

## Transcript

### Conference Call of Oriental Bank of Commerce

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#### *Presentation Session*

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**Moderator:** Good afternoon ladies and gentlemen. I am Maria, moderator for the conference call. Welcome to 3QFY16 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 the operator by pressing \* and then 0 on your touch tone telephones. Please note, that this conference is being recorded. I now hand over the conference to Mr. Darpin Shah from HDFC Securities. Thank you and over to you Mr. Shah.

**Darpin Shah:** Thank you. Sorry for the slight delay. On behalf of HDFC Securities, I welcome you all for the third quarter earnings of Oriental Bank of Commerce. We have with us Mr. Animesh Chauhan, MD and CEO, and the other senior members of the management team. I would like to hand over the conference to Mr. Chauhan for his initial remarks. Over to you sir.

**Animesh Chauhan:** Hello?

**Darpin Shah:** Yes sir, please go ahead sir.

**Animesh Chauhan:** Our presentation is already in public domain, so I will remain very brief. Our deposit growth is 4.37% and advances growth is 7.91%. Coming to NPAs, the NPA is now 7.75% gross and net is 4.99%, resulting in to a net loss of 424.69 crores. And I would like to state here that our NIM is 2.57% for the quarter and 2.66% for the nine months, and our capital adequacy remains tier 1, 8.17%, tier 2, 2.97%, and total of 11.14%. One more aspect I would like to highlight is that out of the NPAs to be declared under AQR, we have already declared 80% and out of the provisioning requirements in AQR for NPA accounts, we have already made 85% in this quarter. That is all from my side and we can go on to questions.

#### *Question and Answer Session*

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**Moderator:** Thank you sir. Ladies and gentlemen, we will now begin with 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.

We have our first question from Mr. Gaurav Agarwal from ENR Advisors, please go ahead sir.

**Gaurav Agarwal:** Thank you for the opportunity. Sir, just wanted to know 5:25 I joined the call a bit late, so you have already said it can you please repeat it?

**Animesh Chauhan:** 5:25 this quarter we did three accounts of about Rs.365 crores.

**Gaurav Agarwal:** Okay. These are all standard accounts basically, right?

**Animesh Chauhan:** These are standard accounts, yes.

**Gaurav Agarwal:** Not standard restructured.

**Animesh Chauhan:** No, not standard restructured. These are standard accounts.

**Gaurav Agarwal:** And what is the stock number (inaudible).

**Animesh Chauhan:** Stock means total?

**Gaurav Agarwal:** YTD as in so far...

**Animesh Chauhan:** YTD you can add 1900 crores.

**Gaurav Agarwal:** (Not clear) you have done in this quarter?

**Animesh Chauhan:** But out of this 1900, one or two may be NPAs. The split I will not have for the previous quarter, but there will be about 600, 700 that has slipped into NPA.

**Gaurav Agarwal:** Thank you sir.

**Moderator:** Thank you sir. Ladies and gentlemen, if you would like to ask your questions, please press \* and 1 on your telephone keypad. We have our next question from Mr. Veekesh Gandhi of Bank of America, please go ahead sir.

**Veekesh Gandhi:** Yeah sir. Can you tell me did you do any SDR in this quarter?

**Animesh Chauhan:** We did nine SDRs with a total of about 1500 crores.

**Veekesh Gandhi:** Nine accounts.

**Animesh Chauhan:** Yeah, all consortium accounts.

**Veekesh Gandhi:** And is there stock in the pipeline?

**Animesh Chauhan:** Stock, in fact, there are a few requests, which are pending for five accounts, but we have not yet taken a decision on whether to go with it or not.

**Veekesh Gandhi:** And if you do not go with it, what, it becomes an NPL or...?

**Animesh Chauhan:** We will have to see how it goes, because they are already restructured accounts, so we will have to see how it goes.

