"Federal Bank Q3 FY '20 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Federal Bank Q3 FY '20 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Chugh, Head, Investor Relations, Federal Bank. Thank you and over to you, Sir.

Anand Chugh: Thanks, Stanford. Good Afternoon everyone, I am sure you would all have got a chance to look through the results. It has been a couple of hours since the numbers were released and I think without taking much of your time I will hand it over to Mr. Shyam Srinivasan for his opening remarks and then we will open the lines for question and answers.

Shyam Srinivasan: Thanks Anand and Good Afternoon everybody and first call of the calendar year, so best wishes for 2020 to everybody. Before I begin I also want to formally introduce and announce Shalini Warrier who joins the Board as an Executive Director. She is also on the call alongside Ashutosh, Sumit, Harsh, and the other senior team members on the call. I will just give an introductory few lines on the quarter and the overall environment and of course then all of us will be happy to answer questions. No secret, the market continues to be challenging and in fairly tight and sort of extenuating circumstances I believe we have done well. At the beginning of the quarter, our focus was to ensure that the barring the two names that we had identified as potential challenges the two large corporates, we had to ensure that the credit quality continues to be robust and strong. It should reflect the efforts of many quarters of the bank and I am pleased to see and state that our overall slippages ex- these two accounts are at a multi-quarter low and holding well.

Growth both retail and corporate are sort of biased so as to ensure that we get to a 50:50 model. We are nudging close to it, it is 51:49 and like I have said in our investor deck, we believe that our sort of calibrated focus on retail is working well and retail traction on most products those secured is continuing well, we are gaining share, and corporate, when I say corporate here, just largely the 5 crore and above exposures, so it includes commercial banking and the wholesale banking or the corporate banking we believe has cooled off partly by our choice, partly by some significant repayment and in our case this quarter in particular we saw some both repayments as also one large restructured account setting itself and write-off, so a combination did see slower growth but on balance the full-year credit growth on YOY is about 13%. Deposits which are strongest part of the bank, continues to perform well and we believe that momentum should hold and is getting granular as it has always been and is getting diversified as we would like it to be.

On the portfolio quality like I mentioned, other than the known names that we had signaled or identified or created provisions in Q2 as standard asset provision they slipped and we have made the necessary credit provision, shifted this standard asset to credit provision this quarter. Our overall stressed asset book as you would see has come down to an all-time low at about 1.59% and the overall SMA book continues to require encouraging across the spectrum and our large ticket exposures that show on the horizon that are none that are of any significant size that we are particularly alarmed about. One of the largest restructured account that we had on our portfolio was Air India, which is fully settled, so to that extent even that is out of our portfolio, so the headline commentary as we enter Q4 and calendar '20. We are very watchful of the credit environment. We are gaining share which we will continue to do. Our portfolio quality we are quite confident is holding out well and believe we will continue to do so. We have not seen formation of any new large credit that is of stress. We are not in any of the accounts that the market is talking about be it telecom or any of those areas, we have no exposures to any of them, so unless there are collateral outcomes that start hurting the industry at a significant level, we should be well positioned to honor our own aspirations of growth and profitability and more importantly ensuring that we are delivering on the commitments of all our capital ratios and the returns that we have set out to do. With that as sort of opening commentary, I am happy for us to take questions, mindful that a large number of people have gathered, so the only request would be to try and keep the questions fairly one or at best two to a group and then we can sort of circle back later.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Krishnan ASV from SBICAP Securities. Please go ahead.

Krishnan ASV: So one of the things about the franchise strengthening itself is how it reflects in the pricing power, just wanted some qualitative commentary for the last couple of quarters that pricing power is not reflecting in how your NII has grown compared to how the loan growth has been, so just a couple of things that I just wanted maybe your commentary on, number one, how much of this is the reflection of where we are in the macro-environment and the credit choices we are making or if there is a function of the franchise itself not being able to exercise pricing power which is part one? Part two, how long before we get to that position where you believe Federal Bank will be able to exercise the pricing?

