“Federal Bank Limited Q4 FY-21 Earnings Conference Call”

May 17, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the Federal Bank's Q4 FY21 Investor Conference Call. 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 would now like to hand the conference over to Mr. Anand Chugh. Thank you and over to you, sir.

Anand Chugh: Thank you so much. As I welcome all investors and analysts to the call, I hope and pray that all of you and your near and dear ones are safe in this challenging environment. It gives me a lot of pleasure that despite the challenging external environment the bank has been able to report excellent performance on the financial and non-financial front.

Let me begin by highlighting the initiative that the bank has undertaken towards vaccination, which is the biggest need of the hour. We in association with Network 18 launched India's biggest vaccination drive on World Health Day at Attari border. The bank would adopt 5 districts namely Amritsar, Indore, Nasik, Guntur and Dakshin Kannada and run vaccination drives in these districts. As we care for the society at large bank has also rolled out various HR initiatives to ensure that health and mental piece of employees.

Also in the quarter gone by various awards and accolades came our way. The bank was adjusted as the best and fastest growing bank in the midsized category by Business Today KMPG. Shyam was adjusted as the Business Standard "Banker of the Year" by an eminent jury. Employees are the biggest strength of the bank and the very first time when bank decided to participate in the Great Place to Work Survey. We were selected as one. Bank also won awards for digital initiatives and it was a reflection of our mantra digital at the fore human at the core.

On the financial front you would have noticed that Q4 was one of the best in terms of performance. The bank recorded its highest ever quarterly net profit which stood at Rs. 478 crore and grew by 59% on a YoY basis. This was driven by NII that grew by 17% on a YoY basis despite 9% growth in advances and by strong performance on the core fee income which came in at its highest ever level of Rs. 363 crores.

NIM improved by 19 basis points to 3.23%. The strong operating performance helped the bank report ROA of 1.02% and ROE of 12.2%. The bank's board also recommended dividend of 35% that is Rs. 0.70 per equity share on phase value of Rs. 2. The bank strengthened its provision coverage of 53.39% to 65.14%. Consequently net NPA came down to 1.19% which places us amongst the best in the industry.

The bank also crossed milestone figure of Rs. 3 lakh crores in terms of total business. With the quick snapshot of our performance, I would like to handover the mike to Shyam for his opening comments. Many of the senior team members are also on the call and would answer any questions that you may have. Over to Shyam.

Shyam Srinivasan: Thank you very much, Anand and like Anand I want to make sure and request everybody. I hope everybody is safe and dealing with the challenges in the best manner possible. At the bank like any other good organization we have done our very best to make sure that our employees are both safe and continue to work with reasonable comfort. We have had good success on that count. It has been a tough year no less for anybody else. And we believe that in the context of that our financial performance for FY21 would rank as one of our stronger years.

And that sort of gives us the confidence and inspiration to make sure that despite the raging pandemic, despite the current scenario we believe FY22 should also mimic or hopefully even better as things shape up better at the second half of this financial year. I will just cast our mind back to February 2020 just before the break out of this intense challenge we have all live through when we had our first sort of formal analyst day and we had shared some of our objectives, our roadmap and our aspirations going into 2021-22-23.

Unfortunately some of them did get delayed and I am happy despite the headwinds we did end up FY21 more or less along committed lines and that was quite prudent choice of products, wide use of both conserving and using capital more sensibly and not rushing to raise money just because some availability was there. I am quite proud that we probably will rank as the only bank that increased our capital ratio without having to go to the market and we stood strong on our choice of not having to raise till we are absolutely required to and two things that strategy has paid out and with that confidence the board has also recommended the issuance of a dividend going into FY21 as the results of FY21.

I am not going into the numbers. I thought I will just give you a headline of the choices we made in terms of capital conservation and in terms of business mix, in terms of being prudent in our credit portfolio. Our gross and net are clearly in the top league of banks and I am proud that our strategy over many years of being quite conservative and not doing some slash purpling hitting one year and then doing a mess up next year as held out and I want to believe that strategy should survive and sustain the bank going into FY22 which looks like an arduous year at least at the start.

The view we have of Q1 and Q2 and I will only speak of the immediate quarters because the long term aspiration and desire of the bank remains intact. Near term there will be challenges. It is quite uncertain what Q1 will look like but we are looking through or looking beyond just one or two quarters. Our momentum is strong. We have recast our senior rolls and positions of seniors to make sure it is more sharper and very business focused rather client focused.

So we have got two senior people looking at the business side of it. We have just recruited Venkat who has joined as our CFO effective today. Venkat has a remarkable pedigree comes from past experiences as a financial controller. Ashutosh steps on to do other activities in terms of running his portfolio on treasury credits and importantly the ESG initiatives of the bank. So, between Ashutosh, Shalini, Venkat, Harsh the senior combined alongside our HR, Compliance and another seniors we have now got a formidable senior team looking out in to FY22 to honor both the commitments we have made for ourselves and the statements that we have put out in terms of aspiration for the bank and the business as we go ahead and seeking to be the first-choice bank.

On no count we are behind on any of those commitments. The aspiration to build our granular well diversified portfolio is turning out quite well. You would have seen our CASA growth have been amongst top quartile growth. Our liability franchise is very granular at 90%. Our credit costs have been well contained. Our provisioning strategy from being almost 46% at the beginning of calendar 2020 is now at 65%. Every 100 basis points is about Rs. 40 crores. We have added well north of Rs. 700 crores of extra provision in FY21 for the same level of slippages of the previous year.

Much was made about the deteriorating portfolio and the environment. Not that we belittle that. We believe that our portfolio will withstand and I am happy as we exit FY21 our coverage has moved up to 65% and without any technical write off. With technical write off well into 78% and we remain well provisioned. Our capital adequacy is meaningful and our strategy going into FY22 like I said is to granularize focus heavily on digital. We have good success on digital. A large of the new initiatives that we are held back in FY21 namely the credit card launch. Staff launch has gone well.

Our credit card is completely three click digital offering and there is no hand touch, there is no paper. Absolutely no paper. There is no bank that can claim even close to that. And our client launch is about fortnight to three weeks away from now for existing customers. New to bank will be a little later.

So we are positioned to enter FY22 in arguably one of the toughest times with a reasonably good portfolio well capitalized with an armory of good products, a well commissioned senior team and we think notwithstanding the immediate challenges of Covid and its associated challenges the bank should continue on the path of ROA expansion which we have seen it cross 1% in Q4 and all going well we should be able to keep that momentum in to FY22.

