"Indian Overseas Bank Q1 FY 2025 Earnings Conference Call"

July 22, 2024

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MODERATOR: **MR. ARYAN RANA – VERITAS REPUTATION**

Moderator: Ladies and gentlemen, good day, and welcome to the Earnings Conference Call of Indian Overseas Bank, arranged by Veritas Reputation.

At this moment, all participant lines are in the listen-only mode. Later, we will conduct a question-and-answer session. At that time if you have a question, please press "*" and "1" on your touchtone keypad. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aryan Rana from Veritas Reputation. Thank you. And over to you, sir.

Aryan Rana: Thank you, Siddhant. Good evening and thank you all for joining this Conference Call with Indian Overseas Bank to discuss our financial results for the 1st Quarter of FY 2025 ending June 30, 2024.

Indian Overseas Bank was founded on February 10th, 1937, with the primary objective of specializing in foreign exchange business and expanding its global footprint. Today, Indian Overseas Bank has an overseas presence in four countries, Singapore, Hong Kong, Thailand, and Sri Lanka.

As of March 31, 2024, the Bank's total business has surged to Rs. 5,04,923 crores and its operating profit stood at Rs. 6,724 crores, and net profit at Rs. 2,656 crores as on 31st March last year.

Since our previous Analyst Meet in May this year, IOB's market valuation has crossed the Rs. 1,28,000 crores mark. The Bank has seen an impressive surge of nearly 150% in the last one year and about 468% over the past five years in its market capitalization.

The Financial Results are available on our website and the Stock Exchanges.

Before we begin the discussion, I must remind you that our discussion may contain forward-looking statements that involve risk, uncertainties, and other factors. These statements should be viewed in conjunction with our business risks that could affect future Results, Performance, or Achievements.

To discuss the results and address any analyst queries, we have our management team with us on the call, including Shri Ajay Kumar Srivastava – MD and CEO, Indian Overseas Bank; Shri Joydeep Dutta Roy – Executive Director, Indian Overseas Bank; Shri Dhanaraj T – Executive Director, Indian Overseas Bank.

We will begin with an overview of our Q1 results followed by Q&A session.

Now, I will hand over the floor to Shri S.P. Mahesh Kumar, Chief Financial Officer and General Manager, Indian Overseas Bank. Over to you, sir. Thank you.

Mahesh Kumar: Thank you, Mr. Aryan. Thank you, MD, sir. Good evening to all.

During the current Q1 2024-2025, the Bank has achieved a remarkable growth in business mix of Rs. 5,28,773 crores as on 30 June 2024, recording a year-on-year growth over 16% and 4.72% over previous quarter.

I will present overview of the Bank's Performance during Q1 2024-2025:

CASA grown in absolute terms to Rs. 1,26,000 crores, with year-on-year growth of 7.93%. Total deposits growth achieved at Rs. 2,99,000 crores as on 30 June 2024, with an impressive year-on-year growth rate of 12.97% and 4.4% over previous quarter.

Gross advances grew year-on-year by 20.30% and by 5.06% over previous quarter and stood at Rs. 2,30,000 crores. Operating profit registered year-on-year improvement of 24.57% at Rs. 1,676 crores. Net profit grew year-on-year by 26.47% at Rs. 633 crores. Provision Coverage Ratio improved to 96.96% as on 30th of June, 2024. Capital Adequacy Ratio was higher at 17.82% against the regulatory requirement of 11.5%.

Now, Financial Performance:

Total income increased year-on-year by 21.52% to Rs. 7,568 crores. Overall interest income grew year-on-year by 20.48%, mainly due to growth in the advances level. Interest expenses increased year-on-year by 32.02% due to growth in deposit levels and the borrowings increased to meet the credit demand. Net interest income increased year-on-year by 5.08% at Rs. 2,441 crores.

Non-interest income improved year-on-year by 28.52% due to recoveries in return of accounts, sale of PSLC and accrual of discount on securities and other fee income. Provisions on NPA reduced during the quarter mainly on account of reduction in the NPAs and arresting fresh slippages. Tax expense increased due to reversal of deferred tax asset and provision for income tax at overseas branches amounting to Rs. 5 crores. Thus, the Bank has posted an impressive net profit of Rs. 633 crores for 1st Quarter, with improvement year-on-year by 26.6%.

