"Federal Bank Q4 FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Federal Bank Q4 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 the operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajanarayanan N, Head Investor Relations, Federal Bank. Thank you and over to you sir.

Rajanarayanan N: Good afternoon and welcome to the Q4 Earnings Call of Federal Bank. With me are Shyam Srinivasan – MD and CEO, Ashutosh Khajuria – ED and CFO and other senior executives. Over to you Shyam.

Shyam Srinivasan: Thank you everybody and good afternoon and welcome to the earnings call. I know it is a Saturday afternoon and we have pulled you out from wherever you are. Thank you for joining us on this call. We had just completed the Board earlier today and the Board has approved the financial results for FY19 and Q4 and we are pleased to report good set of numbers, marked progress on many of the initiatives we have taken out. And it gives us good confidence and reassurance that our strategy of steady and diversified growth across segments is playing out quite well and we believe that positions us for a strong FY20 as well. I am sure you had the chance to look at our investor deck which we had put out a while ago and which we have outlined the key, key sort of financial successes, financial highlights. But I would like to deemphasize a few points in particular some of the material deliverables we had chosen to work on and which we had spoken on many occasions through these calls and our personal interactions what we were focused on and how we were shaping up on those and how we have exited. On many counts we have seen good progress and we believe that those are sustainable and scalable. And if you look at areas of the most crucial sort of outcome variable of how we featured, performed on our return on assets which has been an area that we have been lagging in the last 2 years, we see progress and we believe that should continue as we go into FY20. Noteworthy in the financial results of particularly Q4 was our credit cost improvement which is quite substantial and it was granular and it was not on the back of any one of gain or dispensation. It was structural and it reflects many initiatives of the bank across the years I would say and those are bearing fruit. And so the outcome for FY19 and in particular Q4 is in some sense it gives us the confidence that what we have been working on and what we are seeking to deliver as we go into FY20 and beyond, sets the marker for us and how we should scale up and scale up responsibly.

In terms of growth you would have noticed that both credit and deposit growth was quite robust at 20% plus. The segments within corporate credit, retail credit wholesale commercial banking, varied growth and some by choice, some the impact of the market. But wherever we cited large opportunities the growth has been quite spectacular and if I take the retail growth it is over 33% and that is also on the back of many businesses. Traditionally, we were one business which was largely home loan led. Then we got into home loan plus LAP and a continuum of secured and then we got into auto loans, as we got scale and scale on that, we got into personal loans which is driven by our own portfolio based on data mining and then we sort of stretched that into a digital only origination based on bureau records for the continuum of credit growth on each of these products, we are seeing momentum. Likewise in corporate we had good progress over the last 3 years, we wanted a mirror or mimic starting to our commercial banking and I am pleased that the last two quarters we saw meaningful progress on commercial banking and we took at the beginning of financial year 19 we did a hard slice on the commercial banking portfolio. We took out about 800 crores of credit and then we have come back with growth quite strongly as we went it, as we exited FY19. That was in terms of the credit momentum.

Traditionally, we have been quite strong with our liability franchise. I am pleased that momentum continues and I think what is more important which I want to emphasize is the franchise of Federal is working as opposed to certain geographies of the bank being more dominant. And in fact in some dominant geographies where we had challenges because of natural disaster, the rest of the bank has shaped up quite well to support that. On fee income, I am pleased to see good progress and that is all very granular and structurally led improvements. In treasury, I have pointed out, we have created a very good sales capability and that outcome is seeing, whether it is FX or domestic products being sold to corporate customers, mid-market customers that momentum is catching on.

Fee income on retail, whether it is life, general insurance, mutual funds, third party products is tracking quite well. So the expands of efforts of the bank across quarters are beginning to play through well and we believe that these are worth scalable and sustainable. On the credit in particular in FY19 and even in particular Q4, we saw for the first time I think in 9 quarters, the slippages were lower than the recovery and upgrade and the recovery upgrade for the quarter was 323 crores, slippages were about 256 crores and the recovery upgrade was quite granular barring one transaction where we did a cash sale and we exited an account. So we saw that gave us a gain of about 50 odd crores, outside of that it has been regular granular recovery efforts of the bank. So in is the slide #3 in our investor deck on NIM, fee income, cost to income, slippages, recovery upgrade, credit cost, ROA, we have put our trajectory and where we said or where we thought we will exit the year and how we feature, we believe that on most counts we have come at or around the numbers and we believe sets the platform or the marker for you FY20 momentum and that is what we will scale off from.

With that introduction like I said or Raj said the entire senior team is with me. We will be pleased to answer questions, clarify anything that any of you would like to talk about. So operator you may open it up for Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: So my first question is you know we have achieved 1% ROA for Q4 FY19. So where do you see ROA is moving in the next 2-3 years and what will be the drivers for it?

Shyam Srinivasan: We had said and that is why in my deck also we have pointed out how the trajectory has moved. Yes, a 10 to 12 basis point improvement each passing year. We were at 76-88-1.02 and we believe a similar run rate over the next 2 financial year taking us about closer to 1.25 by FY21 and that is what we are working on. The drivers are many and some of them are visible right now, certainly the improvement in credit cost itself is a big driver. The operating leverage that we are getting is more visible. The fee income that we have seen traction is visible. So we believe that combination in the multiplier effect of all this at scale would start giving us the momentum. So we are not factoring in or penciling in a material margin expansion because that may result in some kind of credit expansion of a different profile which I am less inclined to. So the blend of fee income, material improvement in credit cost, operating leverage and sensible credit growth is what we will position the bank for.