Shyam Srinivasan: Thanks, Krishnan. I think our response to that is that we have been more biased to the secured and the higher rated whether it is a corporate or the individual, so we are making this conscious trade-off between price versus quality. Ideal would be to get right on both. We believe in the businesses that we are operating through the mix of businesses, we will be able to see the margin expansion. In this quarter versus the last, we saw the yield expansion on blended basis of about 5 basis points, but the 3.05 would have been the NIM. Actually, the slippage being higher on these two accounts and having to take five months interest reversal in those accounts, then roughly about 20 crores of interest income falling apart, to that extent that is about 4 to 5 basis points, so to that extent the pricing expansion did not see through in this quarter, but even at the beginning of the year or through the year we have been guiding for a margin of about 3.1 given our business mix. That has come down because of the impact in Q2 on account of the T-bill fall being more precipitous. We think we have not lost that power because certainly as T-bill rate start hardening and the re-pricing that we have done, we do believe that in Q4 we will see this come back considering that slippages will moderate so business mix if you see our retail expansion is quite strong. Corporate like I pointed out is more muted. Yes, the kind of corporate we pursue are not giving us high yields, but I think the story will be more visible as we go into FY '21 when hopefully we will be amongst the best credit cost providers in the country, so the net expansion will see through as these things work in favor. On timing wise maybe we have not seen the full benefit, but I think in the segments we operate we are able to get business without going totally below our sort of threshold points.

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

Kunal: Firstly, in terms of the overall slippage outside of the corporate when we look at it in terms of the Agri, retail and all compared to what the few of the other peers are seeing on the Agri side, we have seen a significant improvement, so can you help us may be to understand what is really leading to like even in absolute term it is one of the lowest slippage this quarter?

Shyam Srinivasan: There is nothing unique, Agri portfolio is heavily weighted to gold, so it is Agri Gold, Gold which is part of the Agri and it goes back to I think many quarters of the bank's effort of being more sensitive and the kind of risk and kind of segments we pursue and large part of it, almost all the book is secured, so in our mind this is when we factored and gave guidance at the beginning of the financial year, it is tracking quite along that. We have not seen any significant gain or threat to that outcome, so it is a momentum. Our portfolio and our SMA book reflect this confidence that this should be a trend line.

Kunal: And even on retail and business banking, so retail like 100 odd crores that is significantly lower okay even on this kind of a base wherein it has grown, so maybe even if I have to look at it in terms of maybe the vintage, I think is it more because of the growth which is there and if I have to look at it may be on the back book maybe two years back what we would have originated, is it behaving in a similar form what we are seeing in terms of the slippage run rate?

Shyam Srinivasan: Our momentum on the origination if you go back say last three years retail growth picked up in 2016 and 2017 have all been secured and salaried, which came out as we grew our corporate because that was our strategy when we started growing corporate, we wanted to make sure the corporates would give us access to their employees and get relationship, so the retail pickup is in that space. Second, our collection capability has improved quite materially over the last two years and that is an area we will keep giving more attention, so between a mix of collection capability, the book profile, the underwriting conscious calls around what kind of business we want to write, we believe that this is something that we should be able to sustain, yea, there will always be a 10 crore here up or 10 crore down but it is in that band, it is not a much higher number.

Kunal: In terms of the BBB and below exposure or maybe just below BBB which is almost 12-13 odd percent, given this kind of an environment are we seeing any further stress no doubt over last few quarters you have highlighted the stress pool and that is more or less done which is clearly highlighted in terms of more than 100 crore slippage, but what about the other pool which is thereof say almost like 12%-13% of the corporate advances, are we seeing any kind of deterioration out there?

Ashutosh Khajuria: If you see corporate advances 88% is BBB and above, 77 of A and above and 11 is BBB. Now even adding the remaining 8 also to others remaining 8 as below BBB, it is not below BBB. The breakup of others is given separately through internal ratings. In that you have FB1, FB2, FB3 all put together, these are corporate ones but because these have not been rated, they are coming under others, so it is not 12% which is under risk.

Kunal: Just in terms of this FB1 and FB2, in fact that is like almost 17%-odd downgrade from FB1 to FB2, so anything to read into this, maybe in terms of the internal rating as well say earlier it was 27% last quarter, now it is 10 odd percent, so anything substantial maybe this is like one or two accounts which is leading to this?

Anand Chugh: You are right actually Kunal in terms of one account has actually moved away from FB1 because it got its rating done, so it has moved from FB1 to AAA and that is why it is not coming here. Similarly, one AA rated account now has lost its rating because rating process is going on, so once the moment it gets its rating back, it will come back into the other category so that is why there is a movement but it is because of one or two large accounts moving here and there. It has got nothing in terms of deterioration of the overall pool.

Ashutosh Khajuria: I would repeat that 8% others may not be taken as below BBB because that is unrated one and as a result that is the breakup.

Moderator: Thank you. The next question is from the line of Amit Rane from Quantum Securities. Please go ahead.

