



“Oriental Bank of Commerce
Q4FY2018 Earnings Conference Call”

May 15, 2018



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Moderator: Ladies and gentlemen, good day and welcome to the Oriental Bank of Commerce Q4 FY2018 earnings conference call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Mishra of Antique Stock Broking. Thank you and over to you Sir!

Amit Mishra: Thank you Raymond. Good afternoon everyone. Welcome to Oriental Bank of Commerce Q4 FY2018 earnings call. Today we have senior management of Oriental Bank, Mr. Mukesh Kumar Jain, MD & CEO, Mr. Himanshu Joshi, Executive Director, Jitender Mohan Singh, GM & CFO. Now I hand over the call to MD Sir for opening remarks. Thank you.

Mukesh Kumar Jain: Good afternoon everybody. I have with me my colleague, Mr. Himanshu Joshi, Executive Director, our CFO, Mr. Jitender Mohan Singh, and my other senior colleagues are with me. Very good afternoon to all of you and I thank you very much for attending this concall to discuss about our financial results. I will just highlight Q4 results and FY2017-2018 results and I will take your questions.

As you are aware we are banking under PCA and Government of India has infused capital of Rs.3571 Crores to the Bank and we have been assured that Bank will be getting regulatory capital with compliance reformed agenda, so therefore bank has taken a conscious call to downsize the business and focus on quality growth to optimize business operations, conserve capital, maintain capital adequacy and adoption of PSB reforms agenda.

The businesses of the Bank in March 2018 stood at Rs.3.55 lakh Crores as against Rs.3.85 lakh Crores in March 2017. The depository advances stood at Rs.2.07 lakh Crores and Rs.1.48 lakh Crores respectively. The advances of the bank have declined by 10.95% on YOY basis while the credit risk weighted assets have declined by 18.13% due to capital optimized growth and credit risk weighted assets to gross advances declined to 73% in March 2018 compared to 79% in March 2017, reflecting bank's focus on optimizing risk efficiency.

Bank's strategy is now quality credit growth and cost of optimization and focus on retail lending and CASA deposits and strengthen retail customer base. Bank is shedding poor risk weighted corporates and high cost deposits. During FY2017-2018 bank's retail portfolio increased by 17% Y-on-Y and corporate book declined by 8.47% and now our corporate book to total assets reduced to 49.40% Y-o-Y in March 2018 against 52.15% March 2017.

Similarly our cost of deposits reduced to 5.61% compared to 6.33% in FY2017. Our CASA percentage has increased from 30.50% in March 2017 to 31.68% in March 2018. Customer base



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of the bank has increased by 3.35% to 2.27 Crores and digital banking transactions increased from 53.45% in FY2017 to 63.05% in FY2018.

To talk about financial parameter, our operating profit has declined by 11.20% to Rs.3730 Crores in FY2018 from Rs.4170 Crores in FY2017 due to lower contribution by treasury due to hardening of yield and reduction in net interest income. Bank has made a net loss of Rs.1650 Crores for Q4 financial year 2018 and Rs.5872 Crores for financial year 2018 due to higher NPA provisioning and depreciation on investment.

The fee-based income of the bank has increased by 19.40% to Rs.1274 Crores for financial year 2018 from Rs.1067 Crores for financial year 2017 and share of fee-based income has improved to 6.31% for FY2018 from 5.04% in FY2017.

The NIM of the bank maintained at 2.17% despite falling rate scenario, cost income ratio stood at 49.22%. About the asset quality, bank's investment grade rated borrowers contribute 63% of total advances, which are externally rated and distribution of Rs.10 Crores as on March 31, 2018 against 52% in FY2017. Restructuring portfolio of the bank has reduced substantially to Rs.753 Crores in FY2018 against Rs.1562 Crores in FY2017. 52% borrowers of the bank are under MCLR regime.

The banks gross NPA stood at 17.63% in FY2018 from 13.73% in FY2017 and net NPA stood at 10.48% in FY2018 from 9.52% on FY2017. During the quarter, there is a fresh slippage of Rs.3123 Crores and during the year there is a fresh slippage of Rs.14430 Crores.

The provision coverage ratio has improved to 64.07% Y-o-Y against 53.61% in FY2017. Bank has made a cash recovery including upgradation to the tune of Rs.3161 Crores against Rs.2092 Crores in FY2017 whereby increased by more than 51%. Resolution is under process in 100 NCLT cases, having exposure of Rs.12290 Crores and bank has made overall provision of more than 69% in this NCLT referred cases.

The capital adequacy of the bank as I mentioned Government of India infused Rs.3571 Crores equity during Q4 of FY2018. Accordingly Government of India shareholding had increased from 58.38% in Q3 to 77.23% in Q4 FY2018. During this period AT1 bonds of Rs.3000 Crores were also redeemed, through an open exercise regularly event call option in March 2018. The CRAR of the bank is 10.50% that is Tier 1 7.61% and Tier 2 2.89% and CET-1 stood at 7.46% for FY2018. Banks utmost priority is recovery and resolution and improving the profitability through retail business and accelerating fee-based income. So I am now open to your questions.

