

## Transcript

### Conference Call of Oriental Bank of Commerce

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#### *Presentation Session*

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**Moderator:** Good evening ladies and gentlemen, I am Joseph the moderator for the conference call. Welcome to the 2QFY17 earnings conference call of Oriental Bank of Commerce hosted by HDFC Securities Limited. 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, please signal an operator by pressing \* and then 0 on your touch tone telephones. Please note that this conference is being recorded. I now like to handover the floor to Mr. Darpin Shah from HDFC Securities. Thank you and over to you sir.

**Darpin Shah:** Good afternoon everyone. On behalf of HDFC Securities, I welcome you all for the second quarter FY17 earnings call of Oriental Bank of Commerce. We have with us Mr. Animesh Chauhan, the MD and CEO, Mr. Rajkiran and Mr. Himanshu, Executive Directors and Mr. Jitender Mohan Singh, CFO. Now I would like to hand over the conference to Mr. Chauhan for his initial comments. Over to you sir.

**Animesh Chauhan:** Good afternoon. Our numbers as declared today, you must have seen the total business on YOY basis is up by 0.26% to 3,50,204. The low cost CASA has increased as a percentage of deposit from 24.96% to 26.47% that is by 151 basis points YOY and the non-interest income is up 37.41% YOY basically due to treasury profits. The operating profit has sequentially increased from 917 to 956 crores, net profit also similarly sequentially increased from 100.69 to 153.26; NIM also is sequentially up from 2.36 to 2.66. The GNPA is up from 12.36 upto (not clear) from 11.45 and the different slippages this quarter are 2142 crores which if you compare with the previous two quarters, March '16 was 4,019 and June '16 was 3464, so a little improvement there. The major sector steel about 300 crores, engineering 250 and infra 237. Our CRAR has increased and now CET1 is at 8.75, AT1, 1.50% total tier 1 10.25; tier 2 is 3.11 and total CRAR is 13.36. During this quarter we raised tier 1 bonds of 1500 crores and redeemed tier 2 bonds of 500 crores. Now I am open for questions.

#### *Question and Answer Session*

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**Moderator:** Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your touch tone 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.

Ladies and gentlemen, if you have any questions, please press \* and 1 on your telephone keypad.

Sir, the first question is from Mr. Chinmayi Desai from Anvil Securities. Please go ahead sir.

**Animesh Chauhan:** Yes please?

**Chinmayi Desai:** Sir you mentioned on your opening remarks, if you could repeat that?

**Animesh Chauhan:** Which one?

**Chinmayi Desai:** Can you give sector wise?

**Animesh Chauhan:** Sector wise NPA slip is it?

**Chinmayi Desai:** Yeah, NPA. I mean Steel you said there was 300 crores that slipped during the quarter, 257 from infra and what else did you mention?

**Animesh Chauhan:** 237 for infra and 248 for engineering. These are the major and then there are all others so it is quite spread out this time.

**Chinmayi Desai:** Right. Sir on this, if you could please give the outstanding standard 5/25 and SDR amounts?

**Animesh Chauhan:** Outstanding SDR is 5128 crores and outstanding 5/25 is 2022 crores.

**Chinmayi Desai:** Okay. Sir I will get back in the queue.

**Animesh Chauhan:** Okay.

**Moderator:** Next question comes from Mr. Nilesh Parikh from Edelweiss Securities. Please go ahead.

**Nilesh Parikh:** (Not clear) questions sir. First one 5/25 and SDR the amount that you mentioned are standard or this includes also the NPA?

**Animesh Chauhan:** I can give the break up. The SDR accounts, outstanding of 5129 crores, NPA is 2175. 2954 is standard. In 5/25 the NPA is 1260 out of 2022 and 762 is standard.

**Nilesh Parikh:** In SDR what is the standard amount you mentioned, 925?

**Animesh Chauhan:** Standard amount is 2954. Out of 5128 in SDR accounts.

**Nilesh Parikh:** Okay. What is the SMA II accounts are looking like? Last time you mentioned around 13000 odd crores of SMA accounts?