Darpin Shah: You know just to take it forward; our cost income ratio is still at 50% further for the quarter. How you see it improving?

Shyam Srinivasan: I said operating leverage. It has come down 700 basis points in the last 3 financial years and we believe that should continue as we go into FY20 and 21. We believe another 250 basis point improvement we visualize over the next two financial years.

Darpin Shah: Okay, fair enough sir. And sir one last thing, our interest of others and interest income breakup has grown up from 47 crores to 70-72 odd crores. So does it include any one offs?

Shyam Srinivasan: Interest income on income tax refund.

Darpin Shah: So how much would be that?

Shyam Srinivasan: About 18 crores.

Darpin Shah: Okay. So one last thing sir. Can we provide the breakup of provisions?

Shyam Srinivasan: I think it is in the deck, but can we come back, I am sure others will have a similar question meanwhile. Loan loss 137 crores, investment provisions of 24 crores, standard asset provision 16 crores.

Moderator: Thank you. We will move on to the next question that is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir first on this clarification of ROA improvement of 10-12 basis point every year, is this exit quarter ROA improvement or you are saying for the full year?

Shyam Srinivasan: Exit quarter. So on the average you will see a similar improvement on the baseline.

Jai Mundhra: Sure sir. And secondly is the question on asset quality sir, if you can sort of share your thought process on your exposure if any to some of the large leverage groups that we are hearing in the media which is in media/entertainment segment, b) some NBFC which has seen recent rating downgrade and third, the real estate portfolio which is around 3%-4% of the wholesale book?

Shyam Srinivasan: Let me begin with the real estate portfolio. We have looked at our book; we believe at this juncture in the right credit quality. So we are not particularly alarmed and a large part of it, 90% of it is in lease rental discounting and the tenants are the kind of tenants we are quite pleased with. So on the overall book we are not in any form at this point to worry. In specific to your question on the large exposure groups that are in the media and then in the conversation set of most financial institution, we don't have any direct exposure in any of these names, be it Essel or Rcom or R Infra or Jet, that is it, in the housing finance of that group we have an exposure, a 2 digit number, which at this juncture is doing okay, we will evaluate how things play out.

Jai Mundhra: So that is the only exposure we have in the entire group, right?

Shyam Srinivasan: We have a structure in the RCap foreign currency.

Jai Mundhra: Sure sir. And if possible if you can share it is a double digit, 3 digit or if you can…?

Ashutosh Khajuria: It is a small double digit dollar

Jai Mundhra: Sure sir. And now sir if you can share the portfolio of BB and below if you have kind of such portfolio for your corporate book wherein if you were to put out a number or if you put out a more monitoring perspective, if you have any BB below book which is…?

Shyam Srinivasan: I will share as follows. If you recall last year at the beginning of the year when we spoke, we have said 65 to 70 basis point credit cost and we came banging with an exit rate of 50. Our guidance for this year is 55 to 60 basis points of credit cost and we believe we are on trajectory for that.

Jai Mundhra: That is great. And just lastly on this the note that we have given on the IL&FS side, we gather that large part of this is operating and you have been receiving your dues. But if you can share some more color into it, if you see this falling, if you see this from LGD perspective this should be, you know what kind of an LGD should it entail, thank you sir.

Shyam Srinivasan: We have 3 assets in the name that you have mentioned and all 3 are there, we have shared that in our disclosure. One of them which the larger one is 210 crores is even in the classification and Amber and performing and in a good shape receive all the escrow is funded and accounts, moneys have come into Federal Bank account, so there is no issue at all. And LGD is virtually nonexistent in that. It is almost a full secured asset. In the other two which is the smaller 30 odd crores they are performing, the escrow is fully funded, the moneys have not come into Federal Bank, for which between the two we made a provision of 21 crores. At this juncture our belief is these 3 are performing, funds are coming into the account, they are vintage operating assets. Our confidence is that should not result in that problem. But we will see how things shape up.

Moderator: Thank you. We will move on to the next question that is from the line of Gaurav Jani from Centrum Broking Limited. Please go ahead.

Gaurav Jani: Three quick questions from my end. Firstly, on the loan growth. So surely I think there was a slight dip in the loan growth really driven by the corporate segment which grew by about 23%. So you know just wanted to understand what are your thoughts on that, I mean we surely have seen some senior management person exiting from the corporate segment and what is your perspective on that and how do you see it going forward because if you look at the major banks, I mean they would have certain senior person looking at the entire wholesale space. So just wanted your thoughts and what sort of growth you expect in this segment going forward?

Shyam Srinivasan: Let me just answer the second part of your question first. We do have senior people looking at the portfolio and I am very happy with the senior persons who are looking at it. So no issues at all. Second is that growth is calibrated, incremental origination versus net growth which you see. As you may have observed there are some parts of the sectors that traditionally we have significant growth, we have slowed down or not renewing lines or requesting pay back and therefore the blended number may be less than its past growth. So we are not concerned around that in certain areas like Greenfield projects long tenure**,** power, telecom, we are staying away from. Now we have added some of the more recent stress sectors so to say. So the increased net of some of the sale that we have done or run downs that we have done. So growth momentum continues to be strong. But I would like to point out that our theme is as we pointed out I think 3-4 quarters back I want to get to 50:50 wholesale retail, we are at 53:47 wholesale retail, we are working the bank and be it wholesale, which is corporate and commercial and retail is the other businesses, we are working the bank in such a sense both are growing and growing quite well, but the rate of growth on the retail side will be higher, a) the opportunity is higher, b) my base is smaller, c) the opportunity to earn a better income stream on that is higher. So that is how we are blending the book.

