

Transcript

Conference Call of Oriental Bank of Commerce

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Presentation Session

Moderator: Ladies and gentlemen, good afternoon and welcome to the 4QFY17 earnings conference call of Oriental Bank of Commerce hosted by HDFC Securities. As a reminder, all participants' 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 please signal the operator by pressing * and then 0 on your touch-tone telephones. Please note this conference is being recorded. I now would like to hand over the floor to Mr. Darpin Shah from HDFC Securities. Thank you and over to you, Mr. Shah.

Darpin Shah: Good afternoon everyone. On behalf of HDFC Securities I welcome you all for 4QFY17 earnings of Oriental Bank of Commerce. We have with us Mr. Animesh Chauhan, MD and CEO, Mr. Rajkiran Rai and Mr. Himanshu Joshi, ED and Mr. Jitender Mohan Singh, CFO along with the senior members of the team. Now, I would like to hand over the conference for Mr. Chauhan to take us through the details. Over to you, sir.

Animesh Chauhan: Okay. Good afternoon. I'll give some points on the results and then I'll take your queries. The business of the bank increased by about 6.41% YoY to 385,777, deposits went up by about 4.99% and advances, there was a rise of 8.33%. The CASA (audio break) 26.95% and the retail term deposit that is below one crore the 8.20%. The gross NPA of the bank as a percentage has reduced from last quarter to 13.73% from the last quarter 13.80%. The net NPA, which was at last quarter 9.68%, is reduced to 8.96% and the provision coverage ratio has been increased from 49.44% to 53.61%, which is 417 base rise in this quarter. The operating profit YOY has gone up from 3682 to 4172 crores; net interest income has also sequentially gone up from 1082 to 1307 crores. The NIM has sequentially increased from 2.14% to 2.54% and the cost to income ratio on YoY has improved from 48.44% to 45.67%, business per employee of the bank has increased to 17.90 crores from 16.89 crores and the business per branch has increased to 162.36 from 154.21. The retail, agri, MSME book has gone up by 13.21% during the year and the percentage of retail has gone up from 46.14% to 48.22%. The fresh slippage during the quarter is 3912 and this is increased from last quarter and the year before basically on the slippage of eight accounts under SDR and S4A amounting to about 1688 crores. This has resulted and plus the aging provisions and plus the increase in provision coverage ratio has resulted in a net loss of 1218 crores for the quarter and the basic provisioning for NPA has gone up from 1430 crores last quarter to 3050 crores this year. The capital adequacy of the bank remains – it is now at 11.64% with CET1 at 7.59 and total tier-1 at 8.88%.

So that's the brief on the accounts this quarter and I am open to questions now.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Sir, the first question comes from Aimee Truestale from Jupiter Asset Management. Please go ahead.

Aimee Truestale: Hi, sir. Thank you for taking my question. I can see that we've made a good amount of provisions this quarter and the PCR is up considerably to 53.6%. I'd just like to get a feel of sort of ideally how much of the provisions we need to make so that you sort of have a comfortable PCR ratio given the rate of slippages, if you could help us out.

Animesh Chauhan: No, I didn't understand. How much provision we have to make to keep the....?

Aimee Truestale: So that you're at a comfortable level of provision coverage ratio given the rate of slippages? How much money?

Animesh Chauhan: Going forward?

Aimee Truestale: Going forward, yeah.

Animesh Chauhan: See, we would like the PCR to be going up to around 60% in the next three to four quarters, but then that would also depend on a lot of resolutions that are being discussed because a few resolutions should increase the PCR substantially with the part of the credit that may be upgraded and part that will be provided. So ideally we would like to increase it to 60% going into next financial year.

Aimee Truestale: Okay. Great. That's helpful. And I guess in terms of sort of upcoming upgrades are we sort of seeing some large or lumpy accounts kind of ready to be upgraded or are we still kind of quite away from seeing the bulk of that being resolved.

Animesh Chauhan: See, with the recent initiatives taken by Government of India and the RBI's guidelines of Joint Lenders' Forum and Action Plan we hope some of the larger accounts must get into the resolution mode very soon and the intent is quite clear that they are to be resolved, but now telling exactly a number or the exact accounts may not be possible, but, yes, in the next two quarters we expect quite a bit of these accounts getting into the resolution mode in the banking industry.

Aimee Truestale: Great. That's very helpful. Thank you.

Moderator: The next question comes from Mr. Haresh Kapoor from India Infoline. Please go ahead.

Haresh Kapoor: Hello sir. I just wanted to know in terms of the outlook for FY18 what are you expecting in terms of asset quality, credit cost and also in terms of advances?

Animesh Chauhan: See, advances we are looking towards a 10% growth, but on the asset quality we only expect that slippages should now be not as high as we have seen them this year or the previous year because a lot of discussion and lot of actions happening on resolution. We should see, if some big-ticket advances get resolved the slippages in fact should be quite contained, but telling a number would not be possible at this moment of time.

Haresh Kapoor: Do you have something like a watch list, which is pending and which could be the stress account other than the standard book, anything on that front?

Animesh Chauhan: If you see our SMA2 non restructured plus net NPA plus standard restructured all of it put together is around 13.25% of total advances, but then that's not what we call list because net NPAs – I'm saying the total, which is uncovered and if you see at our SMA2 position this time it is technically because of the 61-day issue is down by around, should be down by around 4000 crores. So that is showing improvement, so we are sure that the slippages going forward should not be as high as we have seen in the recent past.

Haresh Kapoor: Okay. Sir, any color on credit cost for next year? Any range that you think?

Animesh Chauhan: It will not be possible to give as on this moment because of so much happening on the resolution front.

Haresh Kapoor: Okay. Sir, one last thing. In terms of advances that you pointed out and around 10% growth is what you're expecting, any segmental color that you would give in terms of retail, SME and corporate, what kind of traction are you all seeing and what's really happening?

