"The Federal Bank Limited Q3 FY22 Earnings Conference Call"

January 25, 2022

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY22 Earnings Conference Call of Federal Bank. As a reminder, all participants' 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 phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shyam Srinivasan – MD & CEO, Federal Bank. Thank you and over to you, sir.

Shyam Srinivasan: Thank you very much and good afternoon, everybody. I am assuming that all of you are keeping well. On the call I have all my senior colleagues. We are all in different places, so I can't see them, but I know they are on the call and be happy to answer questions. I will give very brief opening remarks and turn it over for questions and answers.

We have published our Q3 Results. I'm sure you've all had a chance to see the headlines and probably the investor deck. The quarter would go by as one of our better quarters in terms of overall performance. There were a few significant milestones this quarter. Our overall income crossed Rs.2000 crores for the first time, our net profit crossed Rs.500 crores for the first time. Importantly, our ROA for the quarter was 1.02. It's been an important deliverable for us for quite some time. I'm pleased that on all these counts, there have been progress. By no means, the journey is complete. I think there's a lot of work going around, and these are early signs of all that coming to fruition.

Asset quality of the bank has been good for quite a while. I think this quarter has been no exception. Credit costs well under control, provisioning on the committed lines, we've added some extra provisions for the restructured book. We've created a meaningful buffer to ensure that should COVID wave three have challenges we come out well protected.

Operating income of the bank, this quarter was, strong, moved from Rs.830 crores, core operating income, Rs.830 crores previous quarter to Rs.881 crores on a sequential basis.

Our strong suite of liabilities continues to be performing well. Very granular. CASA hit an all-time high of almost 37% and CASA grew YOY almost 15%. Granularity of the book continues and our strong suite, the NR remittances is now touching 20% of India's remittances is through Federal Bank and it's growing well, we are gaining share meaningfully as is visible because we here the overall numbers are contracting, but ours are growing quite meaningfully. So evidently, we are gaining share.

We saw good pickup in credit this quarter. The one that went by for quite a while, retail was carrying the burden of credit growth. We saw corporate come back strongly in Q3 and has when I say corporate, I also mean commercial banking. Both of them saw quarter-on-quarter growth and YOY growth annualized almost 14%, 15%.

You may have observed our very strong presence in the FinTech ecosystem. We are, I believe one of the most important bank partners that most of the up-and-coming FinTechs seek to work with. Our API stack is formidable. Our partnership capability is robust. We created an institutional architecture, which focuses on FinTech, personally me and the team believes that it will serve us well, it is serving us well. I think it's beginning to show over 75% of our new accounts booked come to the FinTech partnership. I'm sure there will be a few questions will be happy to answer them as we go along in the call.

So, on balance Q3 was good. We do think many of the material drivers of progress that we put in place are working well. The teams have done a great job in navigating COVID and its challenges, no different for our bank than it has been for everyone in the country or in the world. It has been particularly the last three, four weeks leading up today have been quite challenging because productivity has been impaired. People have to deal with either personal COVID challenges or family members or customers and a combination of it. But through all this, the teams are dealing with it very well and have delivered on most counts.

Post the quarter, as in the first few weeks of this month, we've actually had a Tier-2 bond issuance which went very well. We did about Rs.700 crores a raise of money about few days ago. So Q3 like I mentioned from a net profit, from an income, from a margin expansion, from a credit standpoint, quality of the book and liability franchise continues to be granular.

So, I'll pause here. Happy to take questions, me and the entire senior team is there, we'd be happy to answer any other questions or any clarification that you may need based on our investor deck and the details that we put out. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Few questions. Firstly, on the personal loan book, it's fairly small right now, but it's been sluggish for the last four or five quarters, it has not grown any specific reason? Is it a conscious call of not growing this book or what has been the reason for this?

Shyam Srinivasan: Yes, I think in part you answered that Gaurav, our credit charges are relatively more conservative. We don't go gung-ho on unsecured book till we are very sure that it's good to go and the coast is clear. We did see through the pandemic, we did not want, not the pandemic is over it is through the peak of it we didn't want to be very cavalier about it. As we saw things improve, we started picking up normally in the pre-pandemic period we were running close to Rs.100 crores a month of disbursement. You know we don't do new to bank PL, we only do existing to bank entirely digitally originated based on data mining, through this period we were more cautious, as things started improving, we started picking up and we saw some uptick and I believe that uptick will continue as we go into FY23.

Gaurav Kochar: Okay. So, we've started clocking that hundred crores disbursement?

Shyam Srinivasan: Not as yet, but we are on course.

Gaurav Kochar: All right. My second question is slightly more say, medium to long-term right now congratulations on that 1% ROA mark on delivery time. Now my question is taking slightly longer-term view towards the journey of 1.2, 1.25% ROA, what are the two key drivers or two, three key drivers that you'll be focusing on in order to achieve that? Because right now NIMs are at, I mean, you guided for a NIM range, and I think we are at the higher end of that guidance. Do you see further margin improvement from here on driving ROA or will it be driven by the other livers?

Shyam Srinivasan: We have always mentioned that we don't have one silver bullet it's as many little things all adding up. I believe that the things that we promised we will are working well. We had said the NIM expansion by 5 to 10 basis points, 5 of that 10 is accomplished. We hope we will do another 5. Our credit cost tends to be in the right space. I believe that has some space to doing better because we've made some intermittent provisions now just to buffer for future period challenges. Those may not be required. As we get our digital performance even better, I think the cost benefits that we are seeking out will play through. The 1.2% ROA that we are more near-term giving attention to, all look possible over the next four to six quarters.

Gaurav Kochar: Okay. Cost would be, I mean, margin expansion by another five basis points and the remaining would flow from credit cost and OPEX?

Shyam Srinivasan: Yes. There only three lines that you can play within a business. If you noticed our core fee income this quarter, you would have seen in the deck is about Rs.414 crores. Essentially because the treasury related income was modest.

Gaurav Kochar: Just lastly, on the NPA, I mean, can you give some color around, since most of it is secured, either housing or business banking, what is the repayment dates of debts, are the customers servicing existing installments or they may be, some of them who may be less than 90 days DPD and be NPA for technical reasons because you cannot normalize them or standardize them until they pay all the dues, such cases exist in our book of NPAs?