Gaurav Jani: Sure sir. So do we maintain our loan growth guidance, I mean would be helpful if you can give that for the next 2 years?

Shyam Srinivasan: It is driven by appetite and market events. We think we can grow 20%-22% even higher. But we maybe a little more watchful till the environment completely clears up and we think we can do that as we get into Q3. But at this juncture we will guide for something like 20%-23% growth.

Gaurav Jani: Sure, got it. Sir, secondly from my send on the IL&FS exposure, so going forward we appreciate your clarity on the asset you have mentioned, what sort of credit cost trajectory of how would you take provisioning going forward on this, I mean would it be more smoothened or would it be sort of lumpy in one quarter on the IL&FS exposure?

Shyam Srinivasan: I think as of the IL&FS at this juncture like I pointed out a few minutes ago, LGD should be close to zero on this because these are operating functional assets. Now there could be a timing for some reason, somebody may say RIDCOR should be made NPA and it can get recovered. Now unless the whole thing they swipe the money from operating assets to some central pool and make it a disaster, yes, we may be at the wrong end of that stick. Our belief is these are ring fenced SPVs which have been set up for these assets. The operating toll collection is going into these asset, it should be almost legally wrong to do that, but that said anything can happen in today. So at this juncture we don't visualize any material lumpy provisioning to be done. We think if it becomes NPA if at all, then another 7.5% will be done in RIDCOR in the course of FY20.

Gaurav Jani: Correct. Lastly some data keeping questions. We used to mention our agricultural portfolio on the retail loan book. So can you quantify that now and what is our current relationship manager stand?

Shyam Srinivasan: Relationship manager across the businesses is close to 500, within corporate, treasury, commercial banking, agri and priority banking it is 500 plus minus a few, sorry 700, my apologies. Sir your other part of the question was?

Gaurav Jani: Sir, the retail loan portfolio we used to mention the gold loan portfolio, so that is not given in this quarter, if you can quantify that?

Shyam Srinivasan: Gold loan is about 7,200 crores now.

Gaurav Jani: Sir barring the, not the agri gold I meant the retail gold, that was about 1631 last quarter.

Shyam Srinivasan: We have merged it, that book is around 1700 crores now.

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

Girish Raj: You know the quarter-over-quarter decline in the spread yields versus cost of deposit during FY19, when do we expect this phenomenon to reverse and what exactly has happened during the year that it has declined quarter-over-quarter?

Shyam Srinivasan: Are you talking of yield coming down?

Girish Raj: Yield minus cost of deposit, the spread?

Shyam Srinivasan: The NIMs have gone from 311 to 314 to 317.

Girish Raj: Yes, sir that is driven by the spread. So what exactly has happened and do we see this to reverse?

Shyam Srinivasan: I said the NIM for FY20 will be 320, it just is improving.

Ashutosh Khajuria: It should further improve from 317 now.

Girish Raj: 317 to 320, right?

Shyam Srinivasan: Yes.

Girish Raj: Okay. And any outlook on the other income because…

Shyam Srinivasan: The run rate which we saw in FY19 is focused to continue in FY20. These were not one off, these are organic structural, so we believe it is scalable.

Moderator: Thank you. The next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Just another question on the yield. How should we look at the composition of the book changing over next 1 or 2 years and how will that be driving yield. We talking about a meaningful bump up in digital personal, auto because some of the categories that you are growing in now are certainly high yielding than the average yield on the book, but they are also riskier categories and their categories were frankly the large experienced vendors in those categories and nationwide are slowing down. How do you look at our potential to grow within them, the impact of yields and making sure that we are not juicing up yields by taking credit risk at the wrong time of the cycle?

Shyam Srinivasan: Thanks. I did caution right at the top of the call that is somewhat responsible credit, which is why we are not going for a sort of a gangbusters growth on margin or yields. We believe as we shift from 53:47 to 50:50 over a two financial years, the incremental growth say personal loan plus digital plus some of the higher yield products which today are less than 3% may become 5% of that book. So the rate of growth of that will be higher but still in a larger denominator it will still be 5%-6% of the book.

Pavan Ahluwalia: And are these on personal loans, are we kind of mining our existing customers on whom we have a lot of data and who have not been targeted by the HDFCs, Bajaj Finances of the world or are we simply growing at and saying look we can do the same underwriting that a Bajaj Finance or HDFC can do and we can actually give them a slightly better rate because we do not need to make the same spread as those guys do because it could be ROE accretive to ourselves ROE dilutive to them. What is the strategy there?

Shyam Srinivasan: The most important and principally what we are working on and we are pushing very hard, is certainly to ensure that mining our entire database, I think last calls we said we have a program called BYOM, Be Your Own Master, which focus digitally originate credit from our existing customer and over the last 2 years we have had meaningful success in boarding a lot of salaried customers and mining our existing data base of customers is working quite well for us.

Pavan Ahluwalia: Why they are going to you and not the 50 other people who are trying to push digital personal loans online etc ete, is it just that those guys are not able to reach these people yet or you are offering a better rate, that is what I am trying to get at. Today any salaried person is inundated with offers for personal loans, car loans, any kind of loan they want to take, so what I am trying to get at is what is your edge, is it just you bring the price down, is it that you are getting to customers these people can't touch for some reason, if you add some color on that?

