandated by our Board to complete the merger by 31st March. We believe we should complete it despite COVID one quarter ahead. By 31st December, the merger should be completely fixed, which would also mean that a large proportion of the synergy benefits that we were likely to see could start playing out now onwards. That should be an additional momentum to the bank's performance going forward.

So that was pretty much in terms of what my opening remarks were. I hope they have answered some of the questions that you might have, but very happy to take the questions that you would want to pose now. I and my colleagues who are on the call are Executive Directors, Mr. Murali

Ramaswami; Mr. S.L. Jain; Mr. Vikramaditya Khichi; Mr. Kurana; and our CFO, Subrat Kumar; and of course, Sameer, who's on the call, we should be very happy to take them as a team.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Thank you so much for the opening remarks, sir. So we will open the floor for questions. (Operator Instructions)

QUESTIONS AND ANSWERS

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Sir, I believe the first question is from Mr. Ashok Ajmera.

Ashok Kumar Ajmera - Ajcon Global Services Limited - Executive Chairman, CEO & MD

Congratulations, Chadha sahab, Jain sahab, Mr. Murali Ramaswami, Khurana sahab and Khichi sahab for the fantastic performance. In fact, in spite of these gloomy days where many of us are still not venturing out too much to either meet our clients or the bankers, you have given a picture as if the worst is fully over. Congratulations to you for the same because the results and the figures are speaking about it. Having said that, sir, yes, you have briefly replied about the consistency. Whether do you see that the same trend may continue for the remaining 2 quarters of this year and later on? This is number one.

And number two, sir, the provisions have come down by almost INR 1,200 crores. And there is a handsome recovery in the written-off accounts, plus some investment profit. So whether -- and due to that, the overall picture is looking a little rosy, I would say, though, the performance is also very good, banking performance. So how do you see it's coming out in the next 2 quarters? Because whether the same trend of written-off account recovery will continue, whether the same investment profits, according to you, you see that it will continue?

And one more question of mine. How much percentage of the total loan book is -- was under moratorium? And how much percentage out of that are -- started paying regularly September/October onwards? And the last one is, under the new announced restructuring scheme of August 2020, what is your take on that?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So thank you, Mr. Ajmera. Always a pleasure to see you. So I think the first part of the question is really the most significant in terms of whether this performance is sustainable or not. So I think we can break it into 3 or 4 parts. So where does -- again, where has the improvement really come from? You might argue that it has come, a, from reduction in cost of deposits. So that has decreased by 53 basis points Q-on-Q. Given the fact that we are in a surplus equity scenario, there is no reason why the banks should need to bid high rates to get deposits. And also the fact that (inaudible) large increase in CASA deposits, 12%, and 9% has come from retail term deposits. That also has been (inaudible) well. So I think as far as the deposits is concerned, [these are sustainable].

Second part is (inaudible), it has come from retail loans -- it has come from (inaudible) retail loans. So 13% growth in home loans, [13%] growth in education loans, 35% [growth in auto loans]. So the fact that this loan growth is broad-based and the fact it has come from retail loans and has come despite the fact that there was a degrowth in corporate loans because it was (inaudible) it is sustainable. But you're absolutely right, (inaudible) of the results derived from the treasury gains that we had. Now they are of the order of nearly INR 1,000 crores, which compares with the (inaudible). To that extent, they may not necessarily be of the same order. In fact, they are unlikely to be of the same order going ahead. I think that is absolutely correct. It will have an impact in terms of the credit quality and provisions going forward, and it is true that the (inaudible) would be muted because of the impact of the moratorium that (inaudible).

But as we mentioned, the collection efficiency would seem to suggest that we are possibly in a reasonably good place. Our overall collection efficiency is upwards of 90% as against 94%, which it was in normal times. And even in the moratorium book, it is 87%. So it means nearly 9 out of 10 accounts, which are under moratorium, have paid us. So therefore, I think there's room for cautious optimism as far as that is concerned. But there are some known/unknowns, which are still there, which means we do not know how the restructuring will play out. It's early days. Hardly anybody has come to us for restructuring. We do not know how many accounts may not get restructured, may not also rebound and there may be slippages. On account of that, there may be some impact in terms of interest reversals, which we have not seen very much of during the current quarter. But to my mind, that should be on the margins.

And also, the provision that we hold, so there is a figure of about INR 15,000 crores, where the bank had benefited from the asset classification not being changed on account of moratorium, that is about INR 15,000 crores. Now out of that, a significant portion actually has become standard. But even against that book, we hold a provision of about 12%. So against that INR 15,000 crores, we hold INR 1,700 crores as specific provision. And given the fact that a part of this INR 15,000 crores may become restructured, a part may recover and a part only is likely to slip, I believe we are reasonably well covered in terms of the impact of this on our balance sheet. So cautious optimism to my mind is the name of the game. We'll see how it plays out, but we believe in terms of at least business, in terms of loan growth, in terms of deposit growth, in terms of the improvement we have seen in margins, I think a large proportion of that is here to stay.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Sir, the next question is from Mahrukh Adajania from Elara Capital. (Operator Instructions)

Mahrukh Adajania - Elara Securities (India) Private Limited, Research Division - Analyst

Sir, my first question was on collection efficiency. So in terms of collection efficiency, when you say 91%, it's 91% of total billings of September or it's 91% relative to the March of pre-COVID level? So how do you define collection efficiency?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So I'll pass it on to Jain sahab, Sameer, to respond to that.

