"Federal Bank Q1 FY18 Earnings Conference Call"

July 26, 2017

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Moderator: Good day Ladies and Gentlemen and a very warm welcome to the Federal Bank Q1 FY18 Earnings Conference Call. As a reminder, for the duration of this conference call all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Shyam Srinivasan, MD and CEO, Federal Bank. Thank you and over to you, Sir.

Shyam Srinivasan: Thank you and Good Evening everybody. This is the first call of FY18 and also the first call post our recent capital raise, so let me first thank everybody who supported us in the very successful capital raise and also welcome some of our newer investors who came onboard this June when we did our capital raise, thank you and welcome to everybody.

In terms of beginning, yes, it was a successful capital raise and it does reflect the strong confidence. Q1, we think we had a strong operating performance on the back of all that we have been putting in place in terms of a business structure, the RM model, the sales focus, and across all segments of the bank, we saw growth in Q1 and in terms of the overall operating profit, it was our highest ever. The mix of revenues was different from what probably people expected that is largely because of some impact on NII on consequence of the higher slippage on the account that we have been rather concerned and guiding for from many quarters that slipped in Q1 and the consequence of that did have impact on both provisioning as also the dent on interest income, but happily for us the operating performance both in credit growth, deposit growth, cost containment, and slippages outside of that were pretty much on trend.

Importantly and interestingly and happily for us, the SME performance was heartening. Some pockets of the stress that came through as a consequence of the higher payments required on account of demonetization dispensation was impactful, but not material and that may play through between Q1 and Q2 and settle, but the key message is, one, our operating performance continues to be strong as is visible in the underlying growth numbers of credit and spread both geographically and product wise. The underlying deposit growth has improved even in the period when we thought the non-resident remittances will have challenges, we saw strong growth in NR as also domestic and broadly in terms of slippages, the concerned one or two accounts that were worrying us have been addressed. In fact, we took this quarter a brave call of addressing an industry group which is quite a large industry group which many banks have yet probably not recognized, but we have taken the hit on that and moved on.

On balance, the quarter from a financial standpoint while we did report a 25% net profit growth and an operating profit growth of 31%, did suffer from a higher slippage, and therefore, a higher provisioning. We have held on to our 70% provision coverage as a bare minimum, so on the incremental slippages which is higher than the normal run rate of 250 crores, we did provide on the incremental 170 crores, the normal 70% which resulted in higher provisioning in Q1 as opposed to what we saw for most of FY17, so the key message is, one, we had a good quarter in an operating sense, two, we raised capital for which we are thankful to everybody. Third, we have commissioned our most compelling media and advertising campaign, the earlier results over the last 3-4 days has been very encouraging and it has stimulated employee morale within the company as well.

Talking of employee morale, we launched probably for the first time ever a bank which follows certain IBA guidelines, very unique compensation structure for our senior team members all of whom who have moved on to a new cost-to-company model and that is heavily performance outcome driven, therefore, the employees at senior level both tend to benefit and also focus more rigorously on performance and we will institutionalize that culture across the bank. Over the last one year or so, we have been investing and putting in a very formal business vertical structure and RM and sales model, those are beginning to be quite impactful. This quarter saw our first-ever 1000 crore plus retail disbursement in addition to the strong growth in corporate and SME, so across the bank, the capabilities are being built, operating profit and operating performance is improving.

The one or two accounts that were bothering us has been addressed and we do think from here on, it should be run rates that will be positive, and hopefully, that will produce the kind of outcomes that we are all working for. Like I mentioned, costs have been well contained and we are not looking at expanding cost space recklessly barring the three areas that I have always pointed out, brand building, digital, and specialist skills being recruited in. Those would be the introductory comments, which does reflect what we had set in our first page in our investor deck for those of you who may have seen it, those were the nine key points which I wanted to share and I am happy that the entire senior team is with me. We will be able to take calls and clarify and respond to any questions that any of you may have.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Sir, just couple of questions, first in terms of interest income reversal, what was the quantum this quarter?

