"Federal Bank Q2 FY 20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day. And welcome to the Federal Bank Q2 FY20 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. Anand Chugh – Head (Investor Relations), Federal Bank. Thank you and over to you, Mr. Anand Chugh.

Anand Chugh: Hi. Thank you so much. Good afternoon, everyone. Thanks for joining on the call. I have with me the entire management team out here. So, without much ado, I will hand it over to Mr. Shyam Srinivasan for the opening remarks.

Shyam Srinivasan: Thank you, Anand. Good afternoon, everybody. This is to give you an update on the quarter that went by, and, of course, take questions and clarify anything that everybody would like to ask.

Firstly, just some headline points. I have seven, eight points to share as most themes and what we thought were areas that we wanted to emphasize. First is, the underlying progress on areas that we had identified remains solid. The verticalisation, portfolio quality, book mix, granularity, market share gains are all visible. Book mix is now getting close to the 50-50 between wholesale and retail that we desired to have. What is noteworthy in Q2 was the strong deposit growth, we had closer to Rs. 7,000 crores of growth in deposits, an all-time high for us in a particular quarter, except the demonetization quarter. And that on a portfolio, yes, we did have challenges of not being able to deploy all of it, but deposits per se, and these were not priced at higher rates, so we are quite pleased with the kind of deposit momentum that we have seen. Also, visible in our debit card spend going up closer to Rs. 800 crores, Rs. 900 crores a month now, we think we will touch Rs. 10,000 crores this financial year.

Our external benchmark linked pricings have gone live, both on assets and on liabilities. Effective September 1, we even did our EBM linked repo for savings book. The slippages, while noticeably higher this quarter, was from the pre-identified pool which we had guided at the beginning of the financial year. And we haven't seen any formation of any big challenges coming up in the last 6 months, and likely to hold here on too. And our stressed asset book continues to be below 2% at about 1.72%. And the strong progress on fee income and other income is visible, and we think that's something that builds good capabilities and should strengthen from here on. The recovery upgrade, particularly in the retail, SME book continues to be strong. This quarter in particular, we had about Rs. 223 crores of recovery upgrade and most of this is all from the non-corporate portfolios. And like I pointed out, the slippages are from the pre-identified pools. So, our beginning of the year sort of inputs around what would be the likely ROA, ROE focus we have for the full year, I think we are holding onto it and, if anything, it gets slightly better, given the benefit we have had from the recent income tax dispensations.

So, on balance, the quarter, while net profit was of course at an all-time high, it was aided in part by the tax benefit. The ratios on interest income, NIM and cost income did see the changes lower than expected, and we would be happy to share what they are. The quarter also saw us take additional employee costs, as you know the wage negotiations are underway, and the discussions are that we had been budgeting for 10% wage negotiation, there is a talk that it may be 12%. So, we have budgeted, I mean we have taken an additional hit of about Rs. 23 crores for the last 27 months. As also the pensioning impact has gone up by Rs. 14 crores because of the yields fall, so this too distorted the cost number by about Rs. 42 crores. And we had one-time gain of IDBI Federal last quarter, the dividend payout of Rs. 20 crores that doesn't exist in this quarter.

So, the operating profit at Rs. 719 crores, in some sense, versus the Rs. 784 crores of the last quarter did see some reductions explained by these developments. Underlying credit growth in the large business of retail, business banking, agri, gold was all north of 25%, corporate and commercial banking closer to 10%. The deposit growth, I pointed out, for the quarter was running at about 20%. Income and fee income, fee income growth was quite significant, both fee income as also the recovery-related other income both grew quite well, north of 20%. So, broadly, those are headline numbers.

Like Anand mentioned, we have the entire senior team with us, happy to take questions. So, operator, you may open it up for question and answers.

Moderator: Sure. Thank you very much. Ladies and gentlemen, we will now begin the questions-and-answer session. We take the first question from the line of Jehan Bhada from Nirmal Bang. Please go ahead.

Jehan Bhada: Sir, last quarter we had discussed that there were a few accounts in the stressed book. So, any of those accounts have slipped? I guess you have discussed two HFCs and IL&FS.

Shyam Srinivasan: We, not only last quarter, at the beginning of the year I had pointed out there are two HFCs, one IL&FS and one dollar loan to one of the larger groups. The two HFCs are still standard, but we have made a significant provision, you would notice our standard asset provisions have gone up materially. The IL&FS account is fully performing, fully serviced and is likely to be sold and taken out this quarter. The other account, which is a dollar loan of $25 million is the one that has slipped this quarter. It has a coverage of about 2x, and we believe in the coming quarters it should be solvable. But we have made a significant provision for that, and it has become NPA.

Jehan Bhada: Okay. And sir, so in the coming quarters will these two HFC accounts, I mean, how will the things shape up?

Shyam Srinivasan: At this juncture, hard to call. But the news flow on that are not very encouraging. So, we have started preparing for it, and we believe that the substandard provisions that we have made for this quarter, and likely to make similar provisions in the remaining quarter to ensure that we exit the year for these accounts well provided. And if things turn out positive, good news; otherwise we won't be surprised by developments.

Jehan Bhada: Right. Sir, also, the total slippages for the bank were at Rs. 540 crores, which were slightly on the higher side from the past run rate which we have been doing. So, going ahead what should be the run rate that we should look at?

Shyam Srinivasan: I mean, yes, Rs. 540 crores included about Rs. 190 crores of slippage on corporate, out of which one account was Rs. 180 crores. So, we had said that we have four accounts totaling to about Rs. 700 crores at the beginning of the year. And I can't quite say which quarter they will fall. Our belief is, in the full financial year one of them is resolved, the other three are in these two HFCs and this particular account. Our overall guidance on slippages number for the full year and credit costs, we are still holding onto, because half the year is over, we haven't seen any new developments that are worrying.

Jehan Bhada: Right. Okay. Sir, second question, on NIMs they have come off about 14 basis points sequentially, so any reason?

Shyam Srinivasan: Yes. The NIM fall is explained by the following three specific things. One is, I did mention we grew Rs. 7,000 crores of deposits, credit was about Rs. 3,800 crores. So, there is a cost of carry of about 1% on this Rs. 3,000 crores of excess deposit, which the impact is about Rs. 8 crores for the quarter, roughly about Rs. 30 crores for the full year, that's about four basis points. We saw higher slippages and that had an impact of another four basis points. And a large part of the T-bill linked external benchmark that we were using for two years on the credit side was T-bill linked. Unfortunately, this quarter, the T-bill fall was quite significant, almost 60, 65 basis points, that has added another about 4 basis points. So, combined effect of these three for the quarter saw about 10-odd basis point impact, which is why the NIM has come down by almost 14 bps.