Shanti Lal Jain - Bank of Baroda - Executive Director

Yes. Collection efficiency we calculate based on the demand, and demand is on the account of interest and demand is on account of installments. So what is the demand and what is the collection? This is the ratio of collection efficiency.

Mahrukh Adajania - Elara Securities (India) Private Limited, Research Division - Analyst

Okay, sir. Sir, just to recall, when you had announced your moratorium and you had given us the figures, that included the working capital loans as well, right?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So I think what has happened is there have been different definitions at different times by different banks. But what I would want to again emphasize is that moratorium, as a phenomenon, is behind us. We can actually spend the rest of our lives analyzing which bank had said what, in what context and at what point in time. But the fact is the last time when we met in terms of the Q1 results, I can repeat what we said at that point in time. That was that 20% of our term loans, again, which correspond to -- sorry, not 20% of term loans, [30%] of the term loans were under moratorium, which corresponded to 20% of our overall loan book. That was under moratorium at that point in time. And I'd also emphasize that from our assessment,

this seems to reflect, a, the fact that we had given an opt-out to accounts even in the second phase below INR 10 lakhs; b, that people were trying to conserve cash.

I think the collections that we have seen in the last -- in the month of September, in particular, seemed to wear out that assessment. I think the moratorium has not seen -- and a different kind of proportion of moratorium that different banks had is not reflected in, I think, the way the book is playing out. That is as much really a function of the composition of the book. So if you were to look at our book and when you look at retail, in particular, which is something which has not been stress-tested over the last few years, corporate was, when it comes to retail book, as far as our book is concerned, 70% is secured by home loans, right? Then there is car loans. Only 1% or less is unsecured loans. So therefore, our confidence comes from 2 things: a, how the collection efficiency has played out; two, the nature of our book, where unsecured loans are a very small part as compared to some of the banks.

Mahrukh Adajania - *Elara Securities (India) Private Limited, Research Division - Analyst*

Okay, sir. Sir, last time, you had downgraded an NBFC to the watch list. So any progress on restructuring of that NBFC? Any update you could give us?

Sanjiv Chadha - *Bank of Baroda - MD & CEO*

So I don't think, again, we will get into client-specific questions. So you should excuse me, Mahrukh.

Sameer Narang - *Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting*

Sir, we have some questions which have come on the web right now. So I'll quickly take them. One is on account from -- one is on the watch list. So the question is that if there is any indicative watch list. That is one.

The second part the same participant has asked is that considering the moratorium was not extended beyond August, what is the nature of INR 86,000 crores of loans which were -- (Operator Instructions) what is the nature of INR 86,000 crores of loans which were SMA/overdue and where moratorium/deferment was extended? Considering the moratorium is over, what will happen to these loans? What will be the classification of these in Q3 FY '21?

Sanjiv Chadha - *Bank of Baroda - MD & CEO*

So I think I have answered the question partially. I think the key metrics for us to now track has to be collection because the moratorium does not exist. The watch list does not really give you a flavor in terms of what is the likely risk. So we are very closely focusing on collection to make sure that whatever -- the fact is you can't doubt really, given the times in which we live. It's very difficult to assess, again, which is the account which is under more stress or less stress, right? You talk of watch list in normal times. But as of now, ultimately, what is important is are people paying up? That's what is important. And I think that is where we are deriving our comfort from. We believe that a large proportion of the book, which was actually under moratorium -- watch list was a relatively small figure. The large proportion of the book was under moratorium, and that seems to have responded very well. And that is the reason for optimism.

In terms of how it is likely to play out over the next few months, as I mentioned, there are 3 likely parts that the book could take, right? And there -- it could be -- there could be restructuring, they could again start performing perfectly well or they could be some slippages. As of now, the fact that a large -- our collections are very nearly back to normal and we have the option of restructuring, which is there for our clients who might want restructuring, I think that gives us room for optimism that courtesy timely interventions of the Reserve Bank of India, first, by allowing moratorium when it should have been allowed, and two, by making the restructuring option available when that became a viable proposition, I think we have all the tools at our command to address the situation.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Right. Sir, there's another question, which is on -- based on your -- based on the notes to the account, we understand that only INR 1,300 crores to INR 1,400 crores of incremental loans would have become NPA. How do we reconcile this figure with the INR 14,000 crores of loans where asset classification benefit extended?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So there are 2 categories we are looking at. One was which benefited from Reserve Bank of India, which means because of the moratorium, accounts did not slip into NPAs. That figure is about INR 14,000 crores, right? And then there was the category accounts where, on account of the Supreme Court proceedings, you could not classify them, which means accounts which would have slipped after -- as on 30th September, you did not classify them as NPAs. That figure is INR 1,500 crores.

