



“Federal Bank Limited Q1 FY-’16 Earnings Conference Call”

July 20, 2015



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Federal Bank Q1 FY-'16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Issac EA. Thank you and over to you sir.

Isaac EA: Good Afternoon, Everyone. Welcome to the Conference Call with Federal Bank Management. We have with us our M.D. and CEO – Mr. Shyam Srinivasan; Executive Director – Mr. Ashutosh Khajuria; Chief Risk Officer – Mr. Mohanachandran KR; Chief Financial Officer – Mr. Sampath D; GM Product – Mr. Antu Joseph; Retail Head – Mr. Babu K A and other Senior Executives. You may have had a chance to go through the Financial Results and the Investor Deck. Based on the feedback received earlier we have introduced more details in the Investor Deck which you will find it more useful and informative.

Now I request, M.D. and CEO – Mr. Shyam Srinivasan to lead the call followed by Question-and-Answer Session. Over to you sir, please.

Shyam Srinivasan: Thanks. Good Afternoon, Everybody. This is Shyam here. Like Isaac mentioned we have the senior team and I will just spend a few minutes elaborating on what Isaac pointed out; in the past whatever feedback we have received in terms of more information and more granular details, we have tried to incorporate most of it in the deck and therefore through the deck we will have Q&A and that will be more relevant.

But, for a start, the first point I would say after the last sort of 48 hours or so, many have called me and many of our senior members expressing concern and wanting greater clarity on what happened in Q1. I think had reasonably good FY-'15 sequentially; every quarter was growing 5-odd-percent in profit. So what is the principle reason for such a sharp decline in profits? And through this call we hope to give more clarity and texture around that.

Largely, as you would have all noticed, the impact on net profit has been on the back of two significant events which has been alerted – one is the impact of one large account slipping and the treasury provisions that were there... we will certainly spend time talking about that in the course of the call.

Let me just give you a few points in terms of the core areas of growth and focus. They are robustly the same; SME, Retail, Agri and all of that have registered growth even in this relatively I would say low credit environment SME in particular has grown quite well.

The other point is the bank's core strength of Deposits being strong granularity of deposits, Retail nature of Deposits and growth in geographies that we have more recently ventured into. That continues to be strong; Savings growth in fact grew much higher than our average Deposit growth and it was fairly even balanced across Domestic and NR Deposits. So Deposit franchise being good as was a problem in one sense because credit deployment was low, as a consequence of credit deployment being low, we had to place money in market instruments which were relatively low yield products. So, the overall momentum on SME, Retail, and Deposits will continue, focus will continue to be around active deployment of Credit, and the momentum we have gained in FX and Fee income, particularly, Retail Fee income will catch on as we go into Q2 and beyond.

Very often the question is asked in terms of strengthening the top team and are we getting resources. In this quarter, four of our very senior people have taken on new roles and have had their career progression done; Ashutosh takes over as ED, Sampath, Mr. Mohanachandran and Varghese have also taken out as Chief General Managers. In addition, by end of Q2, we will have two other seniors joining the bank in senior positions; one will be an ED and the other will be a Chief Operating Officer. So that strengthens and bolsters the top team of the bank, so we will have a healthy mix of people who have come from industry experience as also home-grown seniors. So that should give the sense of how the bank is approaching the period ahead – one is in terms of portfolio focus where growth is anticipated, strengthening the team.

We are probably amongst the first banks which has received the approval from all the regulators RBI, IFSC, the commissioner in the GIFTCity. We will be launching by end of this quarter our first overseas branch equivalent at the IFSC so that should give us ability to fulfill some of our areas of being able to fund in foreign currency and help our clients afar who invariably were not using as a full service provider. So I think in terms of the product set and in terms of offerings we are looking at expanding on the dollar book side as we get into the OBU by end of Q2.

In the Digital and Retail, there is a fair amount of activity; Digital, in particular, our Mobile capabilities are now matching some of the best in the market, we have

launched two products, we are in the course of launching our most important Digital initiative only a fortnight from now, and for now no other bank has anything like that and we do hope that can be quite a cutting edge offering.