So I will just pass these as the opening remarks. As always myself the entire senior team is on the call. Those of who have been following us you know that there is a very wide range of seniors who chip in with their inputs. So I will open it up for questions between Ashutosh, Shalini, me, Harsh, Anand Damodaran, Babu the full team will be able to answer questions. So let me just turn it over to everybody for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Alok Sanghvi from VB Capital. Please go ahead.

Alok Sanghvi: So I had three questions. My first question is on the provisioning front. So just wanted to clarify since we have used up all our Covid provisioning there is no substantial stack of non-specific provision left on the book if I am right?

Shyam Srinivasan: Except for what is restructured standard we have bought 10% provision for the restructured portfolio.

Alok Sanghvi: So, sir, if I just look at the kind of asset numbers and the kind of environment we are going into we have almost 1.2% NPA. We have a 1% kind of restructuring on which you mentioned that we can expect 30%, 40% slippages going into next year and obviously there is some SMA book as well and the environment that we are going in to is pretty challenging.

So just wanted to understand the thought process around not making extra provision in this quarter because this is unlike what we have seen across the sector where people have chose to go into it extra provisioning going into Covid 2? So that is my first question.

My second question is if you could share the SMA number, SMA-0, 1, 2 number as of March end? And my third question is on the color if you could give some color on the restructuring book? So that is it.

Shyam Srinivasan: I will give you the philosophy of provisioning. I am sure Anand will give you the numbers. So the approach has been we must remain well provisioned and our theme I have been guiding all of last year we would make sure that it is between 60% and 65% provision coverage. So our belief is that that will continue. And we have a sense of the book that we have. Ours is the largely secured book. We do not carry much of an unsecured portfolio.

And like I mentioned, given the experience of LGD even through the current period we believe around 65% provision coverage we will remain quite intact and safe. So on the margin, whenever we see slippages we will be able to provide that 65%. And whether it is sitting in the standard assets and shifting from that to the credit cost or we make provisions in the core as we think shaping up it is the same.

So we decided we will make sure that our coverage ratio remains at 65% or better and that is how we will continue to do. And the experience for that is from about 14, 15 months back when we were at 46% the environment was different. We said our loss given default that time was about 38%. We always hold about 10% more than the LGD. And when we said the Covid related impact can go to 50%, we carried 60% provision.

Now we are saying if that continues may be at 55% so we still hold 65% coverage ratio. That is how we are working on and therefore our belief is that as we go into FY22 that will be the kind of momentum that we will see. In terms of specific SMA and restructure may Anand can give you more color.

Anand Chugh: On the SMA as you would have noticed in the presentation the collection efficiency is reported as 95% which means that the SMA number is sub 5% and which is actually at 4.6% odd. And on the restructuring sorry, can you just repeat the question?

Alok Sanghvi: Sir, I just wanted to get a sense of the color of restructuring where is the majority of restructuring has come from?

K. A. Babu: On the restructuring as we have discussed like almost 68%-70% of this is what fully backed by securities. And it is a fully backed by this mortgages. So we do not find any challenge on this one. And then secondly, on the unsecured portion, unsecured portion on the restructured book is hardly 6% of the total unsecured book. That is together education loan and some personal loans. So on the restructured book we are even when discussed it is a little more than 1%.

We are very strong on our asset quality side and we have more to recover. One point incidentally I was just sharing may be on that slippages for the restructured may grow little higher. It is not the position. The demand from the restructured book in this financial year FY22 is less than 15%.

And we have already come out with this very strategic program for that, and we started engaging borrowers on that right now at the beginning and we do not find any challenge on the collection from even on the restructured book. In the demand side it may be less than 15%.

Alok Sanghvi: Sir, just one clarification. So the SMA number of 4.6% this was 2.5% last quarter if I am not wrong for Q3 FY21?

Anand Chugh: No, this SMA-0, 1, 2 put together. And also collection efficiency was 95%.

K. A. Babu: Yes, what Anand said, the number is correct. It was less than 5% even in the last quarter. And we consistently maintain our position even during this Covid period. December, March and may be now this March also we maintained the same SMA position and on collection efficiency it is a little more than 95%.

Ashutosh Khajuria: I may further add. What I was saying is that restructured book which is about 1% of the total loan book within that a good chunk as Babu has shared is of secured assets. Mostly mortgages and all where traditionally we have the least LGD sometimes in a single digit some quarters when we run our model also it is in single digits.

So even if in the worst possible scenario of slippages then all in that wherein the as per IRAC norms you are required to classify. That is what Shyam was referring to, 30% or so and all that.

We still would have the expected loss to be quite low. It could be in single digit. That is what is important to know. our restructured book is not of unsecured loans.

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

Mona Khetan: This is Mona Khetan. So my first question is on your NBFC and HFC exposure which totals to about 13% of total advances. Could you give some color because if then one of the key contributors of your corporate growth in the recent past so in terms of the quality of book and share of accounts that are rated BB and below within this NBFC/HFC pool?

Shyam Srinivasan: I do not think it is increased or lowered. It has been the same as long as I can remember. We have been 12% to 15% on NBFC/HFC and I have always said our NBFC/HFC is as good as you can get in the market. They are gold standard in terms of the it is unfair to pick names, but they are on I do not think there will be anybody below AA. Anand or Harsh can input.

Harsh: Yes, that is right, Shyam; Harsh here. The percentage of AA and more is majority of the book. In fact about 85% of the book if I recall right. That is number one. Number two, most of the NBFC/MFI which we have been having they have adequately capitalized themselves also and we have been doing stress testing on the portfolio and we see no signs of stress over there at all.

Mona Khetan: My next question was around one of these large infra account that has recently in the last quarter from a proforma perspective and you had highlighted that a resolution or repayment which is expected soon. So is that factored in this quarter's movement of NPA?

Shyam Srinivasan: Yes, that is Rs. 312 crores you see in the proforma slippage that continues. That is why the number is that Rs. 1,665 crores includes that.

Mona Khetan: Okay so the upgrades and recoveries of 100 and something that includes the upgrade of this account as well?

Shyam Srinivasan: That account is yet not resolved. It is still an NPA with 25% provision made.

Mona Khetan: And lastly, on collection efficiency so you have mentioned 95% number for March. How is that behaved in April and May if you could share some insight?

Shyam Srinivasan: I will request not to give too much weightage on April and May. I mean we have to be honest, right. It is not normal. Things are there is a lockdown and therefore it is unlikely to change dramatically. So real picture will emerge only in the month of June and that is hoping that by May end most of the lockdowns are unlocked and some kind of normal, I would not say normalcy, some kind of limping back to order will appear.

