



“Federal Bank Q3 FY ‘19 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good day and Welcome to the Federal Bank Q3 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rajanarayanan N., Head Investor Relations, Federal Bank. Thank you and over to you, Mr. Rajanarayanan.

Rajanarayanan N.: Thank you. Welcome to the Q3 investor call of Federal Bank. With me are Mr. Shyam Srinivasan – MD and CEO; Mr. Ashutosh Khajuria – ED and CFO; Mr. Ganesh Sankaran – Executive Director; and other senior executives. Over to you, Shyam.

Shyam Srinivasan: Good Afternoon everybody. Firstly, Happy New Year, first call of Calendar '19. We have just declared our results for Q3 and in our belief, it is the best quarter ever on many lines, you may have seen it but let me just re-emphasize some of the key ones and keep it short. Operating momentum continues to be very strong. Our interest income saw the highest ever as did operating profits, net profit, and other income, so overall net profit at 334 represents a 28% growth YOY and 26% sequential. We did not have any one-off in this quarter as benefits. If anything, the pensioning cost took our operating cost up by about 35 to 40 crores up, so overall business momentum is strong, continues to be granular, both Retail and Corporate grew 31% and in Retail some businesses grew as high as 150%, PL and Auto grew 60%. Of course, these are on small base, but I think directionally they are in the right trend. We believe that momentum will continue. NIM expanded 3 basis points, sequentially every quarter from 311, 314, 317, and that run rate should continue. Credit cost as on guidance, we said between 65 and 70, we were at 68 basis points this quarter and ROA expansion that we had committed to, momentum is tracking 0.8 to 0.91 and we believe this will take us to this number that we had sort of guided for which is an exit rate of 1%, so broadly these are the highlights. I would rather take more questions, because all the information that we wanted to share is between the press release, the television interviews, and the investor deck, so like our usual practice me, Ashutosh, Ganesh, Sumit, Harsh, and other senior team members are here, happy to take questions and clarify if there are any questions that you want to go.

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 Dhaval Gada from DSP BlackRock Mutual Fund. Please go ahead.

Dhaval Gada: Sir, firstly I wanted to understand on Slide 16, we have seen about 45% growth in fees, if you could break that down between Corporate and Retail the 279 crores and how does that compare with the 193 crores in 3Q '18 between Corporate and Retail, just trying to understand what is driving and which segments are driving growth?

Ashutosh Khajuria: Actually, the loan book mix is almost half-half in between Wholesale and Retail, so this fee also is almost half-half. The notable thing is the fee income on the Forex part, so we have a well oiled

up Treasury sales team which in coordination with the CIB relationship managers and commercial banking relationship managers have got lot of success during the last two quarters, so it is gradually moving up. Presently, if you see and then there is a normal growth in LCBG if you look at that. Third-party sale also had been very good, 37% higher so all these things, it is not one particular hit which is resulting in this type of 51% of growth in the other income and of course this other income does not include any recovery in write-off and all because it is excluding that.

Moderator: Thank you. We take the next question from the line of Nitin Agarwal from Motilal Oswal Securities. Please go ahead.

Nitin Agarwal: Sir, if you can give some color on the total restructuring that we have done in Kerala and how much is the gross amount from which you would have done this carve out, and what is the outlook on slippages going ahead?

Shyam Srinivasan: On slippages, our guidance for the quarter ahead, of course it is influenced by the MSME opportunity, so it should halve from where it is or slightly above that. The MSME impact could be about 100 odd crores, so if there is no tension on the ILFS or Air India, I say this because not of performance of external factors, our slippages for the immediately succeeding quarter will be way better than where we are given the MSME restructuring. On the Kerala floods, we have upfronted the restructuring related. As of December 31st, there is no more restructuring. In terms of the numbers, the sum carved out portion for Q3 was about 100 crores.

Nitin Agarwal: Sir, what was the gross amount from which this carve out has been done?

Shyam Srinivasan: About 500 crores.

Nitin Agarwal: Are we seeing any residual signs of stress in this gross 500 crores?

Shyam Srinivasan: We do not see any and I have to say that in the period ahead this may again get colored by the MSME dispensation.

Nitin Agarwal: Secondly, the digital share of our products has been increasing significantly in the Retail loans like that number has increased to more than 54%, so what are the key products that we are like sourcing through this channel and what will be the implications on cost to income that you see, because so far I think the operating leverage has still not played out as it can possibly be?

Shyam Srinivasan: I think the incremental scaling up, for example, in personal loans, the book has grown quite sharply, the book is now closer to 800 plus crores, all of it is literally click and take your money, so it is entirely digital and likewise in other businesses, the origination is increasingly digital as it is for the savings account. Not only that, we are seeing a sharp increase in our mobile-based transactions on the phone, so it is now close to 3000 crores per month and I think six quarters back it was about less than 500 crores, so we are seeing sharp progress. I am hopeful that the translation into our cost income will play through in FY '20. Even this quarter, you saw the non-people related

cost holding out quite well and we believe that momentum will continue and improve. As you probably are aware, this quarter as in Q3, we have established our full-fledged operation service company called, FedServ, we have two centres, one in Cochin and one in Vizag. These are getting scaled up in the Calendar '19. By second half of Calendar '19, they will take on the entire work sort of distribution on operations and a few more approved activities, so it helps us increase productivity, and therefore, get better value around our investments.