Animesh Chauhan: See, we have seen in our bank quite a robust growth in the RAM sector in this quarter, Q4, and we expect the growth to be around retail, agriculture and MSME, not that much in agriculture, but yes, retail and MSME we are looking towards good growth and to continue the growth that has happened in Q4. So that should take us up. Traditionally our bank's corporate credit was much higher, around 60%. In the last two years it is now down to around 52%. We expect this RAM to be crossing 50% in this financial year.

Haresh Kapoor: Okay sir. Sir, that's all from my side. Thank you so much.

Moderator: Thank you sir. We have the next question from Mr. Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Hello?

Animesh Chauhan: Yes.

Sangam Iyer: Hello? Yeah. Sir just wanted to get a sense on the slippage and credit cost issue going forward. Sir, first of all given that this quarter we saw almost 1600 crores of slippage from the SDR accounts, right?

Animesh Chauhan: Yeah.

Sangam Iyer: That's what you mentioned during your initial remarks. Right. So is that kind of (not clear) or are we expecting anything big still slipping from the SDR accounts, etc., that we have?

Animesh Chauhan: It is not that, one or two accounts may still slip, but with lot of resolution we have discussed. I hope some of these slippages in SDR also will get resolved very soon in the next two quarters, because these slippages are all under discussions, these SDR accounts are all under discussion. So we hope that this will go because, not much of a slippage now onwards because if you look at our standard SDR accounts they are now only around 1600 crores, the total, that is pending now as standard, so I don't think we will have that type of slippages in future and with resolutions in these accounts already being worked out a few implementations should improve the condition here.

Sangam Iyer: Okay. Okay. So, sir, would it be fair to assume or to take at least in the next two quarters a similar kind of slippage that we saw in Q3 and then based on resolutions, etc., that one can come down?

Animesh Chauhan: No. It could be substantially less from Q4 because these SDRs were bunched up together, but substantially should be less than Q4. Q3, we can even expect it to be less than Q3.

Sangam Iyer: Okay. Okay. But, sir, when you look at the provisioning part of it, the credit cost, given that there have been elevated slippages that have happened in the recent past and with aging also coming in for them, wouldn't the credit cost remain elevated in the coming, at least in FY18?

Animesh Chauhan: See, it will of course depend how the gross NPA moves because if the resolutions are resulting into reduction of that the provisioning requirement may certainly not go up as it has happened in the previous two years, 2015-2016 and 2016-2017 and the attempt has been to fortify the PCR so that the resolution issues if they come we are in a better position to handle them.

Sangam Iyer: Okay. So if I were to put it in a different way, I mean our 60% target on PCR is based on certain assets getting resolved and certain level of credit cost, so here what is the kind of credit cost...

Animesh Chauhan: No, no, no, not that. We are trying to increase our PCR to handle the resolutions in a much better fashion. See, because when resolutions come there will be some hit on the bank, on the total outstanding, so if the PCR is increased the hit on the profit and loss will be that much less. So when we start talking of increasing it's to absorb those things without a big impact on the profit and loss account.

Sangam Iyer: Yes, sir. So given that context then definitely your provisioning will remain elevated because, I mean adjusted for whatever haircuts that could potentially come in when the resolution happens...

Animesh Chauhan: See, when the PCR is already getting increased I don't think the provisioning will continue to be that high because part will be absorbed by the provisions and then if the slippages are less that much capacity to absorb those haircuts will be increased.

Sangam Iyer: Okay, got it. And, sir, this time around in the employee cost segment did we take the benefit of the yields here, because the employee cost is down sequentially?

Animesh Chauhan: Last year there was some one-time cost, Q4, so that is not there this time.

Sangam Iyer: Q3 to Q4, when I'm looking at the employee cost, 575 odd crores has down to 420 crores.

Animesh Chauhan: Q3 also we had some elevated provisioning, which is not there because now when the actual valuations come you finally settle on it.

Sangam Iyer: So there is no reversal on the actuarial valuation that has happened in this quarter's numbers because of the benefit of it?

Animesh Chauhan: No, no.

Sangam Iyer: So should one be looking at this kind of base for the employee cost and then take whatever hikes come through?

Animesh Chauhan: Yes, I hope so.

Sangam Iyer: Okay. Okay. I'll just come back to the queue.

Animesh Chauhan: Okay.

Moderator: Next question comes from Ms. Sneha Ganatra from Subhkam Ventures. Please go ahead.

Sneha Ganatra: My first question is no the margins, sir, that has improved substantially from 2.14 to 2.5, what is the outlook for FY18-19?

Animesh Chauhan: See, we have said earlier also that we look a little towards better than 2.50. The last time we reversed, as per the RBI's guidelines that came in November, we reversed the interest that was recovered from SDR accounts we reversed that in a big way and that had resulted, which we clarified when the last time concall was happening, so this was expected to come back to this level and we expect it to remain around this level in the future.

Sneha Ganatra: Okay. And your CET1 stands at 7.59, any capital raising done?

Animesh Chauhan: Yes, we have. The board does appraise the bank to raise about 5000 crores at the maximum level, but that will depend going forward how the market conditions are and what the credit growth comes in.

Sneha Ganatra: And your credit growth guidance remains at 10%.

Animesh Chauhan: 10%, yes.

Sneha Ganatra: Any other stress are you facing, infra or iron and steel because in iron and steel mostly 68% have already been NPA and textiles also, any stresses being left out that can come out?

Animesh Chauhan: See, slippages may happen in any of the sectors, but as far as...

Sneha Ganatra: But anything to worry on any of the corporate accounts?

Animesh Chauhan: Iron and steel I don't think much of the larger accounts are left with us for slipping into NPA because NPAs in iron and steel outstandings in our bank is already above 65%, so not much is left on that. It is already 68%. Not much of it is left in the larger accounts.