So as far as the accounts, which would have slipped, but did not slip on account of moratorium, that figure is INR 1,400 crores, and we hold INR 1,700 crores of provision against that. That's what we had discussed. And as against -- and as for accounts, which would have slipped but for the Supreme Court proceedings, we have treated them just like normal NPAs in terms of provisioning, which means as per Bank of Baroda policy, we have provided 20% or 15% that we provide for substandard assets. And also we have taken the provisioning impact for the interest reversal, which would have happened if these accounts would have been NPAs.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Right. And sir, similar -- same participant has asked another question that the provisions have come down quite sharply in the quarter. What would be the sustainable quarterly run rate for the provisions?

Sanjiv Chadha - Bank of Baroda - MD & CEO

Tough one. Because, ultimately, as we discussed, there are 3 developments which are possible in terms of a book: either it performs normally or it is restructured or, again, it slips into NPA. But in terms of our current position, we seem to be in a reasonable shape on account of 2 things. I'll repeat, a, that of the book we might say is most vulnerable, which is where the asset status was protected because of the moratorium, we are holding provision, which is 12%, right, which is pretty okay.

In terms of the restructuring book, we are -- we would be required to make a provision of 10%. But given the fact that the restructuring is not likely to be of the order which we had anticipated earlier, I believe it's an absorbable impact. The third part, of course, is the collection efficiency, which even in these early days has picked up well, and I believe should pick up further as we go ahead. So tough to, again, give a number in terms of how it would play out because that would be predicated upon our predicting a restructuring number, which as of now we cannot. But I would repeat the point I made. Given where we are, we believe that our internal accruals should be able to support a significant proportion of the provisioning requirements going ahead and, therefore, our requirement for external capital should be limited.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Right, sir. Sir, the next question that we have here is with regards to the incremental provision with respect to COVID-related stress during the quarter? I believe, sir, this is already there in the Note 12 to the accounts. So we can skip it because we have explained the provision during the quarter and during the half year period against the accounts which have taken a standstill benefit.

So the next one, sir, is, we have made INR 2,500 crores of provisions for government-guaranteed account over the last 2 quarters. Will it be reversed during FY '21? This apart, we had made significant provision in divergence for some chemical company in 3Q. When is this likely to be reversed?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So (inaudible) government guaranteed account, I don't believe that we are in a position to have a time line in terms of when it's like to be reversed. But needless to say that since it is government-guaranteed, at some point in time, we do believe that it should be reversed and which is why what we had said was that we look at this as a provision reserve that has been created. So in the future months and quarters, as the provisioning requirement may arise, it is quite possible some of this may be met by the reversing of this provision. When it is likely to happen is something that, as of now, we cannot say with any degree of clarity or conviction.

As far as the chemical company is concerned, my own understanding was that the provision was made in the December quarter and reversed in the March quarter. But Sameer can possibly confirm that or Jain sahab.

Shanti Lal Jain - Bank of Baroda - Executive Director

Yes. Chemical company's provisions which we have made is -- in fact, this account has been upgraded in the last year itself in the fourth quarter. And sir has already clarified about this [large account] -- government-guaranteed accounts we have made provisions. So it depends on the resolutions.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Sir, we'll move to the next question now, that is on, what kind of provisions are likely in the second half of the year? If the exact numbers are not possible, a range will do. Secondly, would you be raising any equity in the next 6 months considering the stock price is low? Another related question to that is also in terms of the book value per share, and for raising capital, the bank can give -- look at the rights issue or a QIP? So these 2 are related questions, so which have come.

Sanjiv Chadha - Bank of Baroda - MD & CEO

So I think -- so as far as capital raising is concerned, we have raised INR 1,700 crores out of the INR 4,500 crores of AT-1, for which we have authorization. We may access the market over the next few months or some more raising as far as AT-1 is concerned. Now as far as your (inaudible) is concerned, that is something that we will see possibly in the fourth quarter depending upon how these play out in December because we should have reasonable visibility in terms of what is the restructuring, how is the book performing, whether we do need any external capital apart from whatever AT-1 funds that we can raise.

As of now, it appears that through the AT-1 as well as through our internal accruals, we should be mostly funded. That's again what our present prognosis is. But again, I think it's a question which I can answer better possibly when we meet at the end of the next quarter when we have enough clarity both in terms of slippages as well as in terms of restructuring going forward. I think also, Sameer, I think Mahrukh's hand is raised. I was wondering whether it is raised earlier or she still wants to ask her question?

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

I think ,sir, both Mahrukh and Ashok Ajmera's hand has been raised.

Sanjiv Chadha - Bank of Baroda - MD & CEO

Yes, Mahrukh. Do you have another question, Mahrukh?

Mahrukh Adajania - Elara Securities (India) Private Limited, Research Division - Analyst

Sorry, sir, that was a mistake.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Sir, we have 2 questions on the chat and then I'll come back to the questions which are there in the web. One is, what is the average yield on new auto loans and home loans? And what is the share of digital in the 2?

Sanjiv Chadha - Bank of Baroda - MD & CEO

Yield on auto loans and home loans? I think, Sameer, I don't have that figure readily. If you have it, then provide it. Otherwise, we can give that later.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Right, sir. Sir, I think we can give that later because I think -- when we check whether it's the margin or the average they're looking at, so we'll get in touch with them and we'll respond to that.

The same person also has a question, what is the success rate of recoveries? Please share update on RHFL, of which you are the lead banker, and we have funds of INR 800 crores in your MF?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So I'll pass it on to Jain sahab.