Shyam Srinivasan: Interest income reversal for the quarter, I will give you the walk down from the previous quarter, last quarter was 840 crores, this quarter was 801 crores, principally driven by four factors. One is the higher than normal slippages of about 170 crores for which the reversal was roughly about 6.5 to 7 crores. The impact on higher slippages on retail and SME driven by demonetization so they had to pay five dues that was about 5 crores. Then the interest income on tax refund last quarter was 15 crores that did not come through this quarter, so these are the three and the conversion from base rate to MCLR in Q1 because April 1, 2016, is when the base rate commissioned, so that was another about 10 crores, so the buildup is 10+15+6+5.

Kunal Shah: What proportion of our book still has to be converted?

Shyam Srinivasan: I think a bulk of the book is converted, now it will be 20% to 25%.

Kunal Shah: 25% of book is still left to be converted?

Shyam Srinivasan: Yes.

Kunal Shah: How should we look at margins going forward if at all?

Shyam Srinivasan: What I did not mention in my opening remarks since we have raised capital in the last day of Q1 that which is lying with us is not built into our margins of Q1. In the course of FY18, we believe as we have guided in the past, between 320 to 325 is the margin. There may be a near-term bump up because of the benefit of capital raise, so it could stretch up to 330.

Kunal Shah: Sir, last question is on growth outlook, we have seen a reasonably strong growth on wholesale side, but SME side we continue to have a slower modest growth around 17% by our standards and some guidance on both of these and overall growth?

Shyam Srinivasan: The overall credit growth 20% plus is what we are guiding for. The mix is driven by opportunity and also just to point out corporate is all credit growth above 25 crores. We are seeing two kinds of growth, 25 to 50 we are seeing very strong growth or at the higher end and the focus is the 25 to 50 which is really midmarket growth. In the lower ticket below 25 SME, we are being more watchful given some parts of the economy and some parts of the areas that we are seeing stress, but still we are growing at high double digits which we will grow. Retail is growing very robustly and we will continue to do that.

Moderator: Thank you. We have next question from the line of Manish Karva from Deutsche Bank. Please go ahead.

Manish Karva: Just on the distribution front, it has been many quarters since we have not been growing our distribution network as in branches while this is very well articulated that you had grown your branches quite a lot and now you wanted to leverage that, but any change in thoughts on that whether now should we start to look to grow again?

Shyam Srinivasan: We are choosing a philosophy of branch-led distribution heavy and what I mean by that is, we have been putting feet on street, RMs, sales, using partnerships, and of course leveraging our existing footprint and of course digital, we think for the next as in FY18, we may not see any substantive increase in footprint, that said, some of the recent regulations of RBI which are a little more generous in terms of how the branch network even four hours in a bus sitting in a particular location five days a week is construed as a branch. We are evaluating what branching opportunities will come, but at this juncture our focus is to leverage more the existing infrastructure, digital, feet on street including Fedfina plus the RMs and salespeople we have and I do not see adding branches in FY18 in any material manner, a few here and there, yes.

Manish Karva: Your cost ratios will keep getting better and better as we keep growing without much of…?

Shyam Srinivasan: We have guided for 50, we have reached 50.62 this quarter, we will certainly keep a very tight eye on that, but I have to point out there are three areas we are consciously investing into, we will not shy away, brand, digital, and people.

Manish Karva: On asset quality, this quarter one account aberration, next quarter onwards we should see a normalized slippage number, fair assumption to take?

Shyam Srinivasan: Yes, the only impact is the demonetization-led retail and SME and Agri on farm loan waiver, you saw a spike up this quarter. It will not be the same kind of spike, but I do see retail remaining elevated at about 80 crores for about two quarters.

Manish Karva: Lastly, on restructured loans this one account which has slipped, I believe that was restructured account?

Shyam Srinivasan: Yes, it is.

Manish Karva: But you restructured loans have not come off?

Shyam Srinivasan: I think Manish that is because the buildup that you see of 1282 becoming 1326 in our investor deck, it has 1282-146 which is the restructured which slipped into NPA, but we have added SDR, S4A and 5/25 as part of restructured book in our reporting.

Manish Karva: That was not the case earlier?

Shyam Srinivasan: Yes.

Moderator: Thank you. We will take the next question from the line of Girish Raj from Quest Investments. Please go ahead.

Girish Raj: The question is on Kerala market advances growth relatively muted growth, any commentary on that?

Shyam Srinivasan: There is some degree of stress in the market on the back of NRI-related issues, while we are not shying away from growth, we have been very watchful. We are gaining share, but the overall credit growth in the market is quite muted, some of the locally invented events of the liquor policy, some of the cashew related challenges, some of the NRI-related slowdown is impacting the economy, so we are being very watchful, but it should not in the overall scheme of things hurt us in any form.