Moderator: Thank you. We take the next question from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead

Dhaval Gada: Just a couple of questions. First, just following up on the previous question on margins. I mean, could you just explain, I was hearing Ashutosh on TV that there is some liability repricing benefit that we will start seeing from next quarter and, therefore, margin should restore back to the 3.15% to 3.2% guidance. Just could you explain what is the thought process around it?

Shyam Srinivasan: Sure. I think the floating rate deposits effectively was only one month effect in this quarter. Effective this quarter, you will see the full book floating on deposit, I mean, the large part of the savings book. And as a consequence of that, the mismatch should come down quite materially. A large part of the T-bill book, which is booked, they matured, the repricing was in Q2, so that's getting reset. So, both these effects sort of nullify the one-time impact of Q2. The one strength or weakness was that it's T-bill -linked, so we grew good credits. But T-bill fall was much higher than even the repo rate fall. So, as a result, we saw the impact of 60-odd basis points. I think one year T-bill has fallen 200 basis point plus.

Dhaval Gada: And the reset happens annually, most of the T-bill?

Shyam Srinivasan: Yes, annually, and a bulk of it in Q2 this year.

Dhaval Gada: Understood. Okay. So, that impact will stay for one year or so. I mean the repricing benefit, if any, on those portfolios will come one year later. The immediate benefit will come from the funding side which gets repriced, is that correct?

Shyam Srinivasan: Yes.

Dhaval Gada: Okay. Understood. The second question is on the portfolio quality. So, just if you would refresh the exposures to IL&FS, Dewan, Reliance Home and Indiabulls, you mentioned that we have significantly added provisioning. So, if you could just quantify the amount of standard asset provisioning that you have created on these exposures, that would be very helpful.

Shyam Srinivasan: The standard asset provision, you will see Rs. 62 crores this quarter. It's for these accounts that you have mentioned just now. One of them is not, at least at this juncture, not in any provision category. Two of them in the housing finance, and IL&FS, yes. Indiabulls, we are not commenting as of now. Right now, it looks okay, they have paid down another Rs. 100 crores in the last quarter.

Dhaval Gada: So, cumulative standard asset provisioning on these exposures would be how much cumulatively?

Shyam Srinivasan: Rs. 72 crores.

Dhaval Gada: And just on exposure to the two HFCs and IL&FS, net outstanding on 30 September would be how much?

Shyam Srinivasan: Rs. 275 crores plus, how much is it chenani?

Ashutosh Khajuria: Rs. 201 crores remaining.

Shyam Srinivasan: So, Rs. 475 crores.

Dhaval Gada: And Indiabulls, our exposure is still Rs. 300 crores plus?

Shyam Srinivasan: Yes.

Management: No, below Rs. 300 crores.

Dhaval Gada: I remember, sir, you mentioned earlier Rs. 320 crores or Rs. 350 crores earlier. That Rs. 100 crores has been paid it, is it?

Shyam Srinivasan: No, it's Rs. 300 crores.

Dhaval Gada: Okay. And lastly, MSME dispensation that we would have availed during the quarter would be?

Shyam Srinivasan: A few crores, nothing major. We have not taken anything major.

Moderator: Thank you. Next question is from the line of Jai Mundhra from B&K Securities. Please go ahead

Jai Mundhra: Sir, first thing I wanted to understand, we have put on the exchanges that the RBI has only allowed one year extension to your this current term. So, can you please throw some light as to what do you think could be the reason for such a development? And has there been any reason given by RBI and what is your thought process around it?

Shyam Srinivasan: Yes. The letter is saying one year, it also says subject to bank's performance. So, we think there should be no issues beyond that. And, therefore, we will wait to see. We are making guesstimates, because in the last one year I am told there has been no other private sector MD coming up for renewal, and apparently there is none coming up for the next one year. So, we will see. But beyond that, I have no incremental data to offer. Other than the, letter of RBI says one year renewal subject to bank's performance. So, we hope if we continue to perform, there should be no issues.

Jai Mundhra: Yes. But sir, I mean, versus other private banks, on a reported basis, we are still doing much better, right, in terms of divergence, in terms of headline asset quality and in terms of profitability as well? So, what do you think could be the reason for such a negative comment from RBI?

Shyam Srinivasan: We are again making an estimation, because last year we had a Rs. 5 crores penalty from RBI for certain KYC and other aspects. So, it is likely from that direction. But I can't say with any authority that's it, but that could be well the reason.

Jai Mundhra: Sure, sir. And do you sort of intend to do some succession planning? Or would you still wait for the year-end and then based on your dialogue with RBI, because I believe RBI may not be interested in dialogue, I mean, it can still go after one year and say that this has been the bank's performance. But do you think you need to do sort of a management succession also?

Shyam Srinivasan: Good question. I think the Board has discussed this on a couple of occasions. Board believes that between now and March, we will continue to watch performance. And if there are signals that we need action, Board will initiate action. So, I don't see anything happening in the next three to four months, but certainly yes at an appropriate time. General view of the Board is six months prior to any action. My last approval was sent to the RBI four months prior to that, discussed six months prior to that.

Jai Mundhra: Sure. And then on asset quality, sir, so now we have given a very good disclosure, I believe this is much better than what we had given in the earlier quarters. Now we have separated large corporate, and within that BB, within that below BBB and others. And this others is corporate only, right, this is the breakup of corporate? And I believe this is your internal rating, right, because external is not available, is that the correct understanding?

Shyam Srinivasan: Yes. For us it's everything, it's not only corporate, it is corporate plus other portfolios, right, Anand?

Anand Chugh: Yes. So, there are two slides there, one is for corporate assets. In that, within that what you see is others means what is not rated by external agencies. And the other side which you are talking of, which is rating distribution of other assets, that is for the rest of the book other than the corporate assets.

Jai Mundhra: Okay. So, this is for the rest of the book other than corporate?

Shyam Srinivasan: That's right, includes everything.

Jai Mundhra: So, includes retail as well, is it?

Ashutosh khajuria: Everything, within corporate the others is there, where some could be government corporations and all that for which the rating is not there. It's more like an unrated and all.

Jai Mundhra: Okay. Understood. And sir lastly, have we signed any ICA for standard or is there any ICA pipeline that you intend to sign apart from these two HFC names that you mentioned?

Shyam Srinivasan: No.

Jai Mundhra: Is there any ICA that you think is a near-term due?

Shyam Srinivasan: As of now, nothing on the anvil. Just one point to an earlier question, Sumit just pointed out, and chenani what is lying in the escrow is more than Rs. 500 crores.

Sumit Kakkar: The lead bank is releasing those monies as and when they are due. Chenani additional information is that it was zero DPD.