Shanti Lal Jain - Bank of Baroda - Executive Director

Yes. Regarding this RHFL, the expression of interest has come, and we are analyzing it basically. And regarding other recoveries, of course, from the NCLT accounts, we have recovered about INR 200 crores. Of course, around INR 5,000 crores of accounts, already the NCLT approval has come. So we'll be expecting recovery in the third quarter or maybe some part in the next year. So going forward, we are in the pipeline for recovery.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Sir, we'll take the next question now that's been on the web. Have we taken any interest income reversals in the current quarter? If yes, then what is the quantum? What is the outlook on the cost of funds trending here on with deposit card rates remaining at current levels?

Sanjiv Chadha - Bank of Baroda - MD & CEO

I'll take the cost of funds question, and then we will -- I'll pass it on to Mr. Jain in terms of the interest reversal. So I mentioned at the outset, we believe that the gains that we have seen in terms of cost of funds should be enduring. It is simply the nature of the liability book. A large part of the benefit of the cost of funds has come from the repricing of savings bank deposits, where our rates are very competitive. And despite the repricing of the saving bank deposits, we had a growth rate of 12% as far as CASA is concerned.

Similarly, in the term deposits also, term deposit -- retail term deposits have grown 9%, again, despite having very, very conservative deposit rates. So we believe that the cost of funds improvement is something which should sustain going forward over the next few quarters also. There's no -- there's enough liquidity, and I don't see any reason why we should be in any kind of bidding situation to get liabilities.

Jain sahab, as far as the reversal of interest income is concerned?

Shanti Lal Jain - Bank of Baroda - Executive Director

Sir, total fresh addition was around INR 900 crores, right? So exact amount, of course, I'm not having, but may not be more than even INR 50 crores, INR 60 crores. Exact amount, I'm not having.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Right. Right, sir. (Operator Instructions) Sir, I do have more questions on the web, which I'll keep on taking. Another one is when do we see healthy returns on equity on a sustainable basis? I understand concerns on COVID-related provisions remain.

Sanjiv Chadha - Bank of Baroda - MD & CEO

So as far as return on equity is concerned, I think what we have seen in the current quarter would translate into a reasonable return on equity. The question, of course, is whether this quarter's performance is sustainable. So I think while there are some one-off impacts, which we discussed, not exactly one-off, but it may not have a similar kind of impact in terms of tailwind, which we had through treasury gains, but nevertheless, I think we are possibly in a situation that's subject, of course, to how things play out by December, we should be generating a reasonable return on equity going forward. But then again, I would want to suspend my judgment till the next quarter. I'm sure we'll be meeting again. And I think we can then possibly make some kind of forecast with a little more confidence. But for the moment, given the fact that the improvement that we have seen in the bank's performance derives as much from a reduction in cost of funds and also the nature of the growth of the loan book would suggest that this is something which is sustainable.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Right, sir. Sir, there are a few questions which are popping up on the chat here. So one is that, any outlook on recoveries this quarter, especially from and Dewan and Bhushan Steel?

Sanjiv Chadha - Bank of Baroda - MD & CEO

I think it's -- these are tough ones, right? I think these are names which we would have been talking about over the last few quarters also. And I would not entirely put it beyond the realms of possibility that we'll have the same question next quarter. So I'll leave the next quarter to answer that one.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Right, sir. And sir, there is one more. Any numerical guidance on potential restructuring? With home loan growth accelerating, what kind of growth should one expect in FY '21?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So I think restructuring is again something we need to leave for next quarter simply because, as of now, we do not have any -- the numbers are not there for us to have a reasonable sample to make a prognosis on. But in terms of home loan growth, it's something that we have been emphasizing very consciously. We have been emphasizing, a, that our home loans need to grow because we want a more sizable retail book; and b, we want to make sure that the growth in retail is secured to the extent it can be. So the home loans have been doing well. We have also been emphasizing on quality. So as I mentioned, 74% of our borrowers are -- have a credit score of 725 plus. So we would want our home loan growth to be within these

parameters, making sure it's of good (inaudible) that given the momentum that has been generated, we should be able to have an above-industry growth rate in home loan going ahead also.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Right. And sir, another question is on the growth front only. What explains the sharp sequential decline in corporate book?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So I think I had touched upon it briefly. So I think what you have seen is that there is still a broad, you might say, depression as far as corporate borrowing activity is concerned. But as far as -- but banks are flush with liquidity. So typically, when it comes to the highest-rated corporates, they can actually command a very good price, and very wisely, many treasury heads are trying to see whether they can lock in at these low rates for the long term.

Now while we are happy to again commit some funds for the short term at lower rates because -- simply because the yield in the money markets are low, we are reluctant to commit in the long term at these low yields because we believe that, that may be something which may work well for us in the current quarter, but that may not be in the interest of the bank going forward. So we are very careful in terms of the impact that aggressive...

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Some audio issue. We'll just wait for a minute. I think there is some audio issue.

Sanjiv Chadha - Bank of Baroda - MD & CEO

Yes. Okay. Sorry, got disconnected. I hope I'm audible again.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Yes, sir, you are, you are.