Moderator: Thank you. The next question is from the line of Girish Raj from Quest Investment. Please go ahead.

Girish Raj: Sir, despite churning of the book you said that yield has improved, but at the same time cost has also improved, so our spread has declined by 5 BPS to 3.46 approximately, does this have any implication on the NIM going forward, your commentary and outlook on this?

Shyam Srinivasan: NIM like I mentioned, we have been growing between 3 and 5 basis points every quarter. I am still hopeful that end of the Quarter-4, we will be on guidance of 320.

Girish Raj: Why the spread, I am sure if the spread decline continues, there will be implications on NIM also, what is putting pressure despite improvement in the yields?

Shyam Srinivasan: I think I have often said NIM, one is certainly spread is important, but it is also the contra- entries of the interest income, which is also a driver. As slippages improve, we will see that improving further so the quality of the book is also a driver of NIM expansion.

Girish Raj: You say other expenses have actually improved, but if you look at last quarter also there was a 13 crore one-off, 8 crores waiver and 5 crores penalty, from that perspective this has gone up, any color as to why it has gone up?

Shyam Srinivasan: We are running a business right, you do not expect us to be flat on cost, it is not possible. We have also started incurring higher expenses on the CSR to ensure that we meet our 2%, for many years we have not met that, so we are working on that as well.

Girish Raj: CSR?

Shyam Srinivasan: Yes, 2% of your operating profit for the past three years' number, we have not met that for a couple of years, so we are working on ensuring that we do not fall foul on that.

Girish Raj: Breakup of provisions of 190 crores?

Shyam Srinivasan: 175 crores is credit related, standard assets is 45, and write back on Treasury of 35.

Moderator: Thank you. We take the next question from the line of Renish Bhuvra from ICICI Securities. Please go ahead.

- Renish Bhuva:** Sir, just a follow up question on the expense side, can you please share some more insight on this incremental CSR expense that might come through the P&L, any assessment till date or you are still in process of assessing that impact on P&L?
- Shyam Srinivasan:** It is not a material number because our CSR, the 2% number will be about 26 to 30 crores and we have already incurred about 14 crores.
- Renish Bhuva:** 26 to 30 crores per year or this is a combination of...?
- Shyam Srinivasan:** For FY '19.
- Renish Bhuva:** Still 13 crores has to go through the P&L?
- Shyam Srinivasan:** It is not a must, Yes, but that is what it will be.
- Renish Bhuva:** Sir, secondly on this operational subsidiary, all the CAPEX has been capitalized in P&L or we are going to capitalize over Calendar Year '19?
- Shyam Srinivasan:** There is no significant CAPEX, but it will get amortized over the quarters.
- Renish Bhuva:** Sir, broadly can you just share the outlook on the cost-to-income ratio going forward from the current level of 50?
- Shyam Srinivasan:** We had said that we will exit the year at 50 or slightly better and that will hold. We are targeting at least 100 basis points improvement in the following financial year.
- Renish Bhuva:** Including the CSR and everything, right, Sir?
- Shyam Srinivasan:** When we say all, it is a blended number.
- Renish Bhuva:** Sir, secondly on this SME slippages despite better than expected recovery on the SME side in Kerala, so slippage has gone up to 190 which is I think multi-quarter high, so what is happening there, is this still due to the Kerala flood or there is some other geographies started giving us pain?
- Shyam Srinivasan:** I do not think there is any unique sector or geography or anything like that. Kerala we have, like I said the sum of Q4 number is also taken into this quarter, but it will not be wildly off and prospectively certainly the MSME number will be way low because of the dispensation, so it is difficult to point out with the subsequent quarter, it could be materially better.
- Moderator:** Thank you. We take the next question from the line of Madhuchanda Dey from MC research. Please go ahead.

- Madhuchanda Dey:** My question is pertaining to IL&FS exposure, if you could quantify that exposure and is it in the Holdco or is it in the subsidiary and what kind of treatment are you expecting, is it likely to slip into NPL in the next quarter, if you could just throw some color on the same?
- Shyam Srinivasan:** Like I pointed out in our last call, we have three accounts, three SPVs all functioning, all operating projects, all cash flows are there, all moneys are coming into the escrow and the banks are getting their dues. All the three accounts with us are standard and we believe that it should continue unless there is some legal related matters that will crop up, so while they are standard, we have increased our standard asset provision, we are holding this quarter of 7.5% as the provision and we have started building up should there be any thing.
- Madhuchanda Dey:** Sir, if you could just quantify the total exposure?
- Shyam Srinivasan:** 245 crores.
- Madhuchanda Dey:** Just coming to the related question, we have heard from some other banks that now there is a moratorium on interest payment even for the functioning subsidiary, they have got a NCLAT order, so in light of this how would you treat these assets?
- Shyam Srinivasan:** Like I said, we just completed our audit and these are standard assets and they have got the payments due and should things change in Q4, we will deal with it accordingly.
- Madhuchanda Dey:** Otherwise, these are likely to slip into NPL, is that a correct understanding, because it is a technical matter?
- Shyam Srinivasan:** It is not an answer I can give till the January 28th hearing of NCLT happens.
- Madhuchanda Dey:** Just in case the hiring does not happen and the order is not favorable, there is a remote possibility of this technically slipping into the NPL, is that correct understanding?
- Shyam Srinivasan:** Yes, we must point out, these are operating projects which the cash flows are automatically escrowed even as we speak, so toll collection going into the escrow account, there is very little reason for the money not get to the bankers which have lent.
- Madhuchanda Dey:** This is technical matter?
- Shyam Srinivasan:** It is a legal matter.
- Moderator:** Thank you. The next question is from the line of Anirban Sarkar from Principal Mutual Fund. Please go ahead.
- Anirban Sarkar:** Sir, just one question on your restructured book, I can see that there seems to have been one upgrade of an account, because the NPA part has gone down, the standard part has gone up?