Cost of deposits increased to 4.95% due to offering of competitive interest rate on one deposit product of 444 days, which is attracting more deposits. Cost of funds increased due to increase in borrowings to meet the surging demand for credit. Yield on investments improved to 6.84% due to planned investments in high yielding securities.

Yield on advances improved to 8.75%, mainly due to improved margins under RAM segment, in addition to marginal increase in the MCLR. There is an improvement of yield on funds to 8.11%. Return on assets improved year-on-year to 0.70%. Return on equity improved year-on-year to 14.10%. Cost to income ratio reduced to 51.76% and year-on-year reduction by 520 bps. Total advances registered a growth of 5.06% over quarter and year-on-year growth of 20.30% and stood at Rs. 2,30,000 crores.

Credit deposit ratio improved by 43 bps over previous quarter and year-on-year by 470 bps at 77.04%. Retail grew by 16.69%, these are all year-on-year figures, mainly due to improved credit growth under home loans, vehicle loans, personal loans, and other retail loans like jewel loans, deposit loans, et cetera. Agri grew by 35.52%, MSME grew by 18.62% mainly due to credit growth under medium enterprises.

Credit to corporate grew at 15.82%. The main focus in corporate credit is towards A-rated and above-rated corporate borrowers constituting more than 65% and unrated accounts representing state government entities. Overseas credit grew by 5.89%.

There is a reduction in the restructured accounts by 12.5% compared to March quarter. Regarding NPA management, gross NPA reduced by Rs. 6,980 crores to Rs. 6,649 crores as on 30th of June, 2024. Net NPA reduced by Rs. 1,436 crores to Rs. 1,154 crores. And gross NPA ratio is reduced from 7.13% last year to 2.89%. Similarly, net NPA ratio reduced from 1.44% to 0.51%. Credit cost reduced to 0.29% compared to previous quarter.

Total recovery from NPAs during the Q1 was Rs. 582.27 crores. Total recovery from technical written off accounts was Rs. 364.23 crores. Provisions coverage ratio improved from 94.03% to 96.96%, that is 293 bps has increased. And provision coverage ratio excluding technical write-off also improved from 81.02% to 82.65%. And robust and continuous monitoring system has improved in controlling slippages. And slippage ratio reduced year-on-year from 0.31% to 0.13%. Slippages during Q1 2024-2025 is Rs. 277 crores.

Regarding capital adequacy, the focus is given towards capital-light advances. Thus, despite increase in advances level, the credit risk weight asset to advances ratio reduced to 53.91% from 54.05% last March. Overall, capital adequacy ratio improved year-on-year by 126 bps to 17.82%. And there is significant improvement in return on equity.

Now, thank you very much. I now request Mr. Aryan to take it forward.

Aryan Rana: Yes. Hi, Siddhant, we can now open the floor for the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ashok Ajmera from Ajcon Global. Please go ahead.

Ashok Ajmera: On the whole, if you look at the performance and compare it year-on-year, it's definitely a very excellent performance. But sir, if you talk about quarter-on-quarter, and especially on the profitability front, our operating profit has gone down from Rs. 1,961 crores to Rs. 1,675 crores. Mainly, one of the reason is that other income has gone down from Rs. 2,477 crores to Rs. 1,033 crores, but part of it was offsetted by the employees cost of Rs. 1,124 crores from Rs. 2,517 crores. And it also contributed lesser recovery. I mean, in the other income, the lesser recovery from the written-off account as against Rs. 908 crores to Rs. 308 crores.

So, sir, now there are a couple of questions on this. Number one, whether the same pattern will continue in the coming, I mean, three quarters that we are having pressure on the overall operating profit, because of the lesser recovery as compared to the last quarter?

And secondly, whether the employees cost, which has come down substantially, so the run rate of that is going to be in the same fashion, like if you divide it by three, so about Rs. 375 crores per month. So, that we can get some idea of going forward where do we stand on this, sir?