**Veekesh Gandhi:** And what would be the amount?

**Animesh Chauhan:** I don't have actual amount, but it must be around 600 crores.

**Veekesh Gandhi:** And is there a stock on this or this is a...

**Animesh Chauhan:** Can't tell about stock because that is something which comes as and when it...

**Veekesh Gandhi:** No, something which is outstanding, so done in the last odd quarter.

**Animesh Chauhan:** Previous quarters, around 1400 crores.

**Veekesh Gandhi:** And first quarter?

**Animesh Chauhan:** This is all put together.

**Veekesh Gandhi:** And any fell down to ARC?

**Animesh Chauhan:** In these? In these accounts? No.

**Veekesh Gandhi:** No, no.

**Animesh Chauhan:** This quarter? Yes. About 363 crores.

**Veekesh Gandhi:** And what is the outstanding on that ARC book?

**Animesh Chauhan:** ARC book outstanding is...on the total so far, isn't it, total sales?

**Veekesh Gandhi:** Yes sir.

**Animesh Chauhan:** 783.

**Veekesh Gandhi:** That includes the 363.

**Animesh Chauhan:** Yes.

**Veekesh Gandhi:** Okay. And sir, what is the outlook now that you know, we had a loss in this quarter, and I believe that you did mention that almost 80% of the AQR has been done from RBI's perspective. Keeping let's say, the five accounts that you said for SDR, which you are still thinking, which is 600 crores, if you keep that outside from NPLs, what is the guidance on asset quality and especially on slippages.

**Animesh Chauhan:** That I will not be able to give, because see, this will depend on how the steel, power, and textile sector behave. The government has taken some measures in steel, so I don't know how much improvement that will come, though these

are big measures, big boosters. We will have to wait and watch how the situation changes.

**Veekesh Gandhi:** And I believe of your nearly 4000 crores of slippages in this quarter, there was a steel account of 23, 2400 crores.

**Animesh Chauhan:** Not one, there were few accounts, which totalled about 2200 crores.

**Veekesh Gandhi:** Few, as in two, three or like five, seven.

**Animesh Chauhan:** Three, four.

**Veekesh Gandhi:** Okay. And sir, can you give some guidance around loan growth, margins...

**Animesh Chauhan:** See, loan growth will be within 10% for the year and our NIM this quarter was 2.57 despite the heavy slippage where reversals happened, so I expect it to be around 2.60 and for the full year 2.65.

**Veekesh Gandhi:** So how much was the interest reversal in this quarter?

**Animesh Chauhan:** It was little less than 200 crores.

**Veekesh Gandhi:** Okay sir, alright, all the best. Thank you.

**Moderator:** Thank you sir. Our next question is from Ms. Sneha Kothari of Shubhkam Ventures, please go ahead.

**Sneha Kothari:** Sir just wanted to know, on the Uday Scheme, how things are working out there.

**Animesh Chauhan:** So, we are yet to hear from State Government. The meetings have happened with the Central Government who have framed, who have discussed all the impact, but from State Government we are yet to hear, because once they sign the MOUs with the center, then only it will come to bank. So we expect a lot of activity the first one or two weeks in March.

**Sneha Kothari:** And how much will the provisioning you can expect will be released because of this?

**Animesh Chauhan:** It will depend, I mean, it depends how much will happen. We don't know whether this 50% envisaged will happen right now or it will spill over into the Q1.

**Sneha Kothari:** Okay. What about the plan for the capital infusion?

**Animesh Chauhan:** We have already informed and in exchange our board has authorized differential allotment of 1500 crores, so 1000 to government and up to (not clear). We will wait and see what decisions they take, we have requested both.

**Sneha Kothari:** Okay. And second sir, could you guide us for the fourth quarter slippages considering the AQR that....

**Animesh Chauhan:** See, we have a wishful thinking that there are no slippages, it will not happen. But we cannot say that (audio break), the person before you that steel industry steps have been taken, which are quite big steps, plus on power also lot of things are in the pipeline. So, we will have to see how it behaves, then only we will know whether some big accounts will slip or retain. At this moment it would not be possible to give a guidance.

**Sneha Kothari:** Okay. And how are the recoveries in the upgradation happening, considering the big corporates which have slipped recently?

**Animesh Chauhan:** See, these corporates have slipped in this quarter, but our recovery has been quite good in this quarter, they are around 390 crores, which is better than the previous year. But then we hope to maintain, in fact improve this recovery in Q1 because lot of slippages have happened, so it should go up this quarter, Q4.

**Sneha Kothari:** Okay. And any expectation from the budget, could you share your view?

**Animesh Chauhan:** No, there is hardly 10 days left, we will wait and see, six days yes? We will wait for a week rather than hazarding a guess.

**Sneha Kothari:** Okay. And in fourth quarter any plans to sale to ARC.

**Animesh Chauhan:** We have put (not clear) some account, but it will all depend how the offer comes.

**Sneha Kothari:** Could we have the ballpark number, if possible?

**Animesh Chauhan:** See, we have put on sale about 2000 crores, but then, see it doesn't go by what we have put; it is only a small percentage of sales.