Girish Raj: Is it fair to say that if all these concerns fade away, we will get to company level growth in Kerala market also?

Shyam Srinivasan: Our desire is absolutely to do that, but I would say we must be watchful and not only for Kerala, for most markets where we are seeing stress, that is why I pointed out in SME, we are going slightly slower than what we can potentially do, likewise in pockets in Kerala that is not only Kerala but certainly is, because we have a dominant presence there. Our share has gone up quite substantively, but we are being watchful.

Girish Raj: Second question is on other expenses, fourth quarter to first quarter there is a swing of 70 crores odd, what has led to this?

Shyam Srinivasan: The fourth quarter you saw the employee expenses came down…

Girish Raj: No, only on the other operating expenses?

Shyam Srinivasan: We had bought a portfolio for which there was a one-time service charge that has fallen off in this quarter.

Girish Raj: That was only 25 crores I guess?

Shyam Srinivasan: Yes, that is the principal difference.

Girish Raj: Last question is on restructured advances, first quarter FY16 stock was around 3018 crores, of this how much is still in the first quarter FY18 numbers?

Shyam Srinivasan: Whatever is restructured is in this book, the restructured book is this only, that is, 1676.

Moderator: Thank you. We will take the next question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Just two questions, one on the credit side, I noticed you said there is insignificant impact because of the NCLT, IDC, the various regulatory increases, is it fair to say that given the book right now, you do not expect to see any further impact from this going forward, i.e., the further slippages etc. that we should see will really just be organic kind of deterioration of credit in retail as you have suggested or are there any large changes that would come because either you see in the book that might flip or due to regulatory changes? The second question is it would be good to get your guidance, you would guide it to your aspirations on ROAs in previous con calls, it would be good to get your sort of revised guidance on what you expect exit rate ROAs to be in FY18, FY19 and also how those ROAs or likely to translate to ROEs because given the deferring risk rate so that you change the mix of the portfolio, it would be helpful to us to see how capital consumption is likely to work and how a particular ROA maps through a particular ROE?

Shyam Srinivasan: The first if I recall right was around the NCLT accounts, of the 12 that the industry is talking of, we have four of them and all of them have been addressed and three have been written off and in one case we need to make a provision, worst case across the life of the account, 23 crores.

Ganesh Sankaran: I stand corrected, three have been sold to ARC and two have been written off.

Shyam Srinivasan: Three sold to ARC, two of them written off, and one of them the impact will be 23 odd crores which is why we said, the impact is likely to be less significant or insignificant. Having said that are their accounts in the pipeline, we have none of them in what is now touted around the next 20 or whatever, we have none. I also said at the beginning of my call, we took the impact of 60+ crores this quarter on an industry account which most banks are yet to recognize may be in the course of the quarter some of the bigger banks will recognize it, but we have taken the hit this quarter and chances are that account will feature in the top 50 accounts that are big borrowers in the market. Expanding on that, do we have a large number of the accounts that are talked as the next 20-30, answer is no. Can I categorically say we will have no issues, if Air India runs into a problem what is the restructured standard can potentially be a problem, we are hoping that it does not become an issue. Will L&T PNG which is a large road project, can it have a problem, we are hoping that it will not but it can be, these are the two accounts that spring to our mind as potential large ticket industry level accounts where Federal has a share which is meaningful are currently performing, but for external reasons can change character, but at this point in time, I am not flagging a risk but I am just pointing it to as an issue.

Moving on from there, the ROE and ROA related guidance, we think we will exit ROA run rate of about for the quarter 1.1 to 1.15 for the last quarter of this financial year and ROE closer to 11% for the exit of FY18, the impact of raising capital does have denominator impact, we are working through it, but the current momentum and if the NPA continues to trend the way we see it, we are confident that will be the outcome.

Pavan Ahluwalia: Going forward what kind of ROA, ROE, do you have any two or three-years target on this?

Shyam Srinivasan: Yes, we do. We had mentioned a month ago when we were meeting a large number of investors, our priority number one is to exit FY18 at the numbers I mentioned just now, slightly higher also. The capital raise has changed some of those equations. We are working through what our FY19 exit rates will be, but suffice to say it will be at least 10% better than the exit rates of FY18.