Moderator: Thank you. We take the next question from the line of Darpin Shah from HDFC Bank. Please go ahead.

Darpin Shah: Just to reconfirm, our exposure to IL&FS is Rs. 190 crores and Reliance Home is around Rs. 275 crores, correct?

Shyam Srinivasan: Reliance Home Finance is Rs. 99 crores. Usually we never disclose client-by-client, since the conversation has meandered to it, I will. Rs. 99 crores and DHFL is Rs. 175 crores.

Darpin Shah: Okay. And sir just to reconfirm, there is no any further addition to the stressed assets after certain downgrades which have happened in 2Q?

Shyam Srinivasan: Whatever we have said six months back, three months back and today are consistent. We haven't seen any new formation.

Darpin Shah: Okay. And sir, these are the total exposures, not only the funded ones?

Shyam Srinivasan: Full exposure to those clients.

Moderator: Thank you. Next question is from the line of Kunal Shah from Edelweiss. Please go ahead

Kunal Shah: Yes. So, firstly in terms of the guidance, you said that ROA and ROE maybe we are broadly maintaining. But eventually, if you look at it in terms of credit growth, earlier we were anticipating 18% to 20% margins to end at 3.2%. And also, we were planning to inch up the PCR. In fact, this quarter it has come off. And the credit cost also of 55 to 60-odd basis points, while in the first half itself we had seen 40-odd basis points on a half year, and maybe more than 80 basis points on an annual basis. So, is it like more comforting because when you look at the credit cost and everything, in fact, that's more than 80, 85 basis points. So, I think we are missing on most of the guidance parameters across it. So, what gives you the confidence in terms of maybe moving towards ROA and ROE? And finally, maybe there are like few exposures which are yet to be recognized, which will come in Q3 and that will require the additional provisioning as well as some interest reversals.

Shyam Srinivasan: Firstly, the questions are good. I think the credit cost for the first two quarters is 62 basis points, so I don't know where you got the 80 basis points number. You can...

Kunal Shah: No sir, overall when we look at the provisioning, so maybe you are excluding the standard ones.

Shyam Srinivasan: Okay. So, if you add the standard asset provisioning, it's 62 basis points. Okay. When we had guided that was 55 to 60 without that. So, we should just -- like-to-like, but yes, with that back, but that's only a matter of timing. Should these accounts fall, the standard assets will become 0, right? So, we have only advance provided, and there is 15% provision. So, theoretically there should be no more provision. We prudently increased the provision, right? So, from a credit cost guidance, our guidance for the beginning of the year, mid-point of the year, and hopefully end of the year are consistently around the same. We had said 55 to 60, we may be at 60 to 62. So, we don't see anything changing at this juncture on that count. Therefore, our ROA, ROE, we don't see anything changing.

The credit guidance, yes, when we make credit guidance, there are certain economic environment criteria that you keep in mind. We wouldn't like to, just because we have committed something and do wrong business. So, we are quite happy to do this 30%, 20%, 10%. 30% growth in retail, 20% growth in business banking and agri, and 10% in corporate/commercial. If opportunity opens up, we will pick more. Even our disbursal in corporate is quite good. This quarter the disbursal is closer to Rs. 6,000 crores. The repayment deleveraging of corporates, we saw Rs. 4,500 crores of payments, out of which Rs. 1,000-odd crores were payments we wanted as in those relationships didn't make much sense for us at this juncture. The rest is customers deleveraging or finding cheaper sources of funds or moving out or just making sure their balance sheet is debt-free. So, our credit growth guidance, yes, we had pointed 18% to 20%, but at this juncture having half year at 15%. We may pick up, but I am not going to, just because we said something, do the wrong thing.

Kunal Shah: Okay. And overall, in terms of this BBB, maybe less than BBB and the other assets, if you can just highlight maybe the sectors wherein it would be concentrated. And how much is the overlap in terms of what is already there in the restructured NPL and, say, in the highlighted watch list?

Anand Chugh: There's no overlap.

Kunal Shah: So, there is no overlap? This is over and above this entire 13%-odd which is there, that will be over and above. But few of these accounts would already be there, like DHFL and all that would have got categorized?

Anand Chugh: So, these are standard assets. There is absolutely...

Kunal Shah: This is purely standard, okay.

Anand Chugh: So, whatever the standard is coming into this particular chart. And as to your question of sectoral distribution, I don't have a specific distribution chart, but I think in none of the sectors we are overly exposed, there is another slide on page 28 which will give you a sectoral bifurcation of top 10 sectors of the bank.

Kunal Shah: Yes. So, here again, maybe HFCs and NBFCs, I think, definitely as a proportion it's slightly inching up, maybe moving towards now 14.7%-odd, plus real estate of almost another 3.3%.

Ashutosh Khajuria: Real estate is mainly LRDs.

Kunal Shah: Okay. It's mainly LRDs.

Shyam Srinivasan: It is only LRDs. HFC and all, you have some AAA ones and all that, which result in this higher percentage, the top 3 of the country and all.

Kunal Shah: Yes. So, last time we highlighted in terms of 98% and 97% being there in A and above. But maybe that we are seeing downgrades happening in many of this NBFC segment.

Shyam Srinivasan: Yes. Kunal, you are right, that is the environment we are living in. But at this juncture, they look good.

Kunal Shah: Okay. And lastly, in terms of the non-fund based exposure towards either the NPLs or maybe the restructure as well as maybe this, I think in the watch list we are highlighting the total exposure. But anything linked in terms of the existing NPL pool?

Shyam Srinivasan: No, nothing.

Ashutosh Khajuria: See, wherever you can see it for the past 10, 12 quarters, when you see the movement of NPA, their additional NPA on account of existing accounts having higher one is due to NFB. And you will find for us NFB exposure itself is so low that it doesn't materially change the number much.

Shyam Srinivasan: I think if the question isn't specific, these so-called worry accounts, are there non-fund lines or other exposure, answer is, no.

Kunal Shah: Okay. And just one last question in terms of the branches. So, this time we had again seen like good growth coming outside of Kerala. And in terms of the branches, maybe we are still there. So, maybe in terms of when we look towards adding more branches...

Shyam Srinivasan: This quarter we added four branches in Q2, we think we will add eight branches in Q3 and about 10 branches to 12 branches in Q4.

Moderator: Thank you. Next question is from the line of Renish Bua from ICICI Securities. Please go ahead.

Renish Bua: Sir, just to follow up on the rating distribution. So, on page #13, I think as Anand has mentioned that we have given the rating distribution for the other assets that is ex-corporate. So, in that rating profile, our FB4, which is an internal rating, consists almost 32% of the pool. So, how should we look at this portfolio? I mean, what indication this rating gives as FB4?