Shyam Srinivasan: The answer be never be just one of this. It may be all of the above, but I would point out I think anybody they have a secret source or unique segment, they must be kidding themselves. We are reaching as aggressively as the best banks in the country and many of them are existing customers, so there is certain area of loyalty and relationship that is there. And therefore we are able to reach out to these guys and offer. And our digital offerings and if you go into digitally taking a loan, you will probably encounter Federal and two other good banks, and that is all. We are certainly one of the top three in the digital lending space now and I am not saying it because I run the bank, you can check it for yourself.

Moderator: Thank you. The next question is from the line of Mona Ketan from Reliance Securities. Please go ahead.

Mona Khetan: Sir, my first question is on this Jan 1, MSME restricting schemes, how much of our SME book was restructured under this scheme this quarter?

Shyam Srinivasan: 7 or 8 crores was the total.

Mona Khetan: Okay and on one data keeping question on CASA, what would be the CA versus SA for you, I don't think the details are there in the presentation.

Shyam Srinivasan: CA is about 6.5%.

Ashutosh Khajuria: It has improved from 4.5 to 6.5 in the last 3 years.

Shyam Srinivasan: Our strongest growth has been in CA.

Mona Khetan: Okay, and that would be led by?

Shyam Srinivasan: A bunch of things if you have been tracking us. I have said on all calls. We have built a very good architecture for originating CA from a point of view of technology, distribution and reaching out to existing customers and making them to bank with us as their priority bank. Traditionally, we were only a lender. So we have done a lot of data mining with existing clients. Our cash management and what we call FedeBiz are transaction banking capability. Now, it is probably at this juncture the first bank to offer all of that entirely customer originated. Sorry, our MSME restructuring is 11.68 crores, not 7- 8 crores.

Mona Khetan: Okay. And on your SME book, you have this business banking and commercial banking, what would be the ticket sizes between these in the sense that what would be the…?

Shyam Srinivasan: 5 crores and below we tag as business banking, 5-25 is commercial banking.

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

Renish Bhuva: Sir couple of clarification, one on this IL&FS exposure. Sir, are we still booking interest income on the project which is under Amber?

Ashutosh Khajuria: Yes, because we got payment up to April. Up to April we have got the payments in the accounts, in our own accounts.

Renish Bhuva: Because one of the NBFC which reported numbers couple of days back that to reverse is saying regulators are not allowing…

Shyam Srinivasan: I want to point out, you must be aware that the same asset in some cases is secured, some case is unsecured. In our case we believe it is fully secured. So that is why we said the LGD should be minimial.

Ashutosh Khajuria: And we are getting the payments through the consortium leaders, it is not that we in isolation are getting it. It has been distributed by the consortium leader.

Renish Bhuva: Okay, would you like to quantify that number, if possible?

Shyam Srinivasan: Which number?

Renish Bhuva: Interest income on another?

Shyam Srinivasan: You can say roughly if the asset is 210 crores you can calculate 20 crores per annum will be the interest income. This is interest income, not minus interest cost.

Renish Bhuva: Yes, sir. Thanks for that clarification. Secondly, on our risk weighted asset which actually declined in absolute terms on quarter-on-quarter basis. Is there any specific reason or it is just because we must be unwinding some of the risky assets or something like that?

Shyam Srinivasan: No, it is a combination of things. Also you saw the NBFC, RBI has given some change in NBFC RWAs or to that extent that also benefited.

Renish Bhuva: Okay. And sir lastly on the slippages. So retail slippages in absolute term actually is lowest in past many quarters and vice-versa for agri, it is highest in past many quarters. So I mean it is really difficult for us to you know draw a trend line, so if you can just throw some light, what is happening there and what one should assume better you now kind of trend in detail and exit slippages?

Shyam Srinivasan: See, Renish, and this is one thing I have said in all our calls. Our numbers are never smooth, it is what it is and I agree in certain states and particularly in Kerala after the flood there has been a lot of dispensations, lot of political intervention, so we have taken a larger hit this quarter. And that has been if you see the last 3 quarters we went to agri and it is all network one. Of our total 256 crores, 91 crores are outside Kerala, 160 crores are Kerala and driven largely by recent events, but we have up fronted it and we have taken all the hit.

Renish Bhuva: Okay. So is it price also going forward it should be if we have taken a one…?

Shyam Srinivasan: We would believe that these 256 crores which is the blended between the whole portfolio it will be more like closer to 200 crores.

Renish Bhuva: Alright. And would you like to give a guidance on slippages for the full year base in FY20?

Shyam Srinivasan: I think we have pointed out 55-60 basis point credit cost. It is very easy for you to compute, you know the overall recovery trendlines, so fairly indicative. I am insisting doing that because last year we told a number and we were like off by 80 crores and we were beaten up many times over.

Renish Bhuva: Sir, if I can ask last question, on the Cost side, though we have not been adding any branches or ATMs so far from last 2-2.5 year, but still our OpEx growth is running anywhere between 16%-20%. So I mean are we adding more people or are we spending more on technology or are we done with that cycle and going ahead we should see the operating leverage. We have rightly mentioned in your operating remarks also. So what is happening there. I mean is there the incremental growth, are we sourcing from a third party and that is why we have to pay more fees and everything to third party or what is happening there?