Moderator: Thank you. We will take the next question from the line of Renish Patel from Antique Stock Broking. Please go ahead.

Renish Patel: Sir, couple of questions one on the asset quality side, so can you please share the recovery upgrades and write off numbers for this quarter?

Shyam Srinivasan: The 98 crores is between recovery and upgrade this quarter and 146 crores is that write-off this quarter.

Renish Patel: This 58 crore is recovery plus upgrade, right?

Shyam Srinivasan: 98 crores.

Renish Patel: Sir, with the current standard restructured book which is including 5/25, etc. close to 1300 crores, so what do you feel, what kind of slippage rate do you expect from this portfolio going forward?

Shyam Srinivasan: Normally, the slippage rate as you would have seen over the eight quarters has been roughly 18% to 20%. Of course, this quarter when one of them fell off which is 100 crore plus account the ratio changes, but if you take a longer window 18% to 20%.

Renish Patel: So we are maintaining that guidance?

Shyam Srinivasan: Yes.

Moderator: Thank you. We will take the next question from the line of Salil Gupta from Enam Holdings. Please go ahead.

Salil Gupta: I just wanted to know very quickly, there were some news about IDBI Federal Life Insurance looking at 100% stake sale and I know IDBI was trying to monetize its non-core assets, I was just trying to understand what is the rationale from Federal Bank side, please?

Shyam Srinivasan: There is a three-way partnership between Federal, AGS, and IDBI, which is now an eight-year plus arrangement. There is an existing shareholder agreement which points to the fact that at a pre-exit price, the international partner can increase their stake depending on how the two domestic partners are willing to shed their share. At this juncture as we speak, there is a very extensive embedded value calculation process, third party is identifying it. Once that happens we will have a good grip on the value of the company. Once that happens the international partner has the right to make a pitch for either or both domestic partners to reduce their share and they can increase their share or if all of us feel that the value is strong and we can find a more compelling partnership that also, so all options are open. All I can point to the fact is at this very point, there is only a value discovery process going on and once that happens, the engagement will be more clear.

Moderator: Thank you. We will take the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, deposits have declined sequentially, cost of deposits have also come down while CASA ratio has improved, but if you look at the interest expense line that has increased?

Ashutosh Khajuria: Average deposits are higher in this particular quarter vis-a-vis previous quarter by 3%.

Rohan Mandora: Sir, this is a short-term kind of deposit that we have for carrying?

Ashutosh Khajuria: Actually what you are looking at is the falling deposit what you are seeing vis-a-vis March is because of one single deposit that had come in the last week of March and that was only a short term seven days deposit, so that has run of in the first week of April itself.

Rohan Mandora: Sir, what is the sell-to-ARC during the quarter?

Shyam Srinivasan: 194 crores, 48 crores from past period NPA and 148 crores from this quarter.

Rohan Mandora: Sir, if we look at the data points on slide 16 wherein you have given Kerala versus non-Kerala split and if I add up the wholesale plus SME, that is 41000 crores and the data on Slide #4 of wholesale plus SME is coming to 47,000 crores, so there is a difference of around 5000 crores in this bifurcation?

Shyam Srinivasan: There are certain account books centrally which will not get credit for either of the networks. This is to demonstrate the branch network performance that will not feature in the centrally booked accounts.

Rohan Mandora: Sir, which were the sectors that we were lending during the quarter in the corporate side during 1Q?

Ganesh Sankaran: We have been mentioning in the past, we do not have any sector specific approach. We are emphasizing on the right kind of plan selection across the spectrum of corporate and institutional clients, but we can tell you differently that we are not present in the core sector if you wanting stress sector or the so-called core sectors, steel, power, infra those kind of, we are not present in all of them.

Moderator: Thank you. We will take the next question from the line of Anil Vengsarkar from Motilal Oswal. Please go ahead.

Anil Vengsarkar: Just two data points, have you mentioned the amount of corporate slippage from the restructured account that you had till now?

Shyam Srinivasan: The quarter was 169 crores slippage out of which one account was on the restructured standard.

Anil Vengsarkar: What was the amount of that account?

Shyam Srinivasan: 105.

Anil Vengsarkar: 105 crores and you have already provided 60 crores on that?