**Animesh Chauhan:** It is 11400.

**Nilesh Parikh:** How much of it is in restructured of the 11400 crores?

**Animesh Chauhan:** About 3,200.

**Nilesh Parikh:** Already in restructured?

**Animesh Chauhan:** Yeah.

**Nilesh Parikh:** So outstanding NPAs in your iron and steel, textile and power if you could just give....?

**Animesh Chauhan:** Iron and steel, textile and power? Wait, I will just give it. In iron and steel our outstanding NPA is 6612 which is about 60% of the total outstanding. Textile it is 1741 and infra it is 1617 and power is 825. Within infra power is 825.

**Nilesh Parikh:** And textile is what percentage of the overall...?

**Animesh Chauhan:** 25%.

**Nilesh Parikh:** And sir outstanding NPA in infra sir?

**Animesh Chauhan:** In infra it is 1617 which is about 8.48%. Out of that power is 826 which is about 9% of the power outstanding.

**Nilesh Parikh:** Okay thank you so much sir.

**Moderator:** Thank you. Sir the next question comes from Sangam Iyer from Shubkham Ventures. Please go ahead.

**Sangam Iyer:** Hi sir, I just wanted to get your view on the asset quality front going forward/ How do you see the asset quality for the sector as well as the bank, given that nothing much is happening on the grounds. How do you see the asset quality for the 579?

**Animesh Chauhan:** In the steel sector?

**Sangam Iyer:** For the overall....for your bank.

**Animesh Chauhan:** Overall what we are seeing is that there is a little reduction in slippages; but resolution front, yes, we have not seen much but now that S4A things must start moving, we hope that one account has been through the over sight committee and we hope that as the clarity comes from RBI on the S4A scheme which was mentioned in their monetary policy presentation also, once it comes it should speed up. So the slippages, on the one hand if the economy keeps improving as I said, quarter to quarter from March 4000 to June 3400 to September 2100 it has come down, but the upgradations we are not seeing much. With this S4A also happening and a few of it happening, the upgradations also should see some traction in the coming quarters because we also expect the tweaking to come very soon. Before end of this month, all the things should be clarified, so then going forward, those resolutions should also happen.

**Sangam Iyer:** So sir from a slippage perspective, at the net slippage post prediction and recovery, should one be looking at a 1000, 2000 crore quarterly run rate going forward or do you see that incrementally these slippages might come down.

**Animesh Chauhan:** It is not the 2000 crores even this time; it is about 1174 something like that, net addition to the gross non-performing assets. So I don't know even if one or two resolutions come, then this difference should be substantially reduced. Now, because the NPA's spreading over various sectors, so any one improvement will also see improvement in the upgradation point which we still await. We have not seen much of it but I am quite hopeful that in the coming quarters, specially Q4 onwards, the upgradation should pick up.

**Sangam Iyer:** Any particular sector which makes you hopeful that upgradation will pick up?

**Animesh Chauhan:** We can't actually say that, see in the larger accounts it will go account by account but as the payments and as the arbitration thing, government has agreed, so hopefully in infra some of the accounts should either have substantial recoveries or resolutions for upgrade because they have agreed to pay that arbitration decisions. Once that starts coming, we hope the upgradation should improve.

**Sangam Iyer:** Could you please give us some idea in terms of the ballpark quantum in infra XX% could actually get eligible for because...

**Animesh Chauhan:** It will be a wild guess which we will not like to do.

**Sangam Iyer:** Okay. And sir with regards to other than the arbitration front or any resolutions because of this S4A are we seeing any green shoots in any of the sectors which gives you some hope of improved recovery and upgradation going forward?

**Animesh Chauhan:** Actually in infra a lot of new orders are coming to the firms. Even EPC a lot of the states are going for it. So some of them which were in stress should see an improvement. We hope that will certainly come and steel also now that last six months they are running on good capacities, so some resolutions there we expect to come in the next...by March '17 because they are running on good capacity most of the larger plants and we hope those things should also start showing resolutions.

**Sangam Iyer:** Actually from a loan book perspective, how do you see FY17?

**Animesh Chauhan:** So far we have been going through....first six months have been a big change that we did in our organization, all the process flow and all the organizational structure, the decision making mechanism in the organization we have done a big change. So the business we expected to remain static; so we have not seen growth in the first two quarters but next two quarters we do expect anything around....what we have been targeting around 8% by March on the business front but hopefully all things going as they are, it should come.