In terms of the outlook for the quarter and beyond, the Credit quality while we have actively worked on ensuring that it remains stable this quarter did see a very sharp increase on the Corporates. This is amongst the accounts that we have been signaling as a concern for many quarters now and it was a restructured account, so the slippage came in from the restructured book, this was about Rs.134 crores on the Corporate side. On Retail and Agri they are trending on trajectory. SME has been a little choppy; this quarter was Rs.109 crores, if you recall two quarters back it was Rs.105 crores, came down to Rs.95 crores and that seems to be the trajectory for 3-odd-quarters. There is an effort to ensure that it goes down to around Rs.75 to Rs.80 crores and I think in Q2 and beyond that should be very possible because these are A), local domestic clients where the security is strong and invariably it is more a point-in-time impact as opposed to a portfolio impact.

So let me just close the introduction with the following four key messages: One, we have made the attempt to offer more information so that there is greater transparency and understanding of the bank; Two, is in terms of the team and the strengthening of the existing seniors and bringing in seniors as mentioned in earlier calls is happening; Three, is the focus areas continue to be the areas that we are good; Deposits portfolio seems to be quite strong, Credit deployment is a challenge and we are working hard to ensure that without getting into a stress we are able to expand Credit and in the Retail side one focus area that we are now commencing is on the Personal Loan side, we have strengthened our underwriting and credit collection capabilities so we feel more confident that the Personal Loan books can be grown quite robustly; and the Corporate side we are benefiting from the GIFT approval as also the DCM desk that we are setting up. So broadly this summarizes the entry point messages.

I think with this we can open it up for Questions and take up Questions. Like I mentioned the entire senior team is here and we will be able to respond to queries or clarifications that anybody wants. So let us turn it up for questions, operator.

Moderator:

Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

- Mahrukh Adajania:** You have mentioned that in the second quarter probably Shipping account could be classified as a stress loan. Would that also be CDR?
- Shyam Srinivasan** The account, yes, it is something that we are working with, there is no reason to believe it will become a stressed account, but there are signs of it and we are certainly ensuring that it does not become a problem. In the process of Q1 we did have two accounts which we had taken all internal accruals to sell to an ARC, but at the process of the quarter the one account became okay and the other account which we did actively take as an NPA, we chose not to do it as a sale to ARC because the NPV of the transaction was beneficial to take the hit and move on as opposed to amortize it over eight quarters. The second account which the media has reported is just an account that we saw stress in, but for now I do not have much to offer in terms of will it become a problem or not. If they repeat themselves the way they did in Q1 should be okay.
- Mahrukh Adajania:** So it is a CDR account?
- Shyam Srinivasan** No.
- Mahrukh Adajania:** So the second is not CDR? Okay. So, those are Metals account was a CDR account? How the SMA-2 have moved over say over the last few quarters, the proportion of SMA-2 accounts to total accounts, how it has moved?
- Shyam Srinivasan** I will ask our CRO to share some headlines on that and...
- Mohanachandran K R:** SMA-2 accounts where the proportion if you look at it as slippage of Retail, SME, Agri and LCD the slippages has been almost say 0.5% of the total SMA-2 accounts, SMA-2 because of the stress of the industry as a whole is facing, we too are also having a big lift there, but not a high stress or 0.5% of the accounts is likely to be NPA-classified.
- Mahrukh Adajania:** No-no, but the proportion of SMA-2, like it is running at anywhere between 5 to 6% for the system. What would that be for your bank or how has it moved over the last few quarters?
- Shyam Srinivasan** He said almost the same percentage around 5%.
- Moderator:** Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

- Amit Premchandani:** Just a question on the stress account. The Shipping account that you mention, is it part of the 3-4 accounts that you had flagged off earlier?
- Shyam Srinivasan** Yes.
- Amit Premchandani:** Is it a restructured account or not the restructured account as of now?
- Shyam Srinivasan** It is a restructured account.
- Amit Premchandani:** What would be the outstanding standard restructured account balance now?
- Shyam Srinivasan** I think if I recall right it is 90% of the standard 6.04%. So it is there in Slide #22 of the deck; Standard is Rs.2,583 crores.
- Management:** NPA is Rs.435 crores.
- Amit Premchandani:** What was the restructuring done during this quarter?
- Shyam Srinivasan** Rs.77 crores, one account.
- Amit Premchandani:** So it was in the pipeline which was ...?
- Shyam Srinivasan** Yes, actually there were no new restructuring, it was last quarter GLF understanding which became a restructuring in Q1.
- Amit Premchandani:** Sir, last quarter, you had suggested that the bank is moving towards predictability of earnings. So, will you hold down to that view after this quarter's number or can we say that this is the kind of one-off?
- Shyam Srinivasan** Yes, I think we will certainly like to say this is one-off and we do not want to be missing out on what we had guided. Last year four quarters we were predictable, this year unfortunately Q1 this account, we could have smoothed the number by selling to an ARC but we made a conscious choice not to do that because the NPV of the transaction was not profitable. It would have been predictable if that and the treasury yields were not there, but those are bad explanations, but it is a truth.
- Amit Premchandani:** On the employee cost front, last quarter there was a hit on retirements. What led to increase YoY as well as QoQ?
- Shyam Srinivasan** Sequentially not significant, Y-o-Y is largely because of the impact of wage revision impact, and on the May 26th when the wage agreement was signed, they added two