Sneha Ganatra: Okay. On the infra front?

Animesh Chauhan: Infra, we don't see much of the big accounts slipping now. We don't see much of the big accounts slipping because a lot of resolutions are happening, lot of new orders are coming, we don't see much of a slip in infra.

Sneha Ganatra: Okay. How do you see overall recoveries and upgrade for the next year?

Animesh Chauhan: See, with the resolutions being emphasized a lot by the government and RBI those resolutions should result into some lumpy upgrades, so that should help in the overall outstanding. As far as slippages are concerned they should be much less than this year.

Sneha Ganatra: Any number could you guide us?

Animesh Chauhan: It would not be possible to guide on numbers. These are all things in the making.

Sneha Ganatra: Okay. Anything on the cost-to-income ratio target internally you people have put on that front?

Animesh Chauhan: Cost-to-income what it is today I think about 46 point odd percent it is expected to remain around the same. One minute. I'll come back to that. Cost-to-income for this quarter is 46.4%, so it should remain between 45%-46%.

Sneha Ganatra: Okay. Got it. Thank you.

Moderator: Thank you, ma'am. The next question comes from Mr. Giriraj Daga from AM Visaria. Please go ahead.

Giriraj Daga: Hello sir.

Animesh Chauhan: Yes?

Giriraj Daga: Yeah, a couple of questions. Sir, you said that the total restructuring including SDR and 5/25 is about 13.25%, so probably the numbers come around 7000 crore of additional number.

Animesh Chauhan: No, no, no, I didn't say that. Probably I was not able to explain to you properly. What I said is the total book of SMA2 plus net NPA plus standard restructure was that much.

Giriraj Daga: Can you give the breakup of what is SDR, what is 5/25 and what is restructured?

Animesh Chauhan: Separate figures of SDR (audio break) standard accounts are now 1595 crores and in S4A scheme the standard is around 508 crores. So not very big amounts involved there.

Giriraj Daga: 5/25?

Animesh Chauhan: 5/25 has some very good accounts also, but there the figure is 778. So I don't think some 5/25, any accounts slipping, but even these two, SDR and S4A standard is left not very heavy, so we don't see much of an issue there.

Giriraj Daga: Okay. What about the restructuring book? Standard.

Animesh Chauhan: Standard restructured is 6037; 6,642 last quarter.

Giriraj Daga: Okay. So my next question is what is the interest reversal we have seen in quarter 4 and for the full year?

Animesh Chauhan: One minute, I'll give you for quarter 4. Quarter 4 is 328 something, wait a minute. I'll give you. The quarter 4 interest reversal is 238 crores.

Giriraj Daga: Okay. For the full year?

Animesh Chauhan: Yes?

Giriraj Daga: For the full year, sir, reversal of interest?

Animesh Chauhan: We may not have it right now on the board.

Giriraj Daga: Okay. So what about the full year slippage?

Animesh Chauhan: The full year slippage, 12222.

Giriraj Daga: So what is the retail credit and MSME credit as a percentage of total as of now?

Animesh Chauhan: What?

Giriraj Daga: RAM.

Animesh Chauhan: Retail, agri, RAM is around 48.22.

Giriraj Daga: Okay. And particularly how much would be retail out of this, only retail?

Animesh Chauhan: Retail is about, in percentage terms about 15.34%, agriculture is 14.5% and MSME is 18.4%.

Giriraj Daga: Okay. So I have one question on that, like, particularly the NIM on this book going forward since majority of the PSU banks are focusing on retail and MSME, SME they're shying away from the corporate account, are you seeing lower spread from (inaudible)?

Animesh Chauhan: I don't think so. We will be able to maintain our NIMs at the level that we have said, but the competition will be there, but we don't think the spread will be going much below these compared to large corporates because we have never shied away from sanctioning large corporates also. If you see this year's book also the growth in large corporate is 4.15%. So we are not saying we will not be doing large corporates. We will try to – we have been reducing the share of large corporate in the total book in a phased manner and we would like it to be a little shade below 50 by the year-end, today it is 51.8. So that's what, we are not shying away from lending to corporates.

Giriraj Daga: Okay. And my last question is, like, after this RBI coming in introduction at JLF level and they have lowered the requirement also, like, 50% by number and 60% by value and if the lenders agree then the proposal will go through, how do you....at some point of time in the call you also mentioned that you want to (not sure) to get clearance from resolution side. So how do we decide on this resolution, the haircut amount is depending on the provisioning we have already booked in our account, is this the way the...?

Animesh Chauhan: No, no, no. Haircut has nothing to do with provisioning that is already booked. See, haircut will depend from case to case, how the resolution is decided. As good provisioning it helps you in not hitting the P&L for the haircuts, that's what it is. The provisioning does not decide the haircut. Haircut is decided by the unit, its financials, the go forward position that we see, but with the JLF also having this for-CAP resolution it is not only that, RBI has said two more things that banks should not add further conditions on what is decided by JLF and that the proposal should not go to board every time, there should be an executive body handling it. So that should speed up the thing.

Giriraj Daga: Correct, but why was that hindering too far, every time the person used to go again asking for the board for that resolution?

Animesh Chauhan: It is not a question of again. The CAP was because these are larger accounts sanctioned originally by boards they were going to boards, now that the specific regulatory (audio break) will not go to board, for the final sanction, plus their banks will (not clear) apprehensions and some of the accounts the number of bankers are too large so there were difference of opinions, which were resulting in delay. With the present this thing and with the oversight committees coming into force more through the regulatory appointments I think that power should also ease up the decision making process.

Giriraj Daga: Okay. Sir, can you run us through, like, the interim debt and liquidity committee meeting...

Moderator: Sorry for the interruption sir. Mr. Giriraj, sorry for the interruption. For more questions could you please join the queue sir?

Giriraj Daga: It's not more question, it's the same question. I just want to understand...