Amit Rane: Sir, can you explain the movement of standard restructured assets that have come down from 612 crores to 463 crores, the reason for the same?

Shyam Srinivasan: I mentioned that Air India was one account which is north of 200 crores is fully settled, so that has come down.

Amit Rane: Sir, out of the standard restructured, how much is to MSME under the RBI special scheme?

Shyam Srinivasan: Less than 10 crores.

Moderator: Thank you. The next question is from the line of Vatsal Manik from Lark Consultants. Please go ahead.

Vatsal Manik: Sir, can you please give the breakup of the corporate slippages from which sector they have come?

Shyam Srinivasan: The two large housing finances, HFCs.

Vatsal Manik: There is nothing from South based coffee or something?

Shyam Srinivasan: We do not have exposure to that.

Moderator: Thank you. The next question is from the line of Akash Dattani from HDFC Securities. Please go ahead.

Akash Dattani: My first question is what is the quantum of rational provision from A on the two or three large corporate accounts which slipped in this quarter?

Shyam Srinivasan: The provisions we held in standard asset provision last quarter for these two have been shifted to credit provisions plus another 10% for one of them, which looks more doubtful so one account is 25%.

Akash Dattani: The other one?

Shyam Srinivasan: 15%.

Akash Dattani: My next question is on your outlook for growth?

Shyam Srinivasan: We believe that the credit growth we had originally visualized the full year to be between 18 and 20, we think it will be between 16 and 17 this financial year given that the first nine months are roughly about 13%. I mentioned in an earlier call that the 13% should be seen in the context of 200 crore repayment by Air India and 300 crores charge on a technical write-off, so that 500 crores, you put that back it is another 2% would have been about 15%. Full-year growth we believe is 16% to 17% is possible.

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

Nitin Agarwal: Sir, firstly like what are our thoughts on improving the provision coverage, while the credit cost is behaving as per expectations, the coverage ratio has come down from like 50-51 now to 46, and secondly, the lower provision charge that we have seen this quarter on the debit card royalty points is quite a large number, so what was the earlier number that you were billing in earlier and if you can give some color on what to expect on this, is this fully done or can we see something again coming up in terms of higher provisions next quarter, so more color on this?

Shyam Srinivasan: If you are looking at the provision coverage ratio, if you see the provision coverage including technically written off accounts then it has improved over the last quarter. There is an increase of about 24-25 basis points because it is first provided 100% and then written off naturally net NPA provision has gone to that extent. To that extent in GNPA, the risk also has come down, so over a period of, if you are comparing it with previous quarter it was not 51% or so, I think somewhere that number because the first around 48%, 47 point something and now it is 46.

Nitin Agarwal: No, I meant to the March actually it goes to 50 by FY '19 end?

Shyam Srinivasan: I think the blended including technically write-off is about 67% right now. Our target internally should take it to 70 over the next few quarters which we will work on, but we balance out across and we are ensuring that we are providing where we are seeing more stress, so at this juncture given our portfolio quality and our collection capability we do not believe we are under any stress, but that said we will keep working on it, but beyond that there is no data point to offer. On the debit card reward points there was a question you had asked, actually if you notice we have just done the actuarial calculations. Earlier we used to do once a year, we have done it every quarter and we felt it was an excess provision, so we have released it**.** that's all.

Nitin Agarwal: So, nothing of that sort is going to recur now?

Ashutosh Khajuria: Now, it is going to be quarterly exercise, because that is what was suggested by our auditors as well

Moderator: Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: So the question really revolves around the operating profitability, now if I look at the operating profits to average assets, the number for the last couple of quarters is around 175 basis points whereas before that it would hover around 195 to 200 basis points so there is really a 25 basis points kind of gap, four, five or seven basis points out of that you explained basically because of the NIM and interest reversal impact on the NIM, but you are going forward to be able to do a sustainable 1% plus ROA this number really needs to get back to 2% the operating profit to average asset, so how are you going to claw back the 25 basis points which you seem to have lost either because of pricing or because of fee in the last couple of quarters?

