"Federal Bank Limited Q4 FY-18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Federal Bank Q4 FY18 Earnings Conference Call. As a reminder, all participants' 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 now hand the conference over to Mr. Rajanarayanan N – Investor Relations Head at Federal Bank. Thank you and over to you, sir.

Rajanarayanan N: Good evening everybody and welcome to the Q4 earnings call of Federal Bank. With me are Shyam Srinivasan – MD & CEO; Ashutosh Khajuria – ED & CFO; Ganesh Sankaran – Executive Director; Sumit Kakkar – Chief Credit Officer and other executives.

Over to Shyam Srinivasan, MD & CEO.

Shyam Srinivasan: Good afternoon and thank you for joining on the call. We have gathered to have a conversation around our Q4 outcomes. Let me begin by both pointing out that the underlying operating performance continues to be stronger and momentum is strong. However, Q4 has been significantly impacted by certain stressed asset recognition decisions we made, impacted largely by a recent regulatory circular.

So let me just speak some of the highlights on both the growth and also the addressing of the stress and as always we will take the questions and clarify. As a housekeeping point our investor deck and the release is already available on the website. I am hoping that all of you have access to the same.

In terms of headlines the credit growth has been quite strong 26% YOY sequentially all business has continued to grow well north of 5%. Operating profit was the highest for the quarter at Rs. 589 crores this despite having had to take significant impact on revenues on account of the reversal of interest income and impact of gratuity increase that came as a regulatory change at the end of March 2018. Overall business growth crossed a sort of an internal milestone number of Rs. 2 trillion.

Deposits continues to grow at 15% and the deposit portfolio of the bank is at Rs. 110,000 crores and the market share gain are visible, and it is pan India. CASA did 33.25% and YOY 17% growth. Profit numbers for the quarter obviously were significantly dented at Rs. 145 crores net profit. Operating profit at Rs. 589 crores as I mentioned. Interest income was Rs. 933 crores. I am mindful that these are numbers that are materially lower than what the expectations were. But let me just address the key and most crucial aspect of the significant impairment. This quarter saw an all-time high in terms of slippages at Rs. 872 crores.

I am sure many are curious to know what it is and we will spend some time talking about it both in the Q&A as also my own introduction to these numbers. We have outlined that in the deck, so you will have a chance to look at it and understand the granularity of that. Now for long the bank has maintained a stance that our numbers are what it is and we do not try to smooth out or pad up numbers. I am often faulted for not being predictable, but I think we are predictable from a point of view of our numbers are reflector of what we are.

And in the call in January when we did our Q3 call I had guided that our slippages for the quarter will be between Rs. 350 crores and Rs. 400 crores. If you back out the one-off impact of Rs. 492 crores which we took on account of the accelerated NPA recognition on account of the revised framework the slippage was Rs. 380 crores. So it is bang on the expectations that we had set out. And the Rs. 492 crores was largely an outcome of the February 12 circular. And this pertains to four accounts that came from power and roadways.

And these are significantly large accounts which I must say on 31st March were with record of recoveries were in favor of treating that account as standard, but we took a very deep view of the circular and said one day or the other this is going to become an NPA if you apply the filter of financial difficulty inherent weakness in the account. So the standard restructured portfolio you may have noticed has come down from Rs. 1,425 crores to Rs. 792 crores which means Rs. 633 crores of the standard restructured book has become NPA or has been upgraded in certain instances.So out of that Rs. 633 crores, Rs. 487 crores are pertaining to these four particular accounts.

So in summary the operating performance continues to be strong. All growth vectors are tracking well. We are investing into the franchise. We have recruited very senior people to strengthen the senior team into specific areas which are going to be focused for FY19. Be it treasury, be it government business, be it unsecured, be it an experiment to do commercial vehicles business are four new initiatives in addition to strengthening our core operating performance.

In terms of the portfolio I think we are a lot less stressed out now in terms of the stress book. You may have noticed our overall stress has come down to 2.28% the lowest in the last 12 quarters. This is steep book which you add up net NPA plus SR book plus the restructured book the total has come down to something like Rs. 2,800 crores which is 2.28% of our overall average asset.

So in short, momentum is strong. We are strengthening the team. We have had a very material impact on account of the stress recognition largely influenced by a recent circular and we have made the provisions for that. Consequent to that provisioning the impact is about Rs. 153 crores of extra provision on account of these four accounts and a consequent interest reversal of Rs. 31 crores. So we have tried to stake the numbers as it may have been if we had not recognized this. That is only a hypothetical situation yet to be recognized.

So we have taken it but on balance I think the portfolio is a lot less stressed and we look into FY19 with lot more confidence and hope to make sure that FY19 is strong. So on that note, so let me open the call for questions. As always, our entire senior team is here we will be happy to clarify any area that anybody would like us to.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Sir, what is the reason behind not downgrading the Rs. 792 crores of standard restructured accounts which are still left?

Shyam Srinivasan: This Rs. 792 crores are accounts that one is a sovereign airline account which we believe may not become an NPA. It will get addressed in some fashion. Outside of that it is a large bunch of granular cases. The only other account above Rs. 50 crores is one roadways at Rs. 75 crores which at this point in time is meeting all criteria of performance and we will have to see how that plays out. Apart from that Rs. 792 crores minus almost Rs. 375 crores of this the balance Rs. 350 crores is many small accounts between Rs. 1 crores to Rs. 40 crores.

Amit Premchandani: So the February circular is not applicable for them and hence they have not been downgraded?

Shyam Srinivasan: Yes.

Amit Premchandani: But the inherent weakness argument still holds true for them?

Shyam Srinivasan: There if you apply the filter of performance they are reasonably okay.

Amit Premchandani: Going forward shall we expect that these Rs. 350 odd crores accounts may also slip because of inherent weakness or shall we expect that they will continue to be standardized?

Shyam Srinivasan: Experience has been non-big ticket which is infra broadly broken as road, steel, power the recoveries from restructured have typically I mean the fall from restructured have typically been between 18% and 20% in the normal businesses that have been restructured to believe that is what it will be in the course of FY19 and hence consequently we have built out our credit expectations for FY19.

Amit Premchandani: Since you mentioned there is a road account of Rs. 75 crores, this may also be under pressure next year, is it a fair assumption to make?

Shyam Srinivasan: Yes, that is a fair assumption to make.

Amit Premchandani: And sir, net off whatever has happened on the slippages front impacting margins what is the steady state margin that you are looking at going forward and what are the steady state margin this quarter?

Shyam Srinivasan: This quarter reported margin is 3.11%. If you put back only for the Rs. 31 crores which is the additional NII impact on account of these 4 accounts which will typical go to 3.22% to 3.23%.