Moderator: But can you join the queue, sir, please? Because we have more participants waiting on the queue, can you please join the queue for the followup question?

Giriraj Daga: I don't have a followup question. It is the last question.

Moderator: Okay sir.

Giriraj Daga: Hello?

Animesh Chauhan: Yes.

Giriraj Daga: Sir, any resolution, meetings, committee meetings coming in the next one month, two months, anything which is around the radar?

Animesh Chauhan: There are several. They have already been happening and that will keep happening. So the meetings will happen, yes, may be the final resolution deal may go into Q2 now, Q2 and Q3, but those meetings have been happening and they will now get speeded up.

Giriraj Daga: Okay. Perfect sir. Thanks a lot.

Moderator: Thank you sir. Participants are requested to ask one question in the initial round and may join the queue for more question by pressing * and 1.

The next question comes from Nilanjan Karsa from Jefferies. Please go ahead.

Nilanjan Karsa: Hi, sir. What is our total power sector exposure specifically on the generation side?

Animesh Chauhan: Power sector on the generation side, wait a minute.

- Nilanjan Karsa:** And if you can split it between what is state versus private?
- Animesh Chauhan:** Power generation is – total exposure on generation is about 9000 crores, which includes power, bonds and everything.
- Management:** He is asking generation only.
- Animesh Chauhan:** Yeah, in generation also we have some bonds, about 350 crores, but basically it is around 9000 including funded, non-funded everything, that's the exposure.
- Nilanjan Karsa:** Right. And how much of this is state versus private and what is the NPAs on this particular book?
- Animesh Chauhan:** Power sector, mostly it is private, about 7500 crores and state is about a thousand and some bonds and all, and the NPAs in power sector, one minute, we don't have much, I think around 1000 crores must be the NPA, though the exact figure I just have to find out, it is around 1000 crores, wait a minute, it is around 999 crores, yeah, 1000 crores.
- Nilanjan Karsa:** And of the balance therefore, sir, I mean, are these plants under any form of stress, are they still under execution are they operational?
- Animesh Chauhan:** For that we will have to take out all the details, but there will be all sorts of.....
- Nilanjan Karsa:** So there will be, you know, at some loans to plants, which are still under, which have still not, you know, commenced operations?
- Animesh Chauhan:** Yes.
- Nilanjan Karsa:** Do you see a risk from that because we keep on hearing news....?
- Animesh Chauhan:** I don't think because the demand in power keeps rising and government also knows that power requirements what are stated sometimes, power surplus and all those things are not exactly because of the per capita power consumption being artificially low, so once that is allowed to go up this will be no issue on the power generation front.
- Nilanjan Karsa:** Right. And, sir, just one data question, you mentioned an SDR of 1595, I mean is there an overlap between SDR and restructured and similarly for 5/25 and S4A?
- Animesh Chauhan:** Yes, there will always be an overlap. I said SDR accounts...
- Nilanjan Karsa:** You said 1595 is standard, but what will be restructured out of that?
- Animesh Chauhan:** Restructured out of this should be around 500 crores.

Nilanjan Karsa: Right. And a similar kind of classification for 5/25 and S4A, sir?

Animesh Chauhan: S4As scheme I don't have because it's only 500 crores, total S4A that is standard. On the 5/25 standard is 778.

Nilanjan Karsa: Yeah, I mean I'm just asking if any...?

Animesh Chauhan: Out of that restructured, that's what you're asking is it?

Nilanjan Karsa: Yes, yes.

Animesh Chauhan: Must be half of it. I don't have the exact figure, but must be around half of it.

Nilanjan Karsa: Right. And final clarification you said SMA2 and net NPA and standard restructured is 13.25%.

Animesh Chauhan: Yes.

Nilanjan Karsa: Of gross loans or net loans?

Animesh Chauhan: Gross.

Nilanjan Karsa: Okay; because if I remember right, sir, you said in the previous quarter your SMA2 was some 11151 crores.

Animesh Chauhan: Yes, yes, (audio break) that's what I clarified to you. This time February being 28 days there is some SMA2, which would not have happened on March 31, so even if we take the absolute reduction should be around 4000. The figure that we come out will be different, will be a little lower, but there is a reduction quarter on quarter of around 4000 crores in SMA2 book.

Nilanjan Karsa: Right. But would you believe this is more because of the year-end phenomena, people do end up settling some dues.

Animesh Chauhan: Yeah, we are hoping people end up settling dues. That's why the slippages are higher.

Nilanjan Karsa: Right. Okay. Thank you so much, sir.

Moderator: Thank you sir. The next question comes from Mr. Chinmayi Desai from Anvil Wealth Management. Please go ahead.

Chinmayi Desai: Yeah, hi.

Animesh Chauhan: Yes.

Chinmayi Desai: Sir, could you give me the outstanding SR on our book, current?

Animesh Chauhan: One minute. I have the data. I'll just check out. It is 399 crores,

Chinmayi Desai: Sir, could you share what are the major sectors that have contributed to the slippages this quarter are there any.....?

Animesh Chauhan: Yeah, yeah, yeah, one minute. I'll just give you the data. See, the major slippages during this quarter steel was around 1100 crores, then EPC around 481, then auto ancillary account of 391, then infra roads 116, that's how they...CRE 125, agriculture 268, MSME is around 500 crores, that's how they...

Chinmayi Desai: Sir, I'm sorry, I missed the auto amount, auto?

Animesh Chauhan: Auto ancillary was 391, agriculture 268 and MSME around 500.

Chinmayi Desai: Okay. Sir, actually when we were talking about slippages for the next year you're saying you're not able to guide, but you are saying it should be lower than this year, I mean we've seen almost 10,000 crores of slippages in FY16, 12,000 odd in FY17, I mean saying that it will be lesser than 12,000, I mean it's not really giving any significant guidance so to say, I mean are you seeing them significantly lower or how are you going to see them, because, I mean these are significant slippages in the last two years that we have seen, sir?