**Sangam Iyer:** Okay. And sir incremental....how should one look at the credit costs going forward...?

**Animesh Chauhan:** See our credit costs has been coming down a bit, though not much, but it has been coming down a bit from 2.18 in '15, '16 to 1.96 in Q1 to 1.93 on an annualized basis now. So hopefully it will keep reducing a bit from here and that is on a static business position so hopefully it will be better than this. We will keep improving slightly quarter by quarter....

**Sangam Iyer:** So would this mean that we are okay with further decline in our provision coverage ratio from here on?

**Animesh Chauhan:** I think that should not happen and you know that whatever slippages have started going in a big way from after the AQR onwards, so all those will come under the ageing process. So as the ageing provisioning comes, the provision coverage should start improving automatically.

**Sangam Iyer:** Sir with regards to your employee cost, the OPEX part of it, we have seen because of the interstate movement, how much would be the incremental liability for pensions and etc. that would be coming for us.

**Animesh Chauhan:** We will have to see on that. A15 provisions I will not be able to tell you, they are just figures now. We are in discussions with the actuarial and let us see how the reports come. We will have to see on that.

**Sangam Iyer:** Okay.

**Animesh Chauhan:** Pension we are providing quite substantially higher than last year but then unless the actuarial things come, we'll not be able to comment specifically on this..

**Sangam Iyer:** Given that last time it was around 7.9% rate the whole provisions were calculated right? Now given that it has now moved down to 6.9 odd levels, so there is a sharp fall in the....

**Animesh Chauhan:** Yes there are two three parameters to it, one is deteriorating, one is improving; even look at all new recruits are under NPS and retirements are quite substantial. So we will have to see how it is impacting the entire scenario and then only we will have to see.... It may go up certainly a little bit.

**Sangam Iyer:** Okay, so given that context and with our cost to income ratio which is currently at 49.67 odd levels, should the scope of improvement here would be limited right?

**Animesh Chauhan:** I think there is a lot of scope. The last two quarters the income levels have not improved because business is almost at the previous level. As the business starts improving, credit starts going up then cost even if it goes up a little bit, it will be improving.

**Sangam Iyer:** Correct, I too agree, increased (not clear) actually get offset by the improvement in your business income. So cost to ratio might stabilize at this 49% to 50 % kind of level.

**Animesh Chauhan:** We must see an improvement. It should not go beyond 50 that is what we try to do.

**Sangam Iyer:** Okay great sir, all the best.

**Animesh Chauhan:** Thank you.

**Moderator:** Thank you sir. The next question comes from Mr. Kashyap Javeri from Capital 72 Advisors. Please go ahead.

**Kashyap Javeri:** In one of your remarks you mentioned that you were waiting for clarity on S4A, and S4A should pick up in the coming quarters; can you sort of elaborate more as to what more clarifications that we are expecting from RBI....

**Animesh Chauhan:** See there are issues about treating the sustainable portion whether it should continued to be treated as NPA and provided or not? I think the Reserve Bank itself has said during the review that they are having a re-look on several aspects. So we are awaiting those things. I think once those things are clear the pace of resolution and our S4As should go up.

**Kashyap Javeri:** Okay and what's your outlook on the separation of sustainable and non-sustainable....is that proportion also a hindrance in terms of implementing?

**Animesh Chauhan:** See that will depend on case to case. So far only one case has gone through (not clear) and that too the implementation will depend on the clarifications. Once these clarifications come, then we will have to see case to case because this is basically in larger cases. So we'll have to see case to case how it goes.

**Kashyap Javeri:** And particularly from your bank would you be able to disclose as to how many cases have been applied for? What amount has already been applied for...?

**Animesh Chauhan:** So far there is no such thing as cases applied for. The one case that has happened, we are a small part of it. There will be a few which will come up; but unless the clarification comes, I think there will not be....there is no such thing as applied for. This is under discussion with several parties. This will be precipitated once the details are known. I think they are all largely consortium accounts so discussions are on but precipitations will happen once the details spell out.

**Kashyap Javeri:** Okay sure, thank you very much sir.

**Moderator:** Thank you sir. The next question comes from Mr. Rajesh Kothari from Alfa Accurate Advisors. Please go ahead.