more clauses which almost cost us Rs.18 crores, this quarter impact on the new increased wage was Rs.18 crores and the carry forward of last year was Rs.18 crores. So those are the principle drivers of cost increase on wage increase this quarter. We do not see it changing in quarters ahead.

Amit Premchandani: On the Loan-Deposit ratio front, it is now at 69% Deposit, much stronger than Credit growth. Are you doing anything on reducing Deposit rates?

Shyam Srinivasan We are probably one of the few banks which has cut Deposit rate 3x in the last quarter, and our deposit rates are now at I think 1-year term is 8%, probably most banks are at 8.25% or 8.50%, but we are acutely conscious that these are the clients who have been with the bank for long, so we do not want to be totally out of the market, but that said, yes, our deposit rates are not priced for attraction, and growth in overall deposit has been as you notice Savings has grown 19, Deposits have grown 16, so Savings growth is much higher than term. Yes, we have to be more watchful but I think the challenges in Credit deployment as opposed to only Deposits.

Amit Premchandani: Almost Rs.2,000 crores have been added to the investment book this quarter while the corporate lending book went down. So, any one-off there commercial paper lending or what was that in this quarter?

Shyam Srinivasan Ashutosh, are you there?

Ashutosh Khajuria: Yes, actually there is no addition to investment book. What is looking is just because in March the investment part which was used to raise resources being borrowed towards meeting the funding requirements through CBLOs and RBI repos, as against that we became a net lender towards end of June. So actually there is no increase in investment as such, it is basically the borrowed fund against those securities that brought down the investment as at the end of March in fact which is adding in June.

Moderator: Thank you. The next question is from the line of Anshuman Goenka from AUM Fund Advisors. Please go ahead.

Anshuman Goenka: Wanted to know, the public sector banks are seeking to recruit talent from large successful private banks. Do you see this will have any impact on the current management team of the Federal Bank because there are market innuendos about this, so will this conference be a time to sort of put these innuendos to rest?

- Shyam Srinivasan** If it is directed at the MD of the bank, the answer is a 'big no.' I suspect my top team has no such plans. So we can confidently say in Federal there are no seniors seeking out or attempting to move from where we are.
- Moderator:** Thank you. The next question is from the line of Nikhil Bhatt from Barclays. Please go ahead.
- Nikhil Bhatt:** The first question was around the Metal account which you mentioned in this quarter. If I could get a sense of the exposure to the industry to this Metal account which got stressed in this quarter?
- Management:** I think it is north of Rs.3,000 crores.
- Nikhil Bhatt:** The second question is in terms of SME slippages, you mention that your target rate going forward is around Rs.75-80 crores whereas this quarter it was much higher and it has tended to remain high. Any particular initiatives which would drive this or...?
- Shyam Srinivasan** If you tracked us for almost 4-odd-years, SME when the book was half had slippages of over Rs.140 crores, now with almost twice the book size we started trending in the mid-70s, though in the recent three quarters it has gone up to Rs.90 crores and this quarter even Rs.100 crores. Invariably these end up becoming one or two accounts and who are in the Rs.18 to 20 crores kind of exposure and I have some challenges given the economic environment. These respond well because A), they are in the local markets, heavily close to the bank invariably one or two lenders and good assets behind it, so they respond well to intervention and are able to address the challenges. So I think our response to the question would be the Rs.100-odd-crores making it into the Rs.75-80 crores is very much possible and that is something that we are confident in the quarters ahead.
- Nikhil Bhatt:** Sir, in terms of growth outlook, what would be the full year guidance now like considering we drastically step back on Corporates in this quarter?
- Shyam Srinivasan** Our outlook for SME, Retail and Agri is (+20%) and that will happen. On the Corporate, I would say that it will be choppy but more are back ended towards the back part of the year and that also will trend I think in the early teens because there is a demand that will always come up at the end of the quarter and like I mentioned we have a very senior person coming in, in the quarter ahead to lead the Corporate effort. So there should be a big bump up.
- Nikhil Bhatt:** When you say Retail 20%, this is excluding the Gold Loans or including...?