Animesh Chauhan: Part of it last year was AQR and this time, see, we have seen heavy slippages in steel, which we don't think is to have further slippages. We have seen quarter on quarter on steel plus some of the SDRs that were expected they didn't work out so that slippage this time is very heavy, but going forward with the resolution being pressed so hard we don't see that much of slippages happening from these accounts. In fact (audio break) resolutions. Had those resolutions happened simultaneously the impact of slippages was much less, but that has not happened. This year we expect it to happen in good numbers.

Chinmayi Desai: Sir, I mean even if the resolutions are happening there will be lots; I mean haircuts might be steep for some of these resolutions. For instance, a large part of our slippages are in the iron and steel sector.

Animesh Chauhan: That's why we are trying to increase the provision coverage ratio quite aggressively.

Chinmayi Desai: And if you see, like, having such high slippages and if you're not seeing, any significant let off in the slippages, I mean why are we still continuing to grow at 10 odd percent when we are having capital is also not, I mean, our capital position is also...

Animesh Chauhan: The growth is not in the sectors where we are seeing slippages. The growth is in areas where we are not seeing slippages. The RAM that we are saying our NPA is still below 7%, 6.5% or odd, so we are not seeing heavy slippages in those sectors, those areas of lending and as far as the growth is concerned, see basically the slippage and provisioning is happening for larger corporate advances where the percentage is going down and the slippage already is happening in the big

extent. That is why we see other slippages to be much lower and some of the groups that are being talked about that are in stress our exposure is much less. That's what makes us believe that forward the slippages will be much less.

Chinmayi Desai: Sir, but slippages, I mean, even if you go to see our MSME slippages they are (not clear) still high I mean if you go to see.

Animesh Chauhan: Yes, but that's almost industry trend on MSMEs.

Chinmayi Desai: I mean the capital consumption will be much, still continuing even though we are continuing to see, I mean we are having issues with capital and yet our slippages are...

Animesh Chauhan: See, we didn't have any breach issues on capital. This year also we didn't get anything from the government probably because it was not required. Last year we got 300 crores. This year we had some plan of raising capitals and we will execute that at the right time.

Chinmayi Desai: Alright, sir, I'll get back in the queue, thanks.

Moderator: Thank you sir. The next question comes from Mr. Abhijit S from Kotak Securities. Please go ahead.

Abhijit S: Thank you. Good afternoon, sir. Sir, on slippages I just wanted to double-check if you reported any slippages from the electronics/oil and gas sector?

Animesh Chauhan: Oil and gas, and electronics, no, no, no. We don't have very large exposure there.

Abhijit S: And, sir, secondly, did you give an absolute amount of SMA2 as of quarter end?

Animesh Chauhan: See, SMA2 absolute amount as per the exact definition is around 2554, but this is what I said and I repeat that because of some of the SMA2 normally on a 30-day month would have been a little higher, so last quarter if you see our SMA2 in this quarter it shows a very steep fall. There is a fall of around 4000, but here in the figures it seems even larger.

Abhijit S: Okay. And, sir, secondly I wanted to check the quarter on quarter growth on your retail advances is just too sharp, it comes out as 40%, so I wanted to check if it's sort of buying out portfolios or if it is...

Animesh Chauhan: Part of it is buying out of portfolios.

Abhijit S: And what part of retail it would be?

Animesh Chauhan: I don't have the break up, but yes, there has been buying out of portfolios and good portfolios we'll keep looking for a buyout if available.

Abhijit S: Okay. Any indication of yields on this portfolio and what would be the risk weights?

Animesh Chauhan: Risk weights on housing is both between 35% and 50%, 35-50, that's what we are looking at, but if you look at our overall retail book the risk weight is 60%, which includes housing and other loans, the risk weight would be 60%.

Abhijit S: Okay. And the incremental gains on the logbook?

Animesh Chauhan: That I'll not have right now. You can come back to it later.

Abhijit S: Sure. Thank you so much.

Moderator: Thank you sir. The next question comes from Mr. Aditya Jain from CLFA. Please go ahead.

Prakash: Good afternoon, sir this is Prakash. I just wanted to check on two things. One, could you give some clarity on what were the extent of divergences vis-à-vis the RBI audit and how much of it was included in this quarter slippages and is there anything pending as of March 2017.

Animesh Chauhan: You see as per RBI AFI of last year was around 1350 crores, 1350 crores on the gross NPA and that has been taken care of in two-three quarters, not all in this quarter, they have been in different two-three quarters, all of it has been taken care of, nothing is pending out of it.

Prakash: And secondly, sir, on the prompt corrective action would there be, you know, any repercussion for you given that your net NPL ratios are at 9%?

Animesh Chauhan: What is our net NPL that you are seeing, 8.96%? So we come under those guidelines at the first level and our leverage ratio and capital adequacy and all are not in any of the depreciate levels, so we don't see any issues coming forward on that. Hope you are not referring to our December net NPLs? March NPLs are below 9, so below 9 it is level one, so we don't see much of the impact going forward.

Prakash: Okay. And lastly, sir, in terms of the next set of wage revision that is being discussed, may be it's an early state today, but what sort of negotiation are we looking at in terms of wage hikes and may be a component of performance based versus regulated hikes, if you could give us some clarity at this stage?

Animesh Chauhan: See, we were very clear for last quite some time and now you must have seen IBA has agreed to our contention that what we will negotiate that is only up to scale three of officers and all the executive carder will be more of pays to be decided by the bank, linked to variable may be, that we'll see how it unfolds, but the discussions at IBA level are also happening only up to scale three, so that is what we are expecting. It will only be up to scale three from the IBA level and the rest of it will be at the bank level.

Prakash: Sure. Thank you sir, that's it.