Shyam Srinivasan: I do not think we have lost, it is just that the rate of growth has slowed and I do not believe that it is any structural problem, it is just a situation that we are in and I would rather believe that these as long as we are doing the right things it will come back in terms of when we started pricing of linked to T-bill at that time we were amongst the pioneers to do that. T-bill fall was much higher than the repo cut and we started feeling the pain on account of that, but it is only a matter of time where either we re-price which we are doing or the T-bill themselves start hardening, so I do not believe it is a structural fall, so in every area we have never said that there are any silver bullets and it will quickly come back. We have structural one issue that we provide for pension and that is an element of cost which unfortunately will continue in the portfolio for the next two to three years or may be around three years, and therefore, to that extent that is not linked to performance, it is linked to where the yields are and as a consequence of that, that 7%-8% of our cost we do not have a great direct control over, so the rest of the cost have to work harder to be very efficient, so to get back that 20 basis points or close to the 20 basis points that you are talking, a little bit of everything, the portfolio shift from the current mix to a more retail, within retail weighted to some of the higher margin opportunities which is happening. You will see rate of growth in these are quite exceptional then the reduction in slippages which we are working towards and I think the combination of that plus some more elevated credit growth in the coming quarters, we do believe getting to 190 around that is very much on the cards. Our commitment of delivering 1.12 ROA at the exit of FY '20 and an improvement from thereon is something that we are aware of and working on it.

Moderator: Thank you. The next question is from the line of Hemali Dhame from Dolat Capital. Please go ahead.

Hemali Dhame: Sir, there are quick two questions, one is what is the quantum of the lumpy slippages in corporate and what would be the status of our ILFS exposure?

Shyam Srinivasan: The quantum of the lumpy slippages in the corporate as you would see is about 320 odd crores. These two accounts are the primary ones and something that is smaller accounts, so a combination of this. ILFS exposure are standard, the two RIDCOR and ITNL are out our NPA and we have made the provision, I mean as an NPA technically the amount is lying in the escrow accounts, when the issue gets solved it will come back to us, but those are much smaller accounts, the other account is standard.

Hemali Dhame: Can we have the quantum of the standard account in the ILFS?

Shyam Srinivasan: 192.

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

Jay Mundra: Sir, I have one question if you can sort of give some broad breakup of this 4% of below BBB book in your corporate book which is roughly around 2000 crores sectoral breakup or whichever way you want?

Shyam Srinivasan: I do not think there will be any names on that, I do not know if there is any specific data that we can provide.

Shyam Srinivasan: This is a well collateralized book, this previously used to be commercial banking customer which have graduated into larger set of customers and they have been with the bank for long, the major of this customers is very long and there is barely any stress in this book.

Jay Mundra: Any sectoral breakup or would it be very widespread?

Sumit Kakkar: It is very, very distributed, they will be more around 25-30 crore exposures, more in the characteristics of an SME, but now graduated since our definition of CIB exposure is more than 25 crores.

Jay Mundra: Sir, CIB includes your commercial as well right, so the denominator is around 60,000?

Anand Chugh: No, here it is pure corporate advances what we have given.

Ashutosh Khajuria: Above 25 crores, it was commercial now graduated to corporate that is what Sumit said, so once the limit crosses 25 crores, it becomes part of corporate.

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

Kaushik Poddar: Sir, have you already provided for all the ILFS thing, just clarify that thing?

Shyam Srinivasan: The two accounts that are NPA are provided, the third account is standard, no provision.

Sumit Kakkar: It is a zero DPD, third one and not only standard, December 31st zero DPD, we continue to reduce our exposure there.

Kaushik Poddar: I guess you had promised something like 1.1% ROA at the end of this year as you exit this year and probably 1.25% next year and the same goal remains in focus?

Shyam Srinivasan: Yes Sir, as of now all commitments mentioned are being addressed and worked on, so we believe exit ratio to hold.

Kaushik Poddar: At that 1.25 as the exit rate for the next year that also stands, right?

Shyam Srinivasan: Yes Sir.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Just a clarification, the two large HFC accounts which slipped this quarter, you said first account is provided 25% and another one is provided 15% is it?

Shyam Srinivasan: Yes, I did.

Jayesh Gandhi: What would be the future roadmap here, I mean is there any chance for upgradation or it will be provided gradually?

Shyam Srinivasan: One of them which is in the public domain DHFL which is now a regulator appointed process is underway. The next six months will bring about some sense of what is going to happen.

Jayesh Gandhi: In that case, it has been provided 25% that account?

Shyam Srinivasan: We are not specifically saying, but it is either 15 or 25 it could vary and the other account which is the Reliance I think there the process is underway, so we will know better by end of this quarter what is the next step on that.

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

Pavan Kumar: Sir, cost to income ratio what should be the steady state run rate of that and in this particular quarter we have seen a higher cost to income ratio even in the last quarter but what is the rate like which we are expected to stabilize?