Shyam Srinivasan: I think our NPA recognition has; in case they don't serve the dues, they are NPA anyway. They have slipped and have not, don't pay up all the dues. They don't get upgraded, sorry, I'm not sure what the question is?

Gaurav Kochar: My question was, are there any less than 90 days DPD customers in the NPA book, because customers who have made, who may have not repaid all three EMIs, but would have repaid only 1 EMI out of three which is outstanding, but here the intent is to pay and at least servicing the existing EMIs or more than...?

Shyam Srinivasan: There will be, but they're doing in the subsequent quarters. They will be either upgraded, so that's how it will maybe Ashutosh do you want to add anything to that question?

Ashutosh Khajuria: If I understood the question you mean to say that if they have not become 90 days DPD, they have not turned into NPA and before that, instead of serving three installments, they have serviced one installment, right? Is that the question?

Gaurav Kochar: **No, t**hey have turned NPA they have been 90 days DPD.

Ashutosh Khajuria: If they have turned NPA, they have to first become zero DPD. Not only that particular account, all the accounts, all the related accounts as well, everything has to become 0 DPD on a day. Then only the up gradation would happen. Otherwise, they would lie as an NPA even if they are 60 DPD or 30 DPD.

Gaurav Kochar: Yes, that's my question. In the NPA, that's the report of the total NPA that we have of 4,000 odd crores are there NPAs which are 60 DPD also in that, large chunk of NPA?

Ashutosh Khajuria: I think you're missing some, I think the overall number, if you see SMA 2, SMA 2 number is mix of both the ones which have not fully cleared, all the dues have not yet become zero DPD and therefore they continue to be NPA though they may be 60, 61, 64, 65 DPD. The ones which have migrated from SMA 1 to SMA 2. So that number which you see, that 5% number of SMA 1 and SMA 2 all put together, because our collection efficiency is above 95%. So, what remains is your estimate. I think if you see that number, that particular number, you would find that SMA 2 would have both, they would have some who have not fully cleared all the dues, therefore could not be upgraded and sorry, in NPA, you will have some not in SMA 2, but in NPA you will have some of those, which would be 60 DPD, as you are guessing, but I don't know exactly the number but can give you separately. It will have some.

Moderator: The next question is from the line of R S Sanghai from VT Capital, please go ahead.

R S Sanghai: My first question pertains to yield moderation that we have seen. We have grown our NIM this quarter, but most of it is regarding the cost of funds decline. From a medium-term strategy, I wanted to understand since this quarter also our corporate book has grown better than the retail. How are we looking at the broad mix of the book and the yield coming in, especially when we are hearing there's a lot of competition in the corporate segments, so from a one-year, two-year perspective, how are we looking at the segments, which we are trying to grow and increase the yield on our book?

Shyam Srinivasan: I think we've been mentioning that our mix of business 55%, 45% - 55% retail and 45% wholesale. We are pretty much in that space. Within that, the businesses that are higher margin are being pursued quite aggressively and we're seeing growth in all accounts. I do want to point out that, these things can’t be at the risk of later facing credit issues. So, we balance that out. Credit cards beginning to see tractions, gold loans coming back, businesses like commercial vehicles are strengthening and I see opportunities there. Commercial vehicles, business banking, gold loans, credit cards, all seeing traction. In the wholesale banking, commercial banking, which is a little more higher yield than corporate will continue to grow. The business mix would be 55-45 and within that, the yield enhancing products are seeing traction, now we see that will give us the opportunity to increase margins by another five.

R S Sanghai: So, my second question is on the OPEX front. As you mentioned that you are making a lot of investments with all these FinTech initiatives and all. Right now, we are a cost to income of 55%. As you mentioned that cost is a very big lever of ours. We are achieving that 1.2% ROA mark. By say in the next one, one and half years, where can we expect this cost to income, any plan that you would like to guide us for?

Shyam Srinivasan: Yes, we were at 50 in the last two quarters. There's a shot up because I think as I explained in the last call, there have been impact on the wage related, partly because of the announcements that came on the wage side I think that's getting normalized over the next two, three quarters that will start trending down. Some of the volume related costs, which are good costs are going up, but that's something that we're willing to live with. Some of the digital initiatives we'll start seeing improvements in the cost income in the quarters that follow. So, over a financial year FY23, we will see about 200 basis points improvement on this. I do think a similar number in the following year. We saw some pickup on that because there were some guideline changes and also some unexpected bump up on pension and family pension and gratuity and PF, all that is now factored in. I think somewhere 200 basis points improvement in each financial year from here on.

Moderator: The next question is from the line of Dhaval Gada from DSP Investment Managers, please go ahead.

Dhaval Gada: I had three questions. First was going back to the retail credit growth point. So, just wanted to touch base relative to some of the larger peers who have reported, it seems that the sequential momentum was little bit soft and especially in personal loans was one and also in other products we've seen relatively the momentum was slow. Any comments that you have, is it more temporary? We are seeing momentum built back and if you could specifically give some comments on MFI and CV/CE as well? I think that those are the other portfolios that we intend to increase, mix.

Shyam Srinivasan: Yes, I think on personal loans in particular, like I mentioned at the beginning of the call, we are a little more by choice conservative on that count. I would not try to be very aggressive on that count, that said we are seeing pickup, as I mentioned. Our non-unsecured growth in retail was as usual in the 20% or so, blended was lower. So that will continue. The secured products are doing well and unsecured, we are seeing both personal loan and credit card will grow, but I want to caution saying that's not something that will grow in the very high numbers initially and then run into a problem later, that price we are willing to take, that pain we are willing to take and grow slower and do it in a more graded fashion that said, it's growing. Commercial vehicles doing well but on a small base and here again, we've been more conservative as things open up, we are seeing that catch up, further strengthened the team. We've got a senior leader joining us as the business head for commercial vehicles. He's putting out a plan to make sure that this business will see a meaningful growth going into FY23, but I do want to point out businesses like commercial vehicles, credit cards, personal loans, microfinance, all of which are exciting and high margin wouldn't dominate our incremental growth. To that extent, that's a philosophy of us. Combined these business may put up about Rs.3000 crores in a business year, but on a business that may grow 20,000, 15-18,000 crores of credit, this will not be material, but it'll add up in the quality of the business and over a longer period of time, it'll sustain us.