Moderator: Thank you sir. Sir, we have the next question from Mr. Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Yeah. Hi, sir. Sir, firstly on resolution, I mean after the RBI guideline we saw one large JLF there.... was a meeting and nothing came out, so just trying to understand is it more function of hope at this stage? How do you sort of get the conviction that resolutions will start to happen apart from the chatter what we have been getting from the government and the reserve bank?

Animesh Chauhan: It is not what we have been getting from the government. My confidence comes from how we are discussing amongst bank already for the last two-three months there has been heightened activity and discussions on all the resolution front in the major accounts and now that RBI has mandated to intervene to (not clear) resolution or insolvency is filed that should make it a time-bound resolution process and with oversight committees, RBI opening it up, that RBI will be appointing and they may have more than one that should give a better confidence to bankers to do it fast. That is what makes us look towards higher resolutions and not merely the sound that is happening in the market.

Dhaval Gada: And, sir, would you expect this to happen in the next six months or it could be even before?

Animesh Chauhan: The next three quarters means during this financial year substantial progress and actual impact should happen.

Dhaval Gada: Okay. Sir, secondly, on the large oil and gas exposure that is out, is it part of our SMA2 at this stage and that's the reason...

Animesh Chauhan: Would have much of exposure in that sector and the account you are referring to, though we are not taking names.

Dhaval Gada: Okay. Sir, just lastly two or three data points, one, what proportion of our book is on MCLR today and secondly, sir, there was a sharp jump in the other opex line and thirdly the sharp jump in CASA or CA.

Animesh Chauhan: Sharp jump in the CASA is part of it our system of creating a specific marketing team for institutional accounts and all, that is one reason of jump in CASA, apart from the demonetization issues, so that's what has seen that jump in (not clear) that you are talking of. As for the MCLR, as on March it is already a little over 25%, but quarter on quarter it should see sharper increase in the percentage.

Dhaval Gada: Okay. So around 25% of the book is on MCLR as of March?

Animesh Chauhan: A little above 25%, it is already on MCLR as of March and it should go up quarter on quarter quite substantially.

Dhaval Gada: Okay. And, sir, one more thing was the sharp jump in the other opex line.

Animesh Chauhan: Sharp jump in the other?

- Dhaval Gada:** Operating expense line.
- Animesh Chauhan:** Okay. Okay. One minute. One minute.
- Dhaval Gada:** On slide 11.
- Animesh Chauhan:** Yeah, yeah, yeah. We have seen that. See, last time there was a dip in the other operating expenses because of write-back of depreciation of 158 crores, which we explained in the last concall last quarter. Once that is out it is the normal operating expenses that have come back.
- Dhaval Gada:** So then the YoY jump seems to be slightly high at 25%.
- Animesh Chauhan:** See, this is all spread over various heads, no one head has resulted into these increases.
- Dhaval Gada:** Okay. Fine sir. Thank you so much sir.
- Moderator:** Thank you sir. The next question comes from Mr. Sanket Keita from IDFC securities. Please go ahead.
- Sanket Keita:** Hello?
- Animesh Chauhan:** Yes.
- Sanket Keita:** Sir, I missed the numbers of 5/25 and SDRs in the starting, so can you please restate those numbers.
- Animesh Chauhan:** The SDR standard accounts the amount is about 1595 crores and 5/25 the standard accounts...
- Sanket Keita:** No, sir that I have. I wanted outstanding, total.
- Animesh Chauhan:** Outstanding. Okay. The total outstanding in 5/25 is about 2078 crores and in SDR the total outstanding is 5124 crores.
- Sanket Keita:** And S4A total?
- Animesh Chauhan:** For the?
- Sanket Keita:** S4A total.
- Animesh Chauhan:** S4A as on today above 917.
- Sanket Keita:** Okay. And there was no ARC sale in this quarter sir?
- Animesh Chauhan:** ARC sale, one account, small account around 37 crores, not much.
- Sanket Keita:** 35 crores?

Animesh Chauhan: 37.50, that's the number.

Sanket Keita: Okay. And, sir, is there any overlap between SMA2 and 5/25, SDR as for their gains?

Animesh Chauhan: It is there. It will certainly be there. SMA2 is in these schemes, though we don't have much of it, but then they will be there. They will be there.

Sanket Keita: Any ballpark that you can quote?

Animesh Chauhan: The restructured in SMA2 is around 650 crores. The restructured accounts in the SMA2 book are about 650 crores.

Sanket Keita: Okay. Okay sir. Good.

Moderator: Thank you sir. Sir, we have the next question from Ms. Chinmaya Garg from Dhron Capital. Please go ahead.

Chinmaya Garg: Hello?

Animesh Chauhan: Yes.

Chinmaya Garg: Hi. Are there any other avenues for us to raise capital, like, are there any investments that we might sell off or let's say put a certain portion of our loans into a subsidiary that we can list separately, are any such options being considered?

Animesh Chauhan: No, we don't have subsidiaries, so we can't park anything there and selling of stakes, we have a joint venture but there is no plan to sell the stakes. We will raise capital either from government plus from market both, but at the appropriate time, but we see no (not clear).

Chinmaya Garg: Okay. And, sir, looking forward a few years, after the resolution happens and whatever, how much money do you think we will eventually recover from these accounts, would it be in the range of 50+, 70+, what is your assessment of the same?

Animesh Chauhan: See we can't say how much money because every account is different and that is why now government and RBI is very clearly stating that the resolution has to be account specific and not a generic resolution for a sector. Even with the sector there are different accounts with different requirements, even the plans would be different, so now since that is expected norm; there cannot be a generic expectation of percentage recovery and banks will be looking towards better recovery even if initially we take some shares along, if the resolution happens and the company performs those shares will also give us back some good value. So eventually in the longer term the impact has to be much lesser than what we see at the time of resolution.

Chinmaya Garg: Okay. Okay. Thank you.