Shyam Srinivasan: I think I mentioned in the last 3 years, you have seen 750 basis point improvement in operating leverage, cost income improvement and that points to our 200 basis points improvement almost every year, we think that will continue. Our cost increases driven as you know, there is a certain area of pensioning that we have to do and that is never a direct, you don’t see the direct benefit of that in the near term in the cost income ratio, it only inflates the cost. That is the given thing**,** that is 2022 I have to carry that. But outside of that our costs are fairly well managed and in technology we will continue to invest.

Renish Bhuva: Okay. So these run rate in FY22 it will sustain, right? Whatever you are saying that 250 basis point interim cost to income, that you are confident of achieving that?

Shyam Srinivasan: No, I am not saying 250 basis point each year, but I am saying…

Renish Bhuva: No, accumulatively for 2 years?

Shyam Srinivasan: Yes.

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

Ankur Shah: Sir, I just wanted to ask one question in relation to the whole retail portfolio because you know these days all the banks are coming out and saying that we want to increase our retail exposure and something in relation to that. So this corporate banks are even saying the same thing. So has the risk reward being in favor to growth this quarter because it is becoming like a bandwagon sort of a thing that everyone is trying to hide their retail portfolio and eventually there might be a case where the rest of the world isn't so favorable to growth as I said.

Shyam Srinivasan: Yes. I tend to agree with you. And you would never had heard that from Federal. And we have said, we will be a balanced book and for long I said we are a 1/3rd-1/3rd-1/3rd book between corporate, SME and retail when we were running a low CD ratio we stepped up on our corporate, we saw good progress. As we came to in the mid-80s or early 80s of CD ratio, I said we will step up on our commercial banking, we put a full architecture for that. As we are doing that we said there is an opportunity to step up on retail, so we will, when we go back to the earlier definition of corporate SME retail, directionally we would like to be a 1/3rd-1/3rd-1/3rd, we never want to be caught in a cycle but we take between 3 and 5 years to pull out. So that is why we are now saying retail wholesale will be 50:50 driven by these dynamics.

Ankur Shah: Sir the second question is on the CASA, like I saw your own CASA ratio has come down to around 32%. Any specific reason why we are not able to match the CASA growth with the loan growth or the deposit growth? And secondly related to CASA, is there a chance that we are lagging somewhere in technology or API integration offering to the perfect clients because of which we might loose CASA?

Ashutosh Khajuria: But our CA has improved. I think CA ratio has improved vis-à-vis our own past as well as the market. The CA growth has been in excess of 25%, closer to 30%.

Shyam Srinivasan: Let me explain that to you. Our CASA for the full year grew 16%, our deposits grew 20% and like Ashutosh pointed out CA grew north of 25%, SA grew 15, SA ex Kerala grew higher. SA in Kerala while remittances were remarkably strong, SA growth was muted because the second half huge consumption happened, people had to restore livelihood. So to that extent I am not saying that is the only driver, but we have to see how things play out. What we are actively managing our cost of funds opposed to just running the CASA ratio because today SA is being originated by some banks at 6% and 7% which is like a term deposit rate. So we like to look at CASA through a context of CA which I am happy to report as moved 4.5 to closer to 7% and corporate is doing a remarkable job because of the capability built on cash management and the focus that we have created there and added to that would be the focus on the cost of deposits being managed.

Ankur Shah: Okay. And sir the last question, on the RWA, sir was it just because of the RBI change in NBFC or was it that the overall book quality also improved because…

Shyam Srinivasan: Certainly it is the book quality but it was almost helped by almost 50 basis point because of the RWA change in the NBFC.

Moderator: Thank you. The next question is from the line Shridham Sinha from Future Generali Life Insurance. Please go ahead.

Shridham Sinha: Sir just wanted to check in terms of recoveries, recoveries and upgrade were very strong this quarter. So was it granular in nature or were there any bad corporate accounts which were recovered or updated during the quarter and what really is run rate that we should expect going forward?

Shyam Srinivasan: I mentioned, maybe you came in late. 323 had one transaction where we have done a cash transaction and that was about 50 odd crores. The balance is granular regular recovery and upgrade.

Moderator: Thank you. The next question is from the line of Praful Kumar from Pinpoint Asset Management. Please go ahead.

Praful Kumar: Just wanted to know, are we looking at any key hire some on the senior management any more or any new hires that you need to take your ROA up 25 bps over next two years in terms of manpower?

Shyam Srinivasan: We do have lot of senior recruits. Many have come in, a few more are in the pipeline for specific roles as business managers, credit heads functional heads. My direct report team, we are not looking at any senior hire just now.

Moderator: Thank you. The next question is from the line of Krishnan ASV from SBICAP Securities. Please go ahead,

Krishnan ASV: Two areas, number one among the various businesses that Federal Bank has on its portfolio, it is generally we perceive that retail is firing below potential. I just wanted to understand across your varied business flows which are the ones where you see certain element of normalization happening in terms of ROAs and where do you think just pull it up far better?

Shyam Srinivasan: No, I think in all our businesses as you would have observed, as you watch us very closely, it is not an either or. We are scaling up on each of the verticals whether it is commercial banking, whether it is corporate or the newly initiated commercial vehicle opportunity in retail, the various granular pieces, business banking is a big opportunity, maybe I should just provide clarity, explain the architecture while you put it out much more clearly. We have 5 distinct verticals, corporate, commercial, business banking, retail and then agri, & micro finance. And each of them are headed by a business head and they have P&L outcomes and responsibilities. Some parts they have their own distribution, otherwise they leverage the bank's distribution. And each of them are headed by people who have relevant experience in that and are going out and building a P&L to make sure that it is profitable and it is ROA accretive. So the business architecture is quite well laid out and it is getting reasonably enshrined in what we do and therefore they are pursuing value creation within each of them. In that context we believe businesses like business banking, they have a remarkably large opportunity for us to pursue, I would say commercial banking, I would say personal loans, I would say fee generation capability on credit cards because we haven't done that at scale. We have just tested it out and beginning to work, we are doing now close to 10,000 cards a month versus 10,000 cards a full year. So we are looking at scaling that up which will fetch us. In our current model it is a fee income model, we are not looking at a revenue to unsecure loan and credit but we are looking at a fee income model. So at all these thing we think there is the dialing up capability. So I would say for the next 2 years, there would be no one step child and one poster child. We would like to do all of them at scale.