Amit Premchandani: And next year we expect fattish trend?

Shyam Srinivasan: 3.25% is what we think we have been guiding for.

Amit Premchandani: Sir, you have been guiding for the investment to improve the fee income and increase the share of wallet customer but although the balance sheet growth is reflected the fee income is still lagging. What are the reasons behind the fee income kind of it did not get….

Shyam Srinivasan: Yes, I mentioned at the top of the call that we have brought in some senior people to focus on that. So now that the credit book is building out quite nicely we are confident that going into FY19 those also will start playing through.

Amit Premchandani: And that will be largely through distribution, FOREX?

Shyam Srinivasan: Yes, it is a mix of various things. Distribution, Treasury both retail and cross sell into existing client base

Amit Premchandani: And are you now kind of your non-fund exposure to fund exposure is pretty low, are we likely to see a trend of significantly higher non-fund exposure?

Shyam Srinivasan: I think that one we have clarified, and it is our belief that non-fund fund is no longer applicable as it was in the past. I think the overall client exposure is what we are focused on. And as a consequence of that the opportunities to do treasury investment banking products which we have now built capabilities and domain expertise as you know we have signed up with Equirus for a partnership and that is beginning to see traction. Treasury I mentioned we have got some senior people.

We got senior people to look at the government business and the retail focus is sort of in specific pockets we are putting in workaround them. So I think all this should add up.

Moderator: Thank you. The next question is from the line of Ravi Singh from Ambit Capital. Please go ahead.

Ravi Singh: Sir, this additional slippage due to new RBI framework so that has had some impact on the SMA book also this Rs. 113 crores. So what is the link sir here between the RBI framework and the additional slippages from the SMA book?

Shyam Srinivasan: No, that is the fall from the SME book that is not from the restructured book. Sorry your question is the accelerated provisioning?

Ravi Singh: Yes, out of Rs. 492 crores?

Shyam Srinivasan: The same filter inherent weakness, financial difficulty of the account towards it and the road sector.

Ravi Singh: Okay. What is the size of SMA book if you could share that?

Shyam Srinivasan: It is half of what we began FY18 and trending in that direction. But like I mentioned the overall stressed portfolio has come down specific to SMA we would not want to bring out that.

Ravi Singh: Okay sir and broadly the share of corporate loans in our total loan book has increased from 33% to 34% around two, three years ago to 43% now. But on the deposit side current accounts are still at 5%, 5.5% of overall deposits. So do you think at some stage those new corporate relationships at mid corporate I mean the sweet spot which the bank has chosen should start yielding in some cross sell opportunities that current account's productivity or do you think that is going to be some structural constraint?

Shyam Srinivasan: No, I think answer is, yes. If you take our FY18 and divide it into two parts you will see that the rate of growth in current account is beginning to reflect some of our strategy and that is largely driven by better relationship with Corporates and getting more of their businesses. We think that run rate will step up going into FY19.

Moderator: Thank you. The next question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Just wanted to get a sense on this incremental slippages of roughly Rs. 490 crores because of this new RBI circular. Sir, what kind of provisioning we have as on March 18 and what sort of additional provisioning we might have to take in FY19?

Shyam Srinivasan: This Rs. 492 crores is split into four accounts and our overall coverage ratio ex write off is about 45%. So we have maintained the same provision coverage for this also put in.

Renish Bhuva: Okay so is there any RBI guideline which will require us to?

Shyam Srinivasan: No, the RBI guideline if I recall one is recognition, second is date of recognition would make it D1, D2, D3. One of the accounts is already D2.

Renish Bhuva: Okay so there is no separate guideline about there has to be some income coverage kind of a thing?

Shyam Srinivasan: No.

Renish Bhuva: Okay and sir and for the rest of the standard structured book which is Rs. 790 odd crores what is the blended provision coverage we have on that book?

Shyam Srinivasan: See our overall coverage ration ex-write off is 44% so it applies to everything.

Renish Bhuva: Okay and sir last question on the cost side. So we have been investing pretty heavily on technology etc for last 2 years. So when should we see cost to normalize going forward?

Shyam Srinivasan: I know I go back to the same data point to explain many things but unfortunate for us the cost to income that is showing as 52% for this quarter our guidance it will be close to 50%. This Rs. 31 crores you add back it will be 50%. Our cost growth is low teens. Unfortunately, the income was impacted, and I know it is sounding like an excuse but that is the fact.

We have not blown our cost we have to get more efficiency and the consequence and just I think I missed mentioning it which is probably a question that many may have you are growing Corporates but there are slippages, but we are happy to report all the slippages that we are facing is bookings of 2009-10-11 when we grew infrastructure very significantly. Right and that is something we are taking the hits on but that is the business.

Renish Bhuva: Yes, so sir I can understand our cost to income ratio because it is there are two moving parts revenue plus cost but even if we look at the absolute number growth so other expenses grown by almost 25% in 2017 and 2018 it is also close to 18% odd?

Shyam Srinivasan: Yes, I think I will mention two things which you are all aware of. One is the gratuity impact that has happened and the other is the wage revision impact. These are two realities we have to contend with and we have to get efficiencies from that which is what we have focused on. We have not added branches or we are not adding people at random. So those are the efficiency measures in our hands. We think as we get our income profile right that cost to income will start reflecting the outcomes.

Moderator: Thank you. The next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: My first question is what kind of credit cost are you looking forward for next year?

Shyam Srinivasan: We think Rakesh FY19 our credit cost will be about 65 to 70 basis points.

Rakesh Jhunjhunwala: And second is your core margins have gone up by your core lending book has gone up by 26% but your pre-processing profit has not gone up by 26%?

Shyam Srinivasan: Yes, partly impacted and unfortunately, I go back to the same data point partly impacted by the reversal and partly impacted by the incremental cost on account of gratuity and wage revision. But that said the new business credit quality is infinitely better but there is a compression on the margin on that portfolio. And that is why I said we are venturing into four new lines of business which we have not done for what we think are our prudent reasons now that we believe our platform is stronger.

Rakesh Jhunjhunwala: Which businesses do you?

Shyam Srinivasan: Yes, there are 4 lines of business which we have invested. We have recruited very senior people; two have joined, two are due to join in the coming months.

One is in terms of retail unsecured. So we will have a sort of a phased entry into personal loans and linked products like wise on commercial vehicles and on the corporate side we have invested into Equirus. We have recruited a senior person as treasury sales head and also we have recruited a senior person to look at the government business. So these are the 4 new streams of business which are revenue accretive but not base.

Rakesh Jhunjhunwala: You are not recruiting anybody to sell aggressively your other retail products?