Signs are that it will. So June will be a frantic month which will be more representative of how things will be. Q1 will have challenges but that is what the opportunity to either restructure or Babu's plans of working with customers to solve something that we are hopeful of. But I would wait to make that comment on how it is. Certainly April-May will be 88%, 89%, 90% kind of thing. Would that be right, Babu?

K. A. Babu: Right sir, it is 89%, 90%. In April it was 91% and May we are yet to compute.

Ashutosh Khajuria: Additionally I would add there. I think the situation was worse last year April-May. In fact there was more uncertainty. We did not know I mean the system did not know at all what exactly is going to be the damage and all and thankfully as the situation got opened after 5 months the recovery was very, very fast. So even in recovery and upgradation of the NPL accounts so I think this year people know little more about this pandemic that did not in last year.

So my point is it has to be seen in that context. So yes, April and May have the challenges. April and the beginning of May did see the challenge because of non-movement lockdown and all so even meeting the clients or even contacting them is a challenge.

Mona Khetan: And lastly, on gold loans. So you have seen a very strong growth in this fiscal. How do you see that in the following year especially given that LTVs from hereon have to come down and also where does this gold book lye? How much is part of Agri? If you could help us with that data?

Ashutosh Khajuria: So, gold loan I think the total book is nearly Rs. 16,000 crores which is roughly 11.85% of our total loan book. A good chunk of that it is a quite equitably distributed. We have about one-third or more than one-third in retail gold loan. Good chunk in Agri gold loan and the MSME gold loans and all. So this is how the break up is. Yes, LTV that special prescription of 90% is over on 31st March and therefore there would be a stagnation for some time when the rollovers and other things come.

But as I mean it would be a function of how the gold price in rupee terms moves. It would have its impact. We had 70% YoY growth, part of it certainly was contributed by the higher gold price per gram. So therefore higher eligibility but in tonnage terms also we monitor our gold loan book in tonnage as well and in tonnage also it has been upside of something like 30% plus or so. So I think tonnage is growing. Tonnage is continuing to grow even after 31st March or so.

Value wise of course you will have some stagnation coming in. That would also be a function of how dollar/rupee behaves. So if rupee appreciates then you will have a lower rupee cost of gold and all but if dollar rupee goes up means rupee depreciates and all then I think in all likelihood once again you will have a higher per gram price. Global dollar price of gold is more or less I mean after seeing the bottom of around $1,700 or so has come back.

It has already crossed $1,800 per troy ounce. So let us see I think it would be a function of that. I am sure we would register it because it is a good business to do but probably a 70% type of growth on a very high base may not be possible to be repeated. So 30%, 40% type of growth is something which we definitely would be targeting there. I hope I have replied to all your queries?

Mona Khetan: Sure.

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

Nitin Aggarwal: Sir, few questions. Firstly, was loan growth in the quarter are little back ended as despite like adjusting for interest reversal the NII looks slightly softer? So can we expect NII growth and margins to recover further during the coming quarters?

Ashutosh Khajuria: So, I think over quarter 3 if you are comparing NII it is something we cannot do anything about but just for statistical calculations the year when we have February of 28 days it has two days lesser than quarter 3. So quarter 3 has 92 days then quarter 4 this year had 90 days. Per day NII is roughly Rs. 16 crores. So when you compare with previous quarter you will find on at least Rs. 30 crores, Rs. 32 crores is lost only on account of that.

Even if you compare it with last year same quarter, last year was the leap year so you had 29 days in February. So that also I mean on base also you had something higher one as compared to this year but that is one part. Apart from that there had been interest on interest refund which had to be given. So on interest right we had these two things which need to be seen when we compare NII.

Shyam Srinivasan: That said it is true that March saw the maximum growth.

Nitin Aggarwal: And secondly like our cost of deposit is now 4.7 now as I see our SA rate is lower than what the other larger banks offer that is 2.5 for us and the TD rates are also quite comparable. So is there like what is the cost of our TD that we have at the portfolio level and what sort of re-pricing we are looking at because our cost of deposits are still like 70 odd basis points higher despite these facts like on the SA and TD that I had mentioned. So what sort of like decline are we looking at in our deposit cost and what is the TD cost at the portfolio level?

Ashutosh Khajuria: TD cost is north of 540 if I am not mistaken because it is a term deposit so some of these deposits are for three years original maturity. Of course majority of these are one plus, one year and some special buckets we had created 390 days or something like that to put it for ALM purposes to have more than one year or so. So I think as the re-pricing happens on maturity we will see fall in TD rates if the same interest rate scenario continues.

So that is on TD. We have about two-third of our total deposits in TD book. One-third only is in CASA form and traditionally our CA had been not that strong as some of our peers who you are comparing with. Yes, saving has been our strength and saving have been going but despite that our CASA growth has been 26% this year. And CA also has seen a respectable growth. But overall base wise also CA had been contributing a very lower 5% in total deposits this thing.

So that is the case but yes, going forward assuming that cost of deposits will go down is quite reasonable. I think as and when the maturities happens the new re-pricing renewals and all will be happen at a lower rate.

Nitin Aggarwal: So just to extent this further so like with 540 sort of TD cost our portfolio deposit cost should be lower than what it is. Like is it that the non retail deposits are relatively higher in cost?

Ashutosh Khajuria: No, not exactly because number one, we have very little wholesale deposits. CDs are there but as on date when I am speaking to you my weighted average cost of CD is less than 3.50. Less than 3.5 of course balance also is very low now. Hardly less than Rs. 2,000 crores or so. So wholesale deposits have not brought in that type of cost to us but yes, certainly some refinances that fixed rate and all taken some 3, 4 years which have remaining maturity of 2, 3 years. Ours it was slightly higher cost.

Some even at 7% or so. But they are gradually being repaid and all. So that is it. I mean that is not much of a contributor to total cost of fund. So I think cost of fund should go down with re-pricing of TD rates.

Nitin Aggarwal: And lastly like we have reported a 33 basis points decline in loan yields even as our retail deposits gold loans we are doing phenomenally well. So is it possible to like give some color on how the retail yields and wholesale yields have moved because 33 basis points sequentially is quite a sharp decline?

Ashutosh Khajuria: Retail yields have gone up certainly because of gold loan on one hand. On the other hand corporate portfolio yields have come down because of the market situation. You have so much liquidity in the system and corporates getting CPs I mean the ones which are banking with who we are holding in our book and all are AAA, AA all those including those NBFCs, HFCs which Shyam and Harsh were referring to.

