"Federal Bank Annual Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Federal Bank Annual Earnings Conference Call. As a reminder, all participant lines will be in 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 this conference is being recorded. I now hand the conference over to Mr. Isaac EA. Thank you and over to you, sir.

Isaac EA: Thank you. Good Evening and Warm Welcome to the Conference Call with Federal Bank Management. We have with us today our MD & CEO – Mr. Shyam Srinivasan; ED & CFO -- Mr. Ashutosh Khajuria; ED Wholesale Banking -- Mr. Ganesh Sankaran; Chief Operating Officer -- – Ms. Shalini Warrier; Chief Risk Officer -- Mr. Mohanachandran KR and other senior team members. I will now request Mr. Shyam Srinivasan to lead the call. Over to you, sir.

Shyam Srinivasan: Thank you, everybody. Good Evening. Sorry for doing this late on a Saturday evening. Our Board just concluded about 15-20-minutes back. The upload of our 'Results' and the 'Presentation' have since done. I do hope we have had a chance to look at the results and the upload that may have happened as I keep clicking I am sure it will come through anytime.

Key messages for the Q4 & FY'16 on the whole and more importantly how we see FY'17 and beyond: Q4 in particular, our operating performance on many counts was better than all our quarters in the part of FY'16. Financial Results of Q4 and FY'16 were impacted by specific event-driven provisioning which we will cover in great detail as we go through the presentation. We are quite encouraged by the growth drivers that are in place in particular the Credit growth if you analyze the second half ex-Gold has been close to north of 30%. So that is a reasonably encouraging sign. We believe that the Credit growth is something that we can look confidently ahead.

The strength of the bank has been an exceptionally good liability profile, that was only stronger this year, both in terms of granularity and the mix of the portfolio and that is quite evident in the numbers and in particular in a relatively stressed out NR remittances market, we have gained share, we have moved up to north of 12% of the overall remittances that come into India. So the liability profile is stronger and is doing well.

On the Credit side, the credit quality has improved and no slippages in Corporate Credit that has been originated in the last 3-3.5-years, we have not seen any stress nor or any of the names in the famous house of debt exposure, is any name of Federal Bank clients in there. Legacy issues in Corporate Credit portfolio have become residual and we believe that we are addressing the more healthier part of the market.

On Digital side, we have seen good progress; we are virtually doubling Digital transaction every quarter and that will continue, we do have some leading edge offerings and that should continue to see momentum. Market share dominance in Network-I which is our home market in Kerala is gaining strong currency and we have seen good growth this financial year. Importantly, we have started seeing share gains in Network-II which is all the rest of non-Kerala markets. Yes, our network-II market share is low but we are seeing strong growth around both the Retail Deposit and on the SME side.

There are specific senior level recruits that we have made and a few more are in the pipeline, so we are reinforcing our existing senior team with some more specialist recruits.

The impact of potential slowdown – thankfully the oil prices are hardening, so we are seeing the impact is being closely watched because there is a large part of the network-I portfolio which will see some stress if the employment situation in the Middle East has challenges.

So broadly, the key messages from a point of view of Q4 and the full FY was that our Credit momentum growth focus is back, most of the provisioning related issues have been addressed and importantly we think we are not part of any of the large either restructured portfolios or the house of debt portfolios, share gain is visible and we are strengthening our team to ensure that we have fortified to deal with FY'17 and beyond. These are the key messages.

If you had a chance to see our slides or hopefully you will have it with you by now, Ashutosh, our CFO will talk to you about the Performance Highlights over the next 3-4-slides, Ganesh will talk to you Beyond Provisions what is the Focus on Growth, that should be over the next 5-6-minutes and then we will be happy to take all Questions. So let me turn it over to Ashutosh to walk you through the crucial part of Performance Highlights and you will be able to see our Business Focus Conversation subsequently.

Ashutosh Khajuria: Friends, Good Evening. I will start with the liability profile some of the numbers, the consistency in Savings Bank growth has continued and we have grown 21% year-on-year, if we see second half of the year, then almost 22%. Current Account also has grown year-on-year 12%, if we see daily averages it is closer to 15%. Retail Deposits as percentage of total deposits are now touching nearly 98%. The CASA growth quarter-on-quarter has been inching up. If we take base as March '11 then from 24% we have come to 32.47% and if we see during the year itself, CASA have grown by 204 basis points, Retail Advances excluding Gold have grown 18% year-on-year, SME has grown 17% and partly it has been contributed by our IFC GIFT City, Gandhinagar, that has helped us in supporting our SME clientele who were looking for projects like buyers credit and all. Wholesale Advances have been the real growth story in the second half of the year; year-on-year Wholesale Advances have grown by 21%; if we see the second half of the year, then the growth is about 57% including the Credit substitutes, if we exclude Credit substitutes, it is again (+30%). NII has grown 13% quarter-on-quarter to Rs.686 crores. NIM we are back to our March '15 level of 3.31%. Operating profit has grown 18% quarter-on-quarter to Rs.394 crores. Gross NPAs are at 2.84%, net NPAs at 1.64%, capital adequacy is closer to 13.93% and provision coverage has improved to 72.05%.

We had some event-led provision required for food credit to Government of Punjab, Discom UDAY related and some backdated AQR related provisioning where the addition has not been to NPA but it has resulted in higher provision either due to migration from one class to another one; SS to D1; D1 to D2; D2 to D3, also, partly because of some accelerated provision that we have done. We have identified some weaker accounts which we thought would be slipping in the near future and have classified them as non-performing, in some cases even without classifying we have provided for them as much as is required for a substandard asset.

I think further on Growth, my colleague, Mr. Ganesh would be sharing his views with you and then we will take Questions.

Ganesh Sankaran: Thanks, Ashutosh. Good Evening, Everyone. Just to take forward from where Ashutosh and Shyam left off, in terms of growth FY'17 clearly is going to be our focus on growth. Starting with Liabilities, essentially, we have seen very good pick up in our liability franchise, cementing and gaining market share across our CASA products, this has been on the back of several drivers that we have invested and focused upon in terms of getting more from some of the branches that have been of recent vintage; Employing our Digital strategy to ensure that we can acquire the right kind of customers and improve our share of penetration and balances through the customers; Deployment of cash management solutions in a more effective and structured manner across our client base; and also, improving some of our products is on payroll. We expect FY'17 the journey on Retail would continue with the same momentum led largely through our best-in-class and ahead-in-class Digital products.

Switching to Credit: Our book currently is well diversified between Wholesale, SME and Retail. We expect to maintain the uniform and equal focus on all the three verticals; all the three have shown reasonably healthy growth in the last quarter; FY would see us focusing on all three parts. We have invested in creating a relationship management structure in the Wholesale Bank and also in our SME portfolio. This would allow us to bring the entire suite of products that the bank has to offer to the clients. We expect to derive value from this approach in the next year. In Retail Credit, we would continue to focus on secured products. We are streamlining some of our internal architecture to ensure that we can bring a little more seamlessness to the way we offer Retail Credit, be it through specialized hubs for credit approval and focusing on alternate channels to ensure that we can source the right kind of Retail Credit. The growth in FY'17 therefore is likely to come from Retail, SME and Wholesale. Our focus in Wholesale would remain on the well-rated companies, if you have a chance to see our deck, you will see that there is a distinct shift in our Credit to the well-rated companies. We expect that we would continue to source these kinds of companies on the back of a proper relationship structure, bringing higher rigor to our selection process, a little more robustness to our credit underwriting process across all our verticals.

Ashutosh Khajuria: I think one additionally I would like to add, there has not been any conversion of fund-based to off balance sheet non-fund based in any form in the Credit portfolio, no 5/25 restructuring and no SDR.