Moderator:

Thank you very much. We will now begin with the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We have the first question from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.



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Sneha Ganatra: Sir my first question is what is the outlook on the growth for the next year? Second question is on the asset quality, what is the run rate of the slippages we expect for the next year and how do we see the overall recoveries and upgrades considering the resolution, where do you see your gross or net NPA settling in the end of FY2019 and what is the PCR target we are maintaining?

Mukesh Kumar Jain: As far as growth is mentioned as I mentioned that Government has mandated us that they would be supporting us with the regulatory capital, so we are planning to raising our portfolio and reduce our risk weighted assets within the same capital base what we are expecting from the Government of India. Secondly as far as asset quality is concerned, we are expecting gross nonperforming assets at the same level of around Rs.27000 Crores in March 2019 and we are expecting our net NPA to be maintained below 9%. About upgradation recoveries, we are expecting around Rs.5500 Crores and fresh slippage we are expecting around maximum Rs.7000 Crores. The PCR we are expecting about 65%.

Sneha Ganatra: How much you mentioned is the fresh slippage is around?

Mukesh Kumar Jain: Around Rs.7000 Crores.

Sneha Ganatra: Okay and these fresh slippages of Rs.7000 Crores, which you have considered any slippages from the power sector also because power sector exposure is around Rs.6000 Crores that too from the private sector side?

Mukesh Kumar Jain: Rs.750 Crores in power sector, overall corporate will be around Rs.4000 Crores, out of power sector would be around Rs.750 Crores.

Sneha Ganatra: What would be the credit cost guidance for the next year considering there could be some NCLT provision; there could be some ageing provision also for the next year?

Mukesh Kumar Jain: We are in around 1000 accounts in NCLT and we have made overall provisions more than 69% and credit cost we are expecting around 4% to 5%.

Sneha Ganatra: Next year?

Mukesh Kumar Jain: Yes next year. This year it has been 6%.

Sneha Ganatra: Got it. Thank you.

Moderator: Thank you. We have the next question from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: If you can give some colour on our SMA2 book, SMA2 and SMA1 book?



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- Mukesh Kumar Jain:** SMA1 is around 4500 and SMA2 is around 2500.
- Anand Laddha:** We are assuming Rs.4000 Crores of corporate slippages, which are higher than the SMA2 book also? So we reduce basically some more corporates, which will slip, which is not today part of the SMA2 book also?
- Mukesh Kumar Jain:** Yes SMA2 is around 2500 right now and SMA1 around 4500, so SMA1 may also slip over to SMA2.
- Anand Laddha:** We are assuming 7000 Crores slippages that seems to be a pretty large number Sir? If you look at, if I have to add up our return of book also our gross NPA today are almost like 29% and if I have to build a 7000 Crores slippages, which means almost 30%, 35% of loan book will get slipped into a NPA, so this number seems to be very larger number?
- Mukesh Kumar Jain:** This year we are expecting good recovery also. We are expecting cash recovery and upgradation of 5500.
- Anand Laddha:** I agree but then 7000 Crores, if I assume building a credit cost of 4% to 5%, which means FY2019 also we are going to make losses?
- Mukesh Kumar Jain:** Marginally we may be losing the full year. Overall there may be marginal losses.
- Anand Laddha:** Sir when will we expect become profitable organization Sir?
- Mukesh Kumar Jain:** Next year?
- Anand Laddha:** So FY2020 we should see some profit?
- Mukesh Kumar Jain:** Yes.
- Anand Laddha:** Is there any guidance or is there any thought process that we will make some ROE, ROA?
- Mukesh Kumar Jain:** So when we have losses then it will be negative only.
- Anand Laddha:** If I had to look our SME book, our gross NPA in the SME book are almost like 11% to 12%, is there any thought process that if we continue to have such a high slippages in the SME book, then are we doing something, are we changing the underwriting process or is there any reason that our account selection are bad that is why we have large slippages in SME book Sir?
- Mukesh Kumar Jain:** Basically these are the past accounts, so you know the last 18 months we are now in the vertical structure. We are the only bank in the vertical structure. So after looking the vertical structure



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now we have our cluster for SME, cluster for retail also, after that there is a lot of improvement in the quality of the assets what we are taking.

Anand Laddha: If you can give some colour on the vintage of the book, last 18 months how much SME loan we had given, how is the performance of this SME loan, so how much of this slippage into NPA for us?

Mukesh Kumar Jain: Like this MSME NPA has come down from 12.64% to 11.52%, so now this has started coming down.

Anand Laddha: But Sir we do not have any experience of vintage, last 18 months how many loans we had given, how much of that slipped into NPA, we do not have that vintage with us?

Mukesh Kumar Jain: In the last 18 months these sanctions given after formation of the new structure, hardly there are NPA may be around 1% or so.