Dhaval Gada: Just one data point, if you could provide on personal loan, what percentage or how many customers have we offered these pre-approved personal loans, any data that you could share compared to let's say last year or the year before, some perspective. Basically, are we in the process of doing that or we've already done that some perspective if you could provide?

Shyam Srinivasan: It's a base that is ever generating, right. Because it's a base that every month, the scrub runs on the existing client base and the whole one crore customer base whoever is eligible based on our internal criteria, gets scrubbed every month and there's a continuous offering and existing customers top up, repay, top up. It's a perennial source for both cards and the personal loan or the cross-sell opportunities. That said the take up is usually about 3% to 5% of our base every month.

Dhaval Gada: The second question was on the FinTech partnerships. So, you've been sharing your experience with these players. If you would just give some quantitative numbers around, how much is the saving balance with these accounts that are coming with these FinTech and then current account balances with the merchant acquisition business, fee pools if any, if you could just quantify where are we today and any like one year, two years down the line, what size each of these metrics could be?

Shyam Srinivasan: I think the first thing I would say as I think one of our slides, slide 16 in our deck and beyond talks about the FinTech partnerships, how we have consciously indexed it to X and how many times X it's been growing every month, you would notice both in balances and a number of accounts and it's growing quite rapidly as you would have observed. Numbers we are consciously not sharing, not because that we don't want to, but I think the partners seek that confidentiality because there are many partners and if we put out, they shouldn't get into their own, they have other commercial considerations. We are sharing it indexed to a particular number, but suffice to say, it's growing quite well, yet not very meaningful in the wider scheme of our CASA balances, which is well or north of 50,000 crores. These are yet to, a spec in the horizon. But we believe on the margin they are doing well, the 3 MO basics, MOB balance build of these accounts match up to some of our segments of the business. We are giving ourselves calendar '22 to make sure that these are actually catching up and providing us cross sell opportunities as we mature into these businesses.

Dhaval Gada: Would these be like more than 2% of CASA today?

Shyam Srinivasan: No, far from that. Not as yet.

Dhaval Gada: Understood. Just one last point on the provision line, just a data keeping question. I, I think we have adjusted based on the RBI circular, we have adjusted recovery from written off accounts from the provisions, is my understanding correct? If yes, then if you could provide the recovery from written off accounts during the quarter?

Babu K A: What I understand from the question is like an appropriation of accounts as per latest guidelines if that is the question, I would appreciate, Venkat may take that question.

Venkatraman V: On the question about the RBI circular, if you recollect in August, there was a circular where changes in the presentation, which was prescribed on the financial statements by RBI where recovery from fully written off accounts, earlier which were shown as other income was to be netted off from provisions. That's what we followed in the Q2, but subsequently based on certain representation in November, I think November 15, there was another circular where they revised it and made changes and asked us go back as per the earlier presentation. We have restated the previous quarters as well, in line with the change and in Q3 that number was marginal, maybe like a few crores.

Moderator: The next question is from the line of Sumit Kariwala from Morgan Stanley. Please go ahead.

Sumit Kariwala: I had a question on margins outlook that you have historically given which has been in the range of 3.15% to 3.2%, we are running at 3.25% now, more than that and you're sitting on a that is the rate cycle is curving. You're very well positioned for that. You will open up risk appetite with respect to lending and so on. Do you see the need to revise that guidance, or should we assume some upside risk?

Shyam Srinivasan: We are quite conservative on these guidance, but I do believe, like I said, in the beginning of this call, there's another five, seven basis point opportunity that is there in the near term, which we are working through.

Moderator: The next question is from the line of Manoj Bahety from Carnelian Capital, please go ahead.

Manoj Bahety: Let me first congratulate you for achieving 1% ROA. My question is mainly on digital initiative, which Federal Bank is taking. Just wanted to get some color on this digital initiative, especially when on one side, there is a risk of disintermediation from new FinTech cos. On the other side, when I see like larger banks, they are also coming with open architecture and innovative solutions. In that respect just wanted to understand that how Federal Bank stands and secondly, whether whatever digital initiative, which we are taking, how it is going to enable our growth going forward especially on the personal loan side, especially like making our loan book more granular. On that, if you can give some perspective, that will be helpful.

Shyam Srinivasan: I will give you some remarks and I'm sure Shalini will also add in. Let me just begin by saying our approach to digital, I think I said this in the last time call also. I and the team believe very firmly that FinTech partnerships is a very, what should I say smart way for Federal Bank to extend our reach. We could have added 2000 branches to accomplish the same outcome. We believed that a) we built a good house of FinTech stack if you will. That's attracting a lot of FinTech players to come to us or mobilize our partnership. You did mention some large banks in the area of FinTech I think large and small is irrelevant. It's technology and agility that makes a big difference. I can publicly challenge anybody. I don't think we are less than any of your bigger banks that you have in mind, and it is evident when every FinTech in the country is talking to us, it's probably because we are willing and capable and swift and give attention at the highest level, me and Shalini are personally involved in many of the things. We created a FinTech team whose only job is to breathe and deliver on this count. I don't think we are lagging, and I don't want us to be lagging that said, will it be profitable, Will it turn out to be the next money spinner for us, that jury is out. We are working very hard to make sure that it's productive and profitable, but I also recognize the fact that this is investment. If you add a thousand branches, it has 18 months gestation period. We are seeing this in that context, we may get a few things, right, few things wrong and where we don't get it right, we'll exit it and where we get it, right, we'll expand it. Most of the partnerships are outcome-based compensation for either of us. We gain they gain; we don't gain they don't gain. Thankfully, we have chosen partners who are willing to sort out with us and they find our engagement quite productive. I think therefore we have a pretty structured exercise. I'm not saying these are instant wins, but the exercise is quite structured. We have created a full-fledged team whose only job is live and breathe FinTech and make it productive for us and for the partner. I believe we must be at the forefront of it. Shalani, would you like to add any points?