**Sneha Kothari:** Okay. And have you seen some green shoots recovery in some of the growth parameters?

**Animesh Chauhan:** No, see, on our books we are not seeing anything much happening, but we will wait for the budget. We will see some of the steel measures announced, and Uday Scheme, we will see how the things work out. Because so many things have been in the announcement level in January, February, that it is very difficult to have an impact right now. We will see how it progresses. But we expect (not clear) would be good especially in steel.

**Sneha Kothari:** Okay, thank you sir.

**Moderator:** Thank you ma'am. Our next question is from Ms. Vibha Batra of ICRA, please go ahead.

**Vibha Batra:** Thank you for taking my question sir. Sir just wanted to know, your iron and steel exposure, outstanding was 7488 crores as on September '15. It moved up by broadly 3000 crores in a quarter or...

**Animesh Chauhan:** No, no. It was around 10000 only.

**Vibha Batra:** This is slide 27 sir. May be that outstanding for September is not correct, then.

**Animesh Chauhan:** Outstanding 10,686, September where is the data?

**Vibha Batra:** September on slide 27 is 7,488 sir, maybe that number is wrong.

**Animesh Chauhan:** Which one? September, which number?

**Vibha Batra:** Iron and steel outstanding as on September '15, the slide gives 7488 sir.

**Animesh Chauhan:** No, no. I think there is some mistake in that. It cannot be that high.

**Vibha Batra:** Okay sir. Sir, my another question sir, may be...

**Animesh Chauhan:** Okay, I will tell you what has happened. Textile and iron and steel, there is a... (Not clear) is steel and 7488 is textile. Sorry for the mistake, sorry for the error. I was surprised, how we could have sanctioned this much.

**Vibha Batra:** Yeah. Sir, thank you for clarifying this. Another question is that if you look at iron and steel as on December, 2882 is NPA and another 2695 is restructured. So broadly 52% is either restructured or NPA. Balance 48% if you were to look at, and if you were to look at maybe your internal ratings or external ratings, how do you see the distribution of this 48%? Would it be too say relatively (not clear) or it would be a mix?

**Animesh Chauhan:** See, it is a mix because nothing has been looking very good so far, means up to December end. We only hope that they retain their rate, their categorization.

**Vibha Batra:** Okay. But sir would there be a possibility that some of the, because you know steel is going to...

**Animesh Chauhan:** There is always and in steel they are free that you will never know when they cross that.

**Vibha Batra:** Okay. So can all of this steel, relatively inferior (not clear) or...

**Animesh Chauhan:** No, not all can be inferior, but yet chances of slipping do remain in some of the large exposures despite this.

**Vibha Batra:** Okay sir. And then your restructured advances, State discoms you said is 5500 odd crores, what is your total exposure to discoms sir?

**Animesh Chauhan:** 7000 odd crores. Because Punjab is not restructured, that is the major one which is not restructured. Plus there is some investment. So if I leave the investment exposure, it is around 7000.

**Moderator:** Thank you sir. Our next question is from Mr. Arpresh Mehta of Motilal Oswal, please go ahead sir.

**Arpresh Mehta:** Hello?

**Animesh Chauhan:** Sir, before you ask the question, I will clarify one thing for everybody. One question was on total ARC sales so far, total outstanding, and I said that it is 783 crores; the correct figure is 942 crores. 942 is the sales that we have put in not 2000 crores that is the correct calculation. Sorry I got the figures jumbled up.

**Arpresh Mehta:** Okay, good afternoon sir. Two, three questions, first is on this ARC thing, the outstanding SRs are 942 crores, right?

**Animesh Chauhan:** No, no, it is outstanding 783, what we have put up for sale; I gave a reply it was 2000 crores that is 942 crores.

**Arpresh Mehta:** Okay, what you have put up for sale, but the SRs outstanding are 783 crores. Okay, that is one, and secondly what was the total quantum of RBI AQR?

**Animesh Chauhan:** I think RBI AQR is something between us and RBI, but it was around, for declaration of assets, it was around 1000 crores.

**Arpresh Mehta:** Overall, which is between 3rd quarter and 4th quarter or only in this quarter whatever you have declared (not clear).