Ajay Kumar Srivastava: Thank you, Mr. Ajmera. Very pertinent questions. So, operating profit sequentially you are talking about, it has come down by Rs. 200-odd crores. The main reason being, of course, part of the solution you yourself have covered. Major reason is that, if you remember, in the third or fourth week of Q1 in this financial year, we came out for an open auction of around 91 NPA accounts, NCLT, non-NCLT, and sole banking accounts amounting to Rs. 13,000 crores. And the plan was that we started in the month of April itself because we wanted to finish the deal in Q1 itself, which unfortunately could not happen because of the various ARCs having different requirements and a few of them, or I will say most of them were not inclined for NCLT accounts for obvious reasons. And they were rather interested more in individual accounts rather than on pool.

So, all these issues are still under discussion and negotiations are going on. And since it could not happen, it got delayed. I am not saying that it could not happen, it got delayed. And that has got its impact in Q1, but certainly that will be covered in Q2. And other than that, also, the normal business growth will generate operating income more than the expenses. And going forward, I do not see any reason to be worried on that front. And substantial, I will say handsome growth on operating profit and net profit, both you will be able to see in coming quarters.

Ashok Ajmera: Yes. On this other income, you see Rs. 160 crores as compared to Rs. 943 crores, it said all other income. In the other income there is another head, all other income. So, how it has substantially come down to Rs. 160 crores? I do not remember exactly what happened in the last quarter, when it was Rs. 943 crores. What is the component?

Ajay Kumar Srivastava: Other income you are talking about?

Ashok Ajmera: Yes, that all other income, like Rs. 160 crores as compared to Rs. 943 crores.

Ajay Kumar Srivastava: Rs. 943 crores versus Rs. 160 crores.

Ashok Ajmera: Yes.

Ajay Kumar Srivastava: We will have to go through that. We will come back to that breakup of Rs. 943 crores. But year-end what happens, all of us know that many, many charges, and many things which in few other quarters we have not been able to recover, but all these things happen in Q4, that may be one of the reasons. Or maybe a one-off incident will be, what I can recollect is that maybe it will be part of, but recovery separately given Rs. 908 crores. So, we will come back to you regarding that Rs. 943 crores. And if you see year-on-year from Rs. 23 crores, of course, it has gone to Rs. 160 crores. Maybe from treasury also something we would have got as part of Rs. 943 crores.

Ashok Ajmera: Sir, my next question comes on treasury only, that because of the change in the RBI stance, like on the reclassification and the valuation side of the investment book.

Ajay Kumar Srivastava: I would just stop you. In Q4, MTO of Rs. 589 crores was there, because of that only this Rs. 943 crores has happened. Yes, please go on, please continue.

Ashok Ajmera: So, sir, now in the 1st Quarter, we started with that new system and the auditor has also given the note that, you know, general reserve would have been higher by Rs. 1,413 crores and the ASF reserve would have been lower by Rs. 442 crores. Investment income is lower by Rs. 74 crores. So, I am not going into the details of it, but net-net, whatever income which otherwise would have come as a treasury income, like in the other income, as a treasury gain, now a part of it is coming as an interest income, which is now with this. And other adjustments are made in the reserves only, not affecting the P&L. So, what I want to know is that net-net, is there any effect on the profit and loss for the quarter, in the profit or loss of the quarter, because of this change?

Ajay Kumar Srivastava: Nothing, nothing has changed. Nothing substantial.

Ashok Ajmera: Okay. I mean, it is only basically from the accounting perspective.

Ajay Kumar Srivastava: Exactly, it has happened according to that only. So, it has not impacted my P&L.

Ashok Ajmera: And sir, one question is on the advance book. If you look at the medium enterprises, book has increased by 74.81% in this quarter from Rs. 8,960 crores to Rs. 15,662 crores. Is it because of some reclassification or is it some group of accounts which have come together? Or what is the reason for such a large, I mean, high increase in the….

Ajay Kumar Srivastava: Medium enterprises you are talking? Medium enterprise is part of MSME.

Ashok Ajmera: Yes, it is a part of MSME, but if you look at it, on the slide --

Ajay Kumar Srivastava: Yes. 74% growth you are talking, 74.81%.

Ashok Ajmera: Yes. So, is it a normal feature?