Shyam Srinivasan: We have provided 40 crores on that.

Anil Vengsarkar: Your provision has an impact of 40 crores in this quarter for that account?

Shyam Srinivasan: Yes, it does.

Anil Vengsarkar: What is the total provision on that account?

Shyam Srinivasan: We have sold it to ARC at NBV.

Anil Vengsarkar: The second thing that I wanted was the breakup of the interest reversal that you gave, the total interest reversal is 801 crores, if you?

Shyam Srinivasan: NII was 801 crores, the aggregate the gap between 840 which was the last quarter NII broadly broken into four areas, one is the interest reversal on account of slippages around 6 crores, the income earned on tax refund in the previous quarter was about 15 crores in this quarter, usually it is Q4 phenomenon, we get the tax refund in Q4 normally at least for the last 3-4 years. Then the additional slippages that were higher in retail and SME, the demonetization-led five-month impact of that was around 10 crores and the incremental slippage over the normal run rate was about 6 crores on account of interest.

Anil Vengsarkar: Sorry, this 6 crore amount was what?

Shyam Srinivasan: For the incremental slippages over our normal slippage in a quarter was 250, this quarter it was 25, the 175 crores on that slippages.

Moderator: Thank you. We will take the next question from the line of Krishnan A from SBI Cap Securities. Please go ahead.

Krishnan A: Just wanted to understand your opening comments touched upon initiatives that you took for your employees, just wanted to understand what kind of flexibility existed under IBA, what were you be able to utilize in order to arrive at this and just a little more detail around what you have been able to achieve here?

Shyam Srinivasan: Our focus has been for particularly the senior team which is the equivalent of what conventionally is known as the Scale-4 and above, all of them have moved to a cost-to-company model, all of them have got a compensation structured differently, all of them will be rewarded very significantly based on performance outcomes, and this was a thing in the making for quite a while. We initiated the exercise early this financial year and effective May, we converted to this model. Our senior teams have been rechristened, have been compensated differently and have been set goals differently, and hopefully, all achievement will result in better outcome for everybody.

Krishnan A: This was the flexibility that was available under IBA?

Shyam Srinivasan: It is not under IBA, all Scale-4 and above are not necessarily governed by the IBA wage terms, conventionally they are, but they are not necessarily bound by that with the concurrence of our senior team, we moved to this model.

Krishnan A: This will not disrupt the functioning of the rest of the bank in anyway?

Shyam Srinivasan: It does cause concerns for the trade unions and associations, but I think people are seeing this as a step in right direction for the good of the bank and many of the seniors have moved onto it. There was one-day flash strike, but in the interest of movement this have been received well, digested, and moved on.

Krishnan A: My second question is around your digital initiatives and the recent marketing that you have initiated as well, what is the early evidence that you are seeing as a feedback to that marketing effort, number one, and also around digital initiatives, a little more color on what you are able to achieve, what kind of customers are you now beginning to acquire, do you see cross sell potential in this client base?

Shyam Srinivasan: Let me break that into three parts, one is on the last call also I mentioned, the new clients we are originating particularly the salaried clients outside of our traditional home market where the salaried potential is higher, we are seeing a reasonably good growth, and therefore, that profile is giving us opportunities to do more cross selling and multiple offers and they are relatively the younger profile. The new campaign, early days, we started it on Monday, so today we are sitting on Wednesday but yes, every day we are getting about 150 to 200 new leads, there is a lot of enthusiasm across the spectrum, both employees and outside, and I am hopeful that the brand will get re-energized further, but that I will be in a better position to present when we reconvene the following quarter.

In terms of the ability on digital and cross sell, our digital capability we continuously keep maintaining to match the best in some cases are really cutting-edge, what we launched as Lotza, the UPI app, we have now launched Lotza 360, which is a fairly compelling mobile based offering with which you can pay anything, receive money, send money has a very compelling offer, we are seeing good cut through and we are getting into a merchant model of that, thereby the full facility of paying at any site on the phone will be compelling and we will get away from the POS model to a complete UPI mobile based and we will be amongst the pioneers on that, so digital we are seeing now 35% of our new origination is coming through digital and when I say digital I mean the Selfie account and we have recently launched at 650 of our branches and by end of this month across the entire bank, the account opening is literally six minutes from in to out provided you have your Aadhar card and we think that is catching on, so the straight through increases and the customer walks away with account and his cheque-book and ATM card, so cut through is strong, we are getting new profile of customers. In addition, some of the portfolios we bought last year differentiated and those we were able to cross sell into.

