

Bank of India is on the cusp of a turnaround, says MD

K Ram Kumar

Concerted efforts at NPA management have started yielding results, says Melwyn Rego



Bank of India (BoI) has turned the corner after posting four consecutive quarterly losses. MD and CEO Melwyn Rego said he is cautiously optimistic about his bank's performance. According to Rego, the three-pronged strategy that he outlined when he took charge is now bearing fruit. In an interview to *BusinessLine*, Rego touched upon a host of issues, including bad loan management, garnering more low-cost deposits, and increasing the share of retail loans in total loans. Excerpts from the interview:

How is your three-pronged strategy to improve the fortunes of your bank shaping up?

When I took over as MD and CEO of Bank of India (in August 2015), I had outlined a detailed three-pronged strategy — non-performance assets (NPA) management, augmentation of current account, savings account (CASA), and rebalancing of advances in favour of retail.

I had then mentioned that this strategy would bear fruit by March 2017. I am happy that the first green-shoots arising out of this strategy are clearly discernible. And, as a result, the bank has earned a profit before tax of ₹ 197 crore and a profit after tax of ₹ 127 crore in the second quarter.

A year back, the mood was rather sombre. Notwithstanding the apprehensions expressed in various quarters at that point in time and later on after the quarterly results, my resolve to turn around the fortunes of the bank became even stronger.

This was because I strongly believed in the bank's intrinsic financial strength, its strong customer base, the very cohesive board which gave very clear directions and guidance, and the determination of staff members.

How much capital infusion will BoI receive from the government this year?

I had really very serious apprehensions (on capital infusion) because we incurred a loss of ₹ 6,000-crore plus last year. If there is a loss of ₹ 6,000 crore, it means your net worth gets eroded by that amount.

And during the first quarter of this year also, the loss at the profit before tax level was ₹ 1,116 crore. So with all this, the government reposed faith and infused capital into our bank. Last year, the total capital infused was ₹ 3,650 crore. This year, the government has decided to infuse ₹ 1,784 crore as equity capital, of which, ₹ 1,338 crore was received in September and the balance ₹ 446 crore is expected to be infused in the fourth quarter of this fiscal.

What performance conditions are attached to the capital infusion?

Yes, the government has put certain conditions in terms of recovery and upgradation. We are confident we will achieve that because the numbers are showing (we are well on that path). I wouldn't like to get into the actual numbers but it mainly pertains to the recovery and the efficient use of capital, both of which we have taken care of.

Efficiency of capital refers to conservation of capital through appropriate means. In other words, funding better (rated) assets with less risk weight, cleaning up the data which we have in the system to ensure that capital does not get consumed.

And, as a result, the total capital to risk-weighted assets ratio of the bank as on September 30, 2016, stood at a comfortable 12.5 per cent. Now, when you compare this to any of the quarters in the last two years, this is a fairly comfortable position.

I can only say that at this juncture, I am cautiously optimistic that we are on the cusp of a turnaround.

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Is the NPA situation showing any signs of improvement?

The entire staff of the bank was sensitised on the importance and criticality of NPA management by arresting slippages, increasing recovery, and upgradation of assets.

Now, these efforts have borne fruit and I see the NPA levels plateauing....The net accretion of NPAs during Q2 FY17 has reduced significantly to ₹ 338 crore as against ₹ 1,995 crore in Q1 FY17. So, it is very evident that there is a marked deceleration in the absolute NPA accretion.

Now, these numbers show very clearly that our strategy and concerted efforts at NPA management have started yielding results.

The change in mindset was brought about by holding town hall meetings at all the major centres to sensitise the staff that NPA management is the top most priority of the bank. And when you have dedicated staff, it bears results. I think we just put in our heart and soul into this and this will continue.

CASA deposits are going up....

I think the numbers talk for themselves. In percentage terms, CASA, which was 31 per cent of total deposits in September last year, is now a little over 36 per cent. By March 2017, CASA should move up to 38 per cent. I think when you focus on a certain activity, it just happens.

Term deposits of less than ₹ 1 crore have increased from 64 per cent of total deposits in September 2015 to 75 per cent in September 2016. Now, this shift in composition of deposits shows that we have significantly reduced our dependence on bulk deposits, which generally are at a higher rate. This is a very positive factor. Acquisition of salary accounts from assisted corporates has been one of the focus areas for cross-selling.

What is the position on portfolio rebalancing?

The retail portfolio (schematic or pure retail) has registered a growth of 14 per cent in September 2016 as compared to 12 per cent year-on-year. But when you look at the home loan and the loan against property (LAP) portfolio, it has grown by 15 per cent and 21 per cent, respectively.

As far as priority sector lending goes, we are at 40.10 per cent (of adjusted net bank credit), which is above the limit.

Home loans account for 70 per cent of the retail portfolio and LAP 15-18 per cent. The rest are personal, education and vehicle loans.

Now, if you look at the share of retail portfolio (pure retail, agriculture and MSME), this has grown from 46 per cent of total advances in September 2015 to 49 per cent in September 2016. Correspondingly, the corporate advances have reduced from 54 per cent to 51 per cent.

Obviously, we are endeavouring to continue with this effort at rebalancing in favour of retail. So, in the next 18-24 months, the share of retail could go up to 55 per cent and corporate could come down to 45 per cent.

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