Shyam Srinivasan: We have our full team already and just in Mumbai in a month we do Rs. 300 crores of home loans which is up from Rs. 20 crores to Rs. 40 crores a month.

Rakesh Jhunjhunwala: What about mutual funds and health insurance and life insurance and credit cards? So that is where banks are really making the money?

Shyam Srinivasan: Absolutely which is what I mentioned as the new areas that we are venturing into and the full-fledged team is going into place for that.

Rakesh Jhunjhunwala: And have you taken the decision about the insurance business?

Shyam Srinivasan: It is in the very last stages. The two final bidders are there is a negotiation going on the best prices. So in the course of FY19 by July-August the full process will be consummated.

Rakesh Jhunjhunwala: No, but you have taken a decision that you are going to retain, or you are going to sell?

Shyam Srinivasan: Yes, but it is a board’s final call. We are waiting for the last price to arrive and then we will take that last decision.

Rakesh Jhunjhunwala: So this person will decide whether he will buy or not whether we decide we sell or not? Am I right? I do not understand the process. If I am buying you tell me whether you are selling or not?

Shyam Srinivasan: There are two parts to it. One is the bidders have made their final what they think is their final bid negotiations are under way. One of the foreign partners has the right as per the agreement to make a counter offer and then only the final decision will be done.

Rakesh Jhunjhunwala: No that I understand Srinivas, but the person who bids he will say you know what percentage should I bid for so you have to inform him, you know that whether I am selling or not?

Shyam Srinivasan: They are bidding for 100%.

Rakesh Jhunjhunwala: They are bidding for 100% and that means obviously they are bidding for our shares also and then the deal can be condition on our selling. Anyway, environment in NBFCs?

Shyam Srinivasan: We will announce it day after.

Rakesh Jhunjhunwala: You will announce it day after, but you have decided that means?

Shyam Srinivasan: Yes, it is done we are signing the agreement day after.

Rakesh Jhunjhunwala: That is Equirus or NBFC?

Shyam Srinivasan: NBFC, Equirus is already announced we are waiting for regulatory.

Rakesh Jhunjhunwala: And the bid for the insurance company is 100% which means obviously we would have said that we will sell?

Shyam Srinivasan: That is going on.

Rakesh Jhunjhunwala: I think our bank is every quarter some of the new some quarter has education loans, some quarter has RBI circular anyway god bless. Thank you.

Shyam Srinivasan: We are a real business, Rakesh.

Moderator: Thank you. The next question is from the line of Gaurang Ved from Ved Capital Advisors. Please go ahead.

Gaurang Ved: Sir, at the beginning of FY 2017 you said that the perfect storm for the bank was behind and we embark on the new journey of consistent and predictable growth. So we were bang on during FY17 post which you said that the beginning of last year this is FY18 that the way forward from here on will be to get back to some of the exit ratios of FY15 in terms of ROA/ROE. So can you please throw some color on where we are in this journey of consistent and predictable growth and what will be the indicative sustainable ROA for our bank on a medium term basis?

Shyam Srinivasan: Thanks, I recall that last year you complimented us and today you are being nice and polite and telling us that we missed it. That is the truth. But I can only say that the miss is because of a more recent development. Underlying performance continues to be strong. We were gunning for delivering close to 1% exist ROA. If we reset the numbers, we will be at 0.96% this quarter but that is easy to say. The reality is that 0.48% for the exit quarter. So we are certainly gunning for 1% in FY19. Internal targets are higher. We are confident of delivering that.

I have to just caveat it saying no more googlies come from anywhere. But yes, 1% run rate is what we are pushing for FY19. But I would guide more over a 2-year period we will come closer to 1.1%.

Moderator: Thank you. The next question is from the line of Abhishek Agarwal from Edelweiss Securities. Please go ahead.

Kunal: Hello sir, Kunal over here. Firstly, in terms of the SR has there been any write down in the portfolio what we are seeing in terms of the decline?

Shyam Srinivasan: Our SR book has improved. We opened the year at Rs. 870 crores and we are at Rs. 725 crores and we have increased our provision from Rs. 95 crores to Rs. 180 crores.

Kunal: Okay so that provision has been in this particular quarter?

Shyam Srinivasan: Yes, this quarter we added Rs. 85 crores this quarter.

Kunal: Okay so Rs. 85 crores we have added on SR. And apart from that what would be overall provisioning breakup?

Shyam Srinivasan: For the quarter?

Kunal: Yes?

Shyam Srinivasan: Credit provision Rs. 263 crores, other provision is Rs. 123 crores.

Kunal: Okay. And lastly apart from this standard restructured so are we done with all the RBI dispensation schemes or there is something which is there in 5/25 as well?

Shyam Srinivasan: All that is there in the Rs. 792 crores include the 5/25, SDR and S4A.

Kunal: Okay so SDR would have been largely recognized?

Shyam Srinivasan: SDR would have been largely recognized.

Kunal: So we would have left say it would be S4A and 5/25?

Shyam Srinivasan: Roughly that would be Rs. 170 crores, Rs. 180 crores.

Moderator: Thank you. The next question is from the line of Sandip Baid from Quest Investments. Please go ahead.

Sandip Baid: On your liability side the CASA has remained in the early 30s range for quite a few quarters. Just wanted to know your aspirations on that where you want to see it in the next 2 to 3 year?

Shyam Srinivasan: We have moved from I mean I am taking the liberty of talking a little longer term from being 24% to 33.25% in 6 years. This is roughly about 1.5% growth per annum. We think this year we will target for 34.5% in FY19, 34% plus we are targeting to deliver in FY19.

Sandip Baid: Sir, over the next three, four years do you think 40% kind of number is achievable for us?

Shyam Srinivasan: 40% look on the higher side. We are talking of internally somewhere around 37% to 38%. But all our growth is at the CASA which is at savings at our card rate of 3.5%.

Sandip Baid: Secondly if you can give some more color on our bond book on the assets book given the volatility in the?

Ashutosh Khajuria: I will just start with this that we have not availed of the dispensation given by the Reserve Bank of India to spread your AFS loses over 4 quarters partly because our duration book was well under control and there was not much of an MTM loss which would have impacted. In fact by not availing of this dispensation for next 3 quarters we have just saved Rs. 11 crores. So that speaks of what the duration of book is and what type of investment losses could be there.

Sandip Baid: So would you say that given the current yields you are comfortable on the account?

Ashutosh Khajuria: Yes, but if it moves from here then I think there would be a challenge, but we are maintaining a very low duration.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: Hi Srinivasan, I joined a little late and around the time we were talking about googlies and hopefully no googlies coming along for the next year or so. But you know just a point to mention these are disappointments, right? I think if I look at the very long-term performance since 2010 onwards and there was lot of hope back then and obviously we suffered and now again there was a lot of hope of improvement but things have not improving.