Shyam Srinivasan: The summary of our three inputs between Ashutosh, myself and Ganesh, we have tried to explain that the operating performance has been reasonably encouraging, the momentum is something that we look forward to taking it stronger into FY'17, the one-off or the event-specific provisioning has been well addressed. So, we enter FY'17 well provisioned. Yes, this particular quarter saw substantial dip in net profit but equally encouraging signs in operating profit, income growth and responsible management of cost, you would have seen our cost-income ratio has also trended to a better number by 200 basis points. So FY'17 is the focus is to ensure that this momentum continues while we keep a keen eye on the external environment to ensure that should things deteriorate in the environment we are not caught on the wrong side.

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have our first question from the line of Vikas Aagarwal from Proken Finishes**.** Please go ahead.

Vikas Aagarwal: My question is related to credit cost. So what I can see on your Presentation Page #6 it has been 2.03, now that you have done a lot of provisioning towards NPA and otherwise. So, what is your guidance for the coming quarter and year?

Shyam Srinivasan: Our improving trend in Credit portfolio is something that we will certainly continue into FY'17. Instead of giving a particular guidance number we want to believe that the trend will be substantially better. We would certainly like to see the one-off or rather event-specific provisioning that we took this quarter is hopefully not a repetitive nature because these were particular assets that were other than food credit which will have another Rs.27 crores equivalent of what we had for Q4 will be there in Q1. So we should not see any substantive blip. That normal run rate will continue, we should be somewhere which we will be able to see materially better in the last quarter run rate which was 2.03.

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

Nitin Kumar: Can you give us some more color on slippages and in particular how much of the slippage has happened from the restructured assets?

Shyam Srinivasan: Slippages for the quarter is in Slide #7, total slippages for the quarter was Rs.536 crores, break up is Retail Rs.85 crores, Agri Rs.43 crores, SME Rs.154 crores, Corporate Rs.254 crores

Ashutosh Khajuria: Of this slippage from the restructured portfolio, SR book value is Rs.639.33.

Nitin Kumar: Have we sold any assets to ARC?

Shyam Srinivasan: Yes, we have sold to ARC this quarter; Rs.131 crores.

Nitin Kumar: These were NPLs or standard assets?

Shyam Srinivasan: One was a standard asset, two were NPLs.

Nitin Kumar: So the outstanding SRs now is how much?

Shyam Srinivasan: Rs.630 crores.

Nitin Kumar: Related to this, the amortized losses that we need to provide over the next one year on the portfolio?

Ashutosh Khajuria: That would depend on NAV of this thing, as of now it is zero, Rs.16 crores already provided in Q2 for definition of NAV.

Shyam Srinivasan: This quarter zero provision required.

Nitin Kumar: Because we sold something in Q3 also and on that there were some losses that were to be provided for the coming quarters?

Ashutosh Khajuria: That has been amortization of loss on account of sale to ARC.

Shyam Srinivasan: For the next financial year the whole of that would be roughly about Rs.50 crores is the provisioning required on account of sale of assets to ARC over the next four quarters, residual provision required for sales already made.

Nitin Kumar: Sir, in terms of Retail Loan growth, now there is some firmness in Gold prices, do you expect trends to improve in the Gold Loan portfolio?

Ganesh Sankaran: March has seen growth of about Rs.100 crores or so; in February we saw the lowest level for the financial year.

Shyam Srinivasan: But we are factoring in about 10% growth for Financial '17, not the heady growth we have seen in the past. The important thing is to avoid the reduction that we have been seeing.

Moderator: Thank you. The next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.

Gaurav Agarwal: What has led to our NIMs expanding by 30 basis points this quarter?

Shyam Srinivasan: One is you saw credit pick up; second is we had one-off benefit of about Rs.40 crores on account of income tax refunds interest on that; thankfully, three consecutive years we have got a one-off benefit but I wish we get it every quarter.

Gaurav Agarwal: This quarter we have not provided the yield on advances segment wise which we used to provide. So if you can just share that number?

Ashutosh Khajuria: I can provide the number, but I can give you a sense that the yield on advances is not very different from what it was earlier. So there is no deterioration in the yield of advances. We will try and get you the number, but to give you a sense, directionally it is not down.

Gaurav Agarwal: Because what I remember the SME, Agri and Retail part of the portfolio did not see any fall in yields whereas the Corporate saw a lot of fall. So, I was just checking if the other part of the book has…?

Shyam Srinivasan: Overall 11.04.

Gaurav Agarwal: Your Credit growth outlook which segment would you like to grow as in for FY'17?

Shyam Srinivasan: Like Ganesh was mentioning, we would like to continue to ensure a fairly diversified both geographically and segmentally. We are seeing opportunities in all three given that we are a relatively small player we are able to grab share in all three. That was tested over the last six months. So we do believe the same run rate across the three businesses what we want to focus. We are not waiting the bank on one segment or the other. SME is a natural strength of the bank that we have done well. Retail ex-Gold has been doing reasonably well. Gold we are factoring in only for about 10% growth. Corporate we see significant opportunities…when I say Corporate I mean mid-market and Corporate. So between the three segments we see almost equal growth rates. You could argue between 18% and 22% kind of a growth rate what you have seen we should continue that.

Gaurav Agarwal: Sir, Corporate new loans are coming at the same yield, right or the yields are very different from what they are coming…I include the CPs as well?

Ganesh Sankaran: On a blended basis, the yield will not be very different.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Can you give us a color on what was the contingent provision or UDAY-related provision which was done this quarter?

Shyam Srinivasan: UDAY provision is Rs.27 crores.

Amit Premchandani: Why do we need to provide for UDAY-related exposure?

Shyam Srinivasan: Because the state electricity board component of the bonds that are converted, almost deemed as a second restructuring, RBI wanted banks need to make 15% provision just like you will make in an impaired asset.

Amit Premchandani: Is this applicable for all banks you have got a circular on that or it was just a RBI desire?

Ashutosh Khajuria: RBI has asked but this UDAY bonds which are not going to be converted into State Development Loans, (SDLs) and they are kept either as loan or the SEB has converted them into bond, both have to be classified as NPL and 15% provision has to be made on.

Amit Premchandani: You have also classified it as NPL? What was the amount for that?

Ashutosh Khajuria: Yes, Rs.29 crores for UP and Rajasthan would be about Rs.152 crores, but that goes in investment, because Rajasthan had converted that into bonds.

Amit Premchandani: So if you have given a loan to say Rajasthan and that is getting converted into UDAY bond, you have to necessarily classify it as NPL, that is what you are saying?

Shyam Srinivasan: Just to clarify; the UDAY program visualizes large part going to State Development Loans and 25% going to state electricity board bonds. Discussion is on the SEB component of the bond, not just state government part of the bond.

Amit Premchandani: So 25% has to be classified as NPL?

Ashutosh Khajuria: Absolutely, it can be converted into bonds or it can be kept as loans whichever, because SEBs would not have converted that.

Amit Premchandani: Generally, we have been saying that you had a watch list and in spite of the watch list being converted into NPLs provision numbers continues to rise. How confident we are about FY'17 guidance that we have given now?

Shyam Srinivasan: I think we are reasonably confident given that like I mentioned no large no names are there with us, we have stayed away from any SDR, 5/25 or any of such programs. From four quarters we have been seeing heightened stress and mostly issues addressed. One of the slides if you see the accelerated provisions of Rs.192 crores is all on account of the future provisions taken this year on account of the fact that these are accounts that were restructured and required to be backdated, otherwise there will be provision for the subsequent year, now it has been taken in the financial year because the fail restructuring date has been taken.

Amit Premchandani: There is no likelihood of any second order impact of some accounts had a slippage in other banks and you have to classify again because of that?

Ganesh Sankaran: I think as we have already indicated the universe that you are seeing and that is being discussed the bank is largely not present in those companies that are being reported. I think this is something that we have said earlier. Secondly, as we said, there have been no slippages in our Corporate Credit over the last 3-3.5-years and the issues that are largely residual. That said, as we have already indicated in the past we have some accounts that are coming out of moratorium, nothing very significant but as a matter of fact, yes, there are some accounts that are coming out of moratorium in Q2, how that plays is something that we cannot comment today, but having said that our overall expectation is the slippage ratios in FY'17 will be better and trend positive as compared to FY'16.