**Animesh Chauhan:** I have already specified we have taken 80% of that this quarter.

**Arpresh Mehta:** So 80% is 1000 crores, roughly.

**Animesh Chauhan:** No, no. 80% is around 800.

**Arpresh Mehta:** 800 crores that we have taken in this quarter.

**Animesh Chauhan:** Yeah.

**Arpresh Mehta:** Okay. And what would be the requirement of that additional provisioning on the restructured loans in FY17?

**Animesh Chauhan:** That I will have to check up, because that is not exactly tabulated, because lot of it is already restructured, so we will have to be specific on that.

**Arpresh Mehta:** Okay. And sir, what was the largest account... which sector contributed the maximum in this RBI AQR and what was the quantum of the largest account?

**Animesh Chauhan:** I will not be able to give quantum, but it was steel.

**Arpresh Mehta:** And was that account already done 5:25 or it was a standard account?

**Animesh Chauhan:** You are leading me to the name.

**Arpresh Mehta:** Okay. Secondly sir, on this the 5:25, the total stock you gave is around 1900 crores, of which around 600 to 700 crores are NPL, anything in the restructured loan of this 5:25?

**Animesh Chauhan:** In 5:25, restructured loans, no, restructured ones are ones which I have already said.

**Arpresh Mehta:** Okay. And how about SDR, the total outstanding number is around 1500 crores.

**Animesh Chauhan:** No, SDR, this quarter is 1500 crores, earlier is around 1400, so total 2900.

**Arpresh Mehta:** Okay. And of which how much was the quantum of NPLs in the restructured loan?

**Animesh Chauhan:** In this SDR, now, as on date about 1000 must be NPL.

**Arpresh Mehta:** About 1000 is NPL and restructured?

**Animesh Chauhan:** Restructured, most of the other ones are restructured only.

**Arpresh Mehta:** So sir, there is nothing which is standard SDR as such.

**Animesh Chauhan:** Not much may be one or two, not much. It is most restructured accounts only who have gone into SDR.

**Arpresh Mehta:** Okay. And the pipeline we have around 2200 crores, right? For the SDR account, three, four accounts or it is for the 5:25?

**Animesh Chauhan:** 5, 600.

**Arpresh Mehta:** 5, 600, and pipeline for 5:25?

**Animesh Chauhan:** 5:25 we don't have much in pipeline as on date.

**Arpresh Mehta:** Okay. And sir, one more thing, apart from RBI AQR this quarter the core slippages seems to be relatively high at around 3000 crores or so, any specific reason behind that, any major account that would have contributed?

**Animesh Chauhan:** That is what we said it is steel, 2200 crore is steel, majority is what we declared on our own, not from AQR, and then one textile account, one from Gems and Jewelry, which is around 225, 230 crores, these two sectors, these were the three things together which contributed to the major slippages.

**Arpresh Mehta:** And sir what was the quantum of that textile account?

**Animesh Chauhan:** Two accounts, about 240 crores.

**Arpresh Mehta:** And rest was from the...

**Animesh Chauhan:** Different sectors see Gems and Jewelry we had an account of 220 crores that is how it has gone.

**Arpresh Mehta:** Okay. And lastly two questions, on the iron and steel and on the textile sector, you have already given the breakup in terms of NPL, what is the percentage, but what would be in terms of restructured loan 5:25 or SDR into these two sectors?

**Animesh Chauhan:** Restructured, I think we have given in our presentation itself.

**Arpresh Mehta:** And how about 5:25 and the SDR into these two sectors?

**Animesh Chauhan:** One minute, I will have to get you the...5:25 no? In 5:25 we don't have textile.

**Arpresh Mehta:** And the restructured, all the SDR accounts are restructured accounts, so that will be overlapping.

**Animesh Chauhan:** That is the thing; SDR is already there in restructured, most of them.

**Arpresh Mehta:** And how about metals? 5:25? Iron and steel basically.

**Animesh Chauhan:** About...out of this total, 1300 crores is metals only.

**Arpresh Mehta:** 5:25?

**Animesh Chauhan:** Yeah.

**Arpresh Mehta:** And all this accounts are standard, they have not been classified as NPLs.

**Animesh Chauhan:** No, no. There are NPLs also in it.

**Arpresh Mehta:** No, I am just trying to, the whole purpose of checking this is, just trying to check whether there is an overlap in this, nothing else.

**Animesh Chauhan:** There is an overlap, because there are accounts which were done earlier, which have slipped, one or two.