So basically it points to capabilities of handling issues which are obviously not under our control. So what are we doing in adding up more capabilities? These capabilities could be in terms of people, could be in businesses which is margin accretive. Could you talk about that a bit?

Shyam Srinivasan: Sure. I think your question is, are we smarter than the problem?

Nilanjan Karfa: That is what we have to be, right?

Shyam Srinivasan: No, I am not arguing against it I am only defining the question for all our understanding. And as somebody who is watching it you are right in asking this. Firstly, I think the underlying performance I repeat at the risk of sounding a little arrogant is materially moving up. Second, the impact that we take and maybe there are certainly better banks and that is why they are rated better. We are what we are. We do not try to smooth numbers, we do not to try to make sure that something is done.

There has never been a regulatory divergence with us. In this quarter the decision we took was at potentially it could be a divergence at a later date. So these are governance characteristics of Federal Bank and I do not want to give low weightage for that. That said the outcomes are not what we would like it to be. I mentioned in the call and on many occasions, we have been strengthening our senior capabilities both in terms of new seniors as also business verticals that we are getting into as also the structure of the organization.

We believe that in the last 2 years on many counts we have seen material movement. The choice of having carried some part of the portfolio legacy was one of hope that we will clear, and we will sort it out rather than take a hit. We never had the luxury of taking that but we have to do it and we have done that. In some way what we have done is quite seminal and we believe from here the movement should be more positive but only performance will give us that outcome, but we have a confident senior team.

The board is fully aware of every step of it we believe we are doing the right thing and like you know if you had heard the call which Rakesh was talking about there are some investment opportunities that are maturing which gives us some buffer to do what we wanted to do.

Nilanjan Karfa: Right and sorry you know probably asking you to repeat because I was not in there in the call. Did you say we added senior management or some business vertical heads?

Shyam Srinivasan: For some of the key areas of the bank that we believe our potential opportunities we brought people with industry experience for 20 plus years in those areas. Be it treasury, be it government business, be it retail unsecured, be it commercial vehicle business we are getting in senior talent fueling along with some home-grown talent. So we believe the architecture and the senior team is now more market facing and stronger.

Nilanjan Karfa: Just a second question. I think I just heard that there was a provision made on the SR. So what is because it is a downgrade of the SR portfolio?

Shyam Srinivasan: Yes, there was one account which was a shipyard which saw a downgrade we took the hit.

Moderator: Thank you. The next question is from the line of Harshad Borawake from Mirae Asset Management. Please go ahead.

Harshad Borawake: I have two questions. One is what could be your normalized slippage ratio in each segment, Retail, Agri, SME and Corporate? And the second question is you mentioned credit cost of 65 to 70 basis points for FY19. So is this a normalized credit cost which you expect or should we expect further reduction in FY20?

Shyam Srinivasan: Our guidance at this junction is for FY19. We believe the new growth that we have put in over the recent years are of the quality we can be happy with. Consequently, if we get a 65 to 70 it should we see improvement in FY20 but let me just deliver FY19 confidently and we will have a better outlook. While we are not specifically giving you segmental slippages, we believe in FY19 the overall full year slippages should be between Rs. 1,100 crores to Rs. 1,200 crores.

Moderator: Thank you. The next question is from the line of Madhuchanda Dey from MC Research. Please go ahead.

Madhuchanda Dey: My question is you have guided to this 65 to 70 basis points of credit cost in FY19 and you also mentioned that you know we have seen in the past that there has been some hit downgrade in the SR books. So have you factored in any incremental provision on your outstanding SR book or is this guidance excluding this any untoward outcome on the SR book?

Shyam Srinivasan: Normally the SR provisions for a year tend to be between Rs. 75 crores and Rs. 80 crores. That is factored into this.

Madhuchanda Dey: But nothing beyond that, right?

Shyam Srinivasan: The SR book has come down as you would have noticed in one quarter from Rs. 870 crores to Rs. 540 crores, Rs. 725 crores minus Rs. 180 crores provisioning.

Ashutosh Khajuria: So net of provision it is Rs. 545 crores.

Madhuchanda Dey: Okay so if you could just I just want to reconcile this number, so what is the total provision covered on the outstanding SR book?

Ashutosh Khajuria: On Rs. 725 crores of SR book value, Rs. 180 crores of provision is maintained. It is 25%.

Madhuchanda Dey: 25% and you have factored in Rs. 75 crores to Rs. 80 crores of provision in that guidance on account of SR book?

Ashutosh Khajuria: Yes, and we have sold some SRs also in secondary market. About Rs. 135 crores worth between Quarter 3 and Quarter 4.

Moderator: Thank you. The next question is from the line of Manish Shukla from Citigroup. Please go ahead.

Manish Shukla: Of the FY18 slippage number of just under Rs. 2,000 crores, how much would have been the SMA book which is about Rs. 385 crores in the fourth quarter?

Shyam Srinivasan: How much of the slippage in the year would have been SMA book, is that the question?

Manish Shukla: Yes.

Shyam Srinivasan: This quarter SMA book slippage is Rs. 272 crores plus Rs. 113 crores.

Manish Shukla: Yes Rs. 385 crores, what was that number for the full year is what I am trying to ask?

Shyam Srinivasan: I cannot top of my mind but I would think it would be about Rs. 600 crores for the remaining three quarters.

Manish Shukla: So total of a Rs. 900 crores number?

Shyam Srinivasan: Closer to Rs. 1,000 crores would be the number.

Manish Shukla: Okay, fair point. When you talk about 1% ROA for '19, is that the exit or the full year?

Shyam Srinivasan: At this juncture, we have to see how Q1 shapes up, but we believe full year the exit rate will be 1% for sure. Full year average will be closer to that number.

Manish Shukla: Okay and does this factor in any stakes in from gain from subsidiaries?

Shyam Srinivasan: The two subsidiaries that we have one is the sale when we complete it, the other is the investment coming into the company so there is no monetary P&L coming into the bank. The insurance if and when we do it will be a delta over this.

Manish Shukla: And any thoughts if you would want to make provisions around it or would it flow through P&L?

Shyam Srinivasan: We will strengthen our balance sheet is the principle focus item on that.

Moderator: Thank you. The next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: No, I do not understand the. 65 - 70 credit cost because your Rs. 2,800 crores is gross NPAs and Rs. 1,550 crores net NPAs. You say you will recognize Rs. 1,000 crores to Rs. 1,100 crores next year?

Shyam Srinivasan: Rs. 1,100 crores to Rs. 1,200 crores, yes.

Rakesh Jhunjhunwala: The gross NPA will become around Rs. 4,000 crores?