Sanjiv Chadha - Bank of Baroda - MD & CEO

Excellent. So I'll just repeat the last piece. So as far as the corporate book is concerned, we have been very careful in terms of not locking into very low rates for long-term exposure simply because of the current equity overhang. We believe that may not be in the best interest of the bank. And therefore, while we are sanguine that our corporate books rebound over the next 2 quarters, we would want to make sure that, a, the quality of underwriting is not compromised; two, it does not result in our for seeking the [hard one] gains in terms of [some options].

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Sir -- yes, sir. Sir, the next question is from Jai Mundhra.

Jai Mundhra - *Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst*

So sir, first question is some of the banks have started providing on the expected restructuring pipeline that they may have. Now while you may not have received the restructuring finalized request, but if you can provide some sense on the quantum of the potential restructuring? Could it be like 2%, 3%, 4%? If you can provide early signs there.

Sanjiv Chadha - *Bank of Baroda - MD & CEO*

So 2 parts to the question, whether we have an idea about restructuring, very frankly, no. And if you can help us, I would invite you for a cup of tea and you can let me know what is the likely restructuring. Very frankly, I don't know. Right? So that's one part.

The second part is in terms of provisioning. So we have not specifically provided provisioning as far as likely restructuring in the future is concerned. But there are 2 data points which I think are relevant, a, that when it comes to our current NPA book. We have a relatively high provision coverage of 85%, which means our ability to be able to provide for any stresses and also restructuring is there; b, I think part of the restructuring, you could have argued, would have come from the loans which would have slipped but for the moratorium, right, and there we have mentioned that as against that INR 15,000 crores, which is there, we hold currently 12% provision. Given the fact that restructuring, it was a 10% provision. As -- to the extent that accounts are likely to be restructured, I think we seem to be reasonably well provided. So as of now, we have not provided as far as restructuring is concerned, but given the kind of provision coverage that we have and given the provision that we hold against book -- against the book that would have slipped otherwise, I think we are reasonably placed.

Jai Mundhra - *Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst*

Sure, sir. And the second question is, sir, on Slide 16, the BB & below book in NBFC segment has risen by around INR 1,000 crores. So if you can explain if that is the same -- I mean what is happening here?

Sanjiv Chadha - *Bank of Baroda - MD & CEO*

So let me address the issue of the NBFC book. Actually, you would have seen 2 things there, which again, where needle has moved as compared to where things were last year. A is, of course, as you mentioned, the BBs. Number two, you would have seen that the AAA piece has come down a little bit as compared to where it was in the last quarter. So the BB piece has moved up because we had a scheme whereby we could fund companies either under a partial credit guarantee or through TLTRO funds and where a certain proportion of funds was reserved for companies with a certain rating profile. So we have actually done some of that. It's not a very large order. It's a relatively small book. But to my understanding, it's reasonably risk-mitigated.

The second part is the AA book, which has come down a little bit. That is on account of the fact that I mentioned earlier that when it comes to the best-rated companies, right, including NBFCs, particularly government-sponsored, I think the kind of rates that they're commanding would seriously compromise our ability to keep our margins intact. So we have had some of those loans being paid down and that's something which has brought down our corporate book outstandings also. But we are okay with that. We do not wish particularly to expand our NBFC book and also bring our margins under pressure simultaneously, right, because all of you ask questions about the NBFC book. So it would not be very wise to do NBFC loans and earn 6% on them, right? So that's why we have allowed that -- those loans to be paid down.

But in terms of the quality of the NBFC book, it seems to be holding reasonably well. If you look at the statistics, the AAA and AA combined are still above 90% and including the A, it is above 95%. And so far, I think, in terms of whatever feedback we have had from our borrowers, I think the -- our NBFC exposure seems to be in good shape. In fact, one can argue that given these uncertain times, it's very difficult to actually get a handle in terms of the likely impact on asset quality over the next few months as COVID pans out, but the NBFC book seems to be in a reasonably good shape.

Jai Mundhra - *Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst*

Sure. And just last question, sir, is -- I mean if you can explain this notes to account #14, respective amount where asset classification benefit is extended, INR 14,000 crores, is that number tells you -- is this number, let us say, subset of SMA1, 2, which we have reported at 5%, 6%? Or how should we look at this number?

Sanjiv Chadha - *Bank of Baroda - MD & CEO*

So I don't believe so for the simple logic that, ultimately, these are accounts which would have become NPAs excepting for moratorium. So they would have an SMA1 or 2. Otherwise, they would not have fallen in that category. But again, this is to the extent that I should not be misrepresenting facts. I'll just ask for endorsement from Sameer and Jain sahab on that.

Shanti Lal Jain - *Bank of Baroda - Executive Director*

No, let me clarify you. INR 14,000 crores of the accounts are accounts where we have taken asset classification benefit in the month of June, right, and in September. And the RBI says you have to make 10% provisions. So we are giving more than 10%. We are having INR 1,748 crores. So (inaudible) [12.5%], first point.

And the second point is, as per the Supreme Court decision, the accounts, which were not classified as NPA on 31st August, will not be classified until (inaudible) is bucketed. And that amount works out to be around INR 1,500 crores. So since these accounts cannot be classified as NPA, but we have done -- we have made a provision -- 20% of the INR 1,500 crore plus the interest part, whatever we have recovered. So entire -- this amount we have provided and it is a part of our standard asset provision. So from the bank point of view, we have covered here also as well as this INR 1,400 -- INR 14,000 crores also.