Shyam Srinivasan: I think sequentially you have seen some improvement, but we had set out at the beginning of the year to exit at 50 or slightly below in FY '20, unfortunately that now looks a tall ask given the income growth has been slower than expectation given various market events. We believe that in Q4 we would see another 100 basis points improvement getting closer to 50 as an exit rate and a full year will be about 51.

Pavan Kumar: Longer term what are the rates?

Shyam Srinivasan: Longer term we are pursuing very hard to get it below to 49 and 48, but I have to be honest the yield movements and some wage related conservations that are going on at an industry level, there is some overhang of cost which we have to work through. Our cost structure unfortunately one element of it is something that we do not have a direct grip on given the situation, but we are trying to make sure the rest of it is working as hard as possible to ensure like for example the digital transactions is now 80%, you have seen it in our deck so the traction on all those counts, the fed serv initiative of the bank which is centralizing the entire thing into our ops at the level of robotics that we are bringing in, the artificial intelligence related stuff that is reducing processing cost are working well to compensate some of these issues.

Pavan Kumar: On this third account in ILFS of 192 crores, is it in some kind of SPV or some kind of …?

Ashutosh Khajuria: All three are SPV, completed projects, and earning accounts. These two accounts which are classified as NPL also are getting their regular payments coming from either toll or NHAI, distribution of that is held back by the lead bank's in the other two accounts, Union Bank and Punjab National Bank, respectively, because of some NCLAT order, while SBI has been successful in vacating it through Supreme Court, the other two banks have not yet succeeded in that.

Pavan Kumar: On the write backs provision which would be further available, do we have any exposure to Essar Steel or something?

Shyam Srinivasan: None of them.

Moderator: Thank you. The next question is from the line of Dhawal Gada from DSP Mutual Fund. Please go ahead.

Dhawal Gada: First, could you give the weighted average portfolio yield for corporate, commercial, business banking, and retail, and Agri as well?

Anand Chugh: I will give it you later.

Dhawal Gada: The second one was around current-account deposit mobilization, so just some color I mean the trajectory seems to have come off in the last few quarters and overall on savings, the trajectory seems to have sort of come off, just some color around overall CASA bit?

Shyam Srinivasan: It is very reflective of the environment, our rates are not the most generous 5% and 6% and I stressed on a few calls while CASA is the right thing to pursue, we must look at the blended cost of fund and cost of deposits. We are at about 5.83 and it has been trending down for many quarters now. Our term rates where the saving rate of many others is our term rate, so you see term growing quite well and to that extent, CA is a function how the market is, the money supply and overall cash flow in the system, to that extent CA growth has been muted. We have seen growth, this quarter is a little slower than the previous quarter, but nothing that is out of pattern and different from the best in class.

Dhawal Gada: Just lastly on margins, this sort of medium term, I think our aspiration is about 3.15 to 3.20, we are around 3% right now, given that the mix is already shifting towards retail and within that unsecured share is gradually increasing, what will drive this gap of 15 to 20 basis points in your view given that on corporate, my assumption is that our pricing would be extremely fine and we have not seen much benefit come through, so just qualitatively if you can or may be even with numbers what will drive this 15-20 basis points gap?

Shyam Srinivasan: I would break that into two, first is to get to 3.10 and then talk about the 15 and 20. The 3.10 is like I mentioned in the beginning of the call is a function of all the little things that we are doing to get the yields back, and therefore, the number to 3.10, one is certainly lower slippages, two is the mix of the book changing, and three is the growth in the cost of funds being improving every quarter, so this three like for example our savings rate is now linked to repo, every time we reprice the asset the deposit do gets repriced, so the blended combination of this. As we scale our volumes on some of these businesses which does require a little more friendly economic environment, we are not that courageous to go out and put unsecured assets and pay down somebody as his own, that I am very clear on, so we have been quite cautious on the kind of unsecured ticket exposures we are doing and in the little more longer run as in calendar ’21, we believe the new businesses that we are seeding which is the credit card model that we are pursuing, the commercial vehicle and the other businesses that we are now getting into will start gaining scale, but that I have to say is at least 12 months out. More near-term is the developments that we are doing and the mix of businesses and the reduced slippages should give us the come back to 3.10-3.12.

Moderator: Thank you. The next question is from the line of Sai Kiran from Haitong Securities. Please go ahead.

Sai Kiran: Just couple of questions, one on the cost growth you mentioned that there were certain wage hike provisions which were taken, if you can just let us know what kind of provisions are already taken and what is the expectation based on negotiations till now?