Amit Premchandani: Can you give us any indication of the amount which are coming out of moratorium in Q2?

Shyam Srinivasan: About Rs.100 crores.

Amit Premchandani: On the Corporate Credit side, there has been very sharp growth for the many quarters. Is it just a seasonal one-off growth or we are likely to see this kind of pick up next year also and it is sustainable, it is not one-off quarter kind of growth?

Ganesh Sankaran: It is not a one-off kind of thing. Sustainability is something that will play out in the next couple of quarters. We have today relationship structure in place. So we are well equipped to go and reach out to all the customers. Our Corporate is also as Shyam rightly explained coming from base and coming from the distractions that other players in the market are seeing. We are able to focus on getting a little bit of market share in various Corporates across the Mid-Corporate, Corporate and Institutional clients. So, I think our growth in the Wholesale Bank is likely to be sustained in FY'17.

Amit Premchandani: Generally, this will be margin-accretive or it will be a lower margin and the current margin that we are having 3-3.3 levels?

Shyam Srinivasan: 3.31 you must factor that this is a slightly elevated number because of one-off benefit. Our steady state margin as I have guided for is between 3.10 and 3.15 and that is the number even in Q4 because we have backed out the one-off benefit was almost 17-18 basis points, we come to about close to 3.14.

Amit Premchandani: This number will remain even if the mix change in favor of Corporate?

Shyam Srinivasan: We are not waiting the bank on one or the other. We are trying to be across the segments. We are seeing like Ganesh pointed out, opportunities because some of our larger competitors who are some of the established PSUs are distracted, we have addressed many of the issues, we have put a structure in place, we are extending balance sheet, we do think we have an opportunity to gain share. To Nitin question, in terms of restructured slippage in Q4, it was Rs.142 crores.

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

Venkat Subramanium: I have a couple of questions; one is I see some stress on the Retail Bank portfolio because I just gone through the audited financials and I find a negative occurring there for the first time. So just wanted you to talk us through, are you seeing big stress on the Retail Bank side as well because that is not what generally has been seen across the other banks and how do you see it going forward?

Shyam Srinivasan: Our Retail portfolio this quarter and to some extent even last quarter has seen some pick up in the slippages, these are largely related to Kerala-based customers who have some NR connections, we think there maybe stress of about Rs.10-15 crores in the zone, roughly we are running at about late 50s, early 60s slippage, we are seeing a pick up on that. This quarter it was a little elevated because there was one account of about Rs.10 crores, otherwise we expect this to be roughly about Rs.15 crores. So our view is even in the next three-four quarters this pick up will be there till stability comes on that side and we have to be very watchful of that space, there is some stress building up. Non-Kerala, we are not seeing anything significant but our portfolio ex-Kerala is still growing.

Venkat Subramanium: So what is the Kerala portfolio on the Retail side?

Shyam Srinivasan: Roughly, the Home Loan book is about Rs.5,000 crores. Today, our Retail Book of about Rs.14,000-15,000 crores, Kerala component is about Rs.8,000 crores.

Venkat Subramanium: So is it fair to say 1% of that is stress or…?

Shyam Srinivasan: These are loans, these are not any cash credit account. If you miss a three payment you straight run out. This is something that we have to watch out. These are all security-backed. Having said that, we do not want to rush off the selling, because the customers who have been with us for long, so we do not want to create a panic in the market. So we are watchful. We have changed the new underwriting parameters substantially over the last six months ever since the oil stress started because we are also a large banker to them on the other side.

Venkat Subramanium: Because this quarter I have seen large write-down on that side, if you look at the segmental results, you have earned about Rs.190 crores and this time you got a loss of Rs.20 crores, so that is almost Rs.210 crores negative, which is little…?

Shyam Srinivasan: To some extent, the number has its some quirks, so I would not over invest in that because the segmental revenues I have not perfected.

Venkat Subramanium: No, I understand. The issue is other banks have been telling us that basically on the Retail side there is no stress, everybody is hunky-dory about the Retail portfolio and lending which I am not really.

Ashutosh Khajuria: That maybe right, because to dimension it currently it is actually two books of Retail that we have; one that we run in Kerala and one that we are running in rest of the country. If you compare the behavior of our book with the other banks outside the country, more or less it will be in line. Shyam alluded to very specific local kind of problem. That said about 90-95% of our Retail book is secured with mortgage. So there could be some lag in it. But as I said the behavior of the book if you see over a period of time and over some extended quarters I think it should play out itself.

Shyam Srinivasan: To amplify your point, that is why I said we are not weighting the bank on any one…

Venkat Subramanium: On the Note #11 where you sold some assets to reconstruction companies and there is still about Rs.86 crores un-provided for. Why would the auditors draw a specific attention to this – do you not think this is a very standard thing like, is it against the rules or…?

Shyam Srinivasan: We are just in the spirit of transparency.

Venkat Subramanium: Because they have put it in their audit report itself the last note, they say they have not qualified but nevertheless they are emphasizing on that.

Shyam Srinivasan: It is only in the spirit of transparency. I saw a couple of other banks also have done that.

Venkat Subramanium: On the NIM side you said income tax credit or refund interest that you received about Rs.40 crores. Would you show that under your NIM or to my mind it should be probably other income, it should not…?

Ashutosh Khajuria: It is other interest income.

Venkat Subramanium: It should not go to increase the NIM because to an earlier question that somebody asked the response was NIM has grown because of income tax interest of Rs.40 crores…

Shyam Srinivasan: Which is why I clarified that it is not something that you should be…

Venkat Subramanium: Because if you are showing it that way I would think personally it has to be reclassified from going forward, not a major point but it is material from investors and all of us.

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

Haresh Kapoor: Just wanted to check, on your accelerated provisioning, you mentioned that some of it was due to AQR. So was the Rs.192 crores complete amount or what were the amount that was made?

Shyam Srinivasan: We have no provisions on account of AQR left and this is in addition to AQR, whatever account that like Ashutosh pointed out that we saw some fresh sale which is technically not NPA, we have accelerated that also.

Haresh Kapoor: From D1 to D2 or D2 or D3, what would be the amount?

Shyam Srinivasan: Rs.192 crores.

Haresh Kapoor: Basically on NIM you mentioned that you should expect 3.1-3.15. So is this after factoring in the MCLR impact or what should be considered as such?

Shyam Srinivasan: The MCLR impact is not materially altering the run rates as of now and MCLR is all prospective credits and we are fairly competitive and pricing well. We will grow our CASA, our ability to be more competitive on MCLR. MCLR is advantageous that it is prospective, that is why it is marginal which is good. We are not seeing any stress on account of MCLR at this point in time.

Haresh Kapoor: So no significant impact on that and we should consider 3.1-3.5?

Shyam Srinivasan: Yes, that is what we are building our portfolio.

Haresh Kapoor: On the provisioning, you mentioned on provision for food credit that you are expecting Rs.27 crores in Q1. So anything more on the discom front that is going to be coming next quarter or basically in the next couple of quarters?

Ashutosh Khajuria: RBI has asked banks to provide 15%. So we have provided entire 15% on basis of this. If RBI in future increases it, then it would be universal for all the banks and we would not be any special to it, but right now I think as we understand 15% is more than enough because these bonds are state government guarantees and under Contract Act the liability of the surety is co-extensive with that of the principal debtor. If SDL is standard, then I think state government guaranteed bonds also should be standard. The only thing, why RBI wanted it to be provided for is because general circular says it is restructuring because these bonds are for 15-years, 10-years, 9-years which is at variance with the original loan tenor. So because you are changing loan tenor and you are changing the pricing, loan pricing was higher and bond pricing is lower, so these were the two issues on which RBI wanted that in strict compliance of their instruction on restructuring it should be considered as restructuring and because it is restructuring it should be treated as a non-performing loan. That is what the history behind it. It is not the question of the probability of default or any expected loss on it. If the technical point on which it is required to be classified as sub-standard. We do not expect it to increase therefore.

Haresh Kapoor: So you have not done any 5/25 and SDR in this quarter. So is there any pipeline in next year or how are you viewing that?