Third point is, you talked about the restructuring the part. What the Reserve Bank says, in case of a restructuring, you are required to make a 10% provision. We are already making more than 10% provisions. And this INR 14,000 crores, some of the amount we have already received in some of the accounts, which is even less than 0 DPD. So the amount will release from the INR 1,750 crores going forward.

Sameer Narang - *Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting*

Sir, we'll take the next question now. The next question is from M.B. Mahesh.

M.B. Mahesh - *Kotak Securities (Institutional Equities) - Associate Director & Senior Analyst*

Sir, just wanted to check the recovery levels that you've seen in this quarter of INR 1,640 crores, if you could give us some color on what drove the recoveries? And second -- and in the second half, how are you seeing the recoveries on your loan book?

Sanjiv Chadha - *Bank of Baroda - MD & CEO*

Jain sahab?

Shanti Lal Jain - *Bank of Baroda - Executive Director*

Yes. So this recovery, basically, we have received around INR 200-odd crores from the NCLT, and we are having a compromise scheme. We are doing compromise. So around INR 400-plus crores of amount we have received from the compromise. We have received close to INR 300 crores from asset sales. We are getting recovery from the SARFAESI sale, right? So there are a number of sources through which we are recovering. And going forward also -- but I told you previously also that we are having INR 5,000 crore, [from where] we are having virtually 100% provision. And

these accounts are already being approved by the COC and NCLT and recovery will come in the third or fourth quarter or some in the next year as well. We are -- we have entered a number of compromises, and the recovery will come in the third and fourth quarter. In addition to that, we have given permission to other banks also for -- even for sale of asset, [fixing] reserve price. So going forward, there are a number of [schemes] for recovery. In addition to that, we are also coming up with one more OTA scheme for our small borrowers.

M.B. Mahesh - Kotak Securities (Institutional Equities) - Associate Director & Senior Analyst

Any broad idea as to what is the quantum that we're talking about in terms of -- where are you expecting in terms of recoveries by the end of this year?

Shanti Lal Jain - Bank of Baroda - Executive Director

It is very difficult to tell the numbers, but recovery should be better than what it was in the last quarter.

M.B. Mahesh - Kotak Securities (Institutional Equities) - Associate Director & Senior Analyst

Perfect. Sir, you have had 2 quarters of slippages in the international portfolio. Could you tell us -- last quarter, you had indicated that you will see some progress on this. I think it was a steel account or a mining account out there. What is the situation there? And what's happened in this quarter as well?

Shanti Lal Jain - Bank of Baroda - Executive Director

So last quarter, the slippage in the steel account was because of the restructuring. We have done restructuring. And when we do restructuring, account will slip. This is one part. Second part is one group account in our Dubai we have classified as NPA because of some issues. So part of that group account has been classified [as NPA] this quarter as well because -- based on the record of recovery.

M.B. Mahesh - Kotak Securities (Institutional Equities) - Associate Director & Senior Analyst

Sorry. And my final question, in staff cost this quarter, you have made some additional provisions related to -- I think it's pertaining to the AS 15 part. If you could tell us where are you in terms of provisioning. It tends to be a very volatile number for you.

Shanti Lal Jain - Bank of Baroda - Executive Director

In the staff cost, basically, there are 2 parts. One part is provision on account of wage revision. So we have covered around 15% based on the information we are having. Of course, the [500 retails] are available. So that is 15% base revision part. Second part is AS 15 part. There is slightly higher provision this time because the 10-year G-Sec's price has come down. And while calculating the provision because benefits are defined and return is based on the G-Sec yield. So there is an additional provision, which we have provided here.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Sir, the next question on the queue is from please [Monarch]. I believe there is no response. The next question is from [Gaurav Agarwal].

Unidentified Analyst

Sir, for your existing nonperforming loans, so what is your provisioning requirement for the next 2 quarters and for FY '22 in terms of [aging] provisions?

Sanjiv Chadha - Bank of Baroda - MD & CEO

Jain sahab?

Shanti Lal Jain - Bank of Baroda - Executive Director

Of course, I don't have high level details, but it should not be more than around INR 4,500 crores or so, to my mind. Exact number I'm not having.

Unidentified Analyst

So that is a quarterly run rate, INR 4,500 crores?

Shanti Lal Jain - Bank of Baroda - Executive Director

No, this should be of next half year. But again, it depends on the value of security and all and downgradations.

Unidentified Analyst

No, I'm asking on the existing nonperforming loans. I'm not asking about the future nonperforming loans.

Shanti Lal Jain - Bank of Baroda - Executive Director

Existing accounts are also based on the value of securities we make provisions for.

Unidentified Analyst

But you would know the quantum, right, that how much provisions you would need to make in Q3 and Q4 because security is already there and loans are already bad.

Shanti Lal Jain - Bank of Baroda - Executive Director

I agree with you, but securities -- we keep on valuing the security also. And if this is a downgradation, the security (inaudible) will increase. So based on the value...

Unidentified Analyst

The accounts are already downgraded, right?

Shanti Lal Jain - Bank of Baroda - Executive Director

Balance is okay, but security is volatile. Securities may change. Value of securities may change.