- Shyam Srinivasan:** That is the Kerala flooding part.
- Anirban Sarkar:** That part has been upgraded in this quarter?
- Shyam Srinivasan:** Upgraded means, the new account which have been restructured have been handed through the earlier kitty, so whatever payment has come to that extent, it has gone down and to the extent of new restructured accounts, it has been added.
- Anirban Sarkar:** Just one more question, sorry if I missed it, but have you mentioned if you have provided anything prudently towards IL&FS exposure?
- Shyam Srinivasan:** Yes, 7.5% as standard asset provision.
- Anirban Sarkar:** 7.5% of the total 245 crores?
- Shyam Srinivasan:** Yes.
- Moderator:** Thank you. We take the next question from the line of Mona Kethan from Reliance Securities. Please go ahead.
- Mona Kethan:** Sir, on your subsidiary, Fedfina, if you could throw some light on its performance over the last quarter or so?
- Shyam Srinivasan:** Firstly, you probably are aware through North a strategic investor has come in at 26%, and this quarter the whole sort of investments have come in Q3 and we have brought in a very senior Team Leader as the MD and they are building out a team. Underlying performance continues to be very strong. We think this year will see roughly 25% to 30% profit growth and they are building up to scale up materially, so the real value of all the efforts would be seen in FY '20.
- Mona Kethan:** Any concerns on the developer book it has?
- Shyam Srinivasan:** None.
- Moderator:** Thank you. The next question is from the line of M. B. Mahesh from Kotak Securities. Please go ahead.
- M. B. Mahesh:** Sir, I do not know if this question was asked earlier, now that Mr. Ganesh is stepping down from the ED position of Federal Bank, how are you kind of approaching this issue, have you kind of broadly thought about this, if you could just kind of highlight on that?
- Shyam Srinivasan:** In the exchange announcement, we said our well-defined succession plan kicks in as it has already kicked in. A senior leader takes over the corporate part and he is eminently capable of building on the good work done by Ganesh, and the bank is deep. We have good skills to build on it and

certainly if there are more skills, we will bring that in, but at this point in time to my mind we will see no let up or any lack of momentum on any count.

M. B. Mahesh: In the sense that, it is going to be just a kind of an internal movement that you are likely to make on this issue?

Shyam Srinivasan: We have already made the movement.

M. B. Mahesh: Second question is a simpler one, what is average age of employees right now and why is the gold loan portfolio kind of being broadly flat or declining even as we speak today?

Shyam Srinivasan: The average age is 36 right now. Total gold loan book is growing, we are growing the Agri gold loan which is going quite well. For the first time after many quarters, we have crossed our peak of 6900, the total gold loan book is now 6900 crores. Retail gold loan is growing less, Agri is growing substantially well, and we are making the Agri gold loan work well from a profitability standpoint of view. You see our processing fees are now going up quite well and that is outcome of some of these initiatives.

Moderator: Thank you. The next question is from the line of Kaushik Poddar from KD Capital. Please go ahead.

Kaushik Poddar: For quite some time, you have not been expanding your branches and the way your credit growth is happening around 25%, so I guess deposit growth of around 20% is a sort of necessity and since you are not growing your branches, is it possible that you continue milking your branches to grow 20% year after year in deposits?

Shyam Srinivasan: We have not added a branch for four years plus and we have worked very hard to make sure in particular the non-Kerala branches are coming up on productivity. If you see our deposit growth is 23%, we believe that run rate will continue, we still see a lot of scope and the alternate opportunities to originate deposits are increasing be it our field force which is going out, so it is more of sales and distribution which is why we said in one of our calls, we are branch led distribution heavy. We have not choked off distribution, we will continue to, having said that 20-21, 21-22 we believe we will put in 40 to 50 branches each year, but they will be more strategic and different in nature, not the same large brick and mortar structure, more of sales oriented setup.

Kaushik Poddar: That you are talking of 21-22, not even 20-21?

Shyam Srinivasan: I do not anticipate much expansion in physical sense in the immediate Financial Year.

Kaushik Poddar: So you are not seeing it as a constraint?

Shyam Srinivasan: Not at all, not at this stage.