- Arpresh Mehta:** Okay. And what would be the quantum of this?
- Animesh Chauhan:** About 700 crores.
- Arpresh Mehta:** Okay, so 600 would be the standard, 5:25, 700 crores NPL 5:25, and rest are which are given in the presentation.
- Animesh Chauhan:** Yes.
- Arpresh Mehta:** Okay sir. This is (not clear), thank you sir.
- Moderator:** Thank you sir. Our next question comes from Mr. Anand Laddha of HDFC Mutual Fund, please go ahead.
- Anand Laddha:** Hello sir. Sir, if you can just clarify how much has been slipped from restructured book during this quarter?
- Animesh Chauhan:** 600 crores.
- Anand Laddha:** 600 crores has slipped from restructured book during this quarter
- Animesh Chauhan:** 2600.
- Anand Laddha:** 2600. So bulk of the slippages in this quarter has come from restructured book.
- Animesh Chauhan:** Most of it.
- Anand Laddha:** And sir, whatever the RBI audit slippages were, they were restructured assets or they were normal standard assets?
- Animesh Chauhan:** Restructured.
- Anand Laddha:** So 800 crore, which had declared in the RBI audit are restructured assets.
- Animesh Chauhan:** I said they were all restructured, whether we have declared or not declared, they are all restructured.
- Anand Laddha:** Okay. Second is sir, your employee cost has increased very significantly QOQ and YOY this quarter.
- Animesh Chauhan:** See, the YOY increase is because earlier, the wage revision provision in December was still a provision, now it has been all paid, so it has come above the line. Earlier it was into wage provision. So that is one reason. And this QOQ is because of pension, gratuities, the increase that we have provided during the quarter.
- Anand Laddha:** How much you have provided addition sir, pension, gratuity?
- Animesh Chauhan:** About 75 crores.

- Anand Laddha:** Okay. So that was not there in Q2 and Q1.
- Animesh Chauhan:** It was not there in Q2.
- Anand Laddha:** Okay. Is it fair then probably in Q4 also the salary cost should remain very similar? You will be making another 75 crore provision in Q4 also?
- Animesh Chauhan:** I think Q4 will remain around similar lines.
- Anand Laddha:** Okay, thank you sir. That's all from my side.
- Moderator:** Thank you sir. Our next question comes from Mr. Anurag Mantry of Jeffries, please go ahead.
- Anurag Mantry:** Good afternoon sir. Sir, just one clarification regarding the AQR slippages of around 800 crore, sir, if you look at the slippages from the SDR and the 5:25 book into NPA, that is about I think 1700 odd crores, so basically some of the slippages were because of AQR and some of the slippages happened even outside AQR, is that correct?
- Animesh Chauhan:** AQR, I don't see any need to discuss separately. They would have been marked as NPLs by us anyway. So it is what you analyze, AQR for us is not a major issue.
- Anurag Mantry:** Okay, understood sir. And sir, just to clarify, actually regarding iron and steel account, so within that 1400 crore roughly is 5:25 and out of that 700 crore has slipped into NPA, the remaining is standard.
- Animesh Chauhan:** Wait, wait. What? How much is in 5:25?
- Anurag Mantry:** You mentioned that 1400 crore has gone into 5:25 for iron and steel.
- Animesh Chauhan:** Which is from steel, not what I said.
- Anurag Mantry:** Yes sir, definitely, 1400 crores is the 5:25 in iron and steel, out of that 700 crore has slipped, and the remaining 600 crore is standard.
- Animesh Chauhan:** Yes.
- Anurag Mantry:** Right sir. Okay, thank you sir.
- Moderator:** Thank you sir. Our next question comes from Mr. Giriraj Daga of SKS Capital, please go ahead.
- Giriraj Daga:** Hello?
- Animesh Chauhan:** Yes.
- Giriraj Daga:** Sir just wanted a clarification (not clear) crore.

**Animesh Chauhan:** Repeat your question, please?

**Giriraj Daga:** I want to say that in the restructuring book was 17500 crore, and you said about 2600 crore slipped from restructured NPA this time, so just wanted to know sir, what was the number in second quarter?

**Animesh Chauhan:** It was 20,165.

**Giriraj Daga:** Okay sir, thank you sir.

**Moderator:** Thank you sir. Our next question is from Mr. Chinmay of Anvil Shares and Stocks please go ahead.

**Chinmay:** Good afternoon sir.

**Animesh Chauhan:** Good afternoon.

**Chinmay:** Sir, actually I wanted to know what was the impact on our margins, with the implementation of the (not clear) CLR going forward.