So naturally you have to remain in the market you have to quote those rates and all. So that is there. Certainly there is a fall in yield going by the markets in the wholesale portfolio. Retail has been holding up and good contribution has come from gold. So that is the breakup of yield on advances. Business banking also has done fairly well. There also yields are richer. That is the reason for NIM improving overall.

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

Renish Bhuva: So sir, first question again on the asset quality side. I mean of course we cannot comment on the near-term outlook but if I have to look at the whole year FY22 the way we have navigated FY21 with we crossed NPA of 3.4% and the credit cost around 1.2%. So it is I mean looking at the current customer behavior of let us say for first 45 days of the second wave is it right to assume that the FY22 will be better than FY21 in terms of asset quality?

Shyam Srinivasan: Renish, I think the way we should look at this is three parts. One is our internal portfolio quality, second is our capability and the third is the environment. On one and two we believe we have a good grip. The environment is certainly not in anybody's control. We have to make sure that we are able to surmount the environment. If things do not deteriorate dramatically from here and the worst is where we are I think it is safe to assume that our credit cost should be where it is or better.

Now for any reason this gets prolonged and the consequences are dire. We may have to factor for. So that is why I am giving a guidance that when required we will step up our coverage. We will not fall below 65% provision coverage. That will give us a sense of how the year shapes up. Every quarter we will be able to take the assessment of that.

Renish Bhuva: So, may be if things has to remain where it is and should not worsen from the current levels and considering the PCR already at a desired level so credit cost should be lower than FY21 level, right? I mean practically speaking?

Shyam Srinivasan: Unless for any reason it used to increase our coverage.

Renish Bhuva: And sir, secondly on this digital strategy from now we have almost of 50% plus partners so more than 80% of the transactions are or when the customer on-boarding is happening via digitally where crust of acquisition will be significantly lower. So where do you see the cost to income ratio settling?

I mean of course we have been highlighting that it should be around 50% but now looking at the PPT and the development which we have seen in FY21, it looks like we are done with the investment. So what is your comment on that? I mean do you expect the offering which is playing out from FY22 or you still feel there is some pockets we largely need to invest.

Shyam Srinivasan: So I think our cost to income I have always said somewhere in the late 40s below 50%. I think FY21 full year was 49.6%. We think that will improve by another 100 basis points in FY22, another 100, 150 basis points. And that is what we are working towards. Our approach for many years not just one or two but six years we have been branch like distribution heavy and we set the digital journey six years back and we are seeing rich dividends on it.

But I must remind ourselves there is an element of cost which I have always keep saying is unfortunately pension related and that is beginning to taper off only the following financial year. But hopefully with yields being where it is and does not see much volatility hopefully we are well provisioned.

Renish Bhuva: And sir, just last question from my side. On this data analytics and cross sell so in PPT we have said that we have almost 37 lakhs merchants active on BharatPe network which is almost 20%, 25% of the PayTM merchant network. So sir, what is the strategy to sort of use this merchant base I mean what is the cross sell or up sell strategy to leverage this huge customer base?

Shyam Srinivasan: Shalini, do you want to jump on that?

Shalini Warrier: Sure. So I think in terms of the BharatPe relationship obviously it is a relationship we have nurtured from it is about eight months now and has grown to the size that you have seen over there. The opportunity that lies within this base is primarily around what can we do with alternate data scoring because traditional data scoring for credit purposes using bureaus etc do not work in this kind of an environment and in this kind of a population.

So what we are working with BharatPe on is given this merchant, given the kind of throughputs we are seeing, given the size of the kind of transactions that they do the volume of transactions they do the kind of transactions they do, what are the alternate data scoring engines that we can develop based on which the lending platforms can open up.

So, the immediate opportunity would be and not immediate as in the next few months but over the next year we develop algorithms and scoring that can help us to lends to these merchants. The lending will be in a completely digital form because really cost has to be kept at a very, very low levels and will be kind of quick tenor loans that can be turned around very quickly. So that is one of the key opportunities we see.

The larger the merchant categories that we have has various categories and obviously it is not one kind of common kind of characteristics of the merchant. There are certain top end of the merchants to whom we have started looking at cross selling things like insurance etc. So lending insurance all of these will get opened up. But we need to build the history of the transactions over the next couple of months and build these algorithms in, Renish.

Renish Bhuva: Okay so basically I mean within six months you believe that platform will be ready to start cross selling may be at a smaller base but?

Shalini Warrier: Yes, it is smaller pace we will take it. We will also look at how the environment is shaping up and then look at it. But yes, over the next 6 to 12 months we will do that.

Shyam Srinivasan: But just as a thump rule Renish, for much of what we do the underlying guidelines has to be we want to keep our credit cost and credit quality as good as the top 3, 4 players in the country which we are. So I will reemphasize that anything we do will be within that framework because some of these digital lending looks attractive at a point in time and then turns to be problem so we have been hyper watchful though we have the capability.

Moderator: Thank you. The next question is from the line of Aakash Raichand, an individual investor. Please go ahead.

Aakash Raichand: I had three questions. Firstly, if you see the credit cost seem little elevated given the current depressed interest rate environment the credit cost seem little elevated. Any thoughts around the same and what is the guidance for the coming two quarters or so?

Shyam Srinivasan: Are you saying the credit cost look elevated in the sense that?

Aakash Raichand: In the particular quarter, yes. So in your presentation this quarter?

Shyam Srinivasan: But this quarter is bound to be right because for the last three quarters there has been no credit cost. So everything is lumped in to this quarter. One thing I want to say the quirk of FY21 financial is like it is all in about three months you are packing in 12 months of slippages and everything. So to that extent please look at it in a longer horizon. I think 120 basis points Federal Bank's credit cost is probably in the best league of banks in the country.

Aakash Raichand: Okay and going ahead how do you think?

Shyam Srinivasan: I mentioned that at the beginning of the call. It is hard to make a prediction but we will ensure that our coverage ratio does not fall below 65.

Aakash Raichand: Second question is on any capital raising plans going ahead in the next couple of quarters?

Shyam Srinivasan: I cannot quite say couple of quarters. In FY22 we see there is a potential to do one. Last year when everybody was talking about the clam of our capital I had steadfastly said we are well capitalized and we are growing by retained earnings. This year we believe, if you look at our FOA every four cycle we look at capital raised.

Last time we did in June 17 so we believe in somewhere in the calendar 21 there may be an opportunity but we are not putting a date to it. We are going to the shareholder to renew the approvals they had given last year. We will hope to get to that approval to have been in position to raise money.