Shyam Srinivasan: Rs. 1,100 crores to Rs. 1,200 crores will be the slippages for the year.

Rakesh Jhunjhunwala: Till it recognizes, it will be NPA?

Shyam Srinivasan: No, recovery roughly in a quarter if you have seen Rs. 222 crores in Q3 and Rs. 239 crores in Q4.

Rakesh Jhunjhunwala: Fresh slippages will be much lower than may be around 500, 600?

Shyam Srinivasan: No, fresh slippages will be Rs. 1,100 crores to Rs. 1,200 crores, then we have the net off the recoveries and upgrades per quarter.

Rakesh Jhunjhunwala: Right so therefore Rs. 1,100 crores that means Rs. 200 crores is the upgrade so that means the gross NPA should not be more than Rs. 3,000 crores, Rs. 3,100 crores?

Ashutosh Khajuria: The increase should not be more than Rs. 400 crores.

Rakesh Jhunjhunwala: Yes, that is Rs. 3,200 crores and you are holding a provision of Rs. 1,250 crores? So that means the Rs. 600 crores should be there that will itself coverage over 60%?

Shyam Srinivasan: Correct.

Rakesh Jhunjhunwala: Second thing I had is that in your SME book or of your recognized NPAs how much is the secured book?

Shyam Srinivasan: Our SME book is largely secured Rakesh, because we do not do unsecured lending in SME.

Rakesh Jhunjhunwala: But then certainly we have recoveries, because you know the securitized real estate or other securities are we not enforcing them, why are we not recovering them?

Shyam Srinivasan: Recovery we have seen has gone up sequentially every quarter and that is where the large part of the recoveries comes from. Corporate recoveries tend to be very choppy and almost and particularly our older cases where Federal Bank was not the lead, or even an important lender.. I am just seeking one name so the recoveries on Corporates is usually very low. Almost all recoveries are Retail and SME and mid-market clients.

Rakesh Jhunjhunwala: I mean you lost interest income which is equal because of the recognition of the NPAs?

Shyam Srinivasan: Correct.

Rakesh Jhunjhunwala: How much was that?

Shyam Srinivasan: Rs. 31 crores excess because of these four accounts.

Ashutosh Khajuria: Rs. 76 crores for quarter 4.

Rakesh Jhunjhunwala: Right but here you had something I do not understand this profit after tax, Rs. 190 crores in the Slide #3 of your presentation accounts have accelerated recognition you said net interest income of 933Cr, Rs. 31 crores of Interest Reversal and NIM 3.11, 10 basis points, Rs. 145 crores to Rs. 119 crores. What will be Rs. 119 crores?

Shyam Srinivasan: That is the impact of the provisions that we had to do exclusively for these accounts that we took as hit.

Rakesh Jhunjhunwala: This is the interest provision?

Shyam Srinivasan: No, this is the loan loss provisions.

Rakesh Jhunjhunwala: Loan loss provisions and Rs. 31 crores is the loss of interest?

Shyam Srinivasan: It was the reversal in interest on account of these four accounts.

Rakesh Jhunjhunwala: Loan loss is Rs. 150 crores?

Shyam Srinivasan: Rs. 150 crores, yes pre-tax impact of Rs. 150 crores.

Rakesh Jhunjhunwala: Plus, you have a book of Rs. 600 crores, Rs. 700 crores till left which is restructured?

Shyam Srinivasan: Yes.

Rakesh Jhunjhunwala: So when we are talking of slippages you are considering slippages from that book also?

Shyam Srinivasan: When we say the slippages of the quarter of Rs. 872 crores, it includes that which slipped from the restructured book which was about Rs. 633 crores.

Rakesh Jhunjhunwala: And in next year you are estimating Rs. 1,100 crores to Rs. 1,200 crores slippages you are also including the slippages which will come from the restructured book?

Shyam Srinivasan: Absolutely, yes.

Ashutosh Khajuria: Yes, it includes that.

Rakesh Jhunjhunwala: That means fresh recognition is restructured books plus fresh NPAs?

Shyam Srinivasan: Yes.

Management: It is equal to Rs. 1,100 crores.

Rakesh Jhunjhunwala: Rs. 1,100 crores see then the recoveries of Rs. 500 crores net, okay.

Moderator: Thank you. The next question is from the line of Haresh Kapoor from IIFL. Please go ahead.

Haresh Kapoor: I just want to understand what was the impact of RBI divergence for us this quarter, if you could just quantify?

Shyam Srinivasan: Our divergence for the full year was low, way below the disclosure, the impact was about Rs. 40 crores for slippages this quarter.

Haresh Kapoor: Okay and just want to get an update on the education loan portfolio. So you have seen up gradation this quarter so has some from that pool got recovered or how is that?

Shyam Srinivasan: No, nothing has been recovered from that pool.

Management: That scheme is still on.

Haresh Kapoor: And what was the addition then for this quarter?

Shyam Srinivasan: Rs. 11 crores was the total education loan increase this quarter.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: Just to start with just have few questions. So on the gratuity we are yet to provide the Rs. 54 crores, correct?

Shyam Srinivasan: Yes, we have taken the dispensation on account of that, Rs. 72 crores we took Rs. 18 crores this quarter.

Rakesh Kumar: So Rs. 54 crores we will provide in FY19, right?

Shyam Srinivasan: Three quarters in FY19.

Rakesh Kumar: Okay and second question is we have outstanding net of provisions SR of Rs. 540 crores. So probably Rs. 270 crores provision like if we take kind of 50% recovery then around Rs. 270 crores we may have to make in next one year or two years' time?

Shyam Srinivasan: We think in three years' time because our annual is about Rs. 85 crores.

Ashutosh Khajuria: Rs. 70 crores to Rs. 80 crores per year.

Rakesh Kumar: Okay and this Rs. 185 crores provision what we have made a total on SR so those SRs would be how old like two years old, three years old?

Ashutosh Khajuria: This Rs. 185 crores is not made in this quarter alone. Rs. 95 crores we were already holding, additional amount.

Shyam Srinivasan: Our SR book total vintage from the first SR till now is four years. The peak SR was in FY17. FY18 we did one transaction in the beginning of FY18 and that we have sold off already, so it is not residing in the book.

Rakesh Kumar: And on this like because of the rise in the G-Sec yield we could not write back anything on the terminal benefits obligations?

Shyam Srinivasan: Not in this quarter.

Moderator: Thank you. The next question is from the line of Manish Shukla from Citigroup. Please go ahead.

Manish Shukla: The fact that a large part of the corporate slippages five, six-year-old vintage what is your assessment of eventual LGDs in that book?