Ashutosh Khajuria: Up to A or BBB+, you can take it equivalent if you want to map it, because we have a 10-point scale.

Ashutosh Khajuria: So, that's what we are saying. I mean FB1, 2, 3, 4 probably if mapped with external rating would be BBB+ and above.

Renish Bua: Okay. And this is including everything, right? I mean SME, retail and everything, every other sites?

Shyam Srinivasan: Except the ones that are below, which is gold and...

Ashutosh Khajuria: Except which are not required to be internally rated also, like gold loans and all, gold loans, staff loans.

Shyam Srinivasan: Sumit has a point to add.

Sumit Kakkar: These are all very well collateralized exposures. The SME exposure is very well collateralized. And they have been with the bank for years, probably even decades.

Renish Bua: Okay. Sir, secondly, just on the asset yield side, which actually fell by sharp 20 basis points. Of course, you have highlighted about 4 basis point due to the T-bill's fall and other 4 basis point due to the interest reversal, but since we are growing our retail book much faster than the overall loan book, we can assume it would be high-yielding book. So, why is it still not reflecting on the asset yield side? And since we are not growing corporate book at a rate where real asset is growing. So...

Shyam Srinivasan: So, I think in one quarter, it won't show, Renish. You will have to see that over the next two quarters. And that's why we are still saying the exit rates will be still 3.15% NIM.

Renish Bua: All right. So, I mean trend wise, you are saying that it should reflect in...

Shyam Srinivasan: Actually, the one thing that failed our model was a sharp drop in T-bill rates, because fall was almost 65 to 70 basis points. And to be honest, it was not something that we visualized. When we saw it coming, we changed our external benchmark linked deposits earlier than the market, that's why we did it September 1. And that gave us some cover in September, full quarter this quarter, both into deposits and assets in float and, therefore, we think we will neutralize this impact. Like we also said, the book is getting repriced and reset. And we stopped the T-bill - linked pricing about seven months back.

Ashutosh Khajuria: The repricing has happened in quarter one, quarter two, the total impact had been maximum in Q2. But Q1 to Q2, T-bill fall was only 20 basis points. But in this quarter, it is 65 basis points. Total is 85 basis points from March. I mean, T-bill fall has been much more than the rate cut. Rate cut had been 135 basis points in a year, whereas T-bill fall had been 210 basis points September to September.

Renish Bua: Right. And sir, just to reconfirm that, you are saying that we have already stopped the T-bill - linked portfolios, is it?

Shyam Srinivasan: New loans we stopped seven months back.

Renish Bua: Okay. And sir just last question, if you can just give me the provisioning breakup for this quarter in terms of NPA, standard asset and investment provision.

Shyam Srinivasan: Investment provision, Rs. 12 crores; standard assets, Rs. 62 crores; NPA provision, Rs. 175 crores. I may be off by 1 crore here and there, but I think...

Moderator: Thank you. Next question is from the line of Kaushik Poddar from Kolkata Bangalore Capital Markets. Please go ahead

Kaushik Poddar: Yes. Shyam, I think in the interview with Business Standard, you had talked about or you have propositioned that the ROA of various banks would converge towards 1.6%. I mean the better ones will come down and banks like you will go up to 1.6%. Can you elaborate on that thought?

Shyam Srinivasan: Sure. That is, of course, you have to grant me my perspective of...

Kaushik Poddar: Yes, your way of looking at things. Yes.

Shyam Srinivasan: There are two factors. One is, with IndAS coming in, your revenue recognition will change materially. And banks that have a high non-fund business and have grown credit and have built upfront fees, they have had the luxury of higher income and a lower denominator. So, to that extent the ROA looks a little more generous. In our case, the NFB business, as you know, is a very small part, and we don't upfront fee income. What others do is less of my commentary. What I am only saying is that over time IndAS doesn't allow that luxury. So, you will see that the ROAs for the best -- there will always be an exception and some banks may just disprove my theory. But generally, it's already evident some banks are beginning to see that the premium they were commanding is beginning to come down. In our case, I think people have realized that ours is a more true, unwrinkled, real business and we will command the premium we deserve.

Kaushik Poddar: Yes. What you are saying is that fee income, I mean, they are putting it in the initial years itself, so that's why their returns are higher, is it?

Shyam Srinivasan: IndAS requires you to amortize it, so it's not upfronted. And when you have an asset, the denominator is only the funded line and not the non-funded. So, you have a higher revenue and a relatively lower denominator. To that extent, ROA is slightly exaggerated.

Kaushik Poddar: Okay. Now 1.1% for you, say, from 1% last year to 1.6% is quite a distance, I mean…

Shyam Srinivasan: What I meant, over a time. I am not talking of a short period. Our commitment...

Kaushik Poddar: What is the time you are thinking?

Shyam Srinivasan: So, we are saying our 1.1% will exit at 1.12% this year, 1.25% next year, 1.35% the following year. This is what we have line of sight right now. Yes, we are helped slightly by the income tax benefits. So, we will get maybe a little earlier, but that's what we have line of sight to.

Moderator: Thank you. Next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead

Saket Kapoor: Sir, firstly, sir, I missed your earlier commentary part. So, if you have to explain about the lower tax expenses for this quarter, how will you explain it, sir?

Ashutosh Khajuria: So, for lower tax expenses because...

Saket Kapoor: Yes, yes, lower tax expenses of Rs. 53.34 crores...

Ashutosh Khajuria: Because we have opted for that, I mean, corporate taxation that has been announced by the Finance Minister. And we were at that bracket of about 34.9%, nearly 35%. So, from there, we have come down to 25%, almost nearly 10% of reduction. But what we have done is we have used that entire benefit whatever has accrued or rather more than that for higher provisioning, whether it is in the form of standard asset provisioning or whether it is required over and above IRAC norms in the NPL book. So, on both sides, we have strengthened the book with higher provisioning. There was a question on this thing that PCR, why it has not improved and all that and all, because there had been a usage of provision as well, some write-off also has been done to the extent of Rs. 130 crores. So, this is one reason. And yes, of course, on taxation, beyond that, there's nothing more to add.

Shyam Srinivasan: The Rs. 53 crores this quarter is because of the Q1 we had made an excess provision.

Saket Kapoor: So, we should look at the entire six months?

Ashutosh Khajuria: It is an exception because it has some carry forward of Q1 also. There the taxation was 35%, I mean, provisioning was done on the basis of 35%. And now because from the beginning of the year itself, it would be 25%. So, that benefit has been taken in Q2.

Saket Kapoor: Okay. So, now we will go to the 25%, that is what you are thinking.

Shyam Srinivasan: Yes. The new applicable rate will be 25%, 24-point-something.

Saket Kapoor: And sir, how would you explain this interest on bank balances with RBI going up significantly quarter-on-quarter as well as year-on-year?