- Moderator:** Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.
- Nilanjan Karfa:** Sir, sorry I missed out your explanation on how the Kerala floods have been or the impact of Kerala floods have been accounted for in this quarter, if you could explain because I think in the last quarter, we said we expect roughly about 150 crores in overall slippages and I think we added about 30 crores in restructuring?
- Shyam Srinivasan:** There were two points of data I shared, one is that we have pretty much upfronted the Kerala flood related slippages into this quarter and we do not anticipate too much to come into the subsequent quarters. The carved-out portion I think that was the question that was asked about 100 crores this quarter pertaining to a balance of about 500 crores.
- Neelanjan Karfa:** You do not expect the balance 400 to be impacted at all, rather you expect the MSME dispensation to actually take care of?
- Shyam Srinivasan:** We are not anticipating any material deterioration on that.
- Neelanjan Karfa:** Therefore, I think in the last quarter we said for the full year roughly about 1450 odd crores should be the total slippages, would that guidance therefore change for the final quarter?
- Shyam Srinivasan:** I have already at 1330 or so, so I will be honest and say that it will be at least 200 crores more from here. We are importantly saying that the guidance, one is on the total quantum of slippage because in the course of year in one part of Patna Highway slipped and in another quarter it came back, but it is there in the slippage number. If you back that out we will meet our 1450 crores. The summary is that the 1450 crores is the, if it is net it will still be around that 1450 crores, but the reported number if you add the four quarters, we will get close to 1550 is what it will be.
- Ashutosh Khajuria:** Credit cost without changing the coverage ratio would be the real parameter to measure it, we have increased that coverage this quarter by 200 basis points and credit cost remains at 68 basis points within the PAT that was guided 65 to 70.
- Neelanjan Karfa:** Could you elaborate how the NPLs behave between the gold-linked Agri versus non-gold linked Agri because of the issues going around in that sector:
- Shyam Srinivasan:** Other Agri is moving up, you would have seen it has gone up to 70 crores this quarter, but it is something that we are as much a victim of various announcements made by various State Governments, but given the scale of operations and the overall picture, materiality will be relatively lower.
- Ashutosh Khajuria:** Gold is practically nil and I think the portfolio is also 50:50 now, half-half.
- Neelanjan Karfa:** Final question, would you be able to maintain this kind of Fee momentum on a sequential basis or an annual basis, which one is the more realistic picture out here?

- Shyam Srinivasan:** Annual basis.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor:** Sir, firstly for the Treasury part we find this quarter numbers to be at 168 crores, so could you elaborate what were the factors that contributed and what is your outlook going forward?
- Shyam Srinivasan:** You are talking about the segment reporting profit?
- Saket Kapoor:** Yes, I am talking about the segment reporting profit.
- Shyam Srinivasan:** It is driven largely by the reversal in provisions.
- Saket Kapoor:** Sir, how should investors look for this segment going forward and what are the factors that will be going forward, effect the number in this segment?
- Ashutosh Khajuria:** September end quarter provisioning requirement was high because the benchmark 10 year it was at 8.02%. December end it has come to 7.36, so when the yields fall naturally whatever provision we had it got reversed so that is slightly showing the higher profit. Rest of it is business as usual and that includes the Forex fee income that has come, so in segmental result if there is a growth which is more sustainable on the merchant Forex side then I think it is a big part of it is sustainable and would be delivered quarter after quarter. As regard provisioning part, that would depend on the yield curve.
- Saket Kapoor:** Sir, could you quantify the figure, out of 168 MTM contribution is how much, on account of the G-Sec?
- Ashutosh Khajuria:** 35 crores is the reversal of the provision, which was there in September.
- Saket Kapoor:** Remaining 135 is the actual earning?
- Ashutosh Khajuria:** It is net of expenses and all. This is the profit result, net of provisions, net of operating expenses everything put together. Gross numbers are separately given, which are part of the other income sub-classification.
- Saket Kapoor:** Sir, now lot of noises are being heard about NPAs in the Mudra Yojana, so out of our books what percentage is attributed towards the Mudra Yojana and what is your take on how things are shaping up?
- Shyam Srinivasan:** Total Mudra Yojana would be 70 crores.
- Saket Kapoor:** Sir, how are the performance being there in terms of the NPA part?

- Shyam Srinivasan:** At this junction, no different from any other SME portfolio.
- Saket Kapoor:** That means, Sir, what percentage has turned?
- Shyam Srinivasan:** Roughly, 3% to 3.5%.
- Saket Kapoor:** Sir, lastly if we take this provisioning part, it is net of the write back and slippages?
- Ashutosh Khajuria:** Credit cost will always be on that.
- Shyam Srinivasan:** You are questioning the 195 crores number that is there?
- Saket Kapoor:** Yes, I am talking about the 195, is it net of that means the accounting we have?
- Shyam Srinivasan:** Yes, net.
- Saket Kapoor:** Sir, can you give the breakup, how many accounts have turned standard in that case, what have been the recovery for this quarter and for the nine months?
- Shyam Srinivasan:** Recovery for this quarter is 240 crores, recovery and upgrade.
- Saket Kapoor:** For the nine months, Sir, how much it is?
- Shyam Srinivasan:** Roughly it should be closer to 670-680 crores.
- Saket Kapoor:** Sir, how many NCLT cases are pending out of the total NPA part, which are the major ones that are pending for decision?
- Shyam Srinivasan:** NCLT cases, no big-name with us.
- Saket Kapoor:** Lastly Sir, what is our take on the dividend distribution policy?
- Shyam Srinivasan:** 20% to 25%.
- Saket Kapoor:** That is inclusive of dividend tax, DDT?
- Shyam Srinivasan:** Yes.
- Saket Kapoor:** 20% to 25%?
- Ashutosh Khajuria:** Payout ratio.
- Saket Kapoor:** Sir, what is constituted under the other banking operations, we found a revenue of 60 crores and the segment of around 4.5 crores profit in it, what constitutes the other banking operations?