Ganesh Sankaran: We have thus far not done 5/25 and the restructuring.

Haresh Kapoor: On your cost-to-income, any guidance on FY’17 on that front that you view as such?

Ashutosh Khajuria: We would not like to give any but the reversal has started and we were at 58.72, now we have come down to 56.78 which is 194 basis points improvement tin cost-to-income ratio. Going forward I think we do not see any reason why it should not come down because if you see the non-stop operating expenses and all, they all are closer to single digit or so. If the growth continues particularly on the Credit side and we have a higher CD ratio, we have already moved to about (+73%) from the lowest of the year of 68%. So now I think going forward income part in cost-to-income ratio should grow while cost should be well contained in single digit or so. That is what our expectation is. So going forward I think let us see in Q1 and Q2 this remains constant we should be add to sub-50 or so in maybe next 5-6-quarters.

Haresh Kapoor: We heard basically your target on the growth fund that you have for Corporate, Retail and you are focusing for 18-22%, so something on the same lines that you have achieved this year it is around 13-14%. Sir, do you think that next year possibly 15% should be possible or it should be in line with what you have achieved this year around 13% or so 14% as such?

Shyam Srinivasan: You have to see it in two parts. That is why I said that second half annualized is running at (+30%), the first half was virtually flattish for two-three reasons – one, we were battling some issues; second is the de-growth of Gold was not sufficiently compensated, we are seeing that pick up and therefore the confidence is that even if we do not repeat the 30% annualized growth rate, somewhere in the north of 20% should be what we push for.

Haresh Kapoor: So if the momentum continues you are saying that in FY'17 you should be close to 20%?

Shyam Srinivasan: Yes, that would be the Good estimate. We are just trying to come back a quarter from now and see how things are.

Moderator: Thank you. The next question is from the line of Anirban Sarkar from Equirus Securities. Please go ahead.

Anirban Sarkar: This is regarding provisioning and regarding UDAY Scheme. If I understand correctly, then you are saying that 75% of your exposure which will be taken over by the states, does not have to be classified as NPL, other 25% has to be classified as NPA, is it correct?

Ashutosh Khajuria: Yes, absolutely, that is what RBI circular says the part which is not yet converted into State Development Loan, but is likely to be converted in FY'17 that also can continue as standard assets. But the part which has been either converted into SEB bond or likely to be converted in SEB bond and right now it is in a loan form, both will have to be classified as substandard and provisioning will have to be made on that.

Anirban Sarkar: So if you can convert them into bonds later, will you be allowed to write them back… will that be considered as a recovery?

Shyam Srinivasan: We cannot convert the SEB bond to SDL. So if it is an SEB bond it will remain SEB bond…

Ashutosh Khajuria: Or you sell it off; government guaranteed bonds can be sold to pension fund, PF trust and all that because they are all guaranteed by this thing. This is required to be classified as NPL just because I said the terms of the sanction have been changed, the pricing has been changed and the tenor has been changed. Because both these things have been changed, it is not the question of their recoverability and all that, it is a question of changing the terms of credit and therefore it is required to be classified as sub-standard and adequately provided for 15%.

Anirban Sarkar: So that 25% regardless of how much is converted into bonds it has to be entirely classified as NPA?

Ashutosh Khajuria: Yes, it categorically mentioned in RBI circular as either in loan form or in bond form, whichever form it is, it is to be classified as substandard and provided.

Anirban Sarkar: So you said that Rs.29 crores is for UP and Rs.152 crores is for Rajasthan, so that is Rs.180 crores, so 15% is actually Rs.27 crores which is the provision expense for UDAY. So that would mean that your total exposure to the SEB loans would be around Rs.720 crores, if I am not wrong?

Ashutosh Khajuria: That is right, Rs.700 plus crores for Rajasthan and about Rs.70-80 crores for UP.

Anirban Sarkar: Regarding the cost-to-income ratio, so did you say that this is going to be sub-50% for the next three quarters or sub-60%?

Shyam Srinivasan: Ashutosh said, over the next five to six quarters we should trend back to a better run rate, closer to 50%.

Anirban Sarkar: Regarding the provisioning that you needed for the transition of loans from D1 to D2 and shifting category, so can we expect that trend to continue even going forward or was this only in this quarter?

Shyam Srinivasan: Accelerated provisioning is because of the accounts that were NPA with us or restructured at an industry level but the backdated on the provisioning date was fail restructuring where was a much earlier date, in the normal course of event, they would have slipped buckets in the coming year and would have been provided. But because these accounts have failed restructuring we went back to the date of restructuring and provided for it. In one or two accounts where we saw stress coming in the next year we have taken that now itself.

Anirban Sarkar: So probably we can expect a little bit of this in the coming quarters also or is this…?

Shyam Srinivasan: It is a normal run rate of provisioning. Our NPA book is about Rs.950 crores with different vintages and different seasoning. Whatever that flows in the normal course will be there.

Moderator: Thank you. The next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.

Gaurav Agarwal: Sir, your OPEX, any guidance would you like to give? The employee expenses have gone up by 20% year-on-year.

Ashutosh Khajuria: That is specifically because of the yields have fallen and therefore the actuarial valuation of pension benefit which is there in all IBA package banks, there you have to provide for the pension and gratuity. As the yields fall, you are required to provide more and as a result of that in Q4 our actuarial valuation suggested that the fund is required to be increased by about Rs.50 crores or so.

Gaurav Agarwal: What was the amount in the same quarter last year Q4FY'15? How do you see the growth of overall OPEX in FY'17 and FY'18 because last quarter mentioned that thinking of closing down certain branches?

Shyam Srinivasan: It is not about closing down certain branches, I think the message is about rationalizing our branch infrastructure where we see a low or no growth or where we are seeing an opportunity to relocate we will, wherever opportunity of renegotiated rentals we will, wherever we see an opportunity to merge a few branches, we will. So it is a mix of things, it is not just closing down branches. Having said that, our aspiration from an operating expense point of view, ex-staff cost should be late high single digit or early double digit.

Gaurav Agarwal: Including the staff, would I say 15-16% kind of a number…?

Shyam Srinivasan: Staff cost as you probably know there are two wild cards which we are working on – one is the fact that if yields tend to go down, there may be some pensioning impact, second is that FY'17 the third quarter the wage renegotiation starts. So there maybe some impact running into it. But, we could safely assume somewhere in the mid-teen this is where the staff cost increases.

Ashutosh Khajuria: Additionally, it is also a function of the Consumer Price Index because the DA space which is linked to the Consumer Price Index. So if suddenly inflation goes up, then also you have to pay more (DA) Dearness Allowance. So that also adds to the cost. Right now inflation is down and hopefully if it stays at this range of 5% or so, which RBI is targeting, I think that DA impact may not be substantial, it would be just adding 5%.

Gaurav Agarwal: You said that Corporate yields would be what they were in Q3. But on CPC somewhere around 8.5% to 8.7% and when we directly give a loan it yields around 9.3-9.4%. So when we say that corporate yields will be there it was will be same like where they were in Q3 and Q2. So how confident are you to maintain your NIMs at 3.1, 3.15%?

Ashutosh Khajuria: When CD ratio was 68%, this money was being deployed in treasury products like CDs and all that and CP returns are higher than CD. So when you have that type of liquidity, then you have to choose where you can get a better return. Now, when CD ratio is improving and it has gone to (+73%) and all and likely to improve further if the credit growth momentum continues, then there is no need for offering CP as such. Then we will continue with the core loan products and not the investment products.

Ganesh Sankaran: Just to supplement; yield is a function of the segment, Wholesale, Mid-Corporate has got emerging Corporate, it has got the large rated Corporate, it has got the institutional clients and each of these customer segments are priced very differently. So when we say that we are optimistic of maintaining, it is across the entire book on a blended basis.

Gaurav Agarwal: Your SME slippages on TTM basis if I look at or if I annualize the quarterly slippages it comes to around 4.4%. Any area which is giving this kind of pain because…?