**Rajesh Kothari:** Sir I joined the call a bit late but do you have the full presentations on your quarterly results because I could not see that on your website.

- Animesh Chauhan:** Yeah, yeah it is uploaded on our website.
- Rajesh Kothari:** I have already checked your website but I could not find it anywhere. But anyway what is the slippage for the second quarter?
- Animesh Chauhan:** In the financial results I think you can see that. We did upload, I hope it is available; I am not having it right now.
- Rajesh Kothari:** What is your slippage for your second quarter?
- Animesh Chauhan:** 2142.
- Rajesh Kothari:** Can you give the comparable number YOY as well as QOQ?
- Animesh Chauhan:** YOY was 770 last Q2 but last two quarters, March was 4019, June was 3,464 and September is 2142.
- Rajesh Kothari:** Okay, how do you see this going forward?
- Animesh Chauhan:** Very difficult to predict but we would like to keep it....been shrinking it as it has been happening for the last two, three quarters.
- Rajesh Kothari:** What is your guidance for the full year slippage ratio?
- Animesh Chauhan:** I can't predict it right now.
- Rajesh Kothari:** Okay but any outlook which you like to give in terms of how do you see your overall loan book growth? And also if you can give some outlook in terms of your loan book growth and your.....
- Animesh Chauhan:** Our loan book growth we already said around 8%....
- Rajesh Kothari:** For the first term I think it was flat, so does it mean....?
- Animesh Chauhan:** First half we were flat because we were going through a big change process in the bank implementation. So we expected it to be flat but now the busy season we expect around 8%. As far as NPA is concerned, we like to see that on the gross NPA percentage front we remain, either the same or a little below levels.
- Rajesh Kothari:** So when you say 8% growth for the full year....or is it for the second half you are saying 8% or full year you are saying 8%...loan book growth?
- Animesh Chauhan:** For the full year. It is one and the same because we are static from March almost.
- Rajesh Kothari:** No, so that means for full year if you want to be 8% for full year, it means second half has to be 15%, 16% am I right?
- Animesh Chauhan:** No, no because the difference is 4. (Not clear) from March to September, so it will be around 10% for the second half.

- Rajesh Kothari:** Okay. How do you see next year?
- Animesh Chauhan:** Hopefully the economy keeps improving?
- Rajesh Kothari:** And what is your....any capital raising plan?
- Animesh Chauhan:** See we raised this quarter about 1581 crores and we redeemed tier 2 bonds of 500 crores. Now I don't know we will see what the government decides in Q4 and then we will think further because we are adequately capitalized for at least the first half of next year also. The rest of the things will depend on how government provides or not in this financial year.
- Rajesh Kothari:** Fine, thank you sir, thank you very much.
- Moderator:** Thank you sir. The next question comes from Mr. M.V. Mahesh from Kotak Securities. Please go ahead sir.
- M.V. Mahesh:** Good afternoon sir, just a couple of questions. One, this quarter you have seen roughly about 1500 crores of reduction in the re-structured book. Can you just broadly explain what's driven that?
- Animesh Chauhan:** Yes I can. See about 660 slipped to NPA. About 500 was adjustment because of the Uday Bond, with loan reduction and about 600 is upgradation otherwise. So that's what makes it 7600 from 9700.
- M.V. Mahesh:** You said 700 was an upgrade is it?
- Animesh Chauhan:** 9700 was the number last quarter; it is 7600 now.
- M.V. Mahesh:** No you said 500 crores was the discom bond repayment and then you said....
- Animesh Chauhan:** No, no not discom; loan getting repaid from bonds. So that is a reduction in the restructured loan book.
- M.V. Mahesh:** Sure. And this satisfactory performance that you have reported and the decrease in outstanding plus closures, this discom bond will be a part of that particular line item?
- Animesh Chauhan:** Which one? Increase in...?
- M.V. Mahesh:** If you look at your presentation, in the movement of standard restructured loans this discom bond redemption will be a part of.....
- Animesh Chauhan:** The decrease in outstanding plus closure 903; point number six, it will be part of that.
- M.V. Mahesh:** And this....in point number 5 is there any large lumpy account in this 601 crores?

**Animesh Chauhan:** One minute....it is all spread out. One account of 300 and then all others spread out.

**M.V. Mahesh:** Okay. I am just trying to understand how should we look at it from a run rate perspective for the next few quarters?