- Shyam Srinivasan:** Para Banking. Whatever the cost under Treasury, Corporate, Retail, wholesale and Retail whatever remains comes under that.
- Shyam Srinivasan:** The driver of that is our other income on third-party products is about 44 crores, that is sitting there.
- Saket Kapoor:** Correct me, Sir, what you told that our NIMs are going to get upgraded by 100 basis points going forward, that is, from 3.2 to around 4.2%, that is what the guidance you are giving?
- Shyam Srinivasan:** From 3.17 to 3.20 in fourth quarter.
- Moderator:** Thank you. The next question is from the line of Dhaval Gada from DSP BlackRock Mutual Fund. Please go ahead.
- Dhaval Gada:** Sir, what is the portfolio buyout quantum that we have done during the quarter?
- Shyam Srinivasan:** About 300 odd crores,, pretty much buy and sell have squared off.
- Dhaval Gada:** Where are we on incremental yields in Corporate, Retail, Agri, and SME?
- Shyam Srinivasan:** The numbers are reflected, you will see a marked progress on Corporate, in fact yields on all businesses, but Corporates have higher improvement in yields?
- Dhaval Gada:** Could you quantify, Sir?
- Shyam Srinivasan:** Incremental yield, Corporate has moved closer to 8.7, that is about 50 basis points improvement and other businesses between 12 and 15 basis points.
- Dhaval Gada:** Corporate is 8.8% right now, increment?
- Shyam Srinivasan:** 8.7, blended.
- Dhaval Gada:** Sir, just lastly in terms of SME slippages, if you look at our gross NPA position now in SME is about close to 7%, what are we doing to sort of arrest the slippages in this business and could you share some commentary around how do you intend to bring this down?
- Shyam Srinivasan:** I think the SME book for one is principally secured book, and therefore, to that extent the recoverability is larger in that and markets that we have seen more stress, we have sort of materially lowered that. If you see our growth in certain geographies, we have brought it to single-digit while the blended growth is North of 15% to 16%, which means the other geographies are growing at 25%, so one is the geographies where we are more comfortable that we are scaling up and typically in these businesses, the LGD is usually lower.

- Moderator:** Thank you. The next question is from the line of Pranav Gupta from Birla Sun Life insurance. Please go ahead.
- Pranav Gupta:** Just one question, I am sorry if I am repeating this, what is the quantum of MSME dispensation used?
- Shyam Srinivasan:** None in Q3; Q4 we think we have got 100 odd crores.
- Pranav Gupta:** There is no pending dispensation from the previous quarters, is that right?
- Shyam Srinivasan:** Over on December 31st, so whatever has been restructured, rest of it is taken as NPA.
- Moderator:** Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.
- Jai Mundhra:** Sir, you did mention about the succession planning post the exit of Mr. Ganesh Sankaran, could you also provide let us say the name of the Gentlemen who would be heading the respective vertical, Mr. Ganesh was heading three verticals, if you can comment?
- Shyam Srinivasan:** Harsh Dugar runs our Corporate and Institutional Bank, Shailendra has joined us as the Head of Commercial Bank, these are the two significant ones and the other ones that we were building up was commercial vehicle is run by a gentleman called, Srinivasan. He also focused on recovery and government business. Government business is headed by a guy called, Vardarajan, and recovery is headed by Pisharady. Agri and Microfinance and rural is headed by Gentleman called Mohan.
- Jai Mundhra:** Sir, just two data keeping questions, if you have sort of provided the breakup of slippages, 435 crores slippages into Kerala and non-Kerala?
- Shyam Srinivasan:** Roughly, Kerala will be 222 to 225.
- Jai Mundhra:** Sir, same as let us say last quarter?
- Shyam Srinivasan:** Slightly higher.
- Jai Mundhra:** Within Kerala, Sir, how much was pertaining to floods?
- Shyam Srinivasan:** We upfronted about 30 odd crores, so I think flood related would be over 100 crores. Our normal non-flood situation between 120 to 150, this quarter is 225.
- Jai Mundhra:** Sir, what is the employee headcount as of third quarter and if possible for previous quarter as well?
- Shyam Srinivasan:** Sorry, I will not have at the top of my head, it is roughly 12,000, but if you want two data points of two successive quarters, you have to get Rajnarayanan, connect with him and he will give it you.

Moderator: Thank you. We take the next question from the line of Gaurav Jani from Centrum Capital. Please go ahead.

Gaurav Jani: Sir, firstly you touched upon this point of the pensioning impact, so can you elaborate on that and how do we see the employee expense going forward and what are you doing in terms of hiring?