Shyam Srinivasan: Corporate LGDs continue to be iffy because if I break them into sectors either it was the large airline that we took a hit of Rs. 88 odd crores, we took NAFED which is a big hit of Rs. 200 odd crores sometime back. We are getting roughly $0.40 to the dollar kind of recoveries in those kind of in fact less, $0.30 to the dollar kind of deals on that. So I think corporate recoveries continue to be quite a challenge.

Manish Shukla: So basically, I mean if we were to think of it the other way over the next let us say 12 to 18 months or thereabout you would not necessarily have to increase the cover that you hold against this particular piece of the NPA? And 45% coverage may not be adequate assuming it is 45 on that book….

Shyam Srinivasan: The good news is the Corporates that we have taken hit in the more recent years are those that are now sold to ARCs and which is now being under the NCLT there is a very active effort to resuscitate them. We believe some of them the steel accounts in particular maybe no provision incrementally required. So on balance we do not see it as a massive problem, but yes there will be incremental provisions that will be required in the period ahead.

Moderator: Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.

Jai Mundra: Sir, just on this legacy weak restructured flesh all other deferred stress book of Rs. 792 crores, just wanted to understand, (a) is there more kind of a weak legacy book apart from the Rs. 792 crores and secondly what is the provisioning that we are holding on this Rs. 792 crores?

Shyam Srinivasan: Our overall provisioning I said is 45% non-technically written-off which includes the provisioning for the standard restructured accounts also.

Ashutosh Khajuria: On standard assets we have the normal provision 0.40% or 2% as required by RBI. On restructured standard again as per RBI guidelines minimum 5%.

Jai Mundra: Sure, and there is no other legacy weak kind of a book?

Ashutosh Khajuria: When I say 5% is the provision amount that has been held apart from that there is something called funded interest term loan. In normally restructured accounts the interest is converted into a term loan, so that is also a type of provisioning. If you include that, then the percentage may go higher because it is in addition to that 5% provision.

Shyam Srinivasan: Your second part of the question is are there any other weak assets?

Jai Mundra: Yes, sir.

Shyam Srinivasan: Between stressed assets if you add the SMA book between the standard restructured plus stressed assets, we think that is beginning to halve each year. At the passage of time the big names that we mentioned have been taken. Residual should be what is I guided for in the Rs. 1,100 crores to Rs. 1,200 crores per annum slippage.

Moderator: Thank you. The next question is from the line of Ashish Jain, individual analyst. Please go ahead.

Ashish Jain: I would like to know what is the percentage you would be exiting from Fedfina, is it 100% exit or the partial exit?

Shyam Srinivasan: Fedfina we are not exiting at all. We are bringing in an investor partner 26% initially with the right to go up to 45% over time.

Ashish Jain: We can assume it is approximately around Rs. 500 crores for that 26%?

Shyam Srinivasan: Rs. 500 crores for the 26%. So you are ascribing the value of the company at Rs. 2,000 crores?

Ashish Jain: Right.

Shyam Srinivasan: No, that is a very high number, the number will be way lower.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: If I heard you correctly, you are guiding for a coverage of 60% by next year?

Shyam Srinivasan: We did not say that, we said credit cost would be between 65 and 70 basis points. We are keen to take up our coverage when the one-off opportunity comes up in terms of sale realization that we make. We will certainly look at strengthening our balance sheet through increasing our provision coverage.

Amit Premchandani: But there is no guidance per se?

Shyam Srinivasan: Not as yet because I need to consummate the sale and understand the full details but, yes.

Amit Premchandani: And sir just a feedback, if you have taken this deep dive into restructured and declared almost 50% of them it would have been better if you have taken everything at one go because this sword of the remaining restructured assets from an investor point of view is kind of unnerving.

Shyam Srinivasan: No, I appreciate it, but we have taken a view based on our experience and view on how these assets are performing.

Moderator: Thank you. The next question is from the line of Harshit Toshniwal from Jefferies. Please go ahead.

Harshit Toshniwal: This question sir, it is again on the coverage. So a couple of things you have said but on the NPA we have a 45% coverage and on the standard restructured you said that your coverage is 5% which is the requirement as per the RBI?

Shyam Srinivasan: Plus FITL.

Harshit Toshniwal: Plus FITL so that is the entire coverage and much would be if I include the FITL also then what will be the coverage on the standard restructured book which you report as Rs. 790 crores?

Shyam Srinivasan: You can say it will be about 15%.

Harshit Toshniwal: 15% including the 5%?

Shyam Srinivasan: Yes.

Harshit Toshniwal: So there is 15% on the standard restructured and 45% on the NPL that is the entire provision coverage we are having?

Shyam Srinivasan: You are right.

Moderator: Thank you. The next question is from the line of Ayush Surana from Surana Investments. Please go ahead.

Ayush Surana: Sir, the fresh slippages in the corporate book so how much of it has to do from the standard assets, the restructured asset?

Shyam Srinivasan: The restructured books slippage this quarter Rs. 492 crores out of which Rs. 379 crores is from restructured book and from SMA book Rs. 113 crores. Rs. 604 crores was the corporate slippages.

Ayush Surana: Rs. 604 crores, right?

Shyam Srinivasan: Restructured book slippage was Rs. 379 crores plus Rs. 108 crores plus the SMA book was Rs. 113 crores. Rs. 604 crores is corporate out of that restructured book is Rs. 487 crores.

Moderator: Thank you. The next question is from the line of Ankur Shah from Quasar Capital Advisors. Please go ahead.

Ankur Shah: Sir, just one doubt. On your fourth slide you mentioned that the provision coverage ratio is 65% and I heard that somewhere in the call it is at 40% so is there some error?

Shyam Srinivasan: 45% without technically written-off, 65% with technically written-off account.

Ankur Shah: And sir, second question is you mentioned about four new areas of investments. So definitely in the long run it will help in bumping up the revenue. But from let us say if I see it from a business angle, do you not think it will definitely incur more incremental cost at least in the initial years? So my point is related to the cost to income ratio. When we talk about a lower cost to income ratio in the next year, on what basis it is coming from because I see it as a investment which will rather increase the cost to income ratio?

Shyam Srinivasan: Partly distribution costs are not materially increasing because the distribution infrastructure is there. These are leadership and product capability led, which is where we have invested into. And the relatively higher margin opportunities and lower capital consumption. So when all this accounts put together we should see the benefits accruing faster than later.

Ankur Shah: In these businesses like when I think about commercial business, commercial vehicle business or investment related business it does require a different distribution platform than the existing one right, because we do not have one which is clearly seen in the growth in other income so like do we have all of it or?