Shalini Warrier: Thanks, Shyam. I think you have covered most of it, as you said couple of things, and I think you alluded to on the lending side of it. Absolutely this is another area where partnerships are designed to play a very key role for us. If you go back in time, even the little bit of personal loans that we do, even through the COVID period, we were one amongst the first banks to kind of offer our loans on platforms like Google Pay and Gpay and Paisa Bazaar. Even today we work with both of them for our existing to bank customers. Yes, on the lending side, we've got that. We've got a very good example of how we've been able to scale up FPL our credit card with FPL. You see some of the data in one of the slides on the investor deck. It's more about collaboration with FinTech, working with them closely across the spectrum, whether it is credit cards, personal loans, general savings account, rural India through DGV, merchants through Bharat Pay. We've got all of this kind of working with us and, using Fintech as more as a collaborator, we don't see them as a competitor. Having said that our regular digital stuff is also making good progress. You'll see some of the metrics in one of the slides, digital migration at 88%. We kind of offer a whole range of financial and non-financial services through our mobile banking platform. We've touched 12,000 odd crores of mobile banking volumes. One is not in lieu of the other, both work in compliment with each other.

Manoj Bahety: Yes, just a follow-up to that. How do you measure your success of the digital initiatives? Like it should be in terms of acceleration in getting good quality assets with lower risk. How do you monitor a success or failure or this collaboration along with your in-house digital capability?

Shalini Warrier: I think what we've done at this point in time is, carved out the whole FinTech partnerships as a separate vertical by itself. It's a business division on its own and it has a set of KPIs, which are normal business KPIs. That team of people is mandated to grow balances, whether it is in the form of credit card outstanding, personal loan outstanding, savings bank balances, term deposits, etc. has a set of KPIs on cross sell to these customers has a set of KPIs on income from these customers, as well as cost of acquisition, cost of maintenance, etc. This is a regular business division on its own the whole FinTech kind of vertical that we've carved out or the team that we've carved out. They are measured very-very carefully on these metrics. And, through robust reviews with our FinTech partners, we ensure alignment and objectives. The commercial model is also aligned to those objectives. To the broader point on digital and how do we measure digital again, we've got a set of metrics in place, but I think the overarching point is every transaction migrated out of a branch and moves to a digital, gives us that much more leeway in the branch to be able to sell, either an insurance to a customer or a credit card or a regular savings account, etc. So, the business growth that we've seen, and if you map that against the growth in staff numbers, you realize that our business has grown X times, whereas our staff hasn't grown to that extent. That could have only happened if we had migrated about 85% of our transactions away from the branch. Broadly both FinTechs as well as regular digital stuff that we do have a set of very strong financial KPIs that are measured and reviewed by the management team on a monthly basis.

Shyam Srinivasan: Shalini, I'll also add only one more point to everything you said. We probably had, probably only bank which added just 20 branches in five years and grown 2.5x business.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Mutual Funds. Please go ahead.

Vivek Ramakrishnan: My question is on the corporate book; it has shown a sharp growth. I see it more as a working capital kind of growth or do you see investment led growth where the loan will stay on a book for a longer period of time?

Shyam Srinivasan: Mixed Vivek, I don't think it's either or it's both. We've seen good progress this quarter for two, three reasons. One, corporate themselves are beginning to come back to banks in the greater part of last year, corporates were literally keeping away from banks, and we were keeping away from some of them because the pricing was obnoxious. Both have started showing some trajectory change. We were in the right place in Q3, and we started picking up share. The mix is both working capital, investment led is much less, but three-year loans are picking up.

Moderator: The next question is from the line of Mona Khetan from Dolat Capital, please go ahead.

Mona Khetan: Firstly, on the cost of deposit side, is there still scope for improvement in there or you feel we have bottomed?

Shyam Srinivasan: When the rate cycle is pitched for a turn, Mona I don't believe there will be too much of an opportunity to lower cost? Yes, if our CASA up picks up even further, there may be some, but I must be honest, that's not a material number, at 4.27 we are at our lowest in terms of cost of deposits and compare very favorably with banks. Here I will admit there are bigger banks than us and I think we are at the, probably at the lower end. I don't believe there will be too much of an opportunity.

Mona Khetan: A follow up on the wholesale book, seen a healthy growth despite the pricing, the competitive environment. What is the incremental yields for both commercial banking and CIB?

Shyam Srinivasan: Incrementally commercial banking is seeing some pickup, corporate if you're going after the best names, which we are, I don't see much of an opportunity for yield pick up on that in a hurry, but we are seeing other opportunities to cross sell into that. That's how you saw this quarter our core operating income shoot up quite materially because in corporates where we are lending at very competitive rates, we are able to pick up other businesses, commercial banking, I think the yield pickup has some opportunity

Mona Khetan: Where would the incremental yield be if you could give some color on that.

Shyam Srinivasan: Commercial banking would see the bigger picture, bigger opportunity,

Mona Khetan: But the rate where would it lie if you could give a broad range?

Shyam Srinivasan: It would be about 10, 15 basis points higher than our current run rates. The commercial banking is somewhere around the seven, mid seven to eight. I see that picking up even further.

Mona Khetan: Just finally, FinTech and investments around that, what could be the growth we could see other OPEX owing to the technology investments?

Shyam Srinivasan: Where we see this are roughly in a quarter, we expect 30 to 40 crores of cost going towards investing in technology or investing in the partnership in terms of acquiring the customer. Annualize it should be somewhere in the 70 to 80 crores. In the near term, it will produce us less in the revenue side, but it'll establish the presence of the bank in these segments. In the longer term, it will start seeing, the lending relationship related FinTech have quicker breakeven, the liability related have a little more gestation. We think this whatever the 60 to 80 crores whatever that number is going to be, will have a mix of benefits, brand, establishing our presence, getting customer base, building cross sell database and establishing a credit relationship, which turn out to be much more productive, very early.

Mona Khetan: And just the one data keeping questions. Firstly, how much of your book would be EBLR linked and secondly SMA, I think somewhere you mentioned 4.5% of total SMA, is that the right understanding?

Shyam Srinivasan: My last number 4.15% I think is a total SMA book and EBLR, 40%, around 40% yet.

Mona Khetan: 40% of your total advances would be EBLR?

Shyam Srinivasan: Yes. Total advances.