Shyam Srinivasan: Provisioning on pension unfortunately is a wildcard, if yields swing either way significantly, there is an impact. Barring that, recruitment at the senior level is very focused around the special skills that we want, that is in single or early double digit. In the more mass recruitment, roughly between retirement and if there are any resignations, roughly about 300-320 people retire/resign in a year, that is broadly the intake. We have not added headcount materially other than focus areas like distribution which is RM and collections and treasury sales. Others are more selected risk and credit are more targeted recruitment.

Gaurav Jani: Sir, where I was coming from is, the next quarter do we see any other one-off pensioning impact going forward?

Shyam Srinivasan: It is different, just in case yields fall from December level, then there would be this thing, but then it would be more than compensated from treasury profits, profit on sale of investments, so it is just a counter balancing.

Gaurav Jani: Sir, lastly how is our relationship-based strategy shaping up because our SA for branch in the non-Kerala portfolio is really very low, so if you can just touch upon what are we doing out there?

Shyam Srinivasan: You mean the savings account?

Gaurav Jani: Yes.

Shyam Srinivasan: There was an earlier question in terms of productivity opportunities and are we seeing growth, absolutely yes, and we think the various initiatives of the bank for both growing the salaried segments and focusing on distribution going out and getting these customers has increased. Savings growth ex-Kerala is roughly 23% and that some opportunity remains and importantly we are focusing on current account. You would have seen a marked growth of 41% because savings any longer is not necessarily low cost as many people may have come to understand, banks going at 6.5% and 7% is no longer necessarily low cost.

Gaurav Jani: Sir, in the nine-month period, how many relationship managers did we have?

Shyam Srinivasan: Across the bank, now we have closer to 500 different products. We opened the year at about 360 if I recall right.

Moderator: Thank you. The next question is from the line of Rohin Govindrajan, an Individual Investor. Please go ahead.

- Rohin Govindrajan:** Just couple of quick questions, one is given the weak state of the economy in the Middle Eastern countries, are you seeing any pressure on the foreign remittances coming in, so that was my first question? The second is given the credit squeeze that is there and the Corporate side generally and all the banks turning their focus to Retail for growth, do you see opportunity to actually grow in the Corporate side quite excessively over the next couple of years specifically are there any short term opportunities in the NBFC or HFC space?
- Shyam Srinivasan:** The first question around growth opportunities, we have now if you see for 12 odd quarters grown 25% plus or thereabouts on credit and for the first few quarters, Corporate was a driver growing at about 37%-38%. It is still growing at 30 odd percent, but we are seeing massive pickup in our Retail, also growing at 31% and within Retail I pointed out there are segments that are growing even higher, so credit growth of 25 or whatever the number we are working with is fairly distributed across the segments and when I say Corporate I say all exposure greater than 5 crores and if you take exposures about 25 crores that has grown at about 31% this quarter and that will continue.
- Rohin Govindrajan:** I was asking about given the Middle Eastern market is quite weak, are you seeing pressure on the foreign remittances given that you have a concentration in Kerala?
- Shyam Srinivasan:** The good news and I think I have said this in many calls, actually Middle East any uncertainty increases flows and we have seen this for 20+ years and when there is volatility in the Rupee and that also increases flows. Sequentially, this quarter grew 23% NR and we have not seen any stress on that count, but yes like I always said if the NR segment has stressed, the more worrying thing is the credit aspect and not the deposit aspect, which is why we are cooling off some of the credits in certain geographies.
- Rohin Govindrajan:** Given the aftermath of the Kerala floods, are you seeing credit uptick in Kerala more than usual, is that an opportunity?
- Shyam Srinivasan:** Retail has grown very well for us. On MSME, we have been much more watchful, we have not taken very aggressive stances on that, but Retail is growing very nicely.
- Moderator:** Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.
- Rakesh Kumar:** Sir, just one question on this Corporate loan book, in the last one year if we see the incremental credit growth from the Corporate segment is around 60%, so the contribution coming from Corporate credit in the last one year is around 57%-58% of the total incremental credit what we have done in the last one year, so my question is that like what is the average yield on this book, this non-Kerala Corporate book and what is the average maturity and in which geographies we have Corporate loans?

- Shyam Srinivasan:** Book is very widely disbursed across segment and across geographies as it will continue. Mumbai certainly will have a greater concentration because of the large Corporates being here, but the books distribution by ticket sizes is quite distributed across the country. Yields like I pointed out, the incremental yields are edging up each quarter. We have moved up by 50 basis points further to 8.8.
- Rakesh Kumar:** Sir, this 8.8% incremental yield on the segment which is growing the fastest would not that impact the margin going ahead because we are looking at the funding cost that we have and kind of the growth we are doing in the segment and the incremental yield, this suggests that margin should be under pressure actually going ahead?
- Shyam Srinivasan:** We are growing like I pointed, the period when we stepped up credit growth, Corporate grew well, but we have now other vehicles that are also doing well. I said this quarter Retail grew 31%, Corporate grew 31%, and that kind of split will continue and Retail we see opportunities. MSME, there are opportunities but we are being a little more sort of watchful because there are some pockets of stress. On margin, it is not just absolute margin we look at risk adjust margin and credit, if I am growing good credit AAA as you see, then the risk adjust margins are holding very well on a co-incident basis.
- Moderator:** Thank you. The next question is from the line of Amit Rane from Quantum Securities. Please go ahead.
- Amit Rane:** My question is regarding one-time restructuring that is allowed for MSME, so how much is the amount of MSME exposure that is below 25 crores for us?
- Shyam Srinivasan:** Roughly, 20,000 crores.
- Amit Rane:** Of this, how much will be eligible, Sir?
- Ashutosh Khajuria:** If you strictly go by the eligibility, it will be whole book, it is intended to be restructured.
- Shyam Srinivasan:** We think this quarter roughly 100 to 125 crores we will see the benefit of the restructure.
- Ashutosh Khajuria:** Our experience in Kerala floods have been that not all who are eligible come for restructuring, some people are so sensitive about their credit history and they have the affordability and all that, they do not come for any restructuring despite being eligible for that.
- Shyam Srinivasan:** Another thing in this they have to be GST registration also.
- Ashutosh Khajuria:** Yes, GST registered and below 25 crores from all lenders put together.
- Amit Rane:** So that amount is 20,000 crores for this?