Anand Laddha: What is our yield on the SME book Sir?

Mukesh Kumar Jain: I do not have separate number for that.

Anand Laddha: If you can share that, what is the yield on the SME book and the yield on your retail book Sir, if you give some idea how much incremental NIM we are making Sir?

Mukesh Kumar Jain: We will share.

Anand Laddha: On the treasury side Sir if you can give some like what is the excess SLR we are holding as a percentage of NDTL?

Mukesh Kumar Jain: Himanshu Joshi will take this question.

Himanshu Joshi: In the investment book, we are holding excess SLR because RBI has mandated us, earlier it was 19.5%, now it is 20%, so almost 5.5% of excess SLR we are holding and that mainly holding is in GSECs.

Anand Laddha: And Sir till what yields we are protected Sir?

Mukesh Kumar Jain: We are protected around 7.60.

Anand Laddha: Okay, so like today GSEC is above 7.6, so we will have some mark-to-market for next year also?



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Mukesh Kumar Jain: Yes. Actually mark-to-market also reverses. There are two things. Yield never assumes a journey of downward, so it is the way one will have to ride the wave and sometimes you make profits and sometimes you make provisions for expected losses.

Anand Laddha: What is the outlook on net interest margin for next year Sir?

Mukesh Kumar Jain: It will be around 2.25 to 2.35.

Anand Laddha: Okay, perfect and if you can give some colour on our employee cost that has grown up very sharply in this quarter?

Mukesh Kumar Jain: Because in two quarters, I hope you recall the conversation we had in investor conference one to one that we got some write backs in the first two quarters and then the ratio of employee cost earlier we were providing around 4% and 4.5%, this quarter we have to provide as per IBA guidelines to more than 5%, so it has added to the salary escalation ratio this time plus some gratuity provisioning has also been made because of the increased in ceiling of gratuity.

Anand Laddha: So for next year what sort of wage inflation we should build in Sir like this quarterly run rate of Rs.672 Crores, is it what will sustain for next quarters or it will come down? For next year, should we assume this quarterly rate of Rs.670 Crores as the normalized employee cost for sustaining or it will remain as volatile?

Mukesh Kumar Jain: I think it has to come down, because we will be adding new employees and the regular costs will come down, but it will not be that Rs.672 Crores, it will be marginally less.

Anand Laddha: The other opex also has grown, so if I look at for full year FY2018 versus FY2017, other operating cost has grown by 20% and at the same time our loan book has not grown. So I just wanted to understand Sir what is the outlook on that?

Mukesh Kumar Jain: Last year we had depreciation write back and now that depreciation write back is not available that is why this opex has grown by 20% and PSLC have also contributed to opex operations.

Anand Laddha: What is the PSLC Sir?

Mukesh Kumar Jain: Private Sector Learning certificates order book

Anand Laddha: That has resulted in higher opex? I did not get Sir, sorry.

Mukesh Kumar Jain: Rather if you calculate investing in RIDF and buying a PSLC. PSLC is a much better option and RIDF we just get 4% of return and in PSLC there is an expenditure between last year from that investment for a longer period and the cost really comes down.



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- Anand Laddha:** Like we could have bought some PSLC for our PSLC requirement?
- Mukesh Kumar Jain:** Yes.
- Anand Laddha:** So that is shown as a part of other opex?
- Mukesh Kumar Jain:** Yes. Of course.
- Anand Laddha:** What was that cost Sir, if you can quantify?
- Mukesh Kumar Jain:** Sorry, I do not have the number right now, but I will share, it is nearly 3%, Rs.133 Crores.
- Anand Laddha:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.
- Jai Mundra:** Thanks for the opportunity. Sir just wanted to know you mentioned Rs.7000 Crores odd slippages for FY2019 and within that Rs.4000 Crores of corporate slippages and you also mentioned some Rs.750 Crores from power, so even if I include let us say the deferred book, which we have as of now standard restructured and very small proportion of S4A etc., so it still does not add up so I mean just wanted to get what do you think, which sector would be contributing to this Rs.400 Crores odd corporate slippages which what is your sense now?
- Mukesh Kumar Jain:** Normally corporate consists of anything and everything above Rs.10 Crores, mid corporates and large corporates. 750 Crores for power sector but there are other sectors which are also facing the heat and we have taken lot of accounts to NCLT also we are only lender or where we are the leaders and because of certain small accounts also between 50 and 100 or 10 and 50 or 100 and 200, so it is not that and if you see the SMA book, the clarity will come to you.
- Jai Mundra:** Sir this rating distribution that we have shown for this time, so if I see the unrated as well as double BB and below which is roughly around 36%, so that base for this number is the gross exposure or the net exposure so the NPA, which are already there in our book would they necessarily be in double BB and below or their out of this 100%?
- Mukesh Kumar Jain:** It is gross means it is total loan book number one and NPAs will definitely be below C or D or below D, so if you see an improvement in the loan book from earlier years.
- Jai Mundra:** All NPA would be within this 25% bucket right?
- Mukesh Kumar Jain:** Yes.