Moderator: The next question is from the line of Ajit Kumar from Ambit Capital. Please go ahead.

Ajit Kumar: A couple of questions from my side. First, in last couple of quarter, NRE deposit growth has come down. This quarter the absolute NRE deposit amount is broadly flat on QoQ basis and last quarter it declined. Even as per your press release, your market share in inward remittances has declined to 19.23% this quarter versus 20.54% last quarter. Roughly 130 basis point decline is there. So, is there any pressure on this type of deposit?

Shyam Srinivasan: I think it's a public fact that the gross remittances coming into India have dropped 25% or so. Right. Our share gain is what we make sure that we happen and with something that's part of the territory that the country is working through. I don't see that as a material issue, but our gain in share and gain in momentum will continue.

Ajit Kumar: So, this decline in market share in inward remittances is basically temporarily.

Shyam Srinivasan: I think these are point in time. Literally it is only a small difference of 19-20. It just happens to be 19-20. But that's the difference. I don't see it much of an issue.

Ajit Kumar: Second question is on the MSME segment. So, almost all the large banks have seen very high growth in SME and business banking side, more than 30%-40% YoY growth. How do you look at this situation? Is the opportunity by itself is increasing in this segment or large banks are gaining market share at the expense of mid-banks and NBFCs probably by offering lower rates? Your assessment on this would be quite useful, sir.

Shyam Srinivasan: I think it's probably the latter. With credit opportunities in the top end being more limited, a bank sitting on fair amount of liquidity and having this keen desire to grow credit may have extended themselves because we have encountered sometimes irrational pricing for smaller customers and pricing which don't otherwise make too much sense.

Moderator: The next question is from the line of Jai Mundra from B&K Securities, please go ahead.

Jai Mundra: First question is on asset quality. There is a QoQ rise in slippages in business banking and commercial, while it looks marginal. But just wanted to understand if there is any more color there in terms of, is it due to, let's say RBI clarification which demands now daily recognition or clearing full overdue? Or this is something to do with some ECLGS or restructuring maybe turning bad, or this is just business as usual?

Shyam Srinivasan: I would categorize it as absolutely business as usual, as in if you look at our own deck, take business banking in five different quarters, it's five different numbers and they are not in any trajectory or trend. You have seen 49 in one quarter; you have seen 196 in another quarter. So, I don't think you could draw any parallel from 49 to 84. And I think normally somewhere in the 60 to 80 crores would be a predictable number, but these tend to be in that range. I can't quite comment it's anything new because this daily recognition and RBI circular practice we have been following for very long. So, it hasn't materially affected us in this quarter in particular.

Jai Mundra: Anything on ECLGS, sir, if you can highlight what is the quantum and how much has been already slipped?

Shyam Srinivasan: I think the GECL slip is less than 5%, but Babu you want to add?

Babu KA: GECL slippage is 2.1%. It is almost less than the normal, its 2.1% this quarter.

Jai Mundra: What is the total number of GECL book outstanding?

Shalini Warrier: It's about 3652 crores and 2.12%.

Jai Mundra: Second is, I think in the PPT you have mentioned that in the recovery include some ARC transaction, if you can provide some more details there?

Shyam Srinivasan: One of the ILFS roadways we sold and made a cash transaction and got the deal fully out of our books.

Jai Mundra: And the last thing from my side is if I look at your retail loans, so mortgage is still double-digit growth and auto is also growing reasonably well, actually better than industry. But the other portion of retail is showing a YoY decline if I were to see that. So, broadly what is included in other of retail? Is it like education loan or something else which is degrowing? If you can help us that which segment is degrowing there?

Shyam Srinivasan: Personal loans, education loans.

Moderator: The next question is from the line of Nitin Agarwal from Motilal Oswal Securities, please go ahead.

Nitin Agarwal: Couple of questions like, what is the growth outlook that you have seen in the gold loan portfolio? After a robust FY21, we have seen barely 4% growth in this portfolio in the nine-month FY22. So, how do you see the trend?

Shyam Srinivasan: We did see this business cool off this financial year. Thankfully, the December month did well. We see that probably repeating itself. We are now looking at between 10% and 15% growth for this financial year and a mid-twenties growth next financial year.

Nitin Agarwal: Second, on to the restructured assets. Now, so far in this earning season, we have seen a decline in the restructured assets for most banks, while we have reported a very-very small increase. So, if you can provide some color on this? And how do you see the reduction in this portfolio over the next one year?

Shyam Srinivasan: Restructuring ended at the end of September, there were residual I think about 400 crores or something that got restructured in Q3. After that, the restructuring book is zero, because there will be, for example, nothing in Q4. The restructuring book is behaving well. Anticipating whatever challenges wave three can throw up, we have made a significant increase in provision for that. Otherwise restructuring book is performing quite well because 98% of our restructured book is secured.

Moderator: The next question is from the line of Ajit Kabi from LKP Securities, please go ahead.

Ajit Kabi: I had two bookkeeping questions. One was asked by Mona Khetan. So, at the question of that what is the contingent provision you have, contingent provision means what is the provision you have outside PCR?

Shyam Srinivasan: 730 crores for our standard restructured advances.

Ajit Kabi: Apart from that standard restructured provision, how much is the COVID provision, any countercyclical provision what you have?

Shyam Srinivasan: This is the universe of our provisions. Allow me to just clarify so that everybody understands, each bank have their own measure of LGD, segment, secured, unsecured, book profile, forecast of what can slip. So, in our case, we have made judgment based on our restructured book. Its past behavior, its likelihood of slippages, what is the LGD, and we want to make sure that at all points in time on our book we keep our provision coverage at 65%. On that strength is what we have made our coverage ratio provision.

Moderator: The next question is from the line of Renish Bhuva from ICICI Securities, please go ahead.

Renish H. Bhuva: Just a couple of questions. One is on this, all the new products together like MFI, CV, credit card, what is the total outstanding book currently?

Shyam Srinivasan: If you add commercial vehicles its about 2000 crores.

Renish H. Bhuva: Including commercial vehicles it is 2,000 crores.

Shyam Srinivasan: Right now. MFI plus credit cards plus commercial vehicles.

Renish H. Bhuva: And what is the target over the next two years? Is there any target?