Aakash Raichand: And sir, finally last question on the CASA guidance. We have seen that banks are improving on the CASA front. Any strategies going ahead or any guidance in terms of capturing the CASA share?

Shyam Srinivasan: We have moved smartly we are close to 34. We grew by not paying money but by doing service and quality. I believe that journey will continue. We would like to take it to 35 and better but not by paying more but by serving better.

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

Ajit Kumar: Sir, on some of the new initiative that you had planned earlier while you have given update on credit card, any update on CV business as well? How it is shaping up? What would be size of CV portfolio now and how do you plan to grow there? And next on the MFI side as well. Are you still looking for growth in that particular segment?

Shyam Srinivasan: You are right in pointing out we had made four observations as our sort of new opportunities. One was credit card, two was CV. One was of course strengthening our business banking and microfinance. CV we have created a good team. I did mentioned almost on every call in the last one year. Our book is about Rs. 1,000 crores.

All organically grown by our team. We are being quite careful about trading into that segment given all that is happening. So in the course of FY21 we do have bigger ambitions by FY22 we have bigger ambitions but I am saying we will watch out for one or two quarters more before we step up the gas on that.

One is demand. Second is we have to be not catch a falling knife. So we have quite watchful. Similarly on microfinance, aspiration continues. We are looking out a few opportunities may be in the market but I would be cautious still at least one quarter of FY22 goes by and we understand the dynamics better. Every day we hear and see different experiences so we would not make a transaction now. But we would be remains interested but organically slowly our digital capabilities are fully matured now.

So organically we will step up in segments that we feel that have potential. Both these businesses CV and microfinance are roughly about Rs. 1,000 crores and Rs. 300 crores the microfinance and Rs. 1,000 crores is the CV business. We think have potential to grow in a nice manner over the next 2 to 3 years.

Ajit Kumar: And sir, on breakup between retail and wholesale you had earlier give a guidance of 55:45 mix. I think we have already reached there. So do you think share of retail should go up further from this level or within retail share of high yield segments like credit card, CV, CE will go up keeping the wholesale book share in tact?

Shyam Srinivasan: I think the 55:45 mix is something that we will keep. Not that we are sort of married to it. If t becomes 56:44 or otherwise we would not collapse but within the two portfolios the margin expansion is the objective. So Harsh is looking at his business model and looking at where there are opportunities on wholesale so commercial banking gets a fillip and we are seeing good traction. Likewise Shalini is looking at the retail franchise to see where there are opportunities. So things like credit card, personal loan, digital capabilities are some of these initiatives and that is what we are working on and on business banking too.

Ajit Kumar: And sir, in restructuring done in retail segment you had highlighted in earlier call that NR contributes around 30%. How is that book holding up now?

Shyam Srinivasan: Like Babu mentioned in the beginning the restructuring portfolio as of now is doing well. The demand for this year is only about 15%. That looks okay. Only to tell how they are performing. We will factor in a higher share because we have factored that somebody has restructured suggest that there is a demand for easing up. So if the assumptions made in easing up would be more conducive operating environment. That is going to be challenged. You should see some stress. Hopefully the stress is not significant that will create a problem but yes, we have to be watchful.

Ajit Kumar: And sir, lastly sir, could you just give out the numbers for disbursements done under ECLGS?

Shyam Srinivasan: Totally about grand total is close to Rs. 3,000 crores. Anand, am I right? GCL book?

Anand Chugh: Yes sir, around Rs. 3,000 crores.

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

Kaushik Poddar: This thing the net interest income I mean so can we expect you have talked about Rs. 30 crores being the loss because of this two days being less and another Rs. 25 crores for that provision for interest. So if those things be there I mean so do you expect a substantial growth in the next quarter on the net interest income front from this quarter?

Shyam Srinivasan: We have seen 17% YoY growth on a 9% credit growth. So that is suggestive of the shift in margin mix in the portfolio. We think that will continue so therefore the interest income growth should mirror that, Kaushik.

Kaushik Poddar: We can take a ballpark figure of 17% to 20%?

Shyam Srinivasan: Yes, 15% and above.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: Just a correction. I am from HNI Investment. So we always see Federal Bank as a conservative bank and history also proves that given our ability to manage the NPAs but on the contrary when we see your aspiration on growing in microfinance book and trying to do some acquisitions there. Both of these things does not go together. So is it that our desire to grow ROEs is forcing us to take some of the risk and move up on the risk curve? How should we understand this aggression?

Shyam Srinivasan: I do not know how you define aggression. Rahul Dravid hits sixes also, right? He was the most balanced batsman. So you have to pick the shorts you want to hit so we believe the time when it comes and that is why I said we are interested. I never said we are committed the transaction. So when the time is right we will pick. In every segment I believe you can't write off a segment or anything. Every segment has opportunities which are at the premium end. So we will pick that.

We may trade off volumes for margin which has been a choice. Even when we grew corporate we traded off volumes versus margins. Because I believe in risk adjusted margin rather than just margin in itself. So we will grow our MFI. I think it is an attractive business. Just the way we grew both. We will pick MFI, we will pick MFI because we have built it to Rs. 3,000 crores to Rs. 5,000 crores over a period of time but hopefully we will not take indiscrete choices of making growth for the sake of growth.

I think in the underlying text we want to hope to live up to this. We would not do things for the sake of growth. That is the philosophy which we have lived with for 10 plus years and hopefully forever.

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

Sanjay Kumar: So my question is a bit long term and around ROE. So our share of corporate and housing loans gone up from say 45% to 55% due to pricing pressure in these two products this kind of impacted our NIM's ROA. Yes, our risk weighted asset book is around 55%, 57% whereas peers are around or even more than 60%. But even on a risk adjusted basis we are at 1% ROA, peers are at 2x.

Why I am asking this is because despite 10x, 12x leverage we are still on the lower side of ROE. So, first half of last decade we were at 14%, 15% ROE. So two parts to this. Are we leaving money on the table in our existing products and will this is safe and second is will the high yielding retail products move our ROA trajectory back towards say 13%, 14%?

Shyam Srinivasan: I think in some part I answered that in the early question but I will just repeat myself. Ours is a journey if some of you have followed us when it was 0.76% ROA we said over a five year period we will be at 0.76%, 0.88%, 1%, 1.1% to 1.25%. We are bang in the middle of that at the pandemic period at about 1% ROA. And that has been steady, granular, structured no one off wacko growth or doing stuff which we cannot live up to.

With that our model we will hit. We do not mimic to be the next big bank which will magically change the needle. Ours is a structured steady progress but hopefully sustainable. So I do not know if I am answering your question but yes, we must be leaving some money behind but I hope that is what we are learning every year to do better.