Krishnan ASV: That is helpful. The other question I had is around just a previous query as well. These recoveries that we mentioned were fairly strong except for the 50 odd crores that was the large ticket sale, I just wanted to understand what initiatives have been taken just to make sure that this pay or this run rate actually sustains, but that was build this out in terms of whether that is new normal that can sustain.

Shyam Srinivasan: See, I think if you see our four quarters, or actually go back, the run rate between 200 and 250. Now, certainly a) last quarter is always much more, maybe a 10%-15% bump up is always there. But the run rate rhythm is built for that. Now the denominator has already started coming down. The denominator of written off pool is already down. And wherever it is a bilateral client of the bank the opportunity is much higher with the consortium led big ticket account then we are only waiting for a Kingfisher or a bad debt to pay. So we have carved out the portfolio where it is federal relationship where we have an asset where we can go and do a onetime settlement, where we can do some aggressive activity to collect and what is at an industry level or a consortium level then we have to work with the other partners to work on. So it is a kind of a mix strategy.

Ashutosh Khajuria: So as the gross NPA also reduces in absolute terms which it has in this quarter, I think there would be so much lesser recovery pool. So both on the written off assets as well as the gross NPA, the total itself has fallen drastically.

Shyam Srinivasan: That said, last year was 800 crores, this year is 963 back out to 50 crores, so it is about 912, so we see a similar progress in FY20.

Moderator: Thank you. The next question is from the line of Sesadhri Sen from Alchemy Capital. Please go ahead.

Sesadhri Sen: I was just following up on the previous question in the line, the recovery on written off assets was 49 crores in the fourth quarter. What is the exact tool in this bucket, the written off assets, what is the size of the pool, how much do you hope to be able to harvest over what timeframe? If you could give some color because that is a fairly lumpy item in the fourth quarter P&L?

Shyam Srinivasan: Our technical written off pool is about 1500 crores. So that is the universe we are pursuing.

Sesadhri Sen: And what do you reckon is harvestable of this?

Shyam Srinivasan: See, the age less than 3 years and age greater than 3 years' behavior is different. Because greater in 3 years, there is a litigation, there is a consortium and a whole bunch of stuff. The more recent write off awarded the 1500 crores, they were 500 crores, so that is the more directly addressable pool. Typically, in a year you can expect about 25% on that.

Ashutosh Khajuria: Additionally, in this 323 crores of recovery and upgradation, this recovery from written off is not included, that is over and above that, that is separate.

Sesadhri Sen: That is the 49 crores I was referring to.

Ashutosh Khajuria: So this particular amount is 44 crores in fact and that is against 101 crores last year with lower vis-à-vis last year this thing.

Sesadhri Sen: Exactly. I think even quarterly on a year-on-year basis is down, it is 54 to 49, if I see slide 22?

Ashutosh Khajuria: So Mr. Sen, what happens is, if you have one account, one corporate account settled in a particular quarter that suddenly changes the amount and trend line. We had NAFED some amount coming last year, so suddenly the amount had gone up.

Sesadhri Sen: Yes. I appreciate. This is a line which can be very volatile on a quarterly basis. But I just want to get from a 2-year perspective, you know Shyam was mentioning 500 crores, some of this will be harvested over 2-year perspective with lot of quarterly volatility if I read you right.

Ashutosh Khajuria: Absolutely.

Sesadhri Sen: The second question is on capital and net worth, so you know the increase in the net worth is more than your quarterly profits, just if you could explain that?

Ashutosh Khajuria: That is partly because of the prescription from Reserve Bank of India where in earlier they were saying for all NBFCs, you have to have weight it as a 100% risk weighted assets. Now they have extended it to equivalent of non NBFC corporate exposures like if you have AAAs and it is only

20% if it is AA, 30% if it is A, 50% if it is BBB, then 100%. So that particular formula, in that AAA NBFC suddenly would consume lesser capital. Instead of 100 they will consume 20.

Sesadhri Sen: Yes. I understand that. That is the RWA movement, but the tier I capital has moved from 11,800 to 12,500, 700 crores. Have you issued some tier I bonds?

Ashutosh Khajuria: No bonds, no debt instrument in our balance sheet which is a capital contributing instrument. Neither in tier I, nor in tier II, no Tier 1, no tier II bonds. Probably ESOP exercise and all some would have got added because of that.

Sesadhri Sen: Okay, ESOP would explain that, yes. The broader question is on what is your CET-1 and on a 2 year–3-year timeframe, what are the absolute flows that you are looking at, are you thinking of capital issuance in the next 12 months-24 months?

Ashutosh Khajuria: So as the numbers suggest, we would not need to raise capital in next 2 financial. The current financial year and the next financial year, at least up to 18 months. But then there is a strike the iron when it is hot, probably I mean if the markets are favorable and suddenly our growth also picks up environment picks up and all that you can never predict you know how much it would be, it would not be correct on my part to say that we are seeing strict no-no to raising capital in next two years. But doesn't seem like that and current financial year we would need it.