Ajay Kumar Srivastava: Yes, it's a normal feature. Two things are there. First thing is that base is low, so that is why percentage is looking high. And second thing is that we have started going very aggressively on TReDS. The TReDS platform you must be knowing, discounting of bills of MSME suppliers. Because of that, this 74% growth is visible and major part of that has come from TReDS, apart from normal growth.

Ashok Ajmera: Okay. So, as like figure looks, can we expect the total credit book to grow by about 20%, 22%?

Moderator: Sir, we request that you return to the question queue for follow-up questions.

Ashok Ajmera: Let this question be answered. Let this question be answered. So, should we expect that overall credit growth maybe 20%, 22% for the way you are going in the 1st Quarter itself?

Ajay Kumar Srivastava: No, we are looking at 13% to 14% of credit growth in this financial year.

Ashok Ajmera: So, in the remaining three quarters only about 8% to 9%, isn't it?

Ajay Kumar Srivastava: Yes. Overall I am talking about. The overall it will be, because many repayments will also happen, so around 13% to 14% is the figure which we are looking at as far as credit growth is concerned.

Moderator: Thank you. The next question is from the line of Priyesh Jain from HSBC. Please go ahead.

Priyesh Jain: Sir, my first question is to do with deposits. Could you share the split of term deposits between retail and bulk deposits?

Ajay Kumar Srivastava: Bulk we have been traditionally, at IOB, we maintain it at around 6% to 7% of our total deposits. See, we are having around 42%, 43% of CASA, continuously we are maintaining at that level. And we are having a very strong retail deposit book, retail term deposit book. Bulk, traditionally we have not been depending on that, and need-based only we go into that market, we are not very aggressive. So, overall, at any point of time you will see that the bulk deposit percentage varies around 5%, 6%, 7% of my total deposit, not more than that.

Priyesh Jain: Sir, could you also give the Y-o-Y growth for the retail term deposits and the bulk deposits?

Ajay Kumar Srivastava: Retail term deposits separately, okay, we will come back, separately I am not having right now or anyone can give me? See, almost 16 to 17 months back, 18 months back, we started a special term deposit of 444 days, retail term deposits. And since February this year we increased rate of interest on that to 7.30%, which today also is the highest. And we have been successful in garnering around Rs. 40,000 crores of retail term deposits over a period of last 18 to 19 months, which is very much stable and is going strong. Retail term deposit year-on-year growth, give me some time, I will come back, the department is working on that. But growth will be in double-digit only, that is what I can tell you.

Priyesh Jain: Okay sir, fair enough. Also, like I just wanted to understand, why has the borrowings increased by 9% this quarter year-on-year on retail term deposit?

Ajay Kumar Srivastava: Yes. Obviously, in fact, we all know there is scarcity of deposits in the market and the entire industry is struggling with, as far as deposit growth is concerned. And since we have to meet our credit requirements and there are certain ratios which are supposed to be maintained as per regulatory prescriptions. So, need-based, wherever we see that some gap is there, some requirement is there, need-based we go to market and do that borrowing, that is need-based.

Priyesh Jain: Sir, you shared the loan growth guidance, could you also share the guidance for FY 2025 for the deposits growth, the margins?

Ajay Kumar Srivastava: Yes. Deposits growth, we are looking at around 11% to 12% of growth. The entire focus, in fact, that is the guidance we have given. But internally, we are working for deposit growth more than credit growth. So, that is the plan for this year, and hopefully we will be able to do that. For margin, the same thing that pressure is there because of increased cost on deposit, and our NIM for Q1 is at 3.06%. We intend to maintain it at around 3.10%.

Moderator: Thank you. The next question is a follow-up question from Ashok Ajmera from Ajcon Global. Please go ahead.

Ashok Ajmera: Thank you. Thank you for giving the opportunity again. Sir, we have been I think talking about it, even earlier also we had covered this point on note number 17 about the contingent liability on account of the income tax and the indirect tax. Now, the amount seems to be very high, very large, Rs. 8,450 crores and Rs. 1,146 crores. So, my point has always been that, you see, in most of the other public sector banks or even some of the private banks also, if you see, this kind of item is never there anywhere. It's huge as compared to the size of the bank.