Unidentified Analyst

Okay. I don't know, sir. I may take it with Sameer, I think. But sir -- I couldn't understand your clarification on this INR 1,400 crore and INR 14,000 crores, which you were giving to Jai, that INR 14,000 crores was because of RBI moratorium, which couldn't slip and which were SMA accounts and INR 1,400 crores of NPAs which were because of Supreme Court. So how are these 2 loans related?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So let me try to answer that. Effectively, what we were trying to again assess was that how much is the provision that we hold against these 2 categories, right? As far as the book, which is under -- which has been protected because of the moratorium, now it is possible for you to actually restructure that book. It is possible that some of that was might slip, it's possible something might get upgraded. So against that INR 14,000 crores, we hold 12% provision. And if we take the central case that most of us would either improve or would get restructured, that is more than 10% that you require for restructuring. So against that INR 14,000 crores, the fact that we hold INR 1,700 crores would seem to suggest that in terms of the likely impact of that book either getting restructured or slipping is to be largely provided for. So that was the point number one.

As far as Supreme Court is concerned, that is something which is an NPA. Only the Supreme Court does not allow you to call it NPA. So therefore, we have treated just like any other NPA, and we have made a full 20% provision, the way you would do it on a substandard asset and also made a provision to the extent interest would have been reversed.

Unidentified Analyst

Okay. Okay. And sir, just last clarification on the first question. Mr. Jain mentioned that INR 4,500 crores is the provision requirement for the existing loans for the next 2 quarters. What would be the amount for FY '22?

Shanti Lal Jain - Bank of Baroda - Executive Director

The numbers -- presently, we are not [clear] what would be the requirement of FY '22, but we have to calculate everything.

Sanjiv Chadha - Bank of Baroda - MD & CEO

In fact, I would suggest even don't take that INR 4,500 crores also for the moment. Let Sameer give you those numbers, okay?

Unidentified Analyst

Sure, sir.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Sir, we have a couple of questions on the web again and then we perhaps close the call. One is on the outlook on the international book and the treasury as well.

Sanjiv Chadha - Bank of Baroda - MD & CEO

So I think as far as the international book is concerned, overall, I think it has been doing well. We believe that if you were to take the normalized credit cost on the international book over a number of years, it is going to be significantly lower as compared to what it has been on the domestic side. So we believe that in terms of credit quality, the international book actually acts as a risk mitigation and effectively spreads our risk. And I believe that's something that should stand in good stead even going forward, which would mean I would expect the credit cost on the international book to be significantly lower as compared to domestic book going forward also. It is partly on account of the nature of the book. Fully 25% of the book is actually exposure on banks, right, through LCs, LOUs they may have issued. So that's part number one. Now the second part of the question again, Sameer, sorry, I just lost track of that?

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Treasury, sir.

Sanjiv Chadha - Bank of Baroda - MD & CEO

Yes. As far as the treasury is concerned, as I mentioned, this time, the gains that we had were larger than what would be the normalized figure going forward. But it also seems to be a fact that the Reserve Bank seems to indicate that the low interest rate, high liquidity regime should sustain for some time. So we would be seeing treasury gains, but they are unlikely to be of a similar quantum that we saw during the current quarter.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Right, sir. Sir, a couple of more questions. One is on ECLGS scheme. How much has been disbursed. With this we can -- we'll have...

Sanjiv Chadha - Bank of Baroda - MD & CEO

I think Khichi sahab is there on the call, so I think we'll just request Khichi sahab to take the question.

Vikramaditya Singh Khichi - Bank of Baroda - Executive Director

We have disbursed almost -- we sanctioned almost INR 8,500 crores to 3 lakh people and that constitutes almost 95% of all the eligible borrowers who are eligible have been sanctioned. And in terms of amount, it is -- it comes to around 93%. Out of this INR 8,500 crores, INR 7,300 crores has already been disbursed. This is regarding credit line guarantee.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Correct. Thank you so much. The -- another question is on the guidance on the NIM. What is the guidance on the NIM for the next 12 months?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So I think you might recall, when we had met the last quarter, we had, during that quarter, 2.55%. That's improved significantly during the current quarter. And that improvement has come on the strength of the reduction in the cost of deposits, which came down by 53 basis points Q-on-Q. As I mentioned earlier, that benefit and that advantage of lower cost of funds is likely to endure. So therefore, while there may be some pressure on NIM to the extent that there would be some stresses which would play out post restructuring, but nevertheless, to my mind, that should act on the margins, not again undo the improvement that we have seen. So we believe that we should be able to sustain net interest margins, which are in line with historical levels even over the next few quarters. I think they have been in the region of 2.8%, historically.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

And sir, the -- I'll take one more question. This is on the observed correction efficiency across retail portfolio. Is there any difference across different segments?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So I think we have some -- you have that ready at hand if you would want to present now, you can do it now, or if you would wish to do it later, you can do it later, whichever way you might choose, please.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

I think we can distribute the data later on, but there any which way is not much of a difference in terms of the overall efficiency. And sir, I think we've just got another question. Please, if you have any guidance on the -- on loan growth and ROA.