Moderator: Thank you. We will take the next question from the line of Ravi Singh from Ambit Capital. Please go ahead.

Ravi Singh: Sir, in the retail book what is the share of portfolio purchases?

Shyam Srinivasan: We have now about 10% of the retail book would be what we bought last year and this quarter I told you 1000 odd crores is the disbursal, obviously all organic but we are happy and we will continuously explore opportunities if they come by.

Ravi Singh: Sir, how do you see that book from the ROE impact and what is the medium to long-term strategy of our portfolio purchases of self origination?

Shyam Srinivasan: I think it is not either or, we will certainly step up and drive up our organic which is what I have been sort of focusing through the call. Inorganic, if there are opportunities particularly portfolios in retail and microfinance and SME, we will look for the driver has to be it has to be accretive and should not be cost guzzling or NPA initiating, with that as sort of guiding principal, we hunt for it, we have a small two-member team whose only job is to scan the market for opportunity, right now we have nothing on hand.

Ravi Singh: Sir, just for clarification, this wholesale 33,582 crores, does it also include credit substitutes?

Shyam Srinivasan: 10%.

Ravi Singh: That is at a similar level as it was in the last quarter?

Shyam Srinivasan: Yes.

Ravi Singh: Sir, is there any reclassification between SME and corporate segment?

Shyam Srinivasan: Whenever an account moves from above 25 crores, we move it from SME to corporate at the beginning of every financial year, this year we moved between 900 or 1000 crores.

Ravi Singh: Sir, I missed your comment on the NIM, near-term and long-term?

Shyam Srinivasan: We had at the beginning of the financial year or towards the backend of the last FY guided for between 320 and 325, this FY we are confident of that, there may be an uptick on account of capital raise which may take up to 330.

Moderator: Thank you. We will take the next question from the line of Abhishek Sahoo from Citi Group. Please go ahead.

Abhishek Sahoo: Sir, could you give us some sense of in the retail portfolio what is the channel mix between your branches, external DSAs, and the internal feet on street?

Shyam Srinivasan: External DSA is close to 0, if you add Fedfina as an external DSA, yes, otherwise it is 85% branch and 15% Fedfina.

Moderator: Thank you. We will take the next question from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: Sir, if you can provide the breakup of recovery upgrades and write-off for the quarter?

Shyam Srinivasan: I mentioned, 194 is write-off plus sales and 98 crores is recovery plus upgrade.

Jay Mundra: Sir, just for clarification, you mentioned that this restructured account, the steel group which slipped, the total exposure was around 140 crores?

Shyam Srinivasan: 109 crore is what the NPAs, group company was 135 all put together.

Jay Mundra: The slippage total is 140 crores of that large?

Shyam Srinivasan: 105 crores is what has slipped.

Jay Mundra: Is there any remaining residual exposure which is still standard or because I believe we have been mentioning that the exposure is slightly higher?

Shyam Srinivasan: About 30 crores is residual.

Jay Mundra: What is the nature of that residual exposure, Sir?

Shyam Srinivasan: Export LCs.

Jay Mundra: Is there any chance of that LC?

Shyam Srinivasan: For now, it looks okay.

Jay Mundra: Sir, lastly you mentioned the restructured book which is given in the investor deck that includes SDR, 5/25 and S4A, if you can just provide the individual numbers that would be much helpful?

Shyam Srinivasan: 190 crores is the S4A, SDR and 5/25.

Jay Mundra: Then the residual which is like 1326 minus?

Shyam Srinivasan: Yes, is the traditional Air India and other things sitting there.

Jay Mundra: Sir, just lastly on the wholesale exposure, you mentioned that your comfort would be 25 to let us say 50 odd crores ticket size, I just wanted to know how comfortable would you be in growing let us say ticket size of over 100 crores?

Shyam Srinivasan: Higher names, we are comfortable but either if it is not a long tenure or if it is not an infra or steel or power, we are comfortable.