Shyam Srinivasan: Yes, I did mention earlier. Annualized, we think these businesses put together will grow between 2500 to 3000 crores. So, if we take two years, you can say post run off about 7500 crores from today.

Renish H. Bhuva: Apologies for repeating the question on this FinTech journey. But just a very basic question, let's say, the customer acquisition happening through this FinTech partners, customer ownership remains with whom. I mean, let's say for example, if we are acquiring customer Y, as in neobank and will start with offering the maybe saving account, and then if you want to offer something else, are we allowed to offer something else, or it will be the neobank who will drive the cross-selling thing?

Shyam Srinivasan: I think Renish, this question last time also I had clarified, varies from partner to partner. One of the first partners we signed up for origination of accounts, those accounts are now roughly coming up to six months old, some of them, the first month of origination, July last year. We have the opportunity to cross sell based on the client behavior for credit cards and personal loans. And the relationship with each partner depends on what are the products they offer. So, sometimes we have the right to offer the entire suite of products, sometimes we have the right to offer products that they don't have, sometimes it's a joint marketing, each partnership varies. But for example, the first set of clients which we booked in July 2021, which is the first cohort of good customers we booked with one of the new banks, those are maturing up based on six months past experience we can do cross sell off some of our credit products.

Renish H. Bhuva: Just to clarify that your bank gives, just an example, so we have (+) 50 partners. So, basically you are saying that the arrangement will be different for each and every partner.

Shyam Srinivasan: The big client originating partners are four to five. The rest are technology enabling partners. So, there's a difference. The large cohort of new customers come through 4-5 important partners

Renish H. Bhuva: Overall, where we stand currently, I mean, what percentage of our business comes from these4-5 partners?

Shyam Srinivasan: I think we have mentioned it, roughly in a day we were doing 4,000 accounts and now we are doing 15,000 to 18,000 accounts.

Renish H. Bhuva: Okay, so we already moved from 4,000 accounts to 15,000 accounts a day now.

Shyam Srinivasan: And I think we have been saying that. And one of the slides we did have.

Shalini Warrier: One of the first few slides.

Shyam Srinivasan: 75% of our new origination is now through Fintech partner. I think we have built about 12 lakh customers through this.

Shalini Warrier: 75% of new accounts have been booked. I think it's in one of our first slide. Slide three.

Renish H. Bhuva: Just a last follow-up on that. Let's say the acquisition cost will be far higher than our blended cost to income ratio which is at sub 55%. Any sense, where do we start sourcing customer at the current cost to income? So, I am assuming since this partnership is in a very early stage and we have not been able to leverage the customer fully, the cost of acquisition will be slightly higher than our blended cost to income ratio currently which is that 55%, because the revenue potential from those customers will be lower currently and cost of acquisition will be higher. So, any sense when this partnership will turn…

Shyam Srinivasan: I did mention that our annualized whole Fintech cost space, depending plus or minus based on the volume, between 60 and 80 crores annualized. And that is encountering after assuming the cost income improving by 200 basis points next year. That should answer your question.

Moderator: The next question is from the line of Samir Bhise from JM Financial, please go ahead.

Samir Bhise: Just wanted to get a slightly medium-term sense on how you think on fees, because obviously you have been a bit conservative on chasing high yield assets. So, any leavers that you see from the fee side incrementally say a couple of years out or what are the possibilities there?

Shyam Srinivasan: I think on all the fee enablers we have been making sustained progress. For example, this quarter, our core fee income probably was at all-time high. And every quarter I say that it's at an all-time high. So, evidently there's progress on that count and I think that in one of the slides that breakup is also there.

Shalini Warrier: Slide 27 has a fairly detailed breakup.

Shyam Srinivasan: Yes, there it is. So, that will continue Samir and we believe that on all metrics it's making progress.

Samir Bhise: Sorry to kind of stick around here a bit. So, when we probably look at our next leg of our ROA expansion journey, obviously you have some bit of inch up or lift up from margins, maybe costs. Does this feel on a reasonably high priority? Because when we compare with some of the larger peers in the sector, there is a gap which needs to be filled. So, which is where I was coming from.

Shyam Srinivasan: You are right. But ours is more sustained progress. I wouldn't want one quarter to have some extraordinary and the next quarter it falls off, once in a year type. And you see our numbers across say even in the income deck, the other income distribution vertical wise, you will see progress, on every line it is making progress and I believe that it will continue. So, it is not the one thing that will fire, whether it is FX it will do well, in para banking it's making progress, as cards lines sequentially every quarter it has been making progress. I think that will continue.

Processing fee as volume pickup you will see progress. We have given it as granularly as possible in the slide 27.

Moderator: The next question is from the line of Aditya Jain from Citi Group. Please go ahead.

Aditya Jain: Just wanted to ask about the FinTech partnerships, the commercials of it. I wonder if you can talk about them at a qualitative level, roughly how are the commercial structured? You touched upon it when you mentioned that there is alignment of incentives. But is it like for every account opened, the partner will get a certain amount or is it linked to transactions happening? So, for every transaction there's a payment? Broadly, how is that arrangement structured? Is it possible to just give us color on that?

Shyam Srinivasan: I think we did mention. First of all, just to clarify, there is no one FinTech partnership, right? And as we mature and as we sign up new partners each one varies in its structure. There are all not sort of cookie cutter and it's not the same. And second, generally it is outcome focused. So, if we have success and they have success, then the gains are shared. If it's not catching on, there may be some sunk costs and we will exit it at an appropriate time so that customer is not left high and dry. And the lending relationship have a different kind of payouts. The liability originating customers have a different kind of payout. And the cross sell that we can do will determine the productivity and the profitability of the customer. So, I would just say it's quite a bespoke and not one size fits all. And as we graduate in that process, I think we are getting better and better with each of our engagements.

Aditya Jain: If we were to just think about the liability side for a second, if it is a customer who is completely with the bank and not come through a neo bank, then on an incremental transaction the cost obviously for the bank is low, it's predominantly a fixed cost. But with these neo banks, does it become a more variable nature?

Shyam Srinivasan: It's linked to balance build over a period of time. Six MOB, 9 MOB, 12 MOB, balance on their account will get them to watch.