Moderator: Thank you ma'am. The next question comes from Mr. Jay Mundra from BNK Securities. Please go ahead.

Jay Mundra: Yeah. Hi sir. Good afternoon. Sir, just on the provisioning side, sir, we mentioned last quarter that we are providing as per IRAC only and in this quarter I believe there is a sharp jump in provisioning and there is also some increase in the provisioning cover as well. So I just wanted to understand how much have we provided extra, let's say over and above IRAC?

Animesh Chauhan: That I'll not be able to give right now (not sure) provisioning IRAC there must be something, but exact I'll not be able to have the details right now, but yes there is something because the intention was to increase PCR a little bit.

Jay Mundra: Correct. And, sir, can you also elaborate this notes to account number nine wherein you have mentioned that the RBI AQR 3 there have been some accounts which have been classified and provision been made and then reversed...

Animesh Chauhan: See, the RBI AQR 3 list had stated that the accounts have to be provided for incrementally by 15% up to March and if after March the auditors think it is performing well then they will be standard and if they are not performing they have to be qualified as NPAs. So what we have done is we have completed the list, so some have gone into NPAs and provided as private, some have been upgraded and the provision reversed by 10% because the provisioning comes down to five. That's what has happened. The reversal is much less than what has slipped into NPA.

Jay Mundra: Okay. So does it mean that this 299 crores that has been reversed because these accounts were later regularized, right?

Animesh Chauhan: Yes, yes.

Jay Mundra: So if I were to assume that 15% provision we had made then we...

Animesh Chauhan: Not 299, the amount is...

Jay Mundra: Sir, 299.

Animesh Chauhan: Reversal. Yes, yes, yes.

Jay Mundra: Roughly 2000 crores of AQR 3 account that have roughly now been regularized so the provisioning having reversed.

Animesh Chauhan: Something like that, yes.

Jay Mundra: Okay. Okay. Sure. And, sir, just to get it correct, I mean SMA2 loans you said last quarter was some 11,000 crores, this quarter reported number or let's say as on March 31st is 2500 crores but on like-to-like basis you were saying roughly 4000 crores is the decrease.

Animesh Chauhan: Roughly because that's only because of this 28 days in fact the book will show differently.

Jay Mundra: Sorry, what is that 28 days, sir, that I don't get?

Animesh Chauhan: See, February was 28 days so the estimate to book takes overdue so that may be (not clear) exactly what it is, so that's why (audio break) 11,000 to 3000. So it may not be that sharp, but it is about 4000 crores less.

Jay Mundra: Okay. Okay. And, sir, just last...

Moderator: Sorry for the interruption, sir.

Jay Mundra: Yeah?

Moderator: Could you please join the queue for more questions?

Jay Mundra: Sure, sure. I'll come back on the queue sir.

Moderator: Thank you so much. We have the next question from Vibha Bathra from Fair Connect. Please go ahead.

Vibha Bathra: Yeah, thanks for taking my question. Just wanted to know the operating profit that we have say, for March 2017 (not sure) to take future operating profits, you know, because the growth is there but it's going to be muted and we have, you know, large amount of NPL so one would assume that the burden of that would be reflected in the interest income. So if you were to take operating profit that we have declared for FY17 or may be March 2017 quarter would it be okay to extrapolate that as a true base for future?

Animesh Chauhan: In fact the operating profit in (audio break), which is 4170 we would like to see it improving a bit and not going down in any way and with the book rise also. See, NPAs have been higher but the rise of credit also has been higher, so we expect the operating profit to be same or better.

Vibha Bathra: Okay sir. So if we come to NPLs our recoveries have been quite lower compared to historically what OBC had achieved, recoveries are only...

Animesh Chauhan: Recoveries...

Vibha Bathra: Hello?

Animesh Chauhan: During the year, recovery during the year is 1348 crores against previous year's 1148 crores. Absolute amount it has been a bit higher.

Vibha Bathra: Yeah, but your (audio break) from where recoveries (not clear) in percentage terms they are quite miniscule, I mean historically speaking, may be six years back it used to be 50%-60% for OBC.

Animesh Chauhan: I'll explain on that. This is because most of the NPLs that have happened previous year, this year are large corporate accounts, so in large

corporate accounts the cash recoveries have not been coming and recoveries are coming from the RAM accounts and smaller corporate accounts, which even otherwise the book has not gone up that much, so the percentage recovery if you calculate from the total NPL looks distorted; the percentage recovery from source where the recoveries have been coming, say, 50 crores or less accounts, that has been the basic recovery coming and there it has remained okay. The larger corporates will come through resolutions and not through cash accounts. That's our view on it.

Vibha Bathra: Okay sir. I think that's very good to know, but considering this and considering that everybody, including RBI and government is kind of struggling to figure out a way to resolve these larger accounts, sir, would it be reasonable to assume that from your closing stock of NPAs, which are 22859 crores, recoveries may take time, so over the next one or two years you may have to incrementally provide additionally from these NPAs because provisioning will be with the age of NPA. Would it be a...

Animesh Chauhan: Yes. Even this year the provisioning is higher because last year's slippages have aged, but then resolution we have said earlier and I'm repeating it. We are optimistic about some large resolutions happening and because of the percentage being very large in the large corporate account one or two resolutions in fact will show a much better upgradations and recovery.

Vibha Bathra: Okay. But your NPLs in relation to your (audio break) so even if we get one or two resolutions your profitability, your...

Animesh Chauhan: See, what I am saying is even if one or two larger ones in the books happen it will see a sharp reduction in the book and therefore the incremental provisioning requirement will not come in the coming years.

Vibha Bathra: Okay. Fair enough. So what quantum of these large recoveries can be expected this year, would it be possible to quantify?

Animesh Chauhan: It will not be possible to quantify because the discussions are in quite advanced stage but then you don't know, these are accounts where several issues crop up, so we will not guess an amount, but, yes, I'm sure several accounts it is going to come in the next two-three quarters.