Shyam Srinivasan: There are buckets in Kerala linked to some NR and rubber related and we do have a portfolio that we are watchful of. But I am not alarmed by it, it is something that is secured and if it is adverse it will be delayed in recovery. Portfolio is still growing well. These are customers who are not new customers, large number of them are many vintage customers. There is some stress in the environment and we have to work with these clients to address it where technically they are NPA, we are recognizing it. Just to clarify; the SME NPAs were trending in the Rs.80-90 crores slippages, which has moved to north of 130-150. But you see that is the new base that is established, that may trend for some quarters, but that is because of the environment, largely these are good customers who are being with the bank for very long and we are quite sensitive to the way the relationship is managed.

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

Kaushik Poddar: Shyam, what you said right now the fortune of the bank is related to Kerala as well as to Middle East. So are you doing something to de-risk?

Shyam Srinivasan: Two things – first is it is right and wrong to say that fortune is linked to Kerala, they are NRI, certainly there is a linkage but we do have a meaningful presence in both the Credit book and in the Deposit book outside Kerala and now that is like you have seen in the slide there is growth and in fact rate of growth is higher ex-Kerala albeit on a smaller base. Second is we have focused on three external markets; Singapore, we have just done Road Show in the Singapore and trying to capture that flow of market, tied up with PhillipCapital to do Advisory and Wealth Management Initiatives for clients there. We have about 2700 high net worth clients just in the Singapore. Likewise, we are trying up in Australia and Canada. These are traditionally large strong hold markets for NRIs from South India, particularly Kerala who have gone and relocated there. So we are seeing growth there. Then Singapore or the non-Middle East, non-Kerala corridor is something that we are activating. That is from an NRI point of view. Growth on the SME side or on the Retail or on the Corporate ex-Kerala as you would have seen is quite good, thankfully, the slippages have quite gone down. So, not entirely right to believe that, it is largely Kerala and NRI. It is a very important part. That is why I said continued dominance in network-I has gained share in network-II.

Ashutosh Khajuria: Credit book is 60 outside Kerala, 40 in Kerala.

Kaushik Poddar: How do you see that in say two years down the line –60 will be growing to…?

Shyam Srinivasan: I think it will be more like 70:30 because the larger credit opportunity is outside. The liability franchise will continue to dominate from Kerala for a range of reasons; one, the strength of the franchise, like I showed you all India remittances in FY'16 was $70 billion or slightly lower and it has been flat for three years. Federal Bank has moved from Rs.38,000 crores to Rs.53,000 crores. So in a flat remittance into the country we have moved from roughly $7 billion to close to $9 billion plus, evidently are gaining share.

Kaushik Poddar: Can you throw some light on your Deposit growth, A)? B) On other income part?

Shyam Srinivasan: CASA as a ratio has moved from almost 200 basis points this financial year. In FY'17 this momentum is what we would certainly like to continue. Now, 2% growth from 32.5 is a little difficult ask but that is the direction we will trend to.

Ashutosh Khajuria: Other income front, excluding write-off and excluding treasury gains it has grown at about 16%.

Shyam Srinivasan: We would like to see that growing at 20% in FY'17.

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

Sumeet Kariwala: I just wanted to check how is the Retail LAP portfolio doing? We have been growing that book at a reasonable pace. So just wanted to get an update on delinquencies there?

Shyam Srinivasan: The Retail NPA pick up that you saw this quarter and to some extent last, and I mentioned one ticket of Rs.10-odd crores, I hope it is event-led, this is the pickup in NPA that we have seen this quarter and the last, it is largely related to some of the LAP accounts.

Sumeet Kariwala: How much of your corporate slippages this quarter would be because of state electricity boards because there would be some slippage in the investment book as well, so I am just trying to …?

Ashutosh Khajuria: Rs.152 crores of RSEB is converted into bonds, so that is an investment book, which is NPL and what is there in loan book that is Rs.29 crores.

Sumeet Kariwala: What would be the stock of restructured loans excluding SEBs? The stock is Rs.1592 crores as of…

Ashutosh Khajuria: It would be Rs.1510-1520 crores that range.

Sumeet Kariwala: On Slide #6 if I look at the restructured stock as of Q4 FY16 that is Rs.1592 crores, right?

Shyam Srinivasan: That includes the SEBs.

Ashutosh Khajuria: Rs.70 crores of that I have knocked off.

Shyam Srinivasan: So Rs.1500 crores.

Sumeet Kariwala: So Rs.1500 crores is the non-SEB exposure right?

Shyam Srinivasan: Yes.

Sumeet Kariwala: You mentioned about one accounts slipping in second quarter which could be around Rs.100 crores. But how do I think about the remaining Rs.1400 crores of this restructured loan book?

Shyam Srinivasan: Traditionally, we have been running 18-20% we see that or hopefully that is some improvement we are seeing the improvement, but roughly we are expecting that to be about 20%.

Sumeet Kariwala: How much would be coming from Iron & Steel in this book?

Shyam Srinivasan: Iron & Steel, all the big ones have been addressed and one other is restructured, that is maturing in Q2, the moratorium is Iron & Steel, that is about Rs.100 crores.

Sumeet Kariwala: How do I think about credit cost in FY'17, like would you be able to provide a range because now in terms of incremental bad loan formation, you seem to be much more comfortable?

Shyam Srinivasan: What we want to say at this point in time is definitely improving but I am not able to put a number, we will certainly like to see two quarters of sustained performance before we can. The crucial point is most key issues have been addressed; we have gone through 4-5-quarters of extreme pain which we have been addressing. No big names are there, large tickets are not there, known cases are restructured, we think we have visibility on the ones that are coming up for moratorium closure. So the trend should be improving. Certainly the 200-odd basis points that you saw in this quarter is largely impacted by the significant provisioning for acceleration. That should not repeat itself.

Sumeet Kariwala: This slippage from restructured loans and we have had accelerated provisioning over there because the provisioning should be from the date when it was restructured and not from the date on which it slips from restructured loan to NPL. This was a guideline which banks always used to talk about. So was there something in the RBI AQR or this was something that we just missed and therefore we had to do it this quarter?

Shyam Srinivasan: There are two parts to it – when a restructuring fails that you do it from the date of the original restructuring it is not a new guideline which we have been following. However, as a consequence of the AQR and related accounts when RBI saw pan market and some accounts were NPA and then they were deemed because it was the failed restructuring, at an industry level when that account happened, we also had to do it.

Sumeet Kariwala: What percentage of loan book will be fixed rate in nature, lending would be on a…?

Shyam Srinivasan: Sub-20%.

Moderator: Thank you. The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: If you had mentioned that a few quarters back your outstanding stock of restructured loans for SEB were Rs.1,100 crores and today we are at Rs.1,500 crores. Can you just run through how do we reach to Rs.1,500 crores as the non-SEB related book? Second question is how the performance been on the recovery and reduction front because there has been another Rs.500 crores reduction for the quarter? Third one is what is the total number of employees as of date?

Shyam Srinivasan: Total number of employees is 11,700 something. This quarter the slippage was Rs.536 crores, recovery and upgrade was about Rs.170 crores, Rs.314 crores was technically written off and sale to ARC is Rs.131 crores.

MB Mahesh: So by and large the reduction has come in only because of write-offs?

Shyam Srinivasan: Yes, Rs.170 crores is recovery upgrade, Rs.314 crores is write-offs and Rs.133 crores is sale to ARC.

MB Mahesh: And the restructured book movement? Sir, there has been a Rs.700 crores reduction for the quarter, we are just trying to, because last quarter number I have is that you had about Rs.1,100 crores towards SEB and the aviation sector.

Shyam Srinivasan: SEBs itself has reduced bout Rs.700 crores from restructured book.

MB Mahesh: For the quarter, is it?

Shyam Srinivasan: Yes, Rajasthan and UP.

MB Mahesh: Rajasthan was a complete movement towards funds?

Shyam Srinivasan: Yes.

MB Mahesh: My last question is, can you give us a break up of your NR deposits between what is moving to the SA and what is moving to the term?