Shyam Srinivasan: In Q2, if you recall up front till then we had provided 10%, in Q2 we provided another 2% with retrospective effect. As we speak the negotiations are underway, their union demands are much higher, but the negotiating process is underway. I would think another 2% increase may come through in the coming quarters, but we do not know when, so that is something that we have to factor for.

Sai Kiran: Second question is that branch expansion has been very muted in the last few years and knowing that some of these branches have been aged and in the newer geographies you have got certain traction, would you like to revisit and then open more branches going forward?

Shyam Srinivasan: We think we have added now this year while it is showing only as four branches, we have added 10 branches as of now and I think it is in the deck, we will exit about 25 increased branches in this financial year and 40 before next financial year, but our belief is we should not see branches in isolation, we should see the number of RMs that we have put out and the various feet on Street and digital and BC models, we believe growth for us will not be constrained. Branches are a nice fixture and serves as some confidence giving, so we are choosing specific geographies, but that will not form a large part of our incremental strategy.

Sai Kiran: One last question on the capital side, would you like to comment what are your thoughts with the current capital adequacy or maybe a future capital rise?

Shyam Srinivasan: We believe we are well capitalized, all of it is Tier-1, our CRAR is close to 13.5. At current course and speed for the next four to five quarters, we may not require. Depending on outcome, performance, and our outlook for the following, we think end of this year early ’21 is when we would look for the next intervention.

Moderator: Thank you. The next question is from the line of Aniket Abhyankar from R R Chokhani Stock Brokers. Please go ahead.

Aniket Abhyankar: The MoUs signed with Maruti Suzuki that is on the page 19, so in June quarter in the earnings call you said that you will give finance to the end-user and not to the dealer, so any color on this?

Harsh Dugar: We have done dealer financing, end-user financing, dealer financing only aids us in higher degree of conversions for the retail piece and hence the critical piece.

Aniket Abhyankar: Second question is on the fourth quarter, you are saying that the State Government is pushing for the longer moratorium, but the regulators are not keen so what is the update on it?

Shyam Srinivasan: Thankfully that has played through, we do not have any significant issues right now.

Moderator: Thank you. The next question is from the line of Aashi Anand from Allegro Capital. Please go ahead.

Aashi Anand: Just wanted to understand given the slowdown in the economy, what is the kind of outlook that we have on the SME space in terms of asset quality and any specific sectoral trends or areas of potential weakness things that we should watch within that?

Shyam Srinivasan: Thankfully, our portfolio like I mentioned and like our view is, it is holding out well. We have been I think this speaks to the fact that for many, many quarters we have been more conservative in all that we have done and I do believe that is a wise thing. Our portfolio looks okay, there is no significant elevated stress anywhere at this point in time other than the normal run rates which you are seeing which is improving. We do not have any one pocket which we have and we have no particular pocket. We think within every pocket there are opportunities, there are stresses, we just have to be very watchful about what we are picking, as we speak we are not signaling any significant challenge.

Moderator: Thank you. The next question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Sir, the NPA recovery does it include the account that slipped last quarter, the entertainment account?

Shyam Srinivasan: No, that account is yet to be addressed.

Gaurav Kochar: Any update or any status?

Shyam Srinivasan: That is under very involved discussion, I do believe it will take a couple of quarters for it to get resolved. We just know that the asset is well secured, so we have to work through a lot of formalities to materialize the gains, so I am saying it could take two quarters, we are working on many things but there is nothing that is concrete that I can offer.

Gaurav Kochar: What is the PCR on that account, Sir?

Shyam Srinivasan: We have provided 25% on that account.

Gaurav Kochar: Given that you have provided 25 and 15 in the two large accounts this quarter, where do we expect to take this in say coming three-four quarters, are you comfortable?

Shyam Srinivasan: That depends on whether these accounts are, is there a resolution in sight, what is the potential haircut and whether they are frauds or otherwise, so all of that we have to work through and I am saying that between Q4 and Q1 of next year we will have greater clarity, but we are prepared to make the necessary provisions as deemed fit.

Gaurav Kochar: Is the RBI annual supervision over?

Shyam Srinivasan: Yes, Sir.

Gaurav Kochar: Any word from RBI on your tenure?

Shyam Srinivasan: The Board has again written to RBI.

Gaurav Kochar: Any update on the stake sale of the Life Insurance?

Shyam Srinivasan: We would have little more clarity in February.

Moderator: Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.