Ashutosh Khajuria: May I add on this ROA thing?

Shyam Srinivasan: Go ahead sure.

Ashutosh Khajuria: So when we look at ROA I think we should look at the off balance sheet items also which do not appear in the denominator. When you calculate ROA you take assets which are there on the balance sheet, not off the balance sheet. Now there are banks which have reasonably good liquidity. There are banks which run their CD ratios closer to say 85%, 90% and some even more than 100% or so. So for them I think it is all the more necessary to look at the opportunities which are non fund based. I mean to say letters of credit, bank guarantees and all that. These are also working capital financing instruments but they do not come on the balance sheet. However, the income earned on that, commission on LC/BG goes to the numerator when you calculate ROA.

So I think it is better to compare ROA numbers also with this in mind as to how much of the credit exposures are off the balance sheet. We have a very small negligible amount of about 12% of our total credit exposures in the form of non-fund basis. I understand few banks have more than 100%. So that also is a model. When you have liquidity you have granular sort of deposit base and all, you look at providing fund based facilities rather than non-fund based.

I hope I have tried to answer this but I am not saying we have the richest ROA and all that. This is just for sake of comparison when you said 2x some banks having 2x and all. And that also depends at times what type of unsecured portfolio you are running and what type of products you are doing. Yes, some banks have a very large unsecured portfolio seasoned, very well managed so no questions on that.

And that provides the kicker. So that could be one of the reasons why we are also looking at credit card type of products and all gradually.

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

Pranav Tendulkar: Sir, I just have one question about the employee expenses. Now that we have stabilized at Rs. 525 crores which has a onetime gratuity adjustment of Rs. 30 crores and same was the last quarter. So if we just adjust that then this number could be around Rs. 480 crores, Rs. 490 crores next quarter and then we have a salary hike to YoY then we can get a salary expense of total employee expense which is less than or equal to this year in FY22. Is that calculation right?

So this year we have around Rs. 2,033 crores of employee expenses and next year it could be around the same or below because there were many pension adjustments etc in this year? So am I right in projecting this?

Shyam Srinivasan: Subject to yes, Pranav you are right.

Pranav Tendulkar: Okay so if yields do not go down then we will have equal or less of employee expenses?

Shyam Srinivasan: Yes, in that zone. Yes, you are right.

Pranav Tendulkar: And the last question from my side is sir, this credit cards are we facing any operational or any other bottlenecks in launching credit card and getting it on the commercial levels?

Shyam Srinivasan: No, we are facing it out. I do not want to be courageous and do one lakhs cards and open to new to market without seasoning. Just like we have done our personal loans. We have built about Rs. 2,000 crores digitally done. Even through the pandemic, even through the current environment the lease restructuring, lease credit cost is in our personal loan book which is counter intuitive because of the quality of the book we have. And I would like to build our personal credit card book like that.

Pranav Tendulkar: Sir, also you had outlined three categories of debit cards you said in last call there was I think. So is there any category of cards that you are seeing in credit card also? So, there was Celesta, Imperio and there was Crown so?

Shyam Srinivasan: We have three brands, three variants in the cards launched for thee different segments. Signet, Imperio and Celesta, three different categories of customers who are being targeted. Once we are out in the public with the cards, right now it is about 10,000 employees have signed up about two weeks of usage is going on. By early June we will do it for existing customers to identify the large base of existing customers whom we can cross sell to. So when we come out in our Q1 we will give you the first update.

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

Jai Mundhra: Though you have hinted about this but in terms of your unsecured I mean first the digital personal loans now you have been growing in a calibrated manner, but this probably could be a reasonable kicker to ROA because as someone had said that we have a decent amount of prime home loan and may be prime and corporates. So over a two, three year's view what could be the let say loan book share of personal loan and if you can comment on the credit card also? That is the question number one.

Shyam Srinivasan: We think our unsecured retail which today is only Rs. 2,000 crores on the Rs. 130,000 crores. On an increased credit book can go over a two year period to close to about Rs. 7,500 crores to Rs. 8,000 crores over the next 2/2.5 financial years. I am being calibrated because we do not know this year is going to shape up so we will have to be a little watchful.

Jai Mundhra: So now coming to the credit card this business if I understand it right it would require a bit of a heavy upfront investments and may be for the next two years until and unless we thinking a critical mass probably it would not even breakeven. So when you say your cost to income would continue to decline you have of course factored that thing. Is that the understanding right because or you think that this can breakeven much earlier?

Shalini Warrier: I will take the question. I do not know Shyam has got dropped off, Anand?

Ashutosh Khajuria: What is the question, Mr. Mundhra, can you repeat?

Shalini Warrier Ashutosh, the question was credit card requires a significant investment and therefore has that also been factored in while looking at the forward looking view on cost to income ratio, has that been factored in? If I were to summarize the question.

Ashutosh Khajuria: Yes, from finance side I would say confirm yes, it has been factored and rest of it Shalini you can take over.

Shalini Warrier: Yes, to corroborate what Ashutosh was saying. Yes, we have definitely factored that in. Also we have gone in with the model which is the hosted model with Pfizer one of the most prominent entities in the credit card space both hosted model for both the technology and the operational side of things. So in that sense it is a much, much more it is lighter from an investment perspective.

It is more variable in nature, scale up as we scale up. So that is the relationship with Pfizer and the model we have adopted along with the fact that we have taken other costs into account factored that in as Ashutosh says. So both these put together I think we can give you that comfort here.

Jai Mundhra: Are you looking at a slow and calibrated pace in credit card as well or you think you can reach in two, three years you can try to scale up rapidly there?

Shyam Srinivasan: Mundhra, I will pick that up. In the year one between say we are now in June 21, for the next 12 months, a greater part of next 12 months is the existing customers cross sell. We have a large base of existing customers identified who qualify for preapproved programs. So principle focus will be that and while the numbers will be meaningful it is not going to change the dynamics of the market. But it will be a meaningful increase.

With the confidence we get after that and hopefully the world is a better place to live in and 12 months from now it is more salaried jobs and everything in place, we will go to the new to market. So it is not a product which will overnight change the texture of our P&L but it will something that keep adding up to everything we do.

Jai Mundhra: And the last thing from my side. If you can comment on the Fedfina potential value unlocking or value monetization on that part?