Sanjiv Chadha - Bank of Baroda - MD & CEO

So deposits and growth -- loan growth. So I think we have addressed this question, but let me repeat it for clarity. We had started the year with a guide that we would be targeting a growth of 7% in terms of deposits as well as in terms of loans. We believe we can stand by that guidance. The additional information we want to give is that it is not only the quantum of growth, which is something which one can manage the fact that you are in a liquidity surplus situation, but the quality of the growth because we believe not only can we do that growth, but we can make sure that a large proportion of that comes from the growth in CASA, which would mean that we should be able to also sustain our margins, which was the earlier question.

Sameer Narang - Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting

Right. Sir, I think we've answered all the questions that were there, and we can -- Mr. Ajmera wants to ask a question, I think, again.

Ashok Kumar Ajmera - Ajcon Global Services Limited - Executive Chairman, CEO & MD

Yes, sir, if could just 1 minute to give some color on the overseas business. Because we have a lot of overseas branches. I mean what is the trend there? And what do you see the future of our global business -- I mean overseas business? Second is how our subsidiaries are performing?

Sanjiv Chadha - Bank of Baroda - MD & CEO

So thank you very much, Mr. Ajmera, first of all, for staying on the call for so long. So as far as the overseas business is concerned, that's a very significant part of our balance sheet. It's about 15% more of our balance sheet. And we expect that the overseas operations should in terms of profitability will contribute equally, which means we expect our overseas business to contribute about 15% of our operating profit also. Given the fact that we expect the credit cost to be lower, the overseas business is actually a next contributor to the bank in terms of its profitability and return on equity.

When it comes to the subsidiaries, in particular, there are 2 or 3 subsidiaries which are key to us. They probably correspond to 90% of the capital outlay as also assets. So one is the Kenyan subsidiary, the other is Ugandan subsidiary and then the U.K. subsidiary. The U.K. subsidiary is the newest, which came into being only about 2 years back. So that subsidiary in terms of return on equity, the performance is relatively muted. It's 4% or 5%. But both Kenya and Uganda have been contributing about 15% return on equity. So we believe that the subsidiaries should actually, also in terms

of return on equity, be pulling their weight or punching above their weight going forward. And the overall interaction business also should be a net contributor to the bank.

Ashok Kumar Ajmera - *Ajcon Global Services Limited - Executive Chairman, CEO & MD*

Sir, just one observation. While going through this segment-wise reporting, sir, the wholesale banking, the results, it is -- there is a lot of, I mean, fluctuation in that. As against INR 1,873 crores of loss, there is a profit of INR 95 crores. It is for the CFO actually, basically, to explain that how such fluctuations can take place in the segment-wise reporting where you find suddenly INR 1,873 crore of loss coming to INR 95 crore of profit.

Sanjiv Chadha - *Bank of Baroda - MD & CEO*

So let me try to answer the question, and then the CFO can give you a more educated answer. So the fundamental point I think is that, as we mentioned, the wholesale book has grown to fluctuation in terms of provisioning. So since we have suddenly seen very high provisioning, so the wholesale book on the whole has actually been making a negative contribution to the return on equity. Now during the last quarter, the provisioning has been muted, which we have seen in the provisioning figure, which is why we actually had this year loss going forward, which also underlines and reemphasizes what our strategy is going forward, which means, as a proportion of the book, we would want the retail book to grow to be a little larger proportion, the wholesale look to become a little lower proportion so that the kind of volatility that we see in earnings gets diminished as we go forward.

Ashok Kumar Ajmera - *Ajcon Global Services Limited - Executive Chairman, CEO & MD*

So you mean to say there's INR 95 crore profit, which has come after a long time. If you see all the 4, 5 quarters, there used to be losses in the wholesale book of INR 1,800 crores, INR 1,400 crores, INR 1,700 crores. It has come suddenly for the first time in last 6 quarters in INR 95 crore profit. So the basic structure is changing in either reporting or calculation because so much of difference cannot be because of the provision, basically, which has come down now this quarter.

Sanjiv Chadha - *Bank of Baroda - MD & CEO*

Correct. So I think that's exactly the point. Going forward, given the fact that the provisions to the extent of 85% of our nonperforming assets. The pressure from the wholesale book in terms of provisioning should also come down. And therefore, we hope that we should be seeing better performance going forward.

Sameer Narang - *Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting*

Yes, sir. Sir, on that note, I think, sir, we've answered all the questions. And any -- a few more questions which are yet to be answered, we can take that offline and answer all of them. And sir, on this note, I would like to thank the management and the MD. I would also like to thank all the participants. But sir, would you like to have some final comments before we exit the call?

Sanjiv Chadha - *Bank of Baroda - MD & CEO*

I just want to thank everybody who's been on the call. I do hope that they keep safe, and I look forward to seeing them again next quarter.

Sameer Narang - *Bank of Baroda - Chief Economist & Head, Planning Performance and Budgeting*

Thank you, sir. Thank you, everybody, and we can close the call.

Ashok Kumar Ajmera - *Ajcon Global Services Limited - Executive Chairman, CEO & MD*

We would request you to give appointment even before between that also, sir. Thank you.

Sanjiv Chadha - *Bank of Baroda - MD & CEO*

Thank you.

Shanti Lal Jain - *Bank of Baroda - Executive Director*

Thank you, everybody. Thank you.

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