Ashutosh Khajuria: Well, balances with RBI has no meaning in the sense because this is as on a particular date, whereas CRR is maintained on a fortnightly basis. So, you may have on a particular date, which is falling on the balance sheet date, you would be having 110% of the required CRR. You also may have 90%, because it's permitted to dip as low as 90%. So, balances with RBI is nothing but your CRR maintenance, so that can fluctuate depending upon the opportunities in the market to play within the fortnight. And very rarely does this happen that the reporting Friday would fall on the quarter end, then you will have the exact picture available to you.

Saket Kapoor: So, this interest income of Rs. 38 crores is on the higher side, sir, if we take the quarter number, year-on-year number, every comparison, these are up. So, how will you explain this, sir?

Ashutosh Khajuria: They are not on RBI balance, because RBI balance you don't earn anything. It's a interbank lending, because it's clubbed with RBI and other. So, because the banks' liquidity was high, as Shyam has already mentioned that we had Rs. 7,000-plus crores of deposit growth, almost on a same high in any quarter, as against that loan outgo had been Rs. 3,800 crores, Rs. 3,900 crores only. So, there was higher liquidity available with the bank, which bank lent in treasury instruments. That's what you were saying carrying cost of 1%.

Saket Kapoor: Correct. Sir, on the expense front and I had a query, sir, the employee costs as well as the other operating expenses have gone up. So, for a year as a whole, what percentage should be looked into it for the employee cost as well as these other operating expenses?

Ashutosh Khajuria: I think you missed the earlier part of this...

Saket Kapoor: Yes, sir. Very sorry. Looking for this.

Ashutosh Khajuria: Yes. It's already been discussed. This is Rs. 43 crores additional employee cost is on account of two things. One is because of falling yield, the provisioning for superannuation pension and gratuity had been higher than Q1. On the other hand, the IBA, because most of our employees are governed by this bipartite industry level settlement. And there, we were providing for 10% of this thing. Now because the IBA is intending to offer 12%, so we thought as a prudent measure, and you have this tax benefit also, so why not provide more for all 23 months? It has started from 1st November, 2017, since the bipartite is due. So, for 23 months this amount has come out to be Rs. 27 crores. So, Rs. 27 crores, Rs. 28 crores, plus additional superannuation this thing, actuarial funding, total Rs. 43 crores excess is there over previous quarter. So, I think that explains the employee cost escalation. This has put an impact on the CI, cost income ratio as well.

Saket Kapoor: Okay. Sir, last question from the MD, again, sir how are you now looking, what is the state of economy as per the bank, now, your understanding going forward? And how are yields going to behave because these tax cuts coming up, the import and export data also not pointing toward great numbers, GST collection is down, major sectors in doldrums. So, what is the state of economy and how are the yields going to shape up, going forward, your take on the same, sir?

Shyam Srinivasan: Our view on this is a little more, I would say, personalized to Federal Bank. Our belief is, the external environment we must be mindful of, but where we are in our journey and market share opportunity continues to be, now we should be focused on share gain as long as the quality is good. So, I would say what will happen to the external environment matters, but beyond a point ours is a share gain game. Will yields fall? Will yields go up? I think there are so many imponderables that seem to be tweaking that. We just had to be very dynamically alert to dealing with it. But the near-term, we believe that the interest rates may not go up, it may remain this or some another 25 basis point so cut is expected over the next two MPCs. But in short, we are aligning our play more to be believing that we have share gains to work on, and that's what we are focused on.

Saket Kapoor: But inherently, are you confident that the economy should, I mean, this downturn should plateau out or are we making too much out of it?

Shyam Srinivasan: We will have this conversation on a one to one, we will keep everybody waiting. We believe that the things will improve, I mean that's our general belief.

Saket Kapoor: Okay, sir. You have also pointed about toward external benchmark-linked pricing impact, sir. Sir, how are NIMs shaped up on account of this? Sir, you must have factored this also in your guidance for NIMs?

Shyam Srinivasan: We are saying that for Q4 we will come back to between 3.10% and 3.15%.

Moderator: Thank you. Next question is from the line of Mona Khetan from Reliance Securities. Please go ahead

Mona Khetan: I have a question on the rating distribution that you have provided on Slide 12. So, if I look at distribution for Q1 in this slide versus what you provided in the previous presentation for Q1, it increased from 73% to 76% for A and above category. So, has there been any change in the way you are reporting this number because there have been a couple of changes below BBB and below 5% here versus 16% in the previous PPT for Q1 in particular, so...

Anand Chugh: Yes. Sure. The two slides are not comparable because the slide which we had presented last quarter was for wholesale banking, which includes commercial banking as well. What we have done this time is that bifurcated into two slides, one is for corporate assets alone and second is for rest of the assets, which includes everything including commercial banking.

Mona Khetan: Okay. So, there are two tables on this slide. The first slide has this others in 8% which is not linked to the second table of internal rating of others, right?

Anand Chugh: First slide is only for corporate assets. In fact, first part of the table you have others, which is 8%. In the table below that, we have given bifurcation of that 8%.

Mona Khetan: Okay. So, it is that 8%. So, the others in the second table is again not related to the other segments, it relates to corporates only?

Anand Chugh: No, see one is, if you are talking of Slide 12, then it is only corporate. Slide 13 has everything other than corporate. There are some corporates, which may not have the external rating like government corporations and all that. That's why that others is internally rated. It's not having the external rating.

Mona Khetan: Okay. And this distribution includes any standard assets?

Ashutosh Khajuria: It's only standard assets.

Mona Khetan: Got it. And secondly, the corporate slippage that you have had of Rs. 180 crores, which sector could this be coming from?

Shyam Srinivasan: It's a company that has interests in entertainment, retail, Finance, housing

Mona Khetan: Okay. So, is it part of the ADAG Group?

Shyam Srinivasan: I think we shouldn't get there. So, yes, you can make your own assessment.

Sumit Kakkar: Collateralized, we have highly valued shares, which should take this money back or maybe over a little period of time, it could be soon. We can't put a time line good, but it could be soon as well.

Moderator: Thank you. We take the next question from the line of Sohail Halai from Antique Stockbroking. Please go ahead

Sohail Halai: Yes. Sir, back to asset quality, but this time more about the granular loans. So, what we are looking at somewhat like in terms of retail as well, the slippages run rate that we used to have, has actually rising. So, it's coming at around Rs. 140 crores, Rs. 120 crores and similarly on SME as well from Rs. 120 crores to around Rs. 140 crores, Rs. 150 crores. Specifically, in retail, we have a large proportion of housing book. So, where is this stress actually flowing from? And if you could also help with the net numbers of both these numbers, that is less upgrades and recoveries.