Shyam Srinivasan: The Company is doing extremely well. You may have seen; it is in our consolidated financials the numbers are there. They are doing well and we believe that there is good potential but timing for such initiatives will depend on many things. First we are not there is no roadmap on when but in the course of the next two years there is a good chance.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Sir, with regards to credit business since we earlier did cobranded cards is it fair to say that the learnings there should help us accelerate launching of our own cards and if you can give some sense of what percentage of our existing clients which you said you have identified and what is the approximate percentage and in what time period do you anticipate to kind of exit from the cards?

Shyam Srinivasan: I think our client base is 1 crores. At least 10% are eligible. How many take up depends on the marketing.. So over a period of time we will keep working on that.

Anand Bhavnani: And sir, in microfinance you mentioned that broad plan is to kind of build a book of around Rs. 5,000 crores in due course. Have you kind of identified any specific geography which you want to concentrate on or you want to avoid when you kind of build this business?

Shyam Srinivasan: We believe in the initial space we would like a South base Tamil Nadu, Karnataka, Kerala principally South and West.

Anand Bhavnani: And sir, this is about cross sell for our existing bank customers. In terms of life insurance, how many of our potential bank customers would be eligible for a life insurance and how many we have been successfully able to cross sell in the life insurance policies? If you can give some color?

Shyam Srinivasan: Penetration is improving nicely. Last year Ageas Federal grew almost 40% plus entirely driven by our performance because the other partner was not there. Ageas Federal is doing well. Constantly driven by our performance and that momentum will continue. What percentage I am not sure. But it is improving and growing quite well.

Anand Bhavnani: Sure but the way you identified may be 10% of our 1 crores customers are potentially eligible may be in life insurance it could be 50% to 60% of the 1 crores customers?

Shyam Srinivasan: I think in life insurance we also look at it as a percentage of the savings balance. So, we could track much of the savings balance percentage keep growing and that is something say one of our KPI for our retail team which they are working on.

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

Dhaval Gada: So couple of questions. First is on the credit card. I just wanted to understand in last let us say 3 to 5 years how many cards we would have sourced for SBI Cards so just trying to get the sort of potential from the network right now? And the second question was, could you provide the yields for the corporate book, retail book and SME and Agri book that would be very useful?

Shyam Srinivasan: The cards of SBI is nothing to write about, Dhaval, and that is why we decided that, that model is suboptimal which is why did that and we will do our own. We had certain assumptions in doing the SBI cards one. Personally I am a big user of it. I find it good but somehow penetrations have been low. So now we are looking at our own propositions. So it is a sub Rs. 1 lakh so it is really not much meaning.

On the yields Anand, may be you can talk about it.

Anand Chugh: Yes, for the quarter the yields were 9% on retail, 9% plus. On Agri it was closer to 10%. On business banking also it was closer to 10%. CV was closer to 9% and on CIB was closer to 7%.

Shyam Srinivasan: CIB, is corporate.

Dhaval Gada: Yes. And just a follow up on the cards. So basically I mean would you have some analysis on the existing 1 crores customer base how many people have credit cards? Any sort of data mining that we have done to assess the opportunity?

Shyam Srinivasan: Yes, like I mentioned the pre-approval base is about 10% plus based on very stringent criteria initially. And that is the universe we will go after.

Moderator: Thank you. The next question is from the line of Pritesh Bumb from Prabhudas Lilladher. Please go ahead.

Pritesh Bumb: Just one question. I wanted to know how much is the book on EBLR and MCLR?

Shyam Srinivasan: Anand?

Ashutosh Khajuria: Nearly one-third each.

Pritesh Bumb: One-third of the overall book?

Ashutosh Khajuria: Yes.

Pritesh Bumb: And in MCLR would also include….

Ashutosh Khajuria: That number Anand can provide. I am just giving you an estimate.

Pritesh Bumb: External benchmark is around 32% which is very close to what Mr. Khajuria mentioned as one-third. And similar is MCLR is it, MCLR is slightly shot of that?

Shyam Srinivasan: MCLR is less than 30%, 28%.

Ashutosh Khajuria: Rs. 36,000 crores or something like.

Shyam Srinivasan: Yes, 60% between external benchmark and MCLR.

Pritesh Bumb: And if I can also ask what would be the fixed book in our overall books?

Ashutosh Khajuria: That would be also closer to 32%.

Pritesh Bumb: And one thing more. I was seeing the corporate book reading and others. So there is a substantial fall in the others reading. It is a very small book of course but it has moved in two quarters down. So anything there? We could see a 1% type of a slippage from that side? The internal Federal Bank rating fall into about 72% for the others segment in the corporate rating?

Anand Chugh: Nothing in particular in that. So I think it has also may be a smaller portion is coming out of it so may be 1% to 2% points can move easily here and there.

Moderator: Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Shyam, just to understand earlier we had a guide path on the ROAs which we had suspended because of Covid. Would it be fair to say that that guide path would come back again now as far as large business because of Covid issue?

Shyam Srinivasan: I do not want to say yes, but I am only putting a rider saying let us see how the current situation sort of shapes up but yes, that is the journey we are pushing on.

Ashish Kumar: Can we budget in can we pencil in 1.1% to 1.15% ROA as the exit run rate for this year?

Shyam Srinivasan: Allow us till quarter 1 end to get a better gage on the situation but yes, that is what we are pushing on. That is our internal pressure. We will see how things go away. I mean we are hopeful that this current situation passes quite soon.

Ashutosh Khajuria: If we are out of Covid I think the major concern out of Covid say by first half of the year and all then probably what you are saying is quite likely. The exit you said?

Ashish Kumar: Exit, yes.

Ashutosh Khajuria: Quite likely I mean that is subject to of course big rider is how Covid external conditions particularly on this side you know pandemic side shape up.

Ashish Kumar: And in terms of leverage we have been running at 12 to 13nish leverage so we can assume that again so we would be hitting a 14%, 15% ROE in that case?

Shyam Srinivasan: On new capital.

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

Saket Kapoor: Sir, if we take this segment results and see the comparative numbers versus March, since it is very early but then also sir, how is this segment reporting going to shape up going forward in the coming year because I think so the treasury has contributed a lot to the bottom line so how is the book positioned and what should we penciling in, in terms of this segment reporting going forward?

Shyam Srinivasan: Ashutosh, you want to go?

Ashutosh Khajuria: I think treasury if you see over last 10 years there would be a consistency. It is not too much skewed in a particular year barring last year's last quarter when we had onetime investment related profit of about Rs. 180 odd crores or so. Other than that I think it has been more like every year wise if you see it is more or less of course rising but that is pro rata to the total operating profit of the bank and all. So treasury's contribution is more or less in same proportion and it is retaining that.