Sesadhri Sen: And final query on your home loan business, that is obviously a fairly largely part of your retail housing loan business of large part of a retail housing loan business of the large part of the retail, how do you see the operating environment there? On the one hand, we know a lot of HFCs have not stop lending, so that obviously works to your advantage especially given the quality of a liability where on the other hand the demand environment isn't probably that great, there is a lot of risk for builders who may not be able to complete projects. So how are you approaching that in terms of future growth and if you could share some color on average ticket sizes, what percentage is affordable, etc ete?

Shyam Srinivasan: Average ticket size in metro particularly in Mumbai is closer to 80 lakhs. Rest of India is about 40 lakhs to 50 lakhs. And we see home loan growth sustaining this momentum, distribution is quite strong. The relationships we have built in different developers is now quite strong. So we are becoming one of the principal mortgage lenders in most of these big projects now. So if you take Mumbai as a sort of a benchmark, I am assuming the market is about 7000-8000 crores a month, we are doing 400 crores or so. So we are doing meaningful participation now and we think that will continue.

Moderator: Thank you. We will move on to the next question, that is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Just 3 questions. First, data keeping question on the 50 crore sale that we did, is it largely from the SME NPA book?

Shyam Srinivasan: No, it was corporate road asset.

Dhaval Gada: Okay. The second question was on SA growth. So it was 12%, if I back calculate based on the CA number that you have given, is that correct and in this the comment around what drove this numbers materially lower than the trajectory was in the past quarters?

Shyam Srinivasan: I think SA Kerala was closer to 12, non-Kerala was closer to 16, Kerala was slightly lower because while remittances are strong the spent for sort of restoring livelihood was higher and therefore it slowed down in the second half.

Dhaval Gada: And lastly on the pricing environment, I mean how do you see loan yields moving into FY20 and could you give some color between where are we on incremental yields and average yields per corporate book SME and retail book?

Shyam Srinivasan: See, our overall book management I told you are driving closer to 50:50 retail wholesale and within retail there is a bunch of products, some purely 100% home loan secured through unsecured but that is a spectrum. I also said that the personal loans stroke those relatively unsecured products will at best be about 5% of the total book. So the yield expansion stroke NIM expansion we are talking about 320. A product wise yields may have short of top of my head but you can sort of easily figure it out.

Dhaval Gada: Sorry, just to follow up, I remember few quarters back these numbers were about 10% in retail, 9% in corporate and 11% in SME?

Shyam Srinivasan: Inching up, that is why we are able to keep our NIMs consistently at least where we are without while cost of deposits as the market level has gone up.

Moderator: Thank you. We will take the next question from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Sir, I have a couple of questions. One is at what point of time and what are the matrix that will trigger branch additions from the current positions, so how will you decide on when you need to start adding branches? And second is, out of your incremental let us say savings and retail term accounts that you have done in FY19 let us say, how much of it was from the digital channel and how much of it was sourced through your branch network?

Shyam Srinivasan: I will draw your attention to a slide and which we didn't say, I just got it somewhere on line, but I thought we believe in it, slide #25, where we said prominence to dominance and presence to prominence. I am emphasizing that because in Kerala we were prominent, but we are now seriously dominant. And ex Kerala we were present but not prominent and we believe we are scaling up on both of that count and I am seeing that happen and we certainly will fight it hard to make that prominence to dominant like Kerala over the next 2 years. That said your question on where we seeing the growth incomes of the savings account in a linked question. Sorry, I will come to the branch expansion in a moment. All our accounts largely in the liability side are now digitally originated. So whether it is through our branch or through the selfie or whichever is all digitally originated. But the branches per se, we think ex Kerala we will look at about 40-50 branches per year for the next 2 years, but that is not something that we will do in a conventional model, we are visiting a few sort of size of branch, skills required in the branch, how much is self-service, how much is automation, how much is the conventional tailoring, so bunch of stuff that is going on. But it is not a number one priority for Q1 and Q2. We are putting some things in place, but that is not limiting our near term growth. I genuinely believe as we have demonstrated over the last 4 years, we haven't added a branch in 4.5 years. Our growth has not been constrained and today the distribution of the bank is quite significant and we believe that reach out, salaried accounts, bring more digital, is giving us reach. We will certainly invest into the network but very selectively in few geographies and in a differentiated model. Over the next two years, we will probably put 80 to 100 branches in certain geographies outside of Kerala.

Abhishek Murarka: Okay, sir, just to sort of follow up on both these one by one, any terms of your SA and RTD commentary that you gave, is it fair to say that let us say in FY19, whatever increase happened in let us say number of customers, almost 80% to 90% of that would have been digitally sourced and is this entirely digitally sourced or is it like consistent digital when a person walks into your branch and your best guy actually helps in fill in a form digitally?

Shyam Srinivasan: It is originated digitally, pure digital will be 10%, where customer himself unsupported, but the digital origination using tap banking or straight through when he comes into the branch and the account opening happens on the system instantly that is the thing, so 90:10, 90 in favor of assisted, 10 in favor of purely digital.

Abhishek Murarka: And despite that kind of mix, given that assisted digital is also you know a sourcing mechanism where the person has to reach the branch. You still think that you don't need to add more than 40-50 branches outside of Kerala in a, let us say 4 years for the next two years?

Shyam Srinivasan: Yes. That is our view right now.