Shyam Srinivasan: The commercial vehicle is a different story. I mentioned that in FY19 that is going to be more a very specific geography very specific full built out of a business in one geography and then we will scale it up. Investments and treasury are leveraging the entire corporate RM the infrastructure that we have which is already fairly well established over the last two years. We believe that should see more gains immediately.

Moderator: Thank you. The next question is from the line of Sohail Halai from Systematix Shares. Please go ahead.

Sohail Halai: Sir, just want to check in terms of wholesale asset rating that we give, so the entire slippages of the restructured loan that was sitting in less than BBB?

Shyam Srinivasan: All of them will be BBB and below.

Sohail Halai: BBB and below so that means additionally there were no downgrades to BBB this quarter?

Shyam Srinivasan: Almost none.

Sohail Halai: Okay and what is your outlook on this BBB because 9% of the corporate book which is roughly around Rs. 3,500 odd crores for us it is still in BBB and below. So what is the sense that you get in terms of slippages drawing from these rated Corporates?

Shyam Srinivasan: Right now it looks okay.

Sohail Halai: So you are not building in any slippages from this?

Shyam Srinivasan: Whatever is there is Rs. 1,100 crores to Rs. 1,200 crores slippages that we are talking about.

Moderator: Thank you. The next question is from the line of S. Pameshwaram from JM Financials. Please go ahead.

S. Pameshwaram: Just a small data question. I think I might have missed this. So the standard restructured has gone down by Rs. 633 crores but the slippage is Rs. 487 crores, so what is the balance?

Shyam Srinivasan: Rs. 20 crores is an upgrade and Rs. 118 crores is the FITL.

Moderator: Thank you. The next question is from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.

Manisha Porwal: I believe you have given an outlook that the credit growth would be somewhere around 25%. So I just wanted to know our general assessment of the things around given that the overall credit growth has been very low, what are these areas where we see better opportunities coming from?

Shyam Srinivasan: Manisha, if you look at our last many quarters eight to twelve quarters growth has been consistently strong on corporate and mid-market is coming through. More recent quarters retail is moving very significantly that is because we have enhanced our distribution, redirected our product capabilities and built out our network outside Kerala. So our growth rates of 25% and considering we are still 1% share of the market we believe is a rich opportunity. Our distribution capabilities have increased materially. Product offerings are strong, and we have created enough infrastructure to deliver on that.

Manisha Porwal: Okay, and a small your understanding on, what has been the impact of one day reporting as per the FED circular? How has it played out till now, has it been a bigger hassle for banks to support even genuine customers or how has it played out your general remarks?

Shyam Srinivasan: I think it is at an industry level certainly and this is applicable to everybody whether you are a big ticket or a small ticket and as a result of that the customers will struggle, but it will be less visible for a while because this has all been SMA zero for the industry. If the customers cure the accounts then it is a good disciplinary tool. Otherwise those who are unable to cure, you will see the flow through in three, four quarters on this.

So in a longer term I think it is a good discipline, customers are also readjusting to this reality and we believe that very long or good near term, it will produce challenges for the industry. One of the reasons we made the big decision to take the hits is to recognize these things.

Manisha Porwal: Sir, once that you have recognized these accounts as NPA I believe the funding to these accounts would stop. Is it or you will still continue to support them for genuine reasons?

Shyam Srinivasan: How can we do that?

Ganesh Sankaran: No incremental funding on these accounts.

Moderator: Thank you. The next question is from the line of Jai Mundra from B&K Securities. Please go ahead.

Jai Mundra: Sir, just a clarification on this rating pie chart that we show. Do we include so this is for gross advances or this is for net advances?

Shyam Srinivasan: Gross.

Jai Mundra: So this triple BBB and below would already include the corporate NPAs? No sir, the rating pie chart so on Slide 12?

Shyam Srinivasan: Slide 12 is incremental.

Jai Mundra: Okay so this is on incremental basis and can you provide the outstanding basis in this rating A and above and BB and BBB and below BBB?

Shyam Srinivasan: Not on the top of our head but we can offer that information.

Sumit Kakkar: The distribution will be similar.

Sumit Kakkar: Proportion will be similar.

Jai Mundra: And sir, if you can bifurcate this Rs. 792 crores in Bonds, S4A, 5/25?

Shyam Srinivasan: Bonds is outside the Rs. 792 crores.

Jai Mundra: Because last time I believe Rs. 1,425 crores included bonds?

Shyam Srinivasan: No, Rs. 1,425 crores Yes of which bonds were Rs. 157 crores so Rs. 792 crores, Rs. 131 crores is bonds.

Jai Mundra: So Rs. 131 crores is including Rs. 792 crores?

Shyam Srinivasan: Yes, it is in the Rs. 792 crores.

Management: Part of Rs. 792 crores and these are basically; TANGEDCO, Tamil Nadu Generation and Distribution Company.

Jai Mundra: And any further bifurcation in terms of how much would be 5/25?

Shyam Srinivasan: All put together I mentioned in some part of the call it is about Rs. 150 crores; 5/25, S4A all put together Rs. 150 crores. From the Rs. 792 crores, Rs. 150 crores will be there.

Ashutosh Khajuria: All 5/25, SDR, CDR, S4A everything is part of this Rs. 792 crores.

Shyam Srinivasan: CDR will not be there.

Moderator: Thank you. The next question is from the line of Ankur Shah from Quasar Capital Advisors. Please go ahead.

Ankur Shah: Sir, just one question on the corporate loan growth. I have been seeing since last I think the whole year we have grown quite aggressively. So sir, can you highlight where is this growth coming in from is it like market share gain because the PSU Banks are not there in the market or working capital credit so what is the profile of these loans what will be the yield? Can you just throw some light on that?

Ganesh Sankaran: We are growing across all parts actually. We were growing in the main centers we are growing in middle market, we are growing in deep geographies, we are growing in large corporate, we are growing in emerging corporate. So it is a mix and you are right PSU is one thing and secondly I think since we have the senior team we have insight into the market. So we are leveraging that insight and bringing effectiveness to our client conversations.

Ankur Shah: And sir, like are these more short-term loans working capital loans?

Ganesh Sankaran: Mostly working capital but for the good clients we do term. Term will not be the kind of infra kind of term we are not doing any infra, power long-term. A term could be three-year, five year kind of loans but largely short term.

Ankur Shah: Okay and sir, in this incremental book can we get an average ticket size?

Ganesh Sankaran: Average ticket size would be in the region of about Rs. 40 crores to Rs. 50 crores. I am just kind of guessing.

Ankur Shah: Okay and the yields?

Ganesh Sankaran: Yield would be anywhere I mean the average yield will be around 8.75. You will have out layers on either side you will have yields which are as high as 10%, you will have yields lower than the average.

Ankur Shah: So the average is 8.75?