Moderator: The next question is from the line of Akhil Hazari from RoboCapital. Please go ahead

Akhil Hazari: I just wanted to know what is the normalized credit cost that you have going forward?

Shyam Srinivasan: This is one area which is working positively wrongly for us. Every time I think it's 60, 70, 80 basis points, we end up coming much better. But I think steady state you could plug in between 60 and 70 basis points.

Akhil Hazari: I just want to know that the credit growth guidance that you had given 10% to 15% and mid-20s, was that for the overall credit book or is that a specific book?

Shyam Srinivasan: I was mentioning that in the corporate, when I think one of our colleagues had asked about corporate.

Akhil Hazari: So, what would be the overall credit growth going ahead say FY23 and FY24?

Shyam Srinivasan: We certainly will seek to deliver much higher than the industry growth. We believe calendar 2022 will look good. FY23 will look good for the country. And our mid-teens and higher than that growth is very possible.

Moderator: The next question is from the line of Krishnan ASV from HDFC Securities, please go ahead.

Krishnan ASV: I just wanted to ask a couple of things. Number one, I am assuming whatever you have showcased in the investor presentation from slide 15 onwards are your signature partnerships within FinTechs. So, just want to understand how far you believe or purely from a potential of these partnerships' perspective, how scalable are these partnerships? If you could just give us some qualitative inputs, there that would be great. That's number one. And number two, what would give you confidence to grow in this environment? You are already seeing the larger banks are around the mid-teens, assume at our scale we should find those opportunities to at least be on par on that kind of growth. Even if you eliminate some element of fraud that's going on with the large banks. So, just wanted to understand what would give you that comfort in terms of being able to accelerate a little faster?

Shyam Srinivasan: On the first one, I think the ones that we have showcased all of them are both potentially scalable and already on the scale. The names mentioned, Epifi, Jupiter, and some of those that we are tying up are all like we were saying in a daily basis, we are adding 8,000-10,000 new customers and some of them maybe even bigger. So, I think some of these names are material and scalable and that will continue and be visible. And the moment we see signs of that not working, then we have certain filters that we are put in. So, the conversation opens up in saying, does it make sense? Do we need to part? That's a model that's working and the team that Shalini pointed out is exclusively focused on that. The second question is on growth. I don't want to sound like we are bigger than anybody else. We are not. But certainly, we are not guided by what big banks are growing or what others are not growing. We are guided by our appetite and what the market opportunity is for the appetite we have. And I think growing at the levels that we have promised or looking to grow, I think it's very possible. Where we don't score and we have chosen not to score as in unsecured growth and that has served bank well despite all the criticisms that we faced of being less courageous, but I think it's a sustained business that we have built. And as things open up and our capabilities to do unsecured business increase, we are confident of growing at good rates.

Moderator: The next question is from the line of Mahesh MB from Kodak Securities, please go ahead.

Mahesh MB: Just a couple of questions. One, if we are looking at the way interest rates have gone up in the last 6 months odd out there, how does the OPEX line on the provisions move for you during this financial year? That's number one. Second one to Shalini, the subsidiary, which is Fed operations one, where are we with respect to the transition on that?

Ashutosh Khajuria: I think I'll start with the expected provisioning on the investment book. I just wanted to share that we have a very low modified duration in our AFS book. In fact, we practically do not have much of a surplus SLR, and that is evident from the fall in our LCR from about 240%-250% stayed to about 160% or so. So, that fall of 80 percentage points 78 percentage points itself suggest that whatever surplus SLR which is classified as HQLA and all, that we have a shed and we have shed that good profit and all, and that shows in the capital gains made in Quarter 1 and Quarter 2. So, I think in a nutshell, the portfolio itself is very light and because the portfolio which is subject to mark to market is light the provisioning requirement for that would be minimal.

Mahesh MB: The question is more from an OPEX line. We are just kind of trying to understand the impact of the retirement related provisions now that interest rates have gone up. Sorry for not having been here on the question.

Ashutosh Khajuria: So, it's about the employee cost. On that, I think we traditionally do not reverse the provision. So, even if interest rates move up or so we will hold onto what we are having, we have provided for superannuation. Maybe the additional accretion would be a function of how the yield curve shapes up. For us most relevant part is 14 to 22 years band of the yield curve, sovereign yield curve because of the requirement for provisioning for gratuity and for pension. So, that segment of yield curve would be actually to be seen to be watched. 10-year benchmarking maybe anywhere but what we are concerned with is where is14-to-22-year segment. As of now, what you are seeing is the steepness of the curve is reducing and you are having more of yield moving up in the lower segments, so yield curve is becoming flatter. To that extent yields are not moving in that particular segment. In fact, the most liquid bond is the 14-year bond presently. And the spread over 10 year is quite less. To that extent, I have answered your question, but it's very difficult to predict where it's going to land as at the end of the year 31st March.

Shalini Warrier: On the subsidiary, maybe I will get started and Venkat can add, Mahesh. I think against the broad objectives with which we formed Federal Operations and Services, FedServ, made considerable progress. Headcount has moved at least about in the range of about 600 or more right now. Couple of key migrations we have done to it as examples of what has been achieved. One, we have migrated one of our call centers completely into that. So, the entire call center capability now is handled by FedServ. We have migrated a lot of our tele collections capability into FedServ. We have migrated a lot of Tele sales services into FedServ and therefore we have a unit now functioning out of FedServ which is doing inbound service, outbound sales, outbound collections, and doing quite well from a productivity standpoint. We have seen the gains on that. In terms of operational processes, Venkat will add to what I am saying I am sure, but about 100 odd processes have already been migrated and both units, the one in Kochi and the one in Vishakhapatnam are kind of literally working now 24x7 to keep our operations going. Venkat, you may want to just add to it in the last 6-7 months.

Mahesh MB: The question is that given that we can't observe what all changes is happening at the backend, the best we can observe is either a cost or an income for the bank. Is there any way we can look at this transition from that perspective?

Shalini Warrier: From a productivity gain perspective, right Mahesh, or an impact on the CI ratio?

Mahesh MB: See, it's impossible for us to understand which costs are moving and what are the gains of it sitting here. So, just trying to understand what has this transition reached out in terms of numbers as external stakeholders?