**Animesh Chauhan:** See, we will have to wait to see how market behaves, because we don't have, we expect margins to come down in the shorter tenure of lending, that is three months and six months. But as such, our book is not much in this category. In fact the corporates, which are borrowing through CP (not clear) to this category? So, even if there may be a reduction in margin, there may be a growth in volume. So overall impact we will have to wait and see how it goes.

**Chinmay:** Okay. Sir, the other question I had was, I mean, RBI is looking at; they are getting banks to increase the provision environment on the restructured books. So on that how much impact do you see in the next year from that?

**Animesh Chauhan:** See, we will have to check out, because that will depend on what they are saying is, those who are below their milestone, so we will have to see by March how many are on the milestone level and how many are behind. Only those are to be providing, so we will have to wait and check up, we cannot give you a number right now.

**Chinmay:** Sir, okay fine. I mean, but sir wouldn't you be tracking how many are actually going to...

**Animesh Chauhan:** We are tracking, but see unless we do the real analysis in March; we will not be able to tell exactly what the numbers would be. That may vary substantially.

**Chinmay:** Okay sir. Sir, in our power sector exposure how much are you expecting in terms of (not clear), I mean, what kind of...

**Animesh Chauhan:** In terms of?

**Chinmay:** In terms of (not clear) levels, how are you...

**Animesh Chauhan:** You can see our power sector breakup, it is basically, private is 7000 crores. We expect it to, as on date, it seems to be okay. But you will have to wait and see with the resolution in discoms we in fact expect them to come out even better. Some of the gas-based ones are already improving because they have been allotted gas and they are already improving on their performance. So we expect on this to be better. But whether there will be slipping or not will depend on how fast they have improved.

**Chinmay:** Okay. That's it from my side. Thank you sir.

**Animesh Chauhan:** Thank you.

**Moderator:** Thank you sir. We have our next question from Mr. Prakash Sharma of CLSA, please go ahead.

**Prakash Sharma:** Hello?

**Animesh Chauhan:** Yes.

**Prakash Sharma:** Sir, my question is on a slightly different topic. I wanted to check if you have done any internal assessment on how this change to this payment, Minimum Wage Act would have on the bank in terms of any additional cost that might have to be provided for.

**Animesh Chauhan:** Minimum Wage Act does not say anything on minimum wages.

**Prakash Sharma:** Minimum bonus, sorry, I meant to say the bonus payment Act first.

**Animesh Chauhan:** That would not be a big impact on us, because very few of the employees get bonus actually in the bank. Most of them are above that cut off. So once the cut off goes up, not many will come under that.

**Prakash Sharma:** Okay, thank you sir.

**Moderator:** Thank you sir. We have our next question from Mr. Manish Agarwal from Phillip Capital, please go ahead sir.

**Manish Agarwal:** Yeah. Good afternoon sir. Sir, are you monitoring the SMA movement for the standard book and how do you see the SMA book behaving most in the P&L process by March end? Do you see a visible decline in the proportion of SMA book in the balanced category?

**Animesh Chauhan:** See, we will have to wait and watch and see how the economy is growing. See, the SMA book is not impacted because of the RBI (not clear), because SMA book will be impacted by how these major sectors perform. We have three, four major sectors, how they perform, the SMA will be moving with that. Still government is taking some steps, but that will not immediately bring everything into hunky-dory, but yes, they should be able to maintain their asset quality and power also

with discount result, we expect purchases to go up, so their health should not deteriorate. That is what is the expectation, but basically it will depend on how the sectors are impacted by the economy in the days to come, and not by AQR.

**Manish Agarwal:** So, basically the accounts, which were under stress, even after declaring those accounts, the proportion of SMA does not change. Is that what...?

**Animesh Chauhan:** Proportion of?

**Manish Agarwal:** SMA book doesn't change much? Or corporates still remains under stress.

**Animesh Chauhan:** See, under stress again, once we declare NPA, it goes into the NPA books, so it is not in the SMA books.

**Manish Agarwal:** No, my question was on the balance standard portfolio, like see, because of this AQR, lot of marginal cases get recognized in NPA, so post that doesn't the SMA proportion come down significantly or not?

**Animesh Chauhan:** See, this question is in our bank, the AQR that has slipped...See AQR for NPAs only 1000 crores, so that does not make much of a change. Our AQR for declaring as NPA was only Rs.1000 crore, so it doesn't make much of a difference on the book.