Shyam Srinivasan: I do not think we can give that number off hand, but generally as a thumb rule, out of every Rs.100 that gets remitted into India, into Federal we are able to keep Rs.18 to Rs.20 and out of that 30% - 35% goes into savings.

MB Mahesh: The reason for asking this question is that, if there is a possible slowdown in the deposit growth and you are now targeting for another basis points improvement in CASA how much of a drag is this going to contribute because for you NR deposits contribute quite heavily to your SA balance.

Shyam Srinivasan: That is what I mentioned, because these are all very fluid and dynamic situation. What we take fair amount of confidence is for two years going, despite NR remittances to India being flat or degrowing Federal is gaining share considerably which is evident, I do not have to tell you, you guys track all numbers, all banks, we are gaining share and that momentum should continue. And we know when Rs.100 comes to us we know how we can work with the customers to hold on to in deposits.

Ashutosh Khajuria: Additionally, right now our retail profile of deposit is almost 98%, practically no wholesale. So in case, I mean worst case scenario, if this close the scenes or stops for any reason then you always have the leg room to go for wholesale deposits which practically are close to zero now.

MB Mahesh: But it is just that it hurts your CASA ratio, it is still going to be a term deposit.

Shyam Srinivasan: Yes, that is right.I think we should focus on the growth in CASA, to some extent CASA ratio is a misnomer because if you see denominator shrinking will show CASA growth, so I would say focus on the growth.

Moderator: Thank you. We have the next question from the line of Alpesh Mehta from Motilal Oswal Securities Limited. Please go ahead, sir.

Alpesh Mehta: First question is related to your corporate loan book, we have been growing largely into the high rated corporates, there is decent amount of competition in to that segment. So what gives us the confidence that we will be able to keep the yields and the current level and accordingly margins at the same level at around 3.1%, this year there is obviously some benefit of improvement in the CD ratio which has reflected into the margins, so how do we see margins for FY17 considering the growth into some of the relating lower risk low yielding kind of assets?

Ganesh Sankaran: No, I think one thing that we have been trying to highlight is, it is not only the top rated companies we are looking into the well rated mid-corporate companies also, well rated does not necessarily imply the large rated companies, yes the margins admittedly will be a little fine when you deal with the well rated top companies, three are well rated mid-corporate companies and there are the larger corporations and institutions as well. So I think it has to be seen in totality, it is not that we are pursuing only the well rated top companies.

Alpesh Mehta: And when we talk about well rated top companies what is the spread over base rate that are we getting right, roughly if you can just give us the indicative number there.

Shyam Srinivasan: In the very well top rated it will be based on base clause.

Alpesh Mehta: Sorry?

Ashutosh Khajuria: Base (+5), base (+10) or base for AAA corporate, but when it comes to mid-corporate and all that it could be 10.5%, 11%.

Ganesh Sankaran: Yes, we have a good mix of mid-corporate and corporate I think, so I think our presence in mid-corporate is very high and it will also differ from product to product, some are working capital products, some are term finance, something structured on some other facilities collateralized in different manner. So I think the rates will differ based on the facility and structure that is offered.

Alpesh Mehta: The second question is, this is partially touched upon in the previous questions as well but on the fee income we have seen growth picking up over the last two quarters but the fee income growth still remains at around 8% - 10%, specifically related to the FOREX and the loan processing fee, because FOREX was one of the key focus area for FY16 when the growth has not…

Ashutosh Khajuria: Correction, FOREX has grown quarter-on-quarter in this quarter four. If you see FOREX it is Rs.37 crores as against Rs.18.8 crores means Rs.19 crores in December quarter, so from Rs.19 crores it has become Rs.37 crores.

Alpesh Mehta: But I am talking largely on a YoY basis which is at around for the full year.

Ashutosh Khajuria: For the full year also it has moved from 116 to 130.

Ganesh Sankaran: Yes it is little less, on YoY it little less than QoQ.

Alpesh Mehta: So any guidance on both these line items, especially on the loan processing fees and the FOREX income?

Shyam Srinivasan: Loan processing plus FOREX, I think an earlier question was around fee income growth, we are believing that now that the credit growth is picking up which means we are setting up lines and there are non-fund opportunities we think there is an opportunity to grow between 18% and 20%.

Alpesh Mehta: And lastly, sorry to repeat this question again, on the SEB exposures, if you can run us through the numbers that would be great. So for example, in case of Rajasthan we had Rs.700 crores of exposure and of which 75% was supposed to be converted into a state government bond, right?

Ashutosh Khajuria: Already converted.

Alpesh Mehta: 75% is already converted into bonds, in that case how did this provision come into picture because for a dress 25% exposure do we need to provide, is that the correct understanding?

Ashutosh Khajuria: Yes absolutely, that is what we are repeating, 75% has been converted into state development loans means state government bonds and 25% is SEB wants guaranteed by state governments.

Alpesh Mehta: Okay, on that 25% it is to be treated as NPL as well as it is to be provided for…

Ashutosh Khajuria: Yes, it is to be treated as NPL because it tantamounts to restructuring, you are changing the pricing and you are changing the tenure.

Alpesh Mehta: And for some of the SEBs who have not converted their exposures yet into state government bonds what is the treatment for those SEBs that the RBI is prescribing now?

Ashutosh Khajuria: In case of UP, the other one which we have that is also treated as non-performing loan to the extent it is to be converted into SEB bond and a part that has been converted or is to be converted into state development loan is standard.

Moderator: Thank you, Mr. Mehta. We have the next question from the line of Jine Gala from Florintree Advisors.

Jine Gala: Sir, can I have your SME to accounts details, what is your quantum in SME too?

Shyam Srinivasan: I don't think we have it readymade for us to offer, but it is showing marked improvement.

Jine Gala: And sir one more question, if you see in September again the FCNR window would be going from the RBI, so how do you see your CASA float remaining, NRI CASA float?

Shyam Srinivasan: We had nothing on the FCNR window.

Jine Gala: No, FCNR window is not CASA, it is term deposits.

Shyam Srinivasan: I am just clarifying, FCNR window had nothing to do, we have not either done a leverage or whatever, the whole book was I think Rs.300 crores. So for us it is not a significant amount, so CASA is not impacted by that. In fact, we see that as an opportunity.

Moderator: Thank you, sir. We have the next question from the line of Gaurav Jani from JHP Securities. Please go ahead.

Gaurav Jani: As I understand correctly, the recovery on upgrades were Rs.170 crores, correct?

Shyam Srinivasan: Not exactly but in that zone, plus minus.

Gaurav Jani: And the write-offs were 314?

Shyam Srinivasan: Yes, 314.

Gaurav Jani: And the sale to ARC is 133, right?

Shyam Srinivasan: That is right.

Gaurav Jani: That would be included in the slippages, right?

Shyam Srinivasan: In ARC that which was NPA and sale to ARCs is already in slippages, that it was standard it is not there.

Gaurav Jani: So can I have the distinction between that, in terms of the amount?

Shyam Srinivasan: 40 crores was non-NPA sale.

Gaurav Jani: And sir the second question is, if I look at the corporate credit breakup in Q3 and Q4, so for the A and above that would include the CPs?

Shyam Srinivasan: The credit alternative we have not taken.

Gaurav Jani: Only on the loan book?

Shyam Srinivasan: Only on the loan book.

Ashutosh Khajuria: Credit subsidies we have not taken because all CPs which we have invested in our A1 plus is not a single CP that we have invested below A1 plus.

Gaurav Jani: So that would not be included in A and above is what you are saying/

Ashutosh Khajuria: Because only loan has been classified there.

Gaurav Jani: Only loans, right?

Ganesh Sankaran: See, we are not doing any standalone credit substitutes, I think most of our offering is on a blended basis so there will be overlapping borrowers between credit substitutes and loans.Yes, you may have a AA flavor of how the migration of our rating profile is happening in the positive direction.

Gaurav Jani: If I come to Slide #6, the provisions breakup, the total provided for Q4 is Rs.387 crores, of that the loan losses is Rs.290 crores, correct?