- Shyam Srinivasan** Gold Loan is facing significant challenges and all growth is being eaten up by existing pay downs and we are actively forcing that because we do not want to carry an LTV that is at a portfolio level higher than 75 and with prices dropping that continues to be a challenge, but we are stepping up on Personal Loans.
- Nikhil Bhatt:** So, you are saying Retail portfolio as a whole would be 20%?
- Shyam Srinivasan** Yes.
- Nikhil Bhatt:** In terms of CASA growth, it continues to be one of the best among the system. Now, if I look at branch additions, it kind of seems to be low. So I think it is between 8% to 9% in the last year and even 11% CAGR in the last 3-years. So, I wanted to understand as to like how much CASA growth could sustain given subdued branch additions if I am looking at it correctly?
- Shyam Srinivasan** You are looking at it correctly and that will be the focus. We think the value that we can get from our having invested almost 500 branches in the last 4-years that should give us a payoff. Second is like I have been guiding, the bank owned sales force which goes out and solicits and markets business on a cross sell basis as opposed to only product, so we are encouraging them to do all products of the bank; and then Third is the digital strategy targeting segments which we have traditionally not strong in. Savings growth we are committing to (+20%) growth for the year.
- Nikhil Bhatt:** Regarding the branches this would be around how much growth?
- Shyam Srinivasan** From 2011 to now, our network has moved from 741 to 1240, that is about 500 branches average, about 60% network increase.
- Moderator:** Thank you. The next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.
- Gaurav Agarwal:** What was the interest reversal amount for this quarter?
- Shyam Srinivasan** Rs.16 crores.
- Gaurav Agarwal:** Any sale to ARC in this quarter?
- Shyam Srinivasan** No.

- Gaurav Agarwal:** What about the treasury provision of Rs.20 crores which you have made, is it because of mark-to-market impact or some other impact?
- Shyam Srinivasan** Treasury provision is Rs.49 crores, yes, entirely mark-to-market impact.
- Gaurav Agarwal:** Sir, you are transferring some securities from HTM to AFS, right?
- Ashutosh Khajuria:** We have not transferred. The provision was only Rs.4.5 crores at the end of March and our portfolio was exactly towards the end of the financial year and because there has been a movement of about 30-35 basis points, it is not a parallel shift, it has been steepening at the various ends, as a result of that there has been an impact of about Rs.46 crores on the SLR portfolio, remaining is on the restructured loans which are in investment form, so some provision nearly Rs.3 crores on that, so total Rs.49 crores.
- Gaurav Agarwal:** If I divide interest reversal of Rs.16 crores by Rs.317 crores which was a slippage in this quarter, I get 5%? Is it a 3-months interest which we have reversed or is it more than 3-months interest which we are reversing in this quarter?
- Shyam Srinivasan** It depends on, in fact, it cannot go beyond 3-months because 3-months we have recognized our NPA as at March so, you have to annualize that.
- Gaurav Agarwal:** This is the annualized number, right?
- Shyam Srinivasan** No, Rs.16 crores is the amount which is accounted.
- Gaurav Agarwal:** Rs.16 crores divided by Rs.317 crores comes 5%. So, this 5% is the annualized number?
- Shyam Srinivasan** 5% into 4, it depends on the dates also, when the account was recognized as NPA and other things. So some accounts may be for 90-days, some accounts may be for 60-days and Agri will have a different outlook...
- Gaurav Agarwal:** There will be no accounts of interest which will be more than 90-days?
- Shyam Srinivasan** Normally, Yes.
- Management:** Agri would have more than 90.
- Gaurav Agarwal:** Agri slippages are lower than other slippages; it is only Rs.19 crores in this quarter?