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- Jai Mundra:** All NPAs, which we have booked so far that would already be in 25% number that we are seeing here?
- Mukesh Kumar Jain:** Rating wise.
- Jai Mundra:** Because that actual number is going down, so I just wanted to double check?
- Mukesh Kumar Jain:** Yes.
- Jai Mundra:** Sir lastly in our investment slide we have just mentioned we have sold some strategic investment, what is that?
- Mukesh Kumar Jain:** It was sold in September and these were two investments, one was NSDL and other was NSE, so we could sell them in time at a very good price, people are still struggling to sell those investments.
- Jai Mundra:** Because in our presentation it is mentioned under March quarter, so Rs.19 Crores has come from equity strategic investment, so that would be what Sir?
- Mukesh Kumar Jain:** That is sundry sale. There was one very good investment available to us although we were less than 0.01% shareholder in that company, so there was no point in continuing, as we were getting a good price, so we got Rs.19 Crores out of that.
- Jai Mundra:** Any other non-core portfolio or non-core investments that we are holding that can help for FY2019?
- Mukesh Kumar Jain:** We are holding lot of that and we are planning to sell that as well, but you need to have good price and opportune time, because if you are selling your family jewel at discount that does not auger well for the health of the bank.
- Jai Mundra:** That is very helpful. Thank you so much.
- Moderator:** Thank you. The next question is from Shri Karthik from Investec Capital. Please go ahead.
- Shri Karthik:** Thank you for the opportunity. Sir sequentially our IBPC is declined substantially why is it Sir?
- Mukesh Kumar Jain:** We have decided to shrink the loan book that is why IBPC was the best way to shrink, so we had done that.
- Shri Karthik:** There still have some residual Rs.4000 Crores, Rs.5000 Crores what is this pertaining to?



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- Mukesh Kumar Jain:** It is a continuous process. We pay some. We acquire some depending upon the availability of the price, if we are getting better price asset definitely we go for that better risk weighted asset, we go for that that is the thing.
- Shri Karthik:** Okay, got it and Sir our current accounts have declined substantially on a Y-o-Y basis, was that one-off last year?
- Mukesh Kumar Jain:** There was one-off last year and in one account we received around Rs.2800 Crores on March 31, 2018 and it went off on April 1, 2018 and it was a customer requirement that he had to keep that money, receive that money on that date and it has to go out, so if you take out that Rs.2800 Crores then definitely there is a growth, if you see the CASA there is a 1% quarterly growth in CASA and we hope to maintain this was a current year also.
- Shri Karthik:** On a Y-o-Y basis our SA growth is about 5% to 6%, you think this can move to double-digit 10%, 11% EBITDA?
- Mukesh Kumar Jain:** It will be in the same range. It will not be double digit, but we will definitely be making, we will be expecting to reaching CASA of 35% by March 2019 on a stable basis.
- Shri Karthik:** The recent discussions around FRDI bill etc., is having any impact on our retail term deposits because I see a decline on a sequential basis?
- Mukesh Kumar Jain:** If you see there was some high price deposits, which were in these small deposits also which has gone out because of the interest rate differential, otherwise it is business as usual. FRDI has nothing to do with our bank; we are a very small bank as compared to the market.
- Shri Karthik:** Okay, but you are not seeing any factor of asking some questions about deposits etc.?
- Mukesh Kumar Jain:** Our CASA would not have increased 4%.
- Shri Karthik:** If you could give us a sense about your customer base, so how much of it is active and how much of it is inactive and within the active base how much of it is general?
- Mukesh Kumar Jain:** Rs.2.27 Crores is the customer base number one. Generally it is around 42 lakhs accounts, in those 42 lakhs accounts there is a deposit of almost Rs.4500 Crores, which is one of the highest average deposit in industry, one of the highest and only 6% or 7% PMJDY accounts are inactive, otherwise rest of the accounts are active.
- Shri Karthik:** Okay and the remaining non-PMJDY accounts are how much of it is active and inactive?
- Mukesh Kumar Jain:** Almost 60% to 65% is active account.