Moderator: Thank you. We will take the next question from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: Firstly, one question is with regard to in the Kerala state we see that the CA, SA and the NR business, overall the growth is quite strong, but if we see the credit absorption like SME, wholesale or in the retail that is bit less compared to outside Kerala, so like jut on the credit absorption process which is taking place in that state, so what is the issue there like if you can reflect?

Shyam Srinivasan: The state has some challenges in terms of overall growth on account of relatively muted nonresident related issues. Second is cashew sector is having its challenges because sectorally cashew and rubber have some industry-level challenges and the third is that the state pursued a particular liquor policy for almost 18 months which had a tourism impact which they have reversed now, so one is hopeful that will have more positive outcome, but structurally NR is something that we or any bank or any institution has to be watchful of because there are things that are outside of the states control, it is more Middle East led.

Rakesh Kumar: Sir, previously if we recollect some quarters back when we started hearing that there is a job loss happening in Gulf countries, then the total NR deposit size was either stable or it was coming down but for our bank the markets that was increasing maybe two to three quarters back, so things are different from that stage or like how the things are on the NR deposit?

Shyam Srinivasan: I am responding to you at a market level, thankfully for Federal Bank our market share is further strengthened as you may have noticed, but I would like to caution saying that on the deposit side it will strengthen, but there could be issues that we have to be watchful on the credit side, so we have been watchful.

Rakesh Kumar: Secondly, just one more question if I could ask, on the restructured book side as you just said, so out of this 1326 crores if we take out SDR 5/25, so the loans other than that coming from which sector, if you could elaborate that would be helpful?

Shyam Srinivasan: I mentioned Air India is one of them, there is really no particular group or anything, there are a couple of small sugar accounts, HCC is there, there is no giant account, it is pretty distributed, Patna Highway Project is there.

Rakesh Kumar: If we take out suppose Air India, what could be the level of delinquency we foresee barring Air India in this restructured standard?

Shyam Srinivasan: That is what I said, the slippage traditionally over multiple quarters has been 18% to 20% across time, it does not fall off in one quarter.

For clarity for everybody, outside of the one account the slippage is only 1.28 crores from the restructured book this quarter.

Moderator: Thank you. We have the next question from the line of Vinod Jairam from ER Advisors. Please go ahead.

Vinod Jairam: Sir, you did talk about cautious approach in the SME segment, what are the reasons for the caution and also going forward 1 to 2 years down the line what could be the composition of this segment, it is right now 22% of the overall loan book, what could it be 1 to 2 years down the line?

Shyam Srinivasan: Caution is only because of some environmental issues, demonetization, slowdown in certain parts of the country, downstream impact of steel and other power projects and also of course the more GST outcome that are yet unknown, that is the reason we are being watchful, but Ganesh has pointed out in last call as is our strategy now, while we are reporting SME in this conventional form very soon you will start reporting business banking, commercial banking, and corporate as three distinct vertical because the business model of the bank is being architectured to support these three areas, therefore, commercial banking will take the sweep when we look at the 20, 30, 40 crores kind of exposure and try to grow that, so the bank's model overtime you will see retail, business banking, commercial banking, and corporate, retail and corporate holding to at 30 odd percent and the remaining 40 odd percent is sitting in the commercial banking and business banking, all middle market businesses.

Vinod Jairam: That ticket size, what would be the …?

Shyam Srinivasan: In two years, it could be in the range of 5 to 40.

Moderator: Thank you. We will take the next question from the line of Vidisha Shah from Prabhudas Lilladhar. Please go ahead.

Vidisha Shah: Most of my questions have been answered, but I have two questions for you, first you mentioned the Scale-4 member has moved into cost-to-company model other than the IBA format, how has been the response from the people in the Scale-4 and elsewhere, you see resistance or till they are ready to go with it?

Shyam Srinivasan: They have all moved and happily moved into it effective May 1, 2017. Seniors, I hope have all embraced it very happily, no resistance, the resistance is not visible, so all are moving quite happily and the outcomes are very favorable for everybody, so there is no reason anybody would resist.

Vidisha Shah: Can we have some color on the SMA-2 numbers?

Shyam Srinivasan: SMA portfolio is coming on quite substantially, I do not have the numbers on it, but I can only confirm that it has come down quite sharply.

Vidisha Shah: The slippages must be out of the SMA-2, Sir?

Shyam Srinivasan: Yes, restructured and SMA-2, yes, very few straight through.