- Shyam Srinivasan:** The universe of credit exposure of Federal Bank in sector below 25 crores is 20,000 crores.
- Amit Rane:** Sir, once the account is restructured under the scheme, can we lend to the same account as per the rules?
- Shyam Srinivasan:** I think it is a bank's decision, there is no limitation.
- Amit Rane:** Sir, incrementally we have to provide something for these loans?
- Shyam Srinivasan:** As against 0.4, it is 5%.
- Moderator:** Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.
- Darpin Shah:** Sir, if you can just share the SMA two number for our bank and how it is trending for last couple of quarters?
- Shyam Srinivasan:** I think it is about roughly 1%.
- Darpin Shah:** How it has been trending?
- Shyam Srinivasan:** Around the same, 1%.
- Darpin Shah:** Sir, just a data keeping question, if you can share the absolute number for SA?
- Shyam Srinivasan:** 34,500 crores.
- Moderator:** Thank you. The next question is from the line of Mr. Suresh, an Individual Investor. Please go ahead.
- Suresh:** Sir, after the ILFS incident, how have you seen the real estate sector doing, do you find any distress in general?
- Shyam Srinivasan:** From our portfolio, we do not have any direct exposure to real estate in any material way, so we look at proxies or surrogates, they are looking okay. Our LRD book is doing well, we do not see any unique different issues, either on home loan or on LRD.
- Moderator:** Thank you. The next question is from the line of Pritesh Bumb from Prabhudas Lilladher. Please go ahead.
- Pritesh Bumb:** Sir, you just said savings is about 34,500 but when I see the distribution Slide, Kerala and non-Kerala side savings does not match, so just wanted to check, there is a gap of 1000 crores in the CASA if I had both the geographies?

- Shyam Srinivasan:** Credit balance in cash credit accounts is not shown.
- Pritesh Bumb:** Sir, secondly, we have seen that slippages in Retail being in that 100-120 crores, but we have not seen material recoveries as well, one would have expected that these are all secured and would have seen some gross NPA improvements in that as a ratio, any comments on that?
- Shyam Srinivasan:** I think our recovery I said is 250 crores, so that includes a lot of Retail recovery.
- Pritesh Bumb:** When I see the gross NPA ratio is stable at 2.1 to 2.2?
- Shyam Srinivasan:** Gross only function as slippage, net is the one which will reflect the post recovery. Incremental slippage is what we are reflecting.
- Pritesh Bumb:** What we are seeing is the recovery also at same pace as slippages?
- Shyam Srinivasan:** See in a secured product, the recovery takes between six and nine months. If it is home loans, if it is LAP, the entire process takes between six and nine months on an average and the instance is much higher also.
- Pritesh Bumb:** Last question is, I think Rakesh asked the question on Corporate loans, so when I see the Corporate loan breakup which you gave, 34% from strong HFC, NBFC, and Banks, so going ahead of how do we see this performing because again NBFCs have some...?
- Shyam Srinivasan:** We have reviewed our NBFC exposure quietly and like I said in the last call, all of them are the right credit. Wherever we were not comfortable, this quarter the net has come down by 500 crores.
- Moderator:** Thank you. The next question is from the line of Nilesh Parekh from Goldman Sachs. Please go ahead.
- Nilesh Parekh:** Sir, two questions, one Tier 1 is now offering around 12.4 and I think it is somewhere similar to where we trace money two years back, so is it fair to assume that we will then be in for capital raising in the next couple of quarters?
- Shyam Srinivasan:** It does not include the Retained profits of this year, we think at the end of the Financial Year, it will go to something like a little over 13.5 and our trigger point is closer to 12, so we may not be in the capital race for some time. All of our is Tier 1, so there is lot of Tier 2 space available.
- Nilesh Parekh:** Sir, the second question pertaining to maybe you would have answered this earlier, but on the fee income, we have seen an impressive pickup, any specific segments that you would want to highlight and the sustainability of the same, any further triggers that could lead to a further improvement in the fee income traction?