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- Shri Karthik:** Sir just last data point, could you speak a little bit about our SMA0, 1 and 2 portfolios, what is the current outstanding in terms of proportion?
- Mukesh Kumar Jain:** SMA0, 1 and 2 is a dynamic situation, because if you draw out the figure on 31st or end of the month it will be higher. If you draw out the figure on 15th of the month it will be different figure on 20th of the month, it will different figure because there is a tendency on part of certain borrowers. I say large number of borrowers to pay their installments in mid of the month or by end of the month or nearing end of the month. So average our SMA book including SMA0, 1 and 2 is between 7000 and 8000 it remains like that, but if you draw out in the month end it will be substantially higher.
- Shri Karthik:** 8000 is about 5% of advances that is about right?
- Mukesh Kumar Jain:** Between 4% and 5%.
- Shri Karthik:** Thank you so much, very helpful.
- Moderator:** Thank you. Next question is from Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Sir just wanted to understand what is the RBI mandate given to us in terms of reducing our overall loan book, is there any target given by next financial year?
- Mukesh Kumar Jain:** RBI has not given. Ministry has given that target.
- Sangam Iyer:** How much is that Sir?
- Mukesh Kumar Jain:** Whatever risk weighted assets we were supposed to achieve by 2018 we have achieved the target of 2019 as well.
- Sangam Iyer:** So from here on because in the initial statement, when asked about for the loan book growth, you said that we are looking to rejig the book and not grow the book here and also reduce RWA incrementally, so I just wanted to understand is there any further reduction in the book that we are looking at while changing the mix within the book?
- Mukesh Kumar Jain:** I think there may be a slight reduction, but there will be lot of rejig in the portfolio, a lot of rejig, wherever we are able to shed the high RWA assets we are doing that and of course we are increasing our RAM credit substantially if you see the book, if you reduce the IBPC that there is a substantial increase in that.
- Sangam Iyer:** In this case given that we are moving towards better quality book here, how do you see your NIMs moving up from 2.19% to 2.25% or 2.35% that you are guiding for the next financial year,



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because incrementally yields on a better quality book would be much lower than what you have been having right?

Mukesh Kumar Jain: If you are increasing the RAM sector, the yields will be much higher. Our focus is going to be this sector only.

Sangam Iyer: In RAM, which are the segments that you are looking, is it more on the personal loans and credit cards where you are looking to increase?

Mukesh Kumar Jain: Basically the focus is on housing then personal loans where we are seeing a very good growth and we are major player in northern part of the country where the interstates are very higher then if you see our fee base income increase that has been substantially higher and we hope to continue this tempo year also we have created separate fee base income vertical as well.

Sangam Iyer: Again on asset quality front, we did mention that there could be slippages around Rs.7000 Crores odd for the year and gross NPA could be north of Rs.27000 Crores that is what we could be ending this year compared to 26% odd for the last financial year. So how do you look at the net NPA coming down below 9% on the current 11% levels I mean given that our upgradation is going to be just 5000 and provisioning also will reduce?

Mukesh Kumar Jain: I will come to that. One is we are projecting a recovery and upgradation of Rs.5500 Crores out of that we are projecting Rs.750 Crores of recovery from TOWA that is Technically Written Off Accounts number one. Number two, we are going to increase the provision coverage ratio as well and if you are increasing the PCR ratios, net NPA is bound to come down and recovery in TOWA account is going to add to our income. If you see recovery of last year, there is a substantial 50% increase in recovery over last year. So this year also we have in the process of repeating that performance because our five GMs and almost 80 clusters are working for recovery only almost 1200 people are there in the bank who are dealing with recovery only, so that is going to help us.

Sangam Iyer: Sir, in terms of Rs.5500 Crores of upgradation that we have, how much is that from the NCLT accounts that we are factoring in here?

Mukesh Kumar Jain: NCLT accounts anything between 0 and 3000 because NCLT accounts resolution we are hearing from TV news and you are also hearing from papers anything comes and then there is a stay then that stay is vacated then again that goes in this is going on, but in going six months around Rs.2800 Crores to Rs.3000 Crores should get resolved through NCLT cases.

Sangam Iyer: Which is part of this Rs.5500 Crores of assumption right?

Mukesh Kumar Jain: Part of that.



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- Sangam Iyer:** When we say Rs.3000 Crores that is a gross amount right?
- Mukesh Kumar Jain:** Gross amount and provision of almost 69%.
- Sangam Iyer:** Right, so that incremental assuming at 40%, 45% kind of haircut that might happen. So we are talking about 20% provision release that would come in?
- Mukesh Kumar Jain:** We will be writing back their provision that is my aim.
- Himanshu Joshi:** Sir just to clarify on a conservative side out of these Rs.5500 Crores, we are expecting normal recovery and upgrade is Rs.4000 Crores and NCLT gross Rs.1500 Crores?
- Sangam Iyer:** NCLT gross of 1500 Crores?
- Mukesh Kumar Jain:** Conservative side you are talking.
- Sangam Iyer:** Okay. So this Rs.6000 Crores of credit cost that we are talking about is over and above may be Rs.500 Crores or Rs.600 Crores of release provision that would come in from NCLT resolution?
- Mukesh Kumar Jain:** Total we have taking 4% to 5% that is credit cost.
- Sangam Iyer:** Right so that would be closer to that amount right Sir? When we talked about the provisioning so that is over and above the provision released that we might be receiving from the NCLT resolutions?
- Mukesh Kumar Jain:** Yes.
- Sangam Iyer:** Sir how much are we factoring in as capital infusion that might come in from the government this financial year because if we do these kind of provisioning etc., and again loss for this next financial year or capital will again hit the threshold so how much is capital infusion factored in for the next financial year?
- Mukesh Kumar Jain:** See numbers that will we are not aware, but government has assured to give regulatory capital. I think the talks are going on. Now banks have been called on 17th as you are aware that PSU banks have been called on 17th also for this review whatever we had guided us earlier.
- Sangam Iyer:** Okay but any ballpark any thought process internally that how much you might be requiring?
- Mukesh Kumar Jain:** Around Rs.5000 or so.
- Sangam Iyer:** Great Sir. All the best Sir.