Shyam Srinivasan: The slippage numbers...

Ashutosh Khajuria: Actually, it has fallen from Q1.

Shyam Srinivasan: Yes. No, you are saying general trend. Yes, I think the Rs. 120 crores, Rs. 130 crores, Rs. 140 crores trends, I think there will be some quarters where we see Rs. 80 crores to Rs. 100 crores. But that will be the run rate. Typically, year-end tends to be the best quarter in this. That said, the denominator has grown, while the slippage number across the denominator for multi-year has been consistently improving. So, I would say ratio slippage is improving and will continue to. Recovery upgrade this quarter was Rs. 223 crores, and a bulk of the recovery upgrade is always from the retail and SME books. Rarely do we get bulk upgrades in the corporate, unless there is a onetime kind of deal. So, you could characterize if you take multi-quarter retail, SME, agri roughly about Rs. 300-plus crores in the zone, Rs. 300 crores, Rs. 320 crores.

Shyam Srinivasan: So, roughly about Rs. 180 crores to Rs. 200 crores will be the recovery upgrade.

Sohail Halai: Sorry, sir, but given the loan mix of 50% being in the housing, isn't there 2% slippages slightly on the higher side that you are running at?

Ashutosh Khajuria: That slips and comes, but there are some NRI accounts where one lot they will come and clear everything and all. So, it slips and recovers, slips and comes back, like that.

Sohail Halai: Okay. So, sir, it would be helpful if you could actually provide net slippages number as well for retail like gross minus upgrades and recoveries.

Shyam Srinivasan: We can share that.

Sohail Halai: And sir, similarly, in terms of SMEs, are you actually looking at any stress? So...

Shyam Srinivasan: You see the inline for, let's say, five, six quarters, if anything, this is one of the better quarters.

Sohail Halai: Yes, but are we looking at availing any dispense?

Shyam Srinivasan: We are not seeing any significant, that we have not used any dispensation if that's the question. No. We're not seeing any significant steps differently from what we saw four, six, eight months back. And there is a lot of talk about, it will deteriorate. We're watching very closely. But we are quite encouraged with all that we've seen, and we forecast for Q3 and Q4, it looks our trend lines will be there or little better. SMA book is, like I said last quarter, at the same or lower levels.

Sohail Halai: Sure. And sir, in terms of net SR, so one thing that we are noticing is on a gradual decline every quarter-on-quarter basis. So, is it because of recoveries or basically continuous provisions, if you could just...

Shyam Srinivasan: Both.

Ashutosh Khajuria: Provisions on the SR book, securitization receipt book because there the NAV is given by the asset reconstruction companies every quarter. So, if there is any deterioration in values, it gets reflected.

Shyam Srinivasan: But answer is both. It's recoveries and provisioning.

Ashutosh Khajuria: There is a better recovery in this quarter in that book, recovery in the restructured assets.

Sohail Halai: And sir, finally, basically, in terms of this linking of the loans, you said we are no longer disbursing loan, which are linked to T-bills. So, now is it everything repo-linked?

Shyam Srinivasan: Yes.

Sohail Halai: And sir, this T-bills will also shift to repo-linked lending rates, right? Or how does that work?

Shyam Srinivasan: Sorry, I lost the question.

Sohail Halai: So, this T-bills linked loans, they will convert into repo-linked lending rate, right?

Ashutosh Khajuria: No. Actually, the direction is that, that unless it is asked by the customer, it would continue to be at the existing benchmarks. It could be your MCLR, it could be your T-bill, whatever it is.

But newer loans are to be mandatorily given that external benchmark-linked rates, and we have chosen repo rate as an external benchmark for retail loans.

Sohail Halai: Okay. And sir, in terms of corporate, they will continue to be linked to t-bills.

Harsh Dugar: Fresh loans will be linked to repo. The existing ones will continue remain to the benchmark they have been linked to. So, we will continue to disburse either MCLR link or repo link as the case may be.

Sohail Halai: Sir, you could just help us what is the T-bill and or probably repo link loans as the proportion for corporate as well as housing right now?

Shyam Srinivasan: All external benchmark linked together are about 20% of the book. I mean retail, Rs. 17,000 crores, I think the total book is Rs. 17,000 crores,

Sohail Halai: Okay. But to be fair, a large part of it would be from the corporate, right?

Shyam Srinivasan: The home loans will be about Rs. 4,000 crores. Rs. 10,000 crores, Rs. 12,000 will be corporate.

Moderator: Thank you. Next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead

Pranav Tendulkar: Sir, other income is trending quite good, but still third-party distribution is at Rs. 24 crores quarterly run rate, so how big this can become? And how many branches are actually actively selling all the products available? Can you just elaborate little bit more on this?

Shyam Srinivasan: Sure. The run rate is improving, as you observed, and it will continue to. All branches are, level of efficiency varies from branch to branch and the client profile. Our Network-I branches have higher penetration because of the client engagement. Network-II penetration is improving. We are seeing bigger pickup on wealth management in our business after our tie-up with Equirus. So, we are seeing that movement growing. But this line will continue to improve. Each quarter is almost improving 20%.

Pranav Tendulkar: Right. So, Q-on-Q 20%?

Shyam Srinivasan: Yes, that's the kind of run rate. If you see, this year probably has just life insurance number will be up 45% full year.

Ashutosh Khajuria: Last year, same quarter was Rs. 25 crores, now it is Rs. 35 crores. So, Rs. 10 crores over Rs. 25 crores, so that's...

Shyam Srinivasan: 45%.

Pranav Tendulkar: Yes. Sir, also credit card portfolio, is there anything specifically you are doing to increase this like tie ups with some NBFCs or anything else...

Shyam Srinivasan: That I mentioned on the credit card, we don't have active our own offering. We have a co-branded offering. What we are doing is we are substituting that very aggressive through debit card strategy, both in usage and offers and EMI biz. That's how you see our debit card spends are now beginning, getting closer to Rs. 1,000 crores a month. And that run rate will continue. And we see a big opportunity there. That said, credit cards, we may have a more aggressive plan, but we are a little nervous about doing anything very big on unsecure.

Pranav Tendulkar: Correct, correct. Sir, also one last question from my side. In employee expenses, which are Rs. 440 crores, you suggested that Rs. 27 crores was adjustment because of increasing salary of 23 months, IBA increase, that is around Rs. 27 crores. And the rest is because of the sensitivity to gratuity from interest rate decline.

Shyam Srinivasan: Another Rs. 14 crores. Rs. 40 crores this quarter was higher because of that.

Pranav Tendulkar: Correct. So, basically this Rs. 27 crore expenditure will be roughly Rs. 1.1 crore or Rs. 1.2 crore per month. So, that will contribute to Rs. 12 crore base increase in the employee expense. Is that correct?