Shyam Srinivasan: Yes.

Gaurav Jani: Of which we have Rs.73 crores and Rs.192 crores totaling to Rs.265 crores, so what is Rs.73 crores and Rs.192 crores?

Shyam Srinivasan: So Rs.192 crores part is the accelerated provision, Rs.73 crores is the normal slippage related provisioning.

Gaurav Jani: So what is the 387 minus 317, because I had also seen a 317 figure out there.

Shyam Srinivasan: That is a full year number, 704. 385 plus 317 is a full year number.

Moderator: Thank you, Mr. Jani. We have the next question from the line of Nishant Goyal from UBS Securities. Please go ahead.

Nishant Goyal: Sir, what is the excess provision we have right now, like contingent provision which are not for specific NPAs?

Shyam Srinivasan: About Rs.81 crores.

Nishant Goyal: And also I think few of your peer banks have given watch list or like more details of their below investment grade book, I think you are highlighting like 28% of the book is like either others or below BBB and there is this SME which is kind of like from Kerala which is coping NPA, so if you were to kind of track your own watch list in a more formal way what would that look like?

Ganesh Sankaran: Just to answer and dimension this properly, the watch list that is being referred to by some of the banks that you alluded to refers to a very different set of borrowers, these are the borrowers that have been discussed enough number of times, reported as the highly levered groups of the country belonging to stress sectors, infra, blah, blah, blah. I think we have already said and indicated that we have very residual exposure now left to any of the names if at all, and probably low and insignificant exposure to any companies that are commonly referred to as house of debt. So in that sense that stressed watch list that you are referring to actually does not apply to us. That said, we have already indicated that we have a restructured book which has been indicated in our debt and the floor rate from that on a historical basis has been 18% - 20%. So if at all one has to correlate with that that would be the figure.

Nishant Goyal: So restructured should be the watch list for practical purpose?

Ganesh Sankaran: I am not implying or suggesting that because at this point in time there is nothing to suggest that, as we said we have some events that are upcoming or in Q2 where accounts are coming out of moratorium. So we do not really have a watch list kind of a thing.

Nishant Goyal: And what is our SME book in Kerala, I think you gave that number earlier.

Shyam Srinivasan: Our SME book in Kerala I about Rs.8,000 crores.

Nishant Goyal: And it should be fully collateralized, like backed by some hard collateral?

Shyam Srinivasan: Some are 200%, some are 80%, some are 100%, some are 60%, but they are weighted towards closer to 85%.

Moderator: Thank you, Mr. Goel. We have the next question from the line of Roshan Chutkey from ICICI Prudential AMC. Please go ahead.

Roshan Chutkey: Sir, again on this slide six, can you please take me to the slide six in a bit detail, how do I read this number?

Shyam Srinivasan: What is on the left side is the provision up to Q4, what is on the right side is the provision for Q4.

Roshan Chutkey: And what is this Rs.73 crores, again?

Ashutosh Khajuria: The provisions on account of normal slippage and Rs.192 crores is the provision on account of accelerated provisions. The central part 704, 5580 minus this is what the total position is as at the end of quarter and end of the year, so 704, then there is a breakup of that how is this 704 coming up, 5580 minus like that. The left hand side is the usual normal provisioning, right side is the event lead exceptional provision.

Roshan Chutkey: Sir, 704 is the full year provisioning is what you are saying?

Shyam Srinivasan: Full year number, that is the provision as of end March.

Roshan Chutkey: For the quarter looks like you have paid kind of about Rs.384 crores of provision, right, loan loss provision?

Ashutosh Khajuria: Yes. Total provision is 384 which includes provision in the equity book, food credit a standard asset is there, investment NPI provision, everything is included in that, loan loss is 284.

Roshan Chutkey: And how much should I read as the event lead provision this quarter?

Shyam Srinivasan: Rs.192 crores.

Ashutosh Khajuria: See, investment is Rs.40 crores and standard asset is about Rs.30 crores, rest is loan loss including restructuring.

Moderator: Thank you, sir. We have the next question from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: Just on this provisioning side, sir if I understand correctly we have provided for 25% of our Rajasthan exposure as NPA, my question is we would have already had 5% provisioning on the entire Rs.700 crores, so that should also give a ride back of provision at least 5%, so that would amount to somewhere around Rs35 crores, so where do I see that number if let us say we were to provide for 15% which has fallen or which have been categorized as NPA, then of course there should be some ride back from 75% release. So if you can just reconcile that?

Ashutosh Khajuria: Whatever is additional requirement that we have provided.

Jay Mundra: So sir additional requirement you have provided at 15%.

Ashutosh Khajuria: That is in addition to that whatever is required.

Shyam Srinivasan: If the question is that 5% have you released and provided this 15% or have your provided 10% on top of 5%, probably that is the question, right?

Jay Mundra: Sir, the question is, we had 5% on entire Rs.700 crores because that was kind of a minimum floor of restructured provisions, so that would have released some Rs.35 crores, so is that after netting off that Rs.35 crores we have additionally provided Rs.27 crores, is that the correct understanding?

Shyam Srinivasan: The incremental provision is Rs.27 crores, that provision whatever you are referring to is sitting in our overall provisions, that is how the coverage is there. So even if we had released that it would have gone into providing for some of their account, so it is not a write back, nothing has been written back. It is the portfolio right, you are taking one account and trying to unilaterally look at it, but that really should have covered up some other provision.

Jay Mundra: And sir secondly if you can just help with these corporate slippages of Rs.254 crores, you said out of that Rs.29 crores relates to discom, and if you can provide any sectoral color on rest of…

Shyam Srinivasan: There is no one this time as in anyone, it is quite varied by location and by geography. So we do not have, the only thing I can say is that couple of hotels between them about Rs.75 crores is in hotels and the others are very distributed. There is no lumpy one-off 100 crores kind of thing in this thing.

Ashutosh Khajuria: 25 to 45x.

Moderator: Thank you, sir. We have the next question from the line of Tejash Shah from Unique Capital. Please go ahead.

Tejash Shah: What I see from your branches, we are not expanding on the branches to grow the business, if you can throw some light on that. And second is, what I see from your provisions, on FY15 I think you had average provision of Rs.155 crores per quarter amounting to total some Rs.622 crores. This time we have some Rs.934 crores something in which if I see average is Rs.188

crores on a quarterly basis leaving apart the fourth quarter where you have some extra losses. So are we going to see increase of NPAs from that Rs.188 crores to another higher amount in FY17?

Shyam Srinivasan: Let me answer the branches one first, if you have been tracking us we grew quite substantively in 2012, 2013, 2014 and we said between 2015 and 2016 and 2017 we will focus on getting value on the expansion before we decide to expand further in footprint or focus on our digital strategy. For now the focus is getting value and ensuring that the digital strategy is working both of which are beginning to show good traction and I will proudly say in 16th slide where Raghuram Rajan has quoted and it there on the website and we think we have a formula which is working. So branch expansion will be very calibrated, definitely not a large number in FY17 because we want to get extract value out of what we have launched. Specific to provision, that is almost like giving a forward guidance on what the credit cost will be, all I can say it is improving and that trend if you back out the Rs.192 crores which is the event specific provisioning should be more reflective of our run rate in the near quarter.

Tejash Shah: But then even if you, let us say we are talking about Rs.384 crores out of which you are saying Rs.192 crores is one-off, correct?

Shyam Srinivasan: Rs.192 crores is one-off, Rs.25 crores plus Rs.27 crores is also one-off.

Tejash Shah: So 192 plus 25 plus 27, so out of less 384; so Rs.140 crores is normal provision what I will say, last quarter what you did was around Rs.189 crores, if I am not wrong.

Shyam Srinivasan: Last quarter provisioning is only 75 crores.

Tejash Shah: Quarter three FY16 if I go on slide number 26, total provisions for quarter four it says is Rs.384 crores, quarter three FY16 is Rs.163 crores.

Shyam Srinivasan: The net provisions was Rs.75 crores, which slide are you talking about?