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- Moderator:** Thank you. The next question is from Sushil Choksey from Indus Equity Advisors Private Limited. Please go ahead.
- Sushil Choksey:** Good afternoon Sir. Can you give me the embedded value for some of the investments like Canara, OBC and others?
- Mukesh Kumar Jain:** We have 23% share in the total value of the company.
- Sushil Choksey:** But have we done any valuation on it or ascertained the value?
- Mukesh Kumar Jain:** Around Rs.1700 Crores.
- Sushil Choksey:** Okay, any other investment of similar kind which can be visible?
- Mukesh Kumar Jain:** These are small investments put together around Rs.500 Crores.
- Sushil Choksey:** I am sure that Canara OBC is strategic so that is not up for sale, any other investment are we selling likely the sales?
- Mukesh Kumar Jain:** We selling some investments like NSDL, e-governance and some SD S4 accounts where account has come in appreciation and CCIL and SIDBI like that. These are some of the investments, we are trying to exit this year.
- Sushil Choksey:** Besides NCLT and return of accounts do you still estimate any other recovery?
- Mukesh Kumar Jain:** No regular recovery will be there. If you see our recoveries for last year, there was no NCLT recovery and we lost Rs.3200 Crores-Rs.3100 Crores plus recovery.
- Sushil Choksey:** Okay so you visualize a similar numbers this year?
- Mukesh Kumar Jain:** Yes more than that.
- Sushil Choksey:** Sir as per last conservation, which we had you, had indicated that treasury wise, we do not see much of problem irrespective the yields?
- Mukesh Kumar Jain:** You have seen our figures. There was not much of a problem as compared to the entire banking industry.
- Sushil Choksey:** Where do you see yourselves in the current year if the yields are where it stands today?



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Mukesh Kumar Jain: Yields are going to harden number one and we are trying to again take a strategic decisions as far as treasury yields are concerned. So net-net we will be protected. There will not be much of the impact as usual on our treasury.

Sushil Choksey: Treasury is not negative, you are expecting recoveries, monetization through various other channels these are some of the positives, negativity is the historical loss, which is on the books, which you are trying to work?

Mukesh Kumar Jain: That is only because with the provision.

Sushil Choksey: In view of the current structure, which RBI and central government has mandated us in the PCA how are we working on retail and some human resource strategy, which strengthens the bank for next 12 to 24 months at least?

Mukesh Kumar Jain: I think we are already ahead of the PAT. We have already implemented 90% to the recommendations of RBI and ministry so 10% is left out and I think we will be see the movement in this case.

Sushil Choksey: Thank you Sir. All the best.

Moderator: Thank you. The next question is from Kamal Verma from CLSA. Please go ahead.

Kamal Verma: Sir could you share the amount of security receipts outstanding?

Mukesh Kumar Jain: Rs.430 Crores.

Kamal Verma: Thanks.

Moderator: Thank you. The next question is from Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Sir again on our asset quality guidance just wanted to understand Sir we are assuming 7000 Crores of slippages, 5500 Crores of recovery upgrade, which means net slippages of Rs.500 Crores is that understanding correct Sir? And Sir we are assuming a provision cost of Rs.6000 Crores, which is 4% to 5% so which means today we are sitting 64% coverage ratio and we intended to maintain 64%-65% coverage ratio, but if I do this calculation our coverage ratio increases substantially so in my understanding is there any difference in that?

Mukesh Kumar Jain: If you see the coverage ratio and whatever resolutions we are foreseeing the provision will be utilized and provision will be created also. I am not able to give you the entire calculation because certain accounts we will be utilizing provisions certain accounts will be making the provision certain age related provisions will be there so we are so many things and our calculations comes to this amount only.