So, what is the status? I mean, can it be not taken at the top level with the department, with the authorities or with the court and this matter can be settled, because no provision has been made against this, as we are expecting a favorable decision on this? So, can we not expedite, because when the ECL kind of thing comes, I do not know what will be the treatment required of this kind of contingent liabilities.

Ajay Kumar Srivastava: Yes. See, first thing is that, this type of things are across banks, because the income tax department is common for everyone. And I will say that, it will be incorrect to say that it only pertains to IOB. We also interact amongst ourselves and we do know that most of the banks are struggling with this. That is one part.

Second part is that, in all these issues we have filed an appeal, and in seven to eight cases, we are having a strong indication that our appeal will be considered favorably. So, provision has not been made because we do not foresee any challenge. We do not foresee any challenge that whatever demand has been raised by the authorities, the entire 100% will fall back on the bank. That is not going to happen. We are having our own reasons and justifications to believe that. So, accordingly we do not feel that it's anything of concern going forward.

Ashok Ajmera: Okay. Of course, because we did not find this kind of thing in the auditors note in some of the banks. I mean, you study, you can also look at it. It's very clearly mentioned in the note by the auditors in the accounts, which we somehow know because we also keep track them very closely. Anyway.

Ajay Kumar Srivastava: Yes. Sorry, only one minute I will take. Maybe we are trying to be more transparent as compared to other banks. That is what I can tell you.

Joydeep Dutta Roy: Yes. Just to add Ajmera ji, this is Joydeep here. I think we have a lot of interaction with other banks also and such disputed income tax liabilities are there in each bank. The amount may vary.

Ashok Ajmera: May not be pointed out by the auditors in the notes in the accounts or I might have missed it. Sir, going forward, there is some pressure suddenly on the agriculture loans, in fact, there is some kind of farm waiver or loan waiver started with Tamil Nadu and some other states, and some few other states are also, I think, Madhya Pradesh, they are also considering. So, what do you expect the fallout of that on our bank? And whether the hit has to be taken by the Bank in case it happens? And are we insulated from that as far as our bank is concerned or our exposure is very small?

Ajay Kumar Srivastava: Sir, generally, whatever, it's not a new phenomenon. When I was a junior officer, at that point of time, 15 years earlier also all these things were in place. And things have been like this that everyone knows in the system. When everything or these type of things when come in writing, mostly it is like this that the loans up to Rs. 1 lakh or loans up to Rs. 50,000, that too which has been taken by the cooperative bank, only they will be eligible for waiver and all this. So, many ifs and buts, and many hidden conditions are there in that. So, unless or until anything comes out on paper in black and white, it will be difficult to comment on that. But having said that, since it's phenomena which is going on for last many years, and we have not faced much challenge on that direction. If at all it happens in any of the states, we are having that capability to withstand that.

Ashok Ajmera: Okay. Sir, this CD ratio is already at 77.04%, and we are trying to grow our book also very well, credit book. So, going forward, will you be comfortable with the higher CD ratio, because there is a pressure on the deposit side also? So, what is your stand on that, sir?

Ajay Kumar Srivastava: Yes. CD ratio we will be maintaining at this level around 76%, 77%. When we met last in the month of May, at that point of time also I conveyed this. Focusing more on deposits growth, deposit growth will happen. We are having a strategy in place, and it is happening also. But whatever guidance has been given of 13% around credit growth, 11% to 12% of deposit growth, we are looking at these numbers with complete seriousness. And we do hope that we will be able to achieve that. And CD ratio, we will be able to maintain at around 76%, 77%, that will continue.

Moderator: Gentlemen, that was the last question. If you have any queries, please email us at sonali.pandey@veritasreputation.com. I would now like to hand the conference over to Mr. Aryan Rana for closing comments. Mr. Rana, please go ahead.

Aryan Rana: Thank you so much, Siddhant, and thank you to the management team present in the conference. Indian Overseas Bank is going through a significant phase of growth, and we are hopeful of a fantastic year ahead. On behalf of our Board of Directors and Management, we thank you all for your participation in this call. Have a great time ahead. Thank you.

Ajay Kumar Srivastava: Thank you, everyone.

Moderator: On behalf of Indian Overseas Bank and Veritas Reputation, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.