Tejash Shah: Page #23.

Shyam Srinivasan: That is total provision, that is not credit provision.

Tejash Shah: Total provision only I am talking.

Shyam Srinivasan: That is because our investment provisions were there, yields shot up in Q3.

Tejash Shah: But then we are going to see less of this provisions averagely or it is going to stay?

Shyam Srinivasan: If you take, of course the past is not necessarily very reflective but credit provisions have swung from sub-50 to now this quarter being amongst the highest. If we average out taking out the extremes somewhere is the Rs.17 crores odd is the credit provisioning and that is the trend we should pursue.

Moderator: Thank you, Mr. Shah. We have the next question from the line of Nilesh Parikh from Edelweiss. Please go ahead.

Nilesh Parikh: Sir, sorry on the restructured assets from UDAY now I got your response that you have not got back provisions, but ideally you would not have said that against your NPLs, right, because this is a restructured provisions, which would not be used to set off your NPLs, is that a fair assumption?

Shyam Srinivasan: Nilesh, I do not think I we said that, we said that the provision number if that was not released some other provisions were required, so the blended is what we are talking of, the provision…

Nilesh Parikh: Sir you are not adding anything on the restructured assets, right sir?

Shyam Srinivasan: The provision incrementally made for UDAY is Rs.27 crores for this quarter.

Ashutosh Khajuria: But that is already a restructured account, it is part of restructured, entire SEB was restructured.

Nilesh Parikh: Right, but ideally restructured book has come off, when the amount of provision that you are carrying on, that restructured asset book should technically come down.

Shyam Srinivasan: Yes.

Nilesh Parikh: That was direct amount sir, just if we can…

Shyam Srinivasan: Rs.75 crores would be lying in that restructured this thing, 1500 multiplied by 5%, so 15x5=75.

Nilesh Parikh: No, but last quarter it was 2200, right, so are we carrying more on the restructured assets, is that the way to look at it more than the 5%?

Shyam Srinivasan: We will check and come back on that.

Nilesh Parikh: And the other question sir is, now this quarter you said that there is nothing on the slippages from the AQR and AQR is something that was kind of dealt with in Q3, so from a normalized run rate perspective obviously we see some bit of increase in SME and retail, but what is the normal kind of run rate that we will see from all these three portfolios sir?

Shyam Srinivasan: Nilesh, I think we will only say that it is an improving trend and it will continue, the only caveat I have said is that the Kerala based accounts because of some external stress we are being more cautious and watch full of, but it is not a significantly higher number, the pickup that we saw even in this quarter in retail slippages should trend down. But having said that, it is a period of watch, we want to see more stability but we do not see a substantial increase.

Nilesh Parikh: So sir as you mentioned somewhere earlier in one of the questions that SME slippages, now the new base is about Rs.140 crores to Rs.150 crores odd, is that the right way of looking at it and maybe in retail…

Shyam Srinivasan: In this we should not read too much into the base and things, because it is not like annuity income, we are certainly keen to make sure that it trends lower but the base run rate right now for the last two, three quarters has been in the north of Rs.100 crores swinging between 150, 112, back to 150. We certainly will work to push that down, but given certain market conditions we are being more watchful of and that should be the thing, but certainly it is not like a trend line we can tell, these are not given so we should not draw too much why it should be 150 or more, effort is to pull it down. But right now last two three data points suggest that. And the denominator as you noticed is growing quite well and we will certainly keep that momentum going.

Nilesh Parikh: But the credit number, then I think aggregate number would be the slippage ratio which if I look at that number it has always been at a pretty high level compared to the industry. So is there a wait to actually look at, are we giving a guidance that we are looking to reduce that number going forward?

Shyam Srinivasan: Yes, certainly we will work to reducing both on account of improved slippage and denominator growing, both on account of that. And there are some vintage accounts which is what we said and it is reasonably well collateralized, long relationship with the bank, so we have to be watchful and sensitive on how we deal with it.

Nilesh Parikh: And just one final question, on the accelerated provisioning of 192, so if basically as I mentioned Q3 was where we see all the AQR related slippages and what sustains basically, specific to AQR provisions have been made in this quarter because of sales restructuring that was something that was accounted as slippages in Q3, so from provisioning perspective I am still not able to kind of side at it.

Shyam Srinivasan: No, what we said is all accounts that were in the AQR were fully provided for in Q3, the incremental residual provisions of that happened in Q4 for that accounts. Additionally, those accounts which had been tagged NPA at an industry level and/or restructured failing those accounts have to be now tagged back to the date of restructuring. Some of our accounts which were tagged as NPA in Q1 and Q2 of this financial year had failed restructuring therefore it had to go back, 12, 18, 24 months were provided for that. Which in a normal course, because they were NPA, in the normal course they would have been provided for in the subsequent financial year.

Ashutosh Khajuria: Not only that, in the list C RBI in which even in FY17 we can continue by providing 2.5% per quarter additionally, so we can have 10% provisioning as at the end of 31sts March, 2016 and every quarter we go on adding 2.5% and by FY17 end we can continue to do 20%, but at that time if it fails again you have to go back to the date of restructuring and start providing for that. So I think we just took a call of identifying them whether it is going to sustain or not and we found that it is not a sustainable account and it may not perform then we have straight away gone in and did that accelerated provision.

Nilesh Parikh: That I understand, it is a category which is still not being recognized maybe as an NPA, I am talking about at an industry level a failure, I am just trying to tie that in because it was already treated as an NPA earlier as mentioned in Q1 or Q2, provisioning would have been taken right from the time when the account would have been restructured.

Shyam Srinivasan: No, in Q1 and Q2 it was NPA, after AQR where they had made it nonstandard or NPA in other bank RBI had said that this will now go back.

Ashutosh Khajuria: One very large steel account, industry knows about it, we were amongst the first two banks who classified it as substandard and from that date during the 1st provisioning of whatever was required, 15% or so. But later on RBI came back and said no this is NPA from so and so date which was maybe 18 months back or 12 months back or so, because they had the macro picture with them. So in that when the dates have come from RBI you have to classify the account exactly from that date. We had sought clarification from RBI also and they have clarified that we have given you the date, from that date you have to classify it. So if it is straightaway coming in D1 you treat it as D1, if it is coming as D2 you treat it as D2. So we would add it as SS, substandard, but then subsequently after that clarification came to us we classified what was the regulator specified category for it and the date.

Moderator: Sir, we have last follow-on question from the line of Sumeet Kariwala from Morgan Stanley. Please go ahead.

Sumeet Kariwala: Sir, I will make it very quick, just one question. You mentioned that there has not been any slippage from the book originated over the last three years, so I wanted to get a sense as to if I look at the loan book as of now in the corporate book, what percentage of loans would be originated prior to that, if you have some numbers of the curve.

Shyam Srinivasan: No, corporate book is a highly churning book, so we cannot say that this is all pertaining to a period, the points that we had mentioned is in the last three to four year origination we have not seen any slippages. So you cannot make a determination saying that the Rs.20,000 crores of corporate book so much is passed with it. But having said that, most of the large infrastructure steel accounts were booked in 2009-10 when we had raised capital and we were actively participating in long tenure loans, that is more or less addressed. But after that we have been churning book and we are running only a more short-term books.

Sumeet Kariwala: Yes, because when I look at the corporate rating profile still 28% is below BBB and others, so I was just trying to think whether that would be the share of loans that are originating.

Shyam Srinivasan: It is not only corporate, it is corporate mid-market and also there are some SME accounts which may not have been rated. So if it is not rated we do not put it in the AAA or other.

Ganesh Sankaran: These are more of the local corporates kind of thing because as we said our definition of wholesale includes all kinds of companies, local companies, emerging corporates, middle market.

Shyam Srinivasan: Any account greater than 25 crores we tag it as corporate.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor over to the management for closing comments.

Shyam Srinivasan: Thank you all for patiently participating in the call in these late hours. Now we are coming to the close of the call. Once again thanking you. You may now please disconnect.

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