Vibha Bathra: Okay. In any of these accounts does OBC have a leading say, I mean are you a large banker or these are...

Animesh Chauhan: No, no. We are not the (not clear) leaders in any of these accounts.

Vibha Bathra: Fair enough. Thank you sir and all the best.

Moderator: Thank you ma'am. Sir, we have the next question from Anirban Sarkar from Motilal Oswal. Please go ahead.

Anirban Sarkar: Yeah, hi. Thanks for the opportunity sir. Just a few data points, I missed the part where you told us about the outstanding SDR book.

- Animesh Chauhan:** Outstanding?
- Anirban Sarkar:** SDR.
- Animesh Chauhan:** Okay. Okay. Total outstanding NPA standard together, it is 5124, out of which standard is 1595.
- Anirban Sarkar:** Okay. And what was the same figure for 5/25?
- Animesh Chauhan:** 5/25 the figure total is 2078 crores out of which standard is 778 crores.
- Anirban Sarkar:** Okay. And one more data point was the amount of slippages from SDR and S4A accounts you said it was eight accounts and the total is 1600 crores?
- Animesh Chauhan:** 1688 crores.
- Anirban Sarkar:** 1688. Okay. And, sir, one last one about the breakup of slippages that you gave across the sectors, so steel was 1100 crores, auto ancillary was 391 crores, agri was 268 and MSME was 500, so was there anything else that you gave us?
- Animesh Chauhan:** EPC accounts 481 and cement accounts 195, infra roads 116 and now it is all.....
- Anirban Sarkar:** Cement was how much, sir?
- Animesh Chauhan:** Cement was about 195.
- Anirban Sarkar:** And infra?
- Animesh Chauhan:** Infra roads 116. CRE was 125. These are then spread out into these...
- Anirban Sarkar:** Okay, 160 was infra and...
- Animesh Chauhan:** 116
- Anirban Sarkar:** 16, sixteen?
- Animesh Chauhan:** 116, yes, hundred and sixteen.
- Anirban Sarkar:** Yes. Okay. Okay. Thank you sir. Thank you. That was all. Thank you.
- Moderator:** Thank you sir. Sir, we have the followup question from Mr. Nilanjan Karsa from Jefferies. Please go ahead.
- Nilanjan Karsa:** Hi, sir. I missed out what you were mentioning about the RBI diversions of FY16. Could you repeat that sir?

- Animesh Chauhan:** RBI diversions were 1349.70 crores.
- Nilanjan Karsa:** Sir, sorry, 1349 crores?
- Animesh Chauhan:** Yes, on the gross NPA.
- Nilanjan Karsa:** Right. And obviously we have taken care of all of this.
- Animesh Chauhan:** Yeah, yeah, definitely.
- Nilanjan Karsa:** How much of this 1350 odd crores did we, you know, recover actually or everything was classified as...
- Animesh Chauhan:** It is difficult to now give that number because these are different accounts, which have been categorized during the course of the year.
- Nilanjan Karsa:** Right. And what is the classification of this 1350 crores; how much from, let's say infrastructure, real estate?
- Animesh Chauhan:** That detail I'll not have. It is basically larger accounts, yes, but that detail I'll not have right now. We can provide it to you. Send us a mail and we'll reply to you.
- Nilanjan Karsa:** Sure. Okay. And then the last question on this resolution, I mean what gives us so much of confidence? Is it just because the government has asked RBI to do something about it and probably RBI will do something about it, is that what the confidence is all about?
- Animesh Chauhan:** No. It is because the way the things are being discussed for last three months amongst bankers, the way the things are being discussed with the promoters and even without the promoters and now on top of it this RBI intervention of making oversight committees and approve it, which will have the regulatory consent and then the steel sector is doing quite well these days, the capacity ramp up we are seeing in most of these NPA steel accounts they have increased their capacities quite substantially and government has given them protection from international market fluctuations, so that all leads us to believe that resolutions will happen.
- Nilanjan Karsa:** Right. And resolution mainly in the steel sector is what looks very interesting?
- Animesh Chauhan:** Steel because we have higher (audio break) so I talked about steel. There are other sectors also where it is going to happen, especially infra. We have already seen a change of promoter happening in one of the accounts, so it may happen, not only in steel but others also. Steel I talked because we have a big chunk in steel.
- Nilanjan Karsa:** Yes, definitely sir. And what is the mode of restructuring, is it going to be S4A, is that the most likely route to be adopted?

Animesh Chauhan: It can be either...see now it is all open many times it has been said it has to be decided account by account so it can be S4A, we expect some amendments to come in S4A. It may be through the CDR route, it may be through SDR route, it can be any of the routes. It will depend from account to account because different things are being discussed in different accounts, so I won't say only one route will be taken.

Nilanjan Karsa: Okay. And something that you mentioned right now, we expect, S4A, that 50-50 part A-part B thing do you think RBI...do you think that RBI is going to accede to a lower number in part A loan?

Animesh Chauhan: No, no, no. We don't know. Lower number may not be there, but the treatment of the post S4A accounts, then cash flow issue, how they account of sustainable debt will be treated, whether it will be immediately upgraded or after some time, those are issues that we hope some guidance to come from RBI. Also on CDR resolution there may be some tweaking that may happen, which may aid up the handling of some accounts through CDR (not clear).

Nilanjan Karsa: Okay great. Thank you so much sir.

Moderator: Thank you sir. And that will be the last question for the day. I now would like to hand over the floor to Mr. Darpin Shah for closing comments. Over to you sir.

Darpin Shah: On behalf of HDFC Securities I thank the management of Oriental Bank of Commerce for their valuable inputs and time. Thank you all.

Moderator: Thank you sir.

Animesh Chauhan: Thank you.

Moderator: Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.