Ashutosh Khajuria: Yes. As and when the IBA, when this negotiation...

Shyam Srinivasan: Yes, but in the run rate either two, that we will have to add Rs. 1 crore a month.

Pranav Tendulkar: Yes. Correct, correct. But so basically, next quarter, this will dip employee expense and then it will start rising from then.

Ashutosh Khajuria: It will dip because right now, it is for 23 months, and it will be there only for three months, October, November, December. So, against Rs. 27 crores, you will have only Rs. 3 crores, Rs. 3.5 crores.

Shyam Srinivasan: And if yields work in favor, you will see that Rs. 14 crore drop-off.

Ashutosh Khajuria: Yes. If yields go up, the way, I mean, inflation numbers have come, I don't know, I mean, because...

Shyam Srinivasan: It's the moving one.

Ashutosh Khajuria Jury is still out. Right.

Moderator: Thank you. Next question is from the line of Hari Krishnan from SBICAP Securities. Please go ahead

Krishnan: This is Krishnan here. I had two queries, specifically. Number one, just in terms of rebalancing your portfolio towards SME and within that business banking as is commercial, which is the sweet spot where you can exercise pricing power, given now a lot of SME loans may also have to be externally benchmarked? That's part one.

Part two, with deposits also getting linked to a floating rate, especially SAA, that's been like a factory for you, especially in your home state. Plus now you have Kerala Cooperative Bank coming. Just wanted to understand how that dynamics may play out.

Shyam Srinivasan: See on the last part, the Kerala Cooperative Bank coming up, first of all, it is a while away. And by the time they get their act right, we'll be good 12, 18 months. But set that apart, your question was on...

Krishnan: Where is the pricing power?

Shyam Srinivasan: Where the pricing power on the...

Krishnan: The growth rate being…

Shyam Srinivasan: The best pricing power will be in Business Banking. And we are certainly trying to get the maximum out of that. Gold loan continues to be an opportunity and we are certainly doing well. You might have seen the gold loan book after a long time. It crossed Rs. 8,200 crores now. It's an all-time high. And that will continue to grow. But I think this pricing power, what I would like good MDs to say, is a little myth. If you are able to get such pricing, then the customer is not living in the cave and competition is all sleeping. There will be some, but I don't believe it's an endless pit where we can keep squeezing out so much. So, yes, we are a bit smart about it, but I don't believe that the opportunity will be unexploited segment, which only Federal or any one bank will have. And particularly, because you are pursuing very good credits, we don't think we'll get that opportunity. Then opportunity that we're exploring is like an MFI opportunity, which we are pursuing, but the segment has a richer-yield option.

Krishnan: All right. So, just on this issue around pricing power on the deposit side, now given that it is SA, that's getting externally benchmarked as well, it's so far been an extremely good source of float for you, especially in your home state. Do you believe there is something at risk there if you were to be externally benchmarked? Or what part of your SA portfolio gets externally benchmarked?

Shyam Srinivasan: This quarter, you see our resident savings has grown 21%, run rate. And non-Kerala is growing at, like, 26%. We think that...

Krishnan: So, you don't see a risk?

Shyam Srinivasan: It's not that you sound careless about it, but the risk is not any different from it is for the best banks.

Krishnan: Great. So, just one last question. On the asset side, when yields begin to move the other way, do you believe banks in general will have the pricing power as freely as they are supposed to be under pressure to transmit rates right now in the down cycle? Do you believe you will have absolute freedom to price yourself on the other side?

Shyam Srinivasan: These, I mean, certainly and to be honest, we are not a market maker, right? So, in some sense, we have to be participating alongside the best banks. What we think we can do is be there right in front of a client and ask for the business ahead of many other places, which is what we are doing and getting share. But will we get enormous pricing power, one way or the other, I'd be honest, it's not an easy game. We are not chasing riskier segments. That is principle. So, to that extent, we have made the trade-off upfront. By now, you would have figured out that unsecured and higher risk is something that we're desperately trying to stay away from.

Moderator: Thank you. Next question is from the line of Rahul Gupta from Morgan Stanley. Please go ahead.

Sumeet: This is Sumeet here. A couple of questions. So, one is on savings deposit growth. What was that number for this quarter?

Shyam Srinivasan: Savings?

Sumeet: Deposits, stock of savings deposits for this quarter?

Anand Chugh: Rs. 36,557 crores.

Sumeet: Rs. 36,557 crores. Okay. And Fedfina, any color on the loan mix over there? What are the various segments, and how much is what?

Shyam Srinivasan: Retail book is now inching up to Rs. 2,600 crores or Rs. 2,700 crores.

Sumeet: Rs. 2,600 crores, yes.

Shyam Srinivasan: Rs. 2,600 crores. Mix is gold. Gold is about Rs. 650 crores. Small ticket lap, lap, small portion is constructions. Signing off with a small part of it, Rs. 200 crores is construction.

Sumeet: Okay. And the growth over there is all organic, right? When I see these things...

Shyam Srinivasan: Absolutely, organic. Yes, they did a great job. They are good team, good model and they are leveraging the Federal Bank name to get good funding. They are doing well. They are quite happy with all that's happening there.

Sumeet: And what's the GNPA ratio in that book?

Shyam Srinivasan: It's very low because right now, 0.8% something like that.

Ashutosh Khajuria: 0.7% or 0.8%. Less than 1%.

Moderator: Thank you. Next question is from the line of Abhijeet Dura from Sundaram Mutual Fund.

Abhijeet Dura: First question is, I wanted to understand whether there are any portfolio buyers from any NBFC or any you have bought, especially from this DHFL?

Shyam Srinivasan: None at all. None at all.

Abhijeet Dura: No outstanding as well?

Shyam Srinivasan: None at all.

Abhijeet Dura: Okay. And what is the aspirational PCR you have for near term?

Shyam Srinivasan: We want to exit without technical write-off at 50% PCR.

Abhijeet Dura: That's sufficient is it, for the underlying asset quality, 50%.

Shyam Srinivasan: With technical write-off, we will be inching up to 70%.

Ashutosh Khajuria: Just a correction on Fedfina side, GNPA 1.5% for this quarter, 1.5%, not 0.8%. Anything else?

Abhijeet Dura: No, nothing else.

Shyam Srinivasan: Ashutosh, for a wider audience, was presenting the GNPA of Fedfina is 1.5%, net NPA is below 0.7%.

Moderator: Thank you. Next question is from the line of Aditya Jain from Citigroup. Please go ahead

Aditya Jain: On the wholesale fees, the growth was fairly healthy, QoQ and YoY. So, could you give some color on what is driving this. Is it prominently Forex or any other products? And how sustainable is the performance there?