Venkatraman V: We did a study recently to evaluate what are the benefits of having the subsidiary. The business case which was initially put up and what it is now, we did that very recently. It clearly establishes the fact that we have gained productivity in terms of lower cost, better quality as well from the subsidiary which gets translated into the numbers which we have. And like Shalini mentioned over (+) 100 processes and we are looking at moving more and more of the incremental activity which comes to the bank which we are putting directly into the subsidiary. And it's not like we are moving work into the bank and then from the bank to subsidiary. So that way, do it right first time, build the efficiency in the operation subsidiary and better risk mitigation BCP. We have now about 750 people, 150 in Vizag and 600 in Cochin and it's growing. So, very clearly establishes, the study establishes the business objective, and we have full confidence that it will continue to deliver the business benefit.

Shyam Srinivasan: Let me just add, Mahesh. I think if you are trying to get a more crystal, something that you can latch onto, it has two elements, Mahesh. One is the non-incurrence and the second is what Shalini and Venkat explained. Given our employee cost structure and wage structure, if that 750 were inhouse there would have been a different cost structure. So, you have to see it in that light.

Moderator: The next question is from the line of Darpin Shah from Haitong Securities, please go ahead.

Darpin Shah: Just to check on restructured book, you mentioned 98% of the borrowers are paying?

Shyam Srinivasan: 98% of our book is secured, I said.

Darpin Shah: So how much of your borrowers would be paying?

Shyam Srinivasan: 96% is our collection.

Darpin Shah: It is in the restructured book as well.

Babu KA: Restructured book is more or less on the same lines as of now.

Shyam Srinivasan: You are right, Darpan. As of now that's the same number is what Babu is saying.

Moderator: Okay, sir. The next question is from the line of Anand Bhavnani from White Oak Capital, please go ahead.

Anand Bhavnani: Quick three questions. One is of our liabilities, what percentage is linked to any external benchmark? Second, if you can give us some sense on the IPO of FedFina and what's the timeline and would we be doing any sales which can help our capital adequacy? And thirdly, the FLDG guarantees are likely to be now allowed. With our FinTech partners how does the equation change? If you can us some color on, it will have an impact on growth with our FinTech partnerships?

Shyam Srinivasan: Question one, Ashutosh, Venkat, you can look at it.

Venkat We have answered that earlier Shyam. 40% is the external benchmark.

Shyam Srinivasan: I think it's almost the liability business, deposit business.

Ashutosh: Deposit side it should be around 30-32.

Shyam Srinivasan: The second question that you asked was around the IPO for FedFina. All I can say is the board of the bank has approved and FedFina board is considering. They are in the process of going through the motion. First is to file the DRHP which may happen between now and say end of February, March, and then the approval from SEBI takes between two months to three months. So, we are into somewhere around May is probably when we will have the approvals in hand. And then after that as you know depending on a bunch of things like market timing, so on and so forth. But I don't have a comment on that at this juncture. So, the process is in work. Timing and related approvals, regulatory clarifications, the bunch of stuff that needs to happen is underway. So, I don't have any timeline for it. We will see how it goes. And the third question, sorry, I can't quite recall the third question.

Anand Bhavnani: The FLDG guarantees.

Shyam Srinivasan: Shalini, do you want to go on the digital FinTech partnership, FLDG? I just want to say that our digital lending ex-credit card is actually very marginal, so it doesn't have any impact on us. But Shalini you can give more texture.

Shalini Warrier: One is, this is in the stage of a discussion paper and a working group. And as Shyam mentioned, the one that is growing currently for us is our credit card partnership. We are not very concerned about it because we do have models in place which indicate how we can make sure with collection efficiency and commercial considerations; we should not get unduly impacted with the removal of an FLDG. Suffice to say that I think the discussion paper is still out. I think there may be some changes in the final version, but it doesn't place us in any uncompetitive sense.

Moderator: Ladies and gentlemen, we will take one last question from the line of Manish from Fiducia Capital, please go ahead.

Manish: I think last couple of quarters we have been going in a very-very determined in a very defined manner. So, my compliments to you for that. You have been mentioning that the conservatism that we have been demonstrating, so how much of our total book is secured?

Shalini Warrier: Just to clarify the question, how much is the total book is secured? Was that the question?

Ashutosh Khajuria: Yes Shalini, that is the question. How much of the book is secured? If you were talking of total loan book, just exclude the AAA corporates and all where there is some unsecured portion. Other than that, we have only personal loans and a small portion of credit cards and all which is unsecured. The rest of it is all secured.

Manish: And the AAA would basically be forming part of the corporate book, so I can get a sense that as to how much of that could be.

Ashutosh Khajuria: Yes, AAA, AA+ type of top-notch corporates there could be some unsecured portion in that. But that is I think something where the risk of default is practically nil.

Manish: I get that. The next question for the madam was, basically going to your slide number 17 which demonstrates the kind of fantastic growth that you are seeing on your BharatPe relationship, my question was that how will the bank make money out of this relationship? The numbers are like really exploding, like 50 lakh merchants, then 20 lakh transactions on a daily basis, how would the bank make money on this particular relationship?

Shalini Warrier: A couple of things, one, from the merchants' side of things, we do have floats that we get, the current account floats and these are also again commercial discussions that are held with the partner and with the merchant, some of them T+1, some of them T+2, some of them T+0, depending on the kind of category of the merchant. So, there is a float benefit that we get from it. On the transactions, we do have a cost sharing arrangement under the commercial negotiations that we have with BharatPe, so that oblates some of the costs that we may incur on the transactions. The broader point is as this book matures, as we get to understand the customer behavior better, we understand the flows of the merchants better, BharatPe as you know is already offering loans in their own books and we are working with them to see what alternate data scoring methodologies can be put in place. We are quite cautious about this because it is unsecured. It is something that we have always been a little cautious about. But there are opportunities for a risk calibrated approach to cross sell. So, there are various opportunities, but the underlying is the current kind of configuration is the current account balances that come in.

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

Shyam Srinivasan: Thank you very much. I think the line signaled. Everybody was tired of us answering questions. So, it got cut. Thank you very much. Stay safe and hopefully we will connect back after Q4 results to have a better conversation. Thank you very much and all the best everyone.

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