Ganesh Sankaran: Yes.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Just one data point. Can you give us the number for the recoveries and upgrades for the year?

Shyam Srinivasan: For the quarter was Rs. 239 crores this quarter last quarter was Rs. 222 crores. So second half was Rs. 561 crores, first half was Rs. 170 crores, Rs. 685 crores full year.

Moderator: Thank you. The next question is from the line of Haresh Kapoor from IIFL. Please go ahead.

Haresh Kapoor: Just want to know one thing. So the run rate that we are talking about in terms of slippage of Rs. 1,100 crores to Rs. 1,200 crores so are we talking about other than the restructured book the Rs. 350 crores and Rs. 75 crores that you have mentioned granular account and one road or how is that?

Shyam Srinivasan: We are talking of full year slippage for FY19. We believe it will be between Rs. 1,100 crores and Rs. 1,200 crores. Only that we are not giving a quarter wise break up because we do not know some of these whether it will get bulked up or what. But Rs. 1,100 crores to Rs. 1,200 crores is what we believe will be FY19 subject to no new equivalent of a February 12 circular reappearing.

Haresh Kapoor: My question is basically as you have highlighted from the Rs. 792 crores that you have remaining?

Shyam Srinivasan: Yes, I heard your question I am saying that includes this.

Haresh Kapoor: This includes any expectation from the restructured book?

Shyam Srinivasan: Yes.

Haresh Kapoor: And any broad range that you could give from the restructured book slippage that the expectation could be, it would be very helpful?

Shyam Srinivasan: Ex-Air India I think we have a better sense. And we believe Air India will not slip to an NPA.

Haresh Kapoor: So that is why if I am not wrong Rs. 250 crores or so, right?

Shyam Srinivasan: You are right Rs. 257 crores.

Haresh Kapoor: So basically the question is around recognition of this book and other than Rs. 250 crores?

Shyam Srinivasan: About Rs. 400 crores out of this Rs. 792 crores is what we believe will be.

Haresh Kapoor: Will be the recognition next year?

Shyam Srinivasan: In FY19, 50%.

Moderator: Thank you. The next question is from the line of Likhit Punjabi, individual investor. Please go ahead.

Likhit Punjabi: I see from our advances we have a blended growth of about 26% but I do not see the same reflecting in the loan processing fee income and other income. So why is that?

Shyam Srinivasan: So I think you would have seen very significant growth in fee income on processing fees, loan processing fees for the quarter 4 was Rs. 46 crores, average is between Rs. 28 crores to Rs. 30 crores. The exchange commission and FX has moved up materially so fee income on these accounts have moved. The fee income on account of mutual fund distribution, wealth management, treasury products is where we are working harder on.

Likhit Punjabi: So the loan processing fee YoY has grown only 11%?

Shyam Srinivasan: Yes, if you look at sequentially each quarter it is moving up roughly about 10% sequentially every quarter in the more recent quarter. The YoY 11% is because last year same quarter also we had good growth and that is reflecting in that. So it is now when you are growing at roughly about 25% credit growth that denominator is also baked in. So we have not grown at a higher pace in the last year last quarter. If you see last year fourth quarter was Rs. 41 crores subsequently it came to Rs. 28 crores, Rs. 35 crores, Rs. 34 crores and Rs. 46 crores.

Likhit Punjabi: So my concern is we are like going soft on margins as well and so we are lending to corporate accounts is well and that is the other bit I am worried about. Like we are not really getting enough out of the clients in the processing fee front is that the reason or what is it like?

Shyam Srinivasan: But loan processing fee is not only from corporate it is not the entire spectrum of business. So please look at the four quarters of FY18 you will see that movement quite strong. And it is better to look at a long period average because Rs. 41 crores last year last quarter I cannot recognize on top of my head whether there were any one-off. It is more than 40% up sequentially if you add up the four quarters.

Likhit Punjabi: Right from the first quarter we have shown a great growth but?

Shyam Srinivasan: Yes, I think that trajectory is what we will build on.

Moderator: Thank you. The next question is from the line of Harshit Toshniwal from Jefferies. Please go ahead.

Harshit Toshniwal: Sir, just one question. So as you had mentioned that the rating distribution in slide 12 is on the basis of fresh disbursal. So is at around 25% of our disbursals are to BBB and below even in corporate segment, am I right in this?

Shyam Srinivasan: No, they may be non-rated. So it will come as it will come as BBB and below but it may not be unrated.

Harshit Toshniwal: In Slide #12 we can see that BBB and below?

Sumit Kakkar: It might be LE booking anything below BBB.

Shyam Srinivasan: No, he is referring to slide 12.

Management: I think clarification. Incrementally we are booking nothing below BBB.

Shyam Srinivasan: Yes, we hear your question that clarification I will ask somebody to give it to you.

Harshit Toshniwal: And just one more thing. So whatever it is the loan book or the disbursal does this includes non-funded or not if you can clarify that also?

Shyam Srinivasan: Repeat?

Harshit Toshniwal: So whatever this is either the total loan book distribution or the fresh disbursals distribution does it includes non-funded also so the distribution is for all the funded and non-funded credit or it simply for funded credit?

Sumit Kakkar: See it will be largely funded our non-funded book is quite negligible it will not impact the ratios.

Harshit Toshniwal: And if you clarify whether it is for disbursal or the total asset book because I think that it cannot be for disbursal given the numbers?

Shyam Srinivasan: No, we will clarify but I do not think it will be for total asset book, but we will clarify.

Moderator: Thank you. We will take the last question from the line of M B Mahesh from Kotak Securities. Please go ahead.

M B Mahesh: Just one question on the Rs. 1,100 crores to Rs. 1,200 crores of slippages. This year the Retail, Agri and SME itself has been doing a slippage run rate of roughly about Rs. 1,000 crores to Rs. 1,100 crores. If I add Rs. 400 crores from the restructured loan book that by itself take it up to Rs. 1,500 crores. Are you indicating that the other portfolio will be better and there will be no slippage from the normal corporate book? How should we read into this guidance?

Shyam Srinivasan: I think the Retail, SME and Agri that you are adding up lot of these one-off instances that we believe will not and our traditional run rate on retail has not been consistent across the four quarters because of some events. We believe Rs. 70 crores retail, Rs. 40 crores Agri, about Rs. 100 crores SME is the run rate we should visualize and that is about Rs. 200 crores a quarter, Rs. 800 crores; Rs. 400 crores of corporate.

Moderator: Thank you very much. That was the last question. I now hand the conference over to Mr. Rajanarayanan for closing comments.

Rajanarayanan N: Thank you all for joining the call. Thank you and good evening.

Moderator: Thank you. Ladies and gentlemen, on behalf of Federal Bank, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.