Darpin Shah: Sir, how much of our book is linked to this T-bills external bill rates?

Shyam Srinivasan: About 9% to 10% of our book.

Darpin Shah: In retail, have we seen any buyouts during the quarter?

Shyam Srinivasan: We did not have any.

Darpin Shah: What is driving our higher growth in auto because the entire industry has seen a slowdown?

Shyam Srinivasan: We are picking shares in markets and I think it is time the market realizes we are not a very peripheral player in certain businesses. We are very striking material player gaining share and without compromising credit standards.

Darpin Shah: Again, this is largely to do with cars or this includes CV, two wheelers everything?

Shyam Srinivasan: Auto, four wheelers and passenger vehicles.

Moderator: Thank you. The next question is from the line of Navin Shetty, an investor. Please go ahead.

Navin Shetty: Sir, just wanted to understand when would we see the loan growth bouncing back like 13% for the size of ours, has been a little bit of tepid, so when do we see that bouncing back in terms of the loan growth?

Shyam Srinivasan: I think we would not take the aggregate number in businesses that we are confident and we are happy to accelerate we are in the 25. The overall loan growth getting to the 20 would take some external environment also being more constructive, like I mentioned we think the exit will be around 16%. Next year if things start looking favorable, we will get back to our 18-20, but at this juncture I am not signaling anything, we want to see at least some data in the market that suggests we should be taking more risk.

Moderator: Thank you. The next question is from the line of Gaurav Jani from Centrum Broking. Please go ahead.

Gaurav Jani: Just three quick questions from my end, one is last quarter you had actually suggested that the NIM contraction partially or one third was due to the T-bill linking and softening, so on a normalized basis after we account for the interest reversal has the yield improved?

Shyam Srinivasan: I mentioned when we started the call, yes, it has improved 4 to 5 basis points it would have been 3.05 if these two accounts had not been for five months I have to take the interest reversal.

Gaurav Jani: Sir, secondly on the telecom exposure, last quarter we had an exposure of 1.78% of the corporate book which is about 870 odd crores, so where is this quarter and what is the non-fund based in telecom and an outlook would be appreciated on the telecom exposure?

Shyam Srinivasan: Exposure is not the names that are considered to be problem names. NIMs, they are the best player in the market and the exposure has not changed.

Anand Chugh: What has happened is I think there is a classification issue, last time what the exposure which was on bill discounting which was covered under LC was also shown as exposure to the sector which has been corrected now and now it has been shown as exposure to the banks.

Gaurav Jani: So, we do not have any non-fund based?

Anand Chugh: No, it is about the exposure which was in billed discounting under LC, so now typically the exposure is from the company to the bank, the bank which has issued the LC, so now we are accounting it or showing it under exposure to the banks not onto the sector or a company as a whole, so that is where the telecom is not appearing in the top 10 sectors of the bank.

Gaurav Jani: My question was what is the non-fund based if that is material or it is just?

Anand Chugh: Very insignificant amount.

Gaurav Jani: Lastly, the capital adequacy, the Tier-1 would it include the profits and if not then what is the Tier-1 including the profits?

Ashutosh Khajuria: Without the profits. If you add back the profits, it will be closer to 14%.

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

Bhavik Shah: Sir, your SMA2 book would be?

Shyam Srinivasan: Between SMA1 and 2, it is between 2.2 to 2.5.

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

Saket Kapoor: Sir, firstly you guided for an ROA for 1.12 when we exit the financial year and our NIMs should be in the vicinity of 3.15?

Shyam Srinivasan: The exit may be closer to 3.10.

Saket Kapoor: For the next year Sir what are we contemplating?

Shyam Srinivasan: We will give our sort of guidance when we begin FY '21, we will have a better look at how things are and what the economy is shaping up and how much credit exposure and our Board conversations will be over by March.

Saket Kapoor: Sir, looking at the gross NPA and the net NPA, what should be the likely picture when we exit the current financial year it is 2.97 and 1.63?

Shyam Srinivasan: Look at the overall credit cost, we are right now closer to 70 basis points blended. We had said we will be between 60 and 65, so in that zone then you can work your ratios. You know the credit cost, you know the coverage ratio, so the overall numbers in the zone with maybe with some improvement from where we are.

Saket Kapoor: Sir, how are you seeing that the Government securities and the bond market playing, there is a likelihood talk of more clearer picture of fiscal deficit coming up in this budget I mean to say that the balance sheet item should also be included. If something of that sort comes up and we come up with an early picture of 4.8 or 4.6 as the fiscal deficit, how do you see the bond market adjust itself, what is your take on it and how are we positioned to take that into our account?