In case the yields suddenly go up and all then probably there would be a challenge to this particular thing but then this is the reason why we are looking at the other core fee opportunities including the third-party sale and all those things which are coming up quite fast and quite well.

So that is the thing. In segmental reporting we have the retail, wholesale and treasury so I think retail would gradually expected to take that load from treasury over a period of time. If I have understood your question correctly, then answered. This is what you wanted or?

Saket Kapoor: Yes sir, I was just looking at how the segment reporting is going to shape up since the base for treasury has moved up substantially from March 20 to 21 from Rs. 384 crores reporting to Rs. 722 crores so on a higher base and depending on the yields remaining in range and inflation picking up also. So how is this segment going to report? That was my question.

Ashutosh Khajuria: To answer that the yields suddenly go up and all probably the repeat of that would not be possible but then that would then be looked at from other components and this where the growth in gold loan, growth in business banking, growth in certain other retail segments is being focused at and is being pushed. So I understand what you are coming from.

Yes, this year had been yes, conducive as far as the softness in the yields is concerned because of the ample liquidity in the system and all. So yes, but if you see over 10 year period you will not find too much of a gap in treasury's growth rate. More or less steady.

Saket Kapoor: Sir, if we look from the investor's point of view the minority shareholders, we find now our bank trading at 1 time book so at these valuations also what are the factors that will contribute to value creations for your investors going forward? What are the steps that have been taken and the result we are going to expect going forward? What is in the anvil for your minority shareholders?

Shyam Srinivasan: I would from responding that we will ask you about it. I was going to say the same thing. We can only perform, we can influence the share price. I would also be very we are arguably one of the finest performing institutions much as many may disagree or some may disagree. We have not tinted from performing and we will continue to do.

Portfolio quality is robust, deposit franchise is rich and availability of management is impeccable. And I do not think you can ask for a better governance. So these are the four drivers of a good franchise we score well on that. So we will keep. I do not think it will be very far before we catch up.

Saket Kapoor: And on your tenure sir, any update?

Shyam Srinivasan: I think it is an overnight job by the shareholders. If they decide to overnight it will switch.

Saket Kapoor: Shyam, you did not hear the second question. It is about your tenure?

Shyam Srinivasan: Sorry I did not hear. What was that?

Saket Kapoor: It is about your update on your tenure when are we going to hear it?

Shyam Srinivasan: I wish I had answered. The application is with RBI. The board has met and in regular touch with RBI. Now the term ends on September 22nd. I am sure we will hear. But bank has a Plan A, Plan B well in place for that.

Saket Kapoor: And last point was about this line item 1C sir, wherein we find that the interest on balances with Reserve Bank and other interbank has gone down on a quarter-on-quarter basis whereas for the year it has tripled from Rs. 140 crores to Rs. 369 crores. So how should we presenting it go forward?

Ashutosh Khajuria: Please repeat?

Saket Kapoor: Sir, I was talking about item 13 wherein the interest on bank with Reserve Bank and other interbank funds the figure has gone down quarter-on-quarter from Rs. 114 crores to Rs. 66 crores and whereas for the year as a whole it has gone up from Rs. 140 crores to Rs. 368 crores. So just wanted to understand the factors that contributed to this variation in the numbers and going forward what should sectors will influence this number?

Ashutosh Khajuria: This has nothing, not much significance. This is just money market operations. If the bank is running a very high liquidity it would be lender in the market would be lending in interbank market or so and therefore would earn interest on that. When bank turns or decides to have lesser liquidity available with it by deploying it elsewhere then it becomes borrower. So when it becomes in interbank market like issuance of CD and all those things are part of that. Basically this is the money market operation because on Reserve Bank of India we do not get anything.

These are CRR funds. CRR funds hardly does not pay any interest for last so many years. Earlier they used to pay above 3% minimum but now they do not pay anything. So that column may reedit that interest on RBI balances is with RBI but it is not balances with RBI, balances with other banks and all. That is the one which appears there. So that is it.

So it is a money market operation. Please I mean it is nothing to do with it that depends on which side of the liquidity you are and what is the choice made and all. Are you deploying the same liquidity it is AAA corporate by investing in CPs or subscribing to NCDs or providing them loans at very competitive rate. That is the choice or you have the treasury funds, funds available with treasury which are deployed on sometimes daily basis then sometimes on a very short term basis.

I hope I have answered your question?

Saket Kapoor: And last point was on the dividend part. I may just conclude. Sir, since SEBI has come up with this idea about dividend distribution policy, so does the banks also falls under the purview of the same and what are the factors that make the bank resulting in a dividend payout of 35%? What is the dividend distribution policy for us?

Ashutosh Khajuria: See Shyam, would you like to respond or should I?

Shyam Srinivasan: Please go ahead. I will add to it.

Ashutosh Khajuria: So basically our bank has the consistent track record of dividend payment barring last year which was barred by the regulator so we have been consistently paying dividend. If i recollect even in no year after 2000 at least I recollect after 2000 there has not been a single year when bank has not paid dividend. So that is one part of the track record barring last year. The second is of course looking at your capital adequacy what type of capital adequacy do you have. Plus our regulator is quite conservative that way.

They have already last year they did not allow anybody to pay, this year they said if you come under that category because there is a metrics if you look at the RBI circular how much NNPAs you have, what is your CRAR and what is your track record of profits and all based on that you fall under different categories; 40% payout, 35% payout and so on and so forth.

We consistently have been falling under that category, 35% and this year 50% of that can be paid because 50% is the cap maximum. So that comes out to something like 17.5% payout ratio. What our board has recommended to shareholders is half of that. So basically we are paying half of what we are eligible to pay as maximum. Half has been done by the regulator and another nearly another half has been done by us to retain some profits little higher level of profits at the same time do not disappoint the vast majority of retail shareholders and all.

So this is sort of balance which board would have considered and accordingly went ahead with recommending this dividend 35%, 0.70 per share. Shyam, you would like to add anything to that?

Shyam Srinivasan: I agree with you. I think the essence is balance between preserving capital and giving returns to shareholders particularly those who have been long term shareholders.

Shyam Srinivasan: I think we should bring this to a close, Anand.

Moderator: Sure sir. I would like to hand the conference over to Mr. Anand Chugh for closing comments. Over to you, Anand.

Anand Chugh: Thank you so much. I think it has been a pretty long call that we have had. Thanks for being patiently with us. Have a great day ahead and the rest of the year as well. Thank you.

Shyam Srinivasan: Thank you and stay safe everybody.

Moderator: Thank you. On behalf of Federal Bank, that concludes this conference. Thank you all for joining. You may now disconnect your lines.