- Shyam Srinivasan:** The many granular lines of effort are coming through whether it is processing fees, Treasury related, third-party product, we are seeing that traction continue. I think there was an earlier question, will this be like an annualized, do you see a similar 100, our view is yes, annualized for a full-year basis.
- Nilesh Parekh:** In your assessment this percentage of average assets, what is the additional, which can come in over the next couple of years?
- Shyam Srinivasan:** You mean ROA?
- Nilesh Parekh:** Yes.
- Shyam Srinivasan:** The expansion in margin, the improvement in cost income, and our credit cost guidance of improving credit cost all will play through.
- Nilesh Parekh:** Sir, anything on fees?
- Shyam Srinivasan:** If the current momentum in fees is an additional feature, yes.
- Moderator:** Thank you. The next question is from the line of Anusha Raheja from LKP Securities. Please go ahead.
- Anusha Raheja:** Sir, one thing on how are you looking at credit cost going in next fiscal FY '20, one thing is we will be looking at Kerala floods and one-off which were there in Corporate slippages will not be there and how are you looking at this number, and more specifically how do we see trajectory with respect to SME, Retail, Agri, and Corporate slippages because in SME, Retail, and Agri, for the last couple of quarters there has been increasing trend, so how do we see going forward the trend moving?
- Shyam Srinivasan:** Guidance for FY '20 allow me the luxury of coming back to you with our Q4 results, but it should be an improvement because the trend lines are very encouraging and in terms of the slippage for SME and Retail, it is little impacted because of the recent flood related in Kerala. We think that will get normalized as we go into '20.
- Moderator:** Thank you. The next question is from the line of Ankur Shah from Quasar Capital. Please go ahead.
- Ankur Shah:** Sir, just a question on CASA strategy, so actually like you mentioned, we have been seeing a lot of aggression from lot of banks to offer higher CASA and maybe their intention is not just the cost of funds but to cross sell other products like credit cards and insurance and all of that, so how are you looking at the bank CASA strategy because they have been some big banks who are suffering on this?

Shyam Srinivasan: Our CASA as you know thankfully all of it is the SA is at the 3.5% rate, only recently we have launched a bespoke account and the book is very small as of now, between CA and SA salary accounts is the driver of SA and we are working very hard at that and is growing 20% to 23%. We have put in a very aggressive CA plan and is linked to the segments of businesses that we are operating whether it is Corporate, commercial, or SME, and we are seeing good pickup. We have put in a line of offering so that the RM is able to go out and get the flows of that customer, and further, we have full architecture that is going after CA as part one of their deliverables as they get into a lending relationship, so between CASA, separate plan for CA and a separate plan for SA.

Ankur Shah: Do not you have a particular view of losing market share over there because certain section of the banking sector is getting very aggressive over there?

Shyam Srinivasan: We are also very aggressive in that space, I mentioned we have as a defensive strategy, a bespoke account, but amounts above 3 lakhs we are very comparative, we pay repo rate.

Ankur Shah: Sir, just a small question on Fedfina, is Fedfina allowed to sell all the products like apart from Federal Bank products or is it just the Federal Bank products?

Shyam Srinivasan: Fedfina is only a distributor of our auto loan and home loans, they originate and underwrite on their balance sheet, gold loans, construction finance, LAP, and any other structured products.

Ankur Shah: So only two portfolios they are distributors, otherwise they themselves take the underwriting?

Shyam Srinivasan: Yes, they do about 100 crores of origination for us of home loans a month.

Ankur Shah: Sir, just last question, it is a very generic question, but still do you see any opportunity to improve your market share in certain sections where there has been some NBFC issue?

Shyam Srinivasan: Absolutely, yes, we moved from 75 basis points to 112 basis points of market share and this momentum even if we grow at 25% to 26%, the best growth in the country is 13% to 14%, we are gaining share.

Moderator: Thank you. We take the next question from the line of Krishnan ASV from SBICAP Securities. Please go ahead.

Krishnan ASV: Wish you all a very Happy New Year. Just wanted to check on the fee income engine and just the revival that we have seen across fee income, how much of this is written off the pricing power that you have been able to exercise versus something that can sustain much longer and what efforts have gone into actually sustaining this?

Shyam Srinivasan: In each of these verticals of fee income origination, if you take the Retail part of the bank, one is the loan processing related, as the volume of loan goes up that is picking up materially. Then if you take the para-banking or the third-party products that has picked up substantially, so between

these two things there is a good traction and these are scalable. Likewise in the FX side, we have brought in a very senior leader with a good team, so that is again progressing and that one is contingent on a stock Corporate relationship, so on all these three verticals there has been a marked and meaningful progress, all of which is scalable.

Moderator: Thank you. The next question is from the line of Mangesh Kulkarni from Almond Global Securities. Please go ahead.

Mangesh Kulkarni: Sir, earlier in the day in the media interaction you have mentioned about some inorganic growth opportunities we are looking at in NBFC sector and all these things, so can you throw some light whether it will be in the Fedfina or in the Bank itself and what will be the approximate size we are looking and all these things?

Shyam Srinivasan: Just to remind you in the media, there was a question are you looking at and I said we are exploring at all points in time, none of them or in any stage of maturity for me to share anything, but we are talking to a few microfinance opportunity, which makes sense.

Moderator: Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Rajanarayanan for his closing comments. Over to you, Sir.

Rajanarayanan N.: Thank you all for patiently listening to our call. Thank you and Good Evening.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of the Federal Bank, we conclude today's conference. Thank you all for joining us and you may disconnect your lines now.