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- Anand Laddha:** Because if I have to build this like if I say 7000 Crores of slippages and 5500 Crores of recovery upgrade, which means a net slippage of Rs.15000 Crores and if I have to build a 6000 Crores of provision, which means our provision coverage including technical write off will cross 75% Sir?
- Mukesh Kumar Jain:** It will not cross because utilization of provision will also be there. NCLT cases the utilization of provision will also be there and that will be written back.
- Anand Laddha:** Understood despite all that you believe in P&L there will be 6000 Crores of provision cost despite all the reservations, which is going to happen in NCLT and a write back of provision we still believe we will have to do Rs.6000 Crores of provisioning in the P&L?
- Mukesh Kumar Jain:** Let us see.
- Anand Laddha:** No Sir never confuse us because numbers are very large share number and last two years we had already had very high slippages and high provision cost?
- Mukesh Kumar Jain:** But this year higher slippages will not be there that I can assure you.
- Anand Laddha:** Okay so last year we did an operating profit of Rs.3700 Crores, do we see this number Sir, this number rising from here on or it will decline Sir?
- Mukesh Kumar Jain:** No we are working on number one recovery in TWA accounts that to Rs.750 Crores and then we are also working on fee-base vertical, which has already given very good results if you see our fee based income, noninterest income there is a substantial increase and that as to accelerate. Number two the yield on RAM book is much higher than corporate book if you go for A rated or AA rated, they always demand this MCR only, but in MSME and other segments you get better rate of interest that would also adopt to net interest income and our deposit cost has also come down very substantially and it is going to be more lower in the years, which is panning out. So net-net we will be more or less around this figure only last year's figure and if God willing treasury performs well that is my conviction that my treasury will perform well so we will be better operating profit figure will be shown to them.
- Anand Laddha:** The reason I was asking Sir because if our loan book more going to remain flat for this year for FY2019?
- Mukesh Kumar Jain:** But the replacement of assets is there, high yielding assets and low risk weighted assets. There will be two things so that will give us edge.
- Anand Laddha:** Sir last year on Rs.3700 Crores of operating profit we had almost like Rs.1200 Crores of treasury gain so it is very difficult to build in similar treasury gains?



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Mukesh Kumar Jain: We are projecting strategic sale of around Rs.500 Crores also from treasury so if the heightened yield level also we will be able to make around Rs.500 Crores, Rs.600 Crores, Rs.700 Crores of profits so net-net it is going to be around the same level that is what we have build in all related figures.

Anand Laddha: Perfect Sir. Thank you Sir. That is from my side.

Moderator: Thank you. The next question is Abhijeet S from Kotak Securities. Please go ahead.

Abhijeet S: Good afternoon. Sir first one wanted to understand the SMA2 movement. I think the last quarter you gave number of Rs.2700 Crores in SMA2 and it is quite similar this quarter as well so wanted to understand if that book has remained constant or that book has kind of slipped this quarter and there has been fresh additions from SMA1 if you can just give some colour?

Mukesh Kumar Jain: Actually, if you see any book the accounts go in and accounts come in, so in this also there will be a mix of that. Certain accounts have slipped and certain accounts have entered into SMA2 for SMA1 book or SMA0 book, so it is a process, which continues, but substantially it has come down and as I explained earlier also that if you draw the book at the end of the month it will be higher, if you draw on 7th of the month, it will be lower, if you go in the mid of the month it will be much, much lower it will be like that. It is a dynamic situation.

Abhijeet S: What has been the contribution of SMA 2 in this quarter slippages?

Mukesh Kumar Jain: I do not right away the number we will share definitely.

Abhijeet S: Sir, can you share the contribution of corporate accounts in SMA1 and 2?

Mukesh Kumar Jain: That I can share definitely. That is around 646 Crores.

Abhijeet S: That is around 646 is SMA1 and 2?

Mukesh Kumar Jain: SMA2.

Abhijeet S: And SMA1 would be?

Mukesh Kumar Jain: SMA1, I do not have right away.

Abhijeet S: Because you are giving a 4000 Crores slippage guidance from corporate this year?

Mukesh Kumar Jain: Actually 0, 1 and 2, the migration is like that just 2, 1 and 0 reverse migration is also there, so considering all the entire book 4000 Crores has been given that includes probable from power sector because of 12 survey circular of RBI.



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- Moderator:** Thank you. The next question is from Anusha Raheja from LKP Securities. Please go ahead.
- Anusha Raheja:** Sir, it is that the credit cost guidelines that you have given 4% to 5%, is it that the large part of the provision is with respect to the ageing of NPAs because you would be providing?
- Mukesh Kumar Jain:** Ageing and fresh provisions also.
- Anusha Raheja:** But on fresh slippages the provision should be hardly about 20% to 30% you will not be providing straight away 50%, 60%?
- Mukesh Kumar Jain:** That is right.
- Anusha Raheja:** Is it that the NPAs you already have a PCR of 65%, so the NPAs, which you had in the previous years, is it that the recovery rates very less around 10% to 20% odd and hence you might have high credit cost?
- Mukesh Kumar Jain:** No, if you see the recovery we have achieved a recovery 3100 Crores plus and we are projecting a recovery and upgradation of 5500 Crores plus this year. Provision will be utilized as well and provision will be made as well, so it is a dynamic situation again, provisions will be utilized and provision will be made, so overall we would like to maintain more than 65% of provision coverage addition.
- Anusha Raheja:** Thanks Sir.
- Moderator:** Thank you. The next question is from Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Sir, I just missed out on, you said that your operating profit you are expecting it to retain at the FY2018 level?
- Mukesh Kumar Jain:** Yes, almost similar.
- Sangam Iyer:** Almost similar after factoring in the stake sales?
- Mukesh Kumar Jain:** Everything.
- Sangam Iyer:** So, again we are looking at closer to almost 2000 Crores plus kind of a loss this financial year?
- Mukesh Kumar Jain:** It depends how the things span out, but yes, we expect a loss.
- Sangam Iyer:** Sir, in terms of opex is there any scope of reducing the opex here or do you expect that because of the change in gratuity, etc., there is further incoming increase in opex is going to happen?