Vidisha Shah: You mentioned last call also and this call again you are coming back and speaking about cashew, rubber as well as NRI impact that is being seen, so in what manner that you specifically mentioned that you need to be watchful on the credit side on the NRI impact, so is it any direct or any kind of advances given with NRI backing or whatever, why you are mentioning about this credit side again on the NRI impact?

Shyam Srinivasan: The NRI impact on retail is on the LAP and home loans, that is certainly if their remittances are lower or they are struggling with job losses, they will have concerns on their repayments here, particularly if it is an investment property. The cashew and rubber is more local business. In the past, when these businesses had challenges, they had resources from NRs to get repayment, now that is slowly being dried up.

Vidisha Shah: If I can push in last question, earlier also we had seen some slippages with the hospitality segment, etc. on the tourism side, do you think that with this liquor issue probably getting solved, there is hope that segment will not be much more stressed?

Shyam Srinivasan: I think it will improve, we are all hopeful it will improve.

Moderator: Thank you. We will take the next question from the line of Sandeep Jain from Birla Sunlife Insurance. Please go ahead.

Sandeep Jain: Sir, just one data keeping question, the restructured standard portfolio which you have shown here is 1326 including all S4A, SDR, 5/25, what can be comparative number for Q4 which you are saying 1282, it should be restated right?

Shyam Srinivasan: The 45 crores will be the number restated, added 45 crores.

Sandeep Jain: In this quarter any further, if I am getting it right, 105 crores have been moved from restructured to NPA in this quarter?

Shyam Srinivasan: Yes.

Sandeep Jain: We have done some additional restructuring as per your SDR in this quarter?

Shyam Srinivasan: Nothing in this quarter.

Sandeep Jain: These numbers are not matching, if you add up 1282 plus 44 and 1326 in this quarter, so 105 crores, you are saying it is moved from standard?

Shyam Srinivasan: Yes, that is why I am seeing, the two are not comparable because in the past SDR, S4A, and 5/25 was not sitting in an equal number, that is why the number 1282-146 and then you have to add back the 190 odd crores, which is in these four or five accounts. There was a DCC extension of 48 crores for Ranchi Expressway this quarter.

Moderator: Thank you. We will take the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, just wanted to get the, what is the exit SLR that we are carrying right now?

Ashutosh Khajuria: 20% is required, we are at 24.5.

Rohan Mandora: What is the duration if you could split between HTM, HFT, and AFS?

Ashutosh Khajuria: I normally do not tell that, but it is well within the risk limits set by the board and well within, quite lower than what the board has set for us.

Moderator: Thank you. We will take the next question from the line of Jahnvi Goradia from Motilal Oswal Asset Management. Please go ahead.

Jahnvi Goradia: Just a quick question Sir, what is the overlap between asset side and liability side customers?

Shyam Srinivasan: I would say in Kerala the overlap is close to 60%, rest of India 20%, blended 50%. Our customer base uniquely is 8 million individuals.

Moderator: Thank you. We will take the next question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Just wanted to see with the Ind-AS and Ind-GAAP shift, what do you expect the impact to be, I mean where should we be expecting to see some impact?

Ashutosh Khajuria: Ind-AS impact, there are two areas where there could be the major impact on the balance sheet, one is the treatment that is given to the investments because the investment part that would go either into amortized cost or a SVOCI or SVTPL. Basically, there would be a need for reclassifying some of the existing HTM and AFS and accordingly the Mark-to-Market part of that can bring in some accretion to the bank subject to ease being there where they are. The second one is mainly going to be on the expected credit loss part, so that I think we are yet to receive the RBI's direction in that because their draft guidelines are excluding expected credit loss, so I think we are running our internal models and all that, so I think these are the two areas presently the net impact may be to the extent of may be about 150 to 200 crores could be their net impact on account of our internal models, but it would be very difficult for regulator to really have a view on how to compare various banks with different models and also, so we would wait for regulator's direction in that to deal with the expected credit loss and then we would be in a position to tell you the exact impact on that.

Pavan Ahluwalia: The 150 to 200 crores will be negative impact at the net profit level?

Shyam Srinivasan: No, it will be charged to reserve?

Pavan Ahluwalia: Okay, one-time charge to reserves.

Shyam Srinivasan: On behalf of everybody, thank you and thanks for all your support.