Abhishek Murarka: Okay. And your SA growth in that context, you know even if it is 14%-15%-16% in this quarter, it is slowing down in the last 3-4 quarters and it is becoming more difficult to get SA. So you still think that is adequate given your overall 20% growth trajectory?

Shyam Srinivasan: We are talking of CASA which is I think a better metrics for cost of funds and either your CA is robust and we believe in FY19 we may be the top 3 banks in CA growth in percentage and in some sense even absolute.

Abhishek Murarka: Okay. So whatever slowdown is there in terms of SA you will make up through CA?

Shyam Srinivasan: Very significantly in CA.

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

Gaurav Kochar: The below BB it is around 16% of the corporate book and you have given another slide wherein you mentioned that the NBFCs and the HFCs are mostly A or better rated. So may I know which sectors in this 16% category?

Shyam Srinivasan: Gaurav, I think this is data point I may not have instant answer. I would request Raj, if you have it. No, his question is that 16% which is BBB what would they be if it is not NBFC, HFC? Only just one sector or something.

Shyam Srinivasan: And commercial banking also included in that.

Gaurav Kochar: Okay. And lastly on the auto loans, how much of it is CV and how much is non CV?

Shyam Srinivasan: This is not CV at all. CV book is just 100 crores.

Ashutosh Khajuria: CV, will come under business banking, commercial banking.

Gaurav Kochar: So these are purely car loans in two wheelers?

Shyam Srinivasan: Not even two wheelers, car loans.

Ashutosh Khajuria: Retail loans, individual.

Gaurav Kochar: Sure. So car loans saw 64% growth despite you know slowdown in the number of cars which are sold. How we tracking here, I mean 62% growth?

Shyam Srinivasan: No, I think our growth is very small, relatively small base and we think and bulk of this is in Kerala and Tamil Nadu where a) our distribution is strong and we have activated it. So we now are for 5 lakh and above car segment in network one, we may be the first to go bank and you probably are aware Kerala is the largest four wheeler sales market in the country, luxury car sales.

Moderator: Thank you. Sir, we will take the last question that is from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.

Saurabh Dhole: Just one main question which was on slide #15. There on the bottom right there is a chart which talks about many exponential growths in the digital users. So I just wanted to know what did we do in this quarter so the digital is driving this growth?

Shyam Srinivasan: What did we do differently this quarter?

Saurabh Dhole: Yes, on slide #15.

Shyam Srinivasan: No, I think it is a buildup. I mean frankly it is not anything uniquely different, it is a buildup and we ran a lot of internal contest to make sure that digital and is one of the employ targets to ensure digital growth, typical quarter 4 ends up being the most active quarter and we saw that pick up, that will be the new base, so from that new base again people will be targeted to grow.

Saurabh Dhole: Okay, so this is cumulated?

Shyam Srinivasan: Yes.

Saurabh Dhole: Okay. And just one more if I can, you already mentioned that you planned to have around 40-50 additional branches outside Kerala which is I think for the next one year, right?

Shyam Srinivasan: Yes, that is directional. We may not put 40, we may put 30 and we will put 60 the next year, but directionally another 80 odd branches over the next 2 years.

Saurabh Dhole: But if you talk a bit about little a longer time horizon, do you think the time is right to maybe change the profile of the bank and have a much stronger presence outside Kerala or much less dependence in Kerala?

Shyam Srinivasan: I mean, that has been the journey of the bank now for the last 3-5 years is what is claimed through.

Saurabh Dhole: No, in terms of branch?

Shyam Srinivasan: That is what I am saying. Our physical presence I think is, and that is our judgment, is not so much limitation. It is our reach which is the issue, which is what we are focused on. If physical presence is important we are looking at various banking outlets and more nayi soch kind of activities which can give us the physical presence to give the sort of prominence. So we are not looking at physically putting in 100s of branches and our strategy has burn out by that effort and I think we can sustain that but we don’t want to be blind to anything, we will certainly consider if there is a need. This whole space is emerging almost consistently. And while we are doing this our subsidiary particularly Fedfina is doing a great expansion plan. So we might do some piggybacking on that and develop some BC outlet strategy.

Moderator: Thank you. Sir, you may please go ahead with your closing remarks.

Shyam Srinivasan: Thank you. As there is one crucial and important input in terms of the overall Federal Bank franchise in addition to what we believe was robust quarter and positions as for FY20, we are quite pleased that Fedfina is turning out quite strongly. The whole team has been after the arrival of True North as a partner, very strong senior management team with good focus has come into place. IDBI Federal which is another JV partner of us, we have had good progress, you may have seen the numbers and we think that is scalable to. They declared maiden dividend this year and it will get cleared in the AGM next month. The Fed serve which is our 100% off subsidiary is now coming up to the steam, we believe in the course of FY20 that will scale up nicely. And our investment in Equirus is turning out to be very productive, not only just from an investment banking side, but also for our wealth management capability. I mean we will have more concrete outcomes to show in the course of FY20. I thought I will summarize with that input, and another input for those of us who work closely with us and track us closely, you have been used to Rajnarayanan as the Investor and Marketing Relations Head, he is moving to another large assignment. He is going to run the Bangalore zone. So Anand Chugh is coming in as the Investor and Marketing Relations Head, so he will be the new point of contact and I am sure they will reach out very soon.

Rajnarayanan N: Thank you all for the support that you have extended to me and the camaraderie that I have enjoyed with at least some of you has been exhilarating. Thank you and have a wonderful evening.

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