**Manish Agarwal:** Okay, fine. Thanks sir.

**Moderator:** Thank you sir. We have our next question from Ms. Vibha Batra from ICRA, please go ahead.

**Vibha Batra:** Sir, now my question is on, OPEX (not clear) provision now in the wages, going forward (audio break) now that inflation is lower, what kind of (audio break) increase do you expect, one in staff expenses and one in other expenses? What could be the range?

**Animesh Chauhan:** Staff expenses in Q4 are expected to be almost the same as in Q3; we do not expect the immediate quarter to be any different. Going forward it will depend if the bank finally takes a call on branch expansion and further recruitment. We have yet not finalized our plan for the next year.

**Vibha Batra:** Okay. So if you were to expand in line with what you have been doing, so what could be the percentage increase sir?

**Animesh Chauhan:** The type of recruitments we did this year and the expansion in '15-'16, there will be only a marginal impact on the wage expenses.

**Vibha Batra:** Okay. Could it be in the sense 5% or less than 10%, where would you...

**Animesh Chauhan:** Statistics is not my forte.

**Vibha Batra:** Okay sir. Another question I have is on earnings, return on equity has been in single digits and obviously barring this one time impact that we take, when do you expect the bank will move to double digits on return on equity sir?

**Animesh Chauhan:** Again, it will depend on how the economy behaves. We have all been expecting it to bounce back much faster than what it has done. Hopefully next year financial year if it bounces back much better than what it has, the times are towards that, but when it actually comes from the ground, then banks should definitely see a better return.

**Vibha Batra:** Okay, but it is just not economy, for example, steel and power, I mean...

**Animesh Chauhan:** Steel is part of the economy; power is also part of the economy. It is a big exposure on that particular sector. You can say the sector's behavior within the economy also does impact.

**Vibha Batra:** Yeah, but future NPLs, if you were to see, which sectors do you think if power and steel will again continue to have a bearing on your future NPAs.....

**Animesh Chauhan:** See, the power sector we have three major exposures, as you see in industry, and which are traditionally very susceptible to changes in the economy. Though the signs are that they should improve because of the various measures, but if they don't then there can be slippages from these sectors.

**Vibha Batra:** Okay sir. And my final question is that, if you are unable to get this equity from the market, which is non-governmental, what would be your strategy; just give us the picture as things stand today.

**Animesh Chauhan:** As far as this year is concerned, we have already...you know it, we have intimated, we have asked for some government equity and something from LIC, so this year should be fine. Going forward, next year, we will have to see how the bond market is behaving, how the share market is behaving. It will be too premature to guess how we will be going for raising the capital in a year to come.

**Vibha Batra:** Okay sir. But this year the balance part of equity was for better performing banks, so...

**Animesh Chauhan:** I don't know. So we were (not clear) the banks which were defaulting from (not clear) banks which were projected to default from Basel III were given, we were not in that, so naturally. We didn't receive at that time, we were much better than those banks, so we were not defaulting on Basel III, you can see our capital even today, it should come for our growth (audio break).

**Vibha Batra:** Okay, but if it doesn't come from government this year, then it will be LIC.

**Animesh Chauhan:** I would be more optimistic than that.

**Vibha Batra:** Okay, that gives some hope sir. Thank you very much.

**Moderator:** Thank you ma'am. Ladies and gentlemen, if you would like to ask your questions, please press \* and 1 on your telephone keypad. Ladies and gentlemen, if you would like to ask questions, please press \* and 1 on your telephone keypad. Thank you sir. There are no further questions. Now I hand over the floor to Mr. Darpin Shah for the closing comments. Over to you sir.

**Darpin Shah:** Sir, just one query from my end, sir if you can just put some number for SMA 2, what was the number in December and September?

**Animesh Chauhan:** Very difficult to answer. I will not have that data right now.

**Darpin Shah:** Okay, any sense in direction or some indication sir?

**Animesh Chauhan:** SMA 2, when the NPAs are slipping that far, naturally the space is increasing the SMA 2 between September and December, but then we will not be able to give you the exact number right now.

**Darpin Shah:** Okay, fair enough. Thank you. So, we would like to conclude the conference call. On behalf of HDFC Securities, I thank the management of Oriental Bank of Commerce for their valuable inputs and I also thank all the participants. Thank you.

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