Ashutosh Khajuria: I think you have already answered the question because if that is the case that market already is talking of some of these so-called fiscal deficit numbers not taken on the balance sheet by the Government, but everybody knows about the number and all that, it is not a hidden fact and all that. Something which market already knows is already built in the pricing, so it would simply be welcoming or appreciating the transparency part of it.

Saket Kapoor: What is our outlook Sir on this sir?

Ashutosh Khajuria: Growth is lower, we do not see I think yield is just shooting up because then the question comes how sticky is the retail inflation number that has come out recently, it is mainly driven by vegetable prices and all. Core inflation is still around 3% or so, core CPI. I think in such a scenario when core inflation is below 4 and you have a low growth around say 5% or so official numbers then I think you do not see yields to just shoot up and all.

Saket Kapoor: It should remain in this bank?

Shyam Srinivasan: It should.

Saket Kapoor: Sir, just last point on how should one look into this income of investment and other income part panning out for the next quarter, what factors will play into it?

Shyam Srinivasan: I think more structurally improving things like loan processing, exchange commission, and where it is a merchant Fx, we are seeing the growth and that will continue 18% to 20%. Where it is linked to trading gains, this is every link to the market where your yields are that may have some volatility, but the structural part of the bank, fee income trend lines are north of 18% to 20%.

Saket Kapoor: Sir, if we look at your Quarter-4 performance last year, it was I think the highest operating profit if I am not mistaken, we were speaking about the highest operating profit this quarter, but the last year March quarter numbers were 771 crores?

Shyam Srinivasan: We never mentioned this as the highest operating profit, we said highest net profit. I did not say either highest operating or highest net, somebody else on the call said. Ours is very clear where the numbers are there for us to see, the highest net profit ever, operating profit we have distance to cover which is what we are working on.

Saket Kapoor: But Quarter-4 looks better than what we have exited Quarter-3?

Ashutosh Khajuria: Normally, it has.

Saket Kapoor: Employee cost front Sir you were talking about something 2% more that we expect for the overall year or for the next quarter, the base hike of 2% which you were telling that will be only for the next quarter impact or the full year impact?

Shyam Srinivasan: It will be full year, but that is still in discussion, so early to tell but yea it will be for the full period.

Saket Kapoor: For full year that means around 2800 something or 2% of that, last year number if we take the annual number?

Shyam Srinivasan: Yes.

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

Krishnan ASV: Sir, two quick questions, number one is there any way Federal Bank can walk away from the wage negotiation is that something that can happen, is that something that the Board can think of? Number two, on fee income there seems to be a peculiar trend on credit cards, has there been some change in what you have in-house arrangement has been structured with SBI card, and secondly, third party distribution, so those two elements of fee income have been kind of behaving very differently, one is seeing the peculiar uptrend, the other has been a lot more volatile, just wanted to understand how you are looking at it?

Shyam Srinivasan: I think when you say cards actually it is not credit cards, it is not debit card income, credit card is a small amount. Our spends on debit cards have been growing at a very scorching pace and we are earning the fees on that count and we believe that is sustainable, and today we are a fairly competitive offerings on our debit. Credit card is in calendar '20 towards the backend of it we will launch. On your first question on wage negotiation, I do not believe that will happen in the near-term, Krishnan, that is something that is got other implications and ramifications, so we have to work through it, but at this point in time, we do not have any thing that is constructive to offer at this point in time to you.

Krishnan ASV: You do not believe that the franchisee is being held to ransom just by the, I think it is a function of employee force as well but I just wanted to understand is there any way to minimize or mitigate this impact at all, this seems to be cropping up every once in a while?

Shyam Srinivasan: I think the issue here is not about ransom or otherwise, the process of negotiating is at an aggregate level. The quantum is one second is the, for us the challenge is not the quantum on which, the challenge is on the pensioning aspect, so the real question that you are asking is can pensioning be avoided, that I have said the people who have joined us after April 2010 are not part of it so only by 2023 that workforce will fully come off, so the real issue is to deal with that combination.

Krishnan ASV: Okay, and third party, in the fees that you made from third-party, is there any element of cyclicality there?

Shyam Srinivasan: Typically, Q4 is the best and Q3 is a little muted and that is visible.

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

Anand Chugh: Thank you everyone for being with us on the call and we will catch up again soon, thank you.

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