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- Mukesh Kumar Jain:** You see the base revision will also kick in, so opex will remain at the elevated level, it is not going to come down.
- Sangam Iyer:** So where do you expect that cost-to-income ratio settle down Q4 was an abrasion, but having said that when I look at the overall cost to income ratio?
- Mukesh Kumar Jain:** Between 45% and 50%.
- Sangam Iyer:** So was there any deferment in the wage revision or any other gratuity, etc., that was supposed to be taken?
- Mukesh Kumar Jain:** Yes, we have taken.
- Sangam Iyer:** There is a deferment that you have taken.
- Mukesh Kumar Jain:** Yes, we have taken.
- Sangam Iyer:** So, how much is the incremental provision that would come in for the next financial over and above the normal increase in the employee cost or other expenses?
- Mukesh Kumar Jain:** It will be 60 Crores on account of gratuity deferment including the provisions.
- Sangam Iyer:** And for the wage bill, how much are we providing for?
- Mukesh Kumar Jain:** The figures are yet to be crystallized, so let us have an indication and then we will build down but certainly something we will be providing as a precaution.
- Sangam Iyer:** You are not preempting anything in terms your peers like Canara etc., are providing say at 10% rate or, so we are not preempting anything in terms of what could be it?
- Mukesh Kumar Jain:** After analyzing the trends we will definitely do, June is at least one-and-a-half month away.
- Sangam Iyer:** After factoring that you are saying that it will be closer to around 40% to 50% kind of a cost-to-income ratio?
- Mukesh Kumar Jain:** Yes.
- Sangam Iyer:** Just the last question so, on 17th when you are meeting what set of expectation that you are having from government in terms of?
- Mukesh Kumar Jain:** I cannot say anything. We are in a listen mode only.



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- Sangam Iyer:** But from a reprise from the government is there anything that you can look forward to, what could actually change the scenario for us because given that you are trying our best, but still final?
- Mukesh Kumar Jain:** Let us first hear from them, then again when we meet we will discuss.
- Sangam Iyer:** All the best Sir.
- Moderator:** Thank you. Next question is from Amit Singh from B&K Securities. Please go ahead.
- Amit Singh:** Sir, what are our net NPA estimates; the absolute number for FY2019 as well as the credit cost, absolute numbers?
- Mukesh Kumar Jain:** We would like to keep it below 9% that is what we have projected.
- Amit Singh:** What is our opex growth for FY2019 we are expecting?
- Mukesh Kumar Jain:** Almost similar figure, almost 2% to 3% increase not more than that, but it will remain elevated, it will not come down anytime soon.
- Amit Singh:** Thank you.
- Moderator:** Thank you. The next question is from Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** Sir, on the NCLT cases like we have referred some Rs.12000 odd Crores of cases, if you can give some colour like how much is the steel cases, how much could be from different sector, like textile, power?
- Mukesh Kumar Jain:** That figure I do not have right now, I am sorry.
- Anand Laddha:** Sir, we have only building in 1600 Crores resolution from the NCLT cases?
- Mukesh Kumar Jain:** That is a conservative basis we have built in. Let us hope and say that more will come.
- Anand Laddha:** Sir, the resolution are higher for the list one and two because I believe we would have a large exposure to the steel company in the list one and two and has the solutions are higher, then in that case our provision cost will fall down?
- Mukesh Kumar Jain:** Yes.
- Anand Laddha:** Fine Sir.



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- Moderator:** Thank you. Next question is from Kamal Verma from CLSA. Please go ahead.
- Kamal Verma:** Sir, what kind of overlaps are there between the standard restructured portfolio and 5x 25, SDR, etc.?
- Mukesh Kumar Jain:** Sorry, come again.
- Kamal Verma:** What kind of overlaps are there between different restructuring schemes, standard restructuring portfolio?
- Mukesh Kumar Jain:** There is only one account.
- Kamal Verma:** One account?
- Mukesh Kumar Jain:** 66 Crores.
- Kamal Verma:** Thank you.
- Moderator:** Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management for any closing comments.
- Mukesh Kumar Jain:** We would like just to thank to the investors and analyst community. They have given a great support to us and we hope to close this coming year with good numbers though not great, but good numbers and our team is working very hard and we solicit continuous support from the investing and analyst community. Thank you so much for being with us. This is on the conservative side, so we expect to be much lower than this. Thank you very much.
- Moderator:** Thank you very much. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.