Shyam Srinivasan: On the credit growth or on the fee income growth?

Aditya Jain: Wholesale fees.

Shyam Srinivasan: Wholesale fees? FX has done well, sustainable, so as...

Ashutosh Khajuria: Third-party.

Shyam Srinivasan: Third-party has done well. What is that, your solutions are working well.

Ashutosh Khajuria: Processing fees.

Shyam Srinivasan: Processing fees. A bunch of stuff, it's not any one large lumpy thing. The combination of things that you will see.

Ashutosh Khajuria: And then recovery in return of assets has been good, quite good.

Aditya Jain: And to confirm, the standard provision, which have been made on this stress HFCs, exposures, so Rs. 72 crores is this stock-off provisions on the Rs. 275 crores exposure, is that right?

Shyam Srinivasan: No. Rs. 72 crores. So, Rs. 475 crores.

Aditya Jain: You think Rs. 72 crores is on Rs. 475 crores?

Shyam Srinivasan: Yes.

Aditya Jain: Okay. All right. Okay. And will that be evenly distributed across the HFCs?

Shyam Srinivasan: I think we made 15%.

Aditya Jain: Got it. Okay. And then that what would be the current rating of NBFC and HFC exposures? How much of that would be rated A and above.

Shyam Srinivasan: Of the current NBFC, HFC exposure? Outside of these two, everything is A plus, no?

Shyam Srinivasan: A plus.

Shyam Srinivasan: A and above.

Aditya Jain: Got it. And on your comment on the disbursement growth in corporate, which was high, in terms of percentage year-over-year, could you tell us how much it was? It would help to give a sense on the growth.

Shyam Srinivasan: I think the disbursement per se this quarter, as I said, is about Rs. 6,000 crores. The peak would have been Rs. 7,000 crores. So, we haven't seen any dramatic fall in disbursement. We have seen strong repayments. Once what we want, in some cases good guys are paying down to deleverage.

Aditya Jain: Any particular sectors from where you saw the larger repayments or was it more broad-based?

Shyam Srinivasan: Broad-based

Shyam Srinivasan: Across.

Moderator: Thank you. Next question is from the line of Himanshu Tanuja from Motilal Oswal Securities. Please go ahead

Himanshu Tanuja: Sir, I initially missed some parts. So, can you give us a breakup of the NIM moderation of 14 basis points? How much is from that T-bills moderation? And how much is from the...?

Shyam Srinivasan: Broadly, we explained that the T-bills stroke higher slippages, stroke carry cost of higher deposits, all is roughly 4,4,4 each, about 12 basis points.

Himanshu Tanuja: Okay. Sure. And sir, secondly, and then initially you have mentioned that there are total four stressed accounts of Rs. 700 crores. Of these, three stressed account are two HFC, one IL&FS includes around 4.75. What is the status of the fourth account?

Shyam Srinivasan: That is the one that slipped this quarter.

Shyam Srinivasan: That is the one which has slipped, the large one, Rs. 190 crores.

Himanshu Tanuja: Rs. 190 crores. And this is from which account or sector?

Shyam Srinivasan: It's into a large group, which interests in financial services, insurance, entertainment and bunch of stuff.

Ashutosh Khajuria: Earlier mutual funds.

Shyam Srinivasan: Operator, I think we should now look at maybe three more calls. We have another...

Moderator: Sure, sir. We will do that next question is from the line of Pavan Torani from Citrus Advisors. Please go ahead.

Pavan Torani: Congratulations on the results. Sir, if you could just elaborate a little bit more on the strategy towards how you are positioning yourself and your pricing capability vis-à-vis competition. And the second question is, what portion of your book is T-bill-linked?

Shyam Srinivasan: Okay. Let me answer the second one first. The T-bill-linked, like Ashutosh has pointed out, roughly about Rs. 17,000 crores and Rs. 4,000 crores retail remaining as corporate. The strategy for long or at least, definitely for the more recent quarter, we have been very clear that: one, more granular, more diversified book, diversified across product and geography, which is what we are working on; two, make sure that the deposit franchise is granular and keep our core strength of deposits in place, which is visible; three, areas that we have not traditionally done well, was around the other income, fee income, which we have given much more focus and growth; four, there are three new businesses that we want to sort of get our act together and build on it as a base. One is what we traditionally did well, golds, dialed that up further, which is visible; two other businesses, which we get our feet wet, one is the retail unsecured; two is the commercial vehicle business, both of which we are very slowly building. We are putting teams in place. We don't budget for much in FY '20, but it can be a meaningful contribution in '21, '22.

Moderator: Sure. Next question is from Hemali Dhame from Dolat Capital. Please go ahead

Hemali Dhame: Sir, just two quick questions. One, I wanted the amount of interest reversals in the quarter. And the second one is, when does the 6 months for the Reliance Home Finance ICA that we have signed end?

Ashutosh Khajuria: Interest reversals?

Shyam Srinivasan: Interest reversal is 45. The ICA for home finance, Jan 2020.

Hemali Dhame: And a specific day, if you could give that?

Shyam Srinivasan: I won't have it

Moderator: Next question is from the line of Gaurav Agrawal from Bowhead Investment. Please go ahead

Gaurav Agrawal: Sir, in your SME, you have cited giving this breakup into two heads, one is BuB and one is CoB, Business Banking and Commercial Banking. How are these two different?

Ashutosh Khajuria: Up to Rs. 5 crores, it's BuB; between Rs. 5 crores and Rs. 25 crores, Commercial Banking.

Shyam Srinivasan: Also, I think the distillation is very different. BuB is branch-led. Commercial banking is RM-led.

Ashutosh khajuria: Got it. And sir, how do we do the sourcing for these loans? Is it majorly DSA-led? Or is it majorly branch-led?

Ashutosh khajuria: No. I just mentioned...

Shyam Srinivasan: Not branch-led, it's RM-led.

Ashutosh khajuria: Branch-led and RM-led.

Gaurav Agrawal: No, but the RM sources it or it comes through DSA, direct sourcing?

Shyam Srinivasan: The RM sources it. If you tell me somebody else is sourcing, please call me and tell me.

Gaurav Agrawal: Okay. And sir, can you share the SMA2 number?

Shyam Srinivasan: We don't specifically share, but yes, I told you that it's better than last quarter, and SMA book in general is north of 2%, the overall SMA book.

Gaurav Agrawal: Okay. And sir, finally, what is that overall exposure to NBFCs and HFCs together?

Shyam Srinivasan: 14% of our total.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Anand Chugh for closing comments.

Anand Chugh: Thank you so much, everyone, for joining on the call. Have a good day.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Federal Bank, this concludes this conference. Thank you all for joining us. You may disconnect your lines now.