**Animesh Chauhan:** See those accounts where the repayments have started, it is those accounts which are either....they will slip to NPA or they will upgrade it. That's how it is moving. So from there only it is happening. Now, in our re-structured book, there is hardly 900 crores where the repayment has not commenced. So almost everything the repayment is 90%, the repayment has commenced.

**M.V. Mahesh:** And at what pace would you want us to kind of look at this number from here on in terms of reduction?

**Animesh Chauhan:** Very difficult to guess.

**M.V. Mahesh:** Sir the second question is on the sectorial NPAs. If you look at infra, the NPAs have gone up from 1131 to 1617 and if you look at iron and steel it has gone up from 6101 to 6612 despite the net increase in both these accounts, the net increase itself is about 500 crores, whereas when you had indicated in the call, the largest slippages that you had indicated was about 240 and 275?

**Animesh Chauhan:** Steel was 300 and infra was 237, yes.

**M.V. Mahesh:** But the net change in these accounts itself is close to about 500 crores?

**Animesh Chauhan:** See there is some disbursement in the existing accounts also. That has increased on it. There is some increase, see LC devolvement and all those things keep happening. There are one or two accounts where some disbursement has happened. So all that put together, the rise is this

**M.V. Mahesh:** Just for clarification, you don't put the increase in disbursement as a part of gross NPAs.

**Animesh Chauhan:** It is part of gross NPAs. We have not shown in the new account slip....that will not be shown but the increase has gone there, it consists of the total slippage that is how the NPA number is high.

**M.V. Mahesh:** If the increase is not reported as part of slippage, how do you reconcile the numbers?

**Animesh Chauhan:** Tell me what you are saying?

**M.V. Mahesh:** Increase in disbursement or LC devolvement is not part of slippages, how do you reconcile....?

**Animesh Chauhan:** It is part of slippage. What I told you is new accounts that has slipped in steel 308. We have not told you the total portfolio in steel that has been

there. We said the new account slips are 300 crores. The increase is all part of fresh slippages. It has to be there otherwise the gross figure will not tally.

**M.V. Mahesh:** Perfect, that's why I asked. My last question is on the tier one bonds that you had raised. At what price did you raise these bonds and if you could indicate who were the counter parties for this....?

**Animesh Chauhan:** I would not like to mention....

**M.V. Mahesh:** In the sense was it....? I don't want the names of it. We just want to know the nature of the clients? Is it insurance, mutual fund companies because we have been hearing PFC, RFC as well so just wanted to understand who are the counter parties sitting on the other side?

**Animesh Chauhan:** It is not PFC, RFC; it is not public sector chains.

**M.V. Mahesh:** If you could just give us some clarity and color on who the clients were?

**Animesh Chauhan:** See it is not in public sector, it is not PFC, RFC, now I would not like to go into other details here.

**M.V. Mahesh:** Okay sure. Thanks a lot. We just want to see if there is a market which is opening for you in terms of raising bonds, we just want to understand who are the players who have started to show interest in raising this capital or who are interested in raising...?

**Animesh Chauhan:** There are players outside the public sector who are subscribing. So I think the market is there. We have enquiries even now but we don't need that much so we have not gone further and I hope the rate keeps going down.

**M.V. Mahesh:** Sure sir. You said 10.7 is it?

**Animesh Chauhan:** 10.95.

**M.V. Mahesh:** Okay done thanks a lot.

**Moderator:** Thank you sir. Dear participants if you have any questions please press \* and 1 on your telephone keypad. Dear participants if you have any questions please press \* and 1 on your telephone keypad now. Sir there are no further questions. Now I hand over the floor to Mr. Darpin Shah for closing comments.

**Darpin Shah:** So there are no further questions sir.

**Animesh Chauhan:** Okay thank you.

**Darpin Shah:** Sir on behalf of HDFC Securities I thank the management of Oriental Bank of Commerce for their valuable time and insight. Thank you very much.

**Animesh Chauhan:** Thanks for arranging the call.

**Moderator:** Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. On behalf of HDFC Securities I thank the management team of Oriental Bank of Commerce for their valuable time and insights and all the participants. Thank you and have a pleasant evening.

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**Note:**

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