- Shyam Srinivasan** You cannot straight away calculate from that Rs.16 crores what will be the percentage, it will be difficult for you because it is a plenty of small-small accounts.
- Gaurav Agarwal:** I am saying, I just wanted to get some clarity on the current stress which is not shown as of now. On a bearish side, can I say 4-5% of the current net advances of Rs.1600 crores of slippages can come out in the coming 4-5 quarters?
- Shyam Srinivasan** No, that would be quite tragic I mean.
- Moderator:** Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** If you can just share also outlook for the margin for the remaining 9-months? Also, if you can share the cost of deposits for this quarter and for last quarter?
- Shyam Srinivasan** I think cost of deposits is stated as 7.12 this quarter, 7.29 last quarter, margins we are confident that it will be closer to 3.20, we had visualized the year at 3.2 to 3.25, having had a very modest start I think 3.2 is possible.
- Anand Laddha:** Of the standard restructured book, what proportion of the loan book will be completing the moratorium?
- Shyam Srinivasan** I do not have the percentage but a large number starts in say early FY-'17, I don't have a percentage offhand, but we can share that with you. (22%)
- Moderator:** Thank you. The next question is from the line of Bunty Chawla from Dimensional Securities. Please go ahead.
- Bunty Chawla:** Just a data point as such. On presentation on Page #18, you have given the Corporate portfolio, NBFC, Power as such. If you total all the percentage it comes to around 70%. So can you give 30% what is remaining bifurcation in that?
- Shyam Srinivasan** If you see the lowest there is 3%, so the others will be much smaller, so there will be many of 1 and 2 and 3%.
- Bunty Chawla:** So total of 30% will be lower than...?
- Shyam Srinivasan** We try to cut it off at 3%, if you see the smallest here is 3%.
- Bunty Chawla:** Because I was comparing with the Q4 numbers if you see you have given the presentation of whole 100%, so in that there was no less than 1% too much accounts?

- Shyam Srinivasan** Between 3 and 1 will be the balance, but we can reconstruct that, it is not a problem.
- Bunty Chawla:** Same will be the SME portfolio, right?
- Shyam Srinivasan** Yes.
- Bunty Chawla:** You have given the Q4 number as Gold Loan portfolio of Rs.6,154 crores. Same figure for Q1FY16 as such?
- Shyam Srinivasan** Flattish I think, may be Rs.100 crores less.
- Moderator:** Thank you. The next question is from the line of Mayank Bukrediwala from Goldman Sachs. Please go ahead.
- Rahul:** This is Rahul here. Just a few questions; First of all is if you see your presentation Slide #13, you have given segment wise yields. Now, the way we were reading was QoQ there seems to be quite a bit of decline across all the segments whereas if you see yield on advances it just shows a 4 basis points...?
- Shyam Srinivasan** Rahul, I think that slide has got errors, the correction has been posted on the website, it is being updated just now, and there was an error because they took the wrong data point.
- Rahul:** Second one was on your asset quality. So I needed one clarification. This slippage of Rs.134 crores has happened from the restructured book to NPL, this is a fresh restructuring which has been classified as an NPA or this is just a slippage from already restructured?
- Shyam Srinivasan** It was old restructured.
- Rahul:** Second thing was when I look at your upgradations and recoveries in this quarter, it was quite muted. So, what is the outlook that you have because last 4-5 quarters it was pretty decent even in restructured book as well as slippages as in, in the gross NPL portfolio, so how would you like to guide us for the remaining 3-quarters going ahead?
- Shyam Srinivasan** It would be more reflective of what happened last year and that would also help the overall sort of credit cost management, but, yes, this quarter was lower because there was no chunky recoveries, if you see the previous quarter, we had those benefits. So we are working on those.

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- Rahul:** So basically, we should be able to cross about 500-700 crores kind of upgrades and recoveries in FY16, last year I think it was around that if I am not wrong?
- Shyam Srinivasan** Last year was total of recovery upgrades was Rs.600-odd-crores right so we should see a similar number.
- Rahul:** Third was on the Corporate portfolio, clearly, there was a run down and your guidance also is on the modest side rather. This is kind of a question which has been there in our mind. If you see some of the smaller private sector banks, they have been growing their Corporate portfolio quite nicely at, at least upwards of 20-25%. So is this a conscious effort because the yield pressure is there that you are not chasing the growth in the segment or there are some other reasons maybe departure of your senior management person in the last quarter and you will see that this book ramp up once you have that position getting filled up?
- Shyam Srinivasan** I think the departure of the senior did not have an impact on this quarter on account of that because the last payments that were there were from the HDFCs and the L&Ts which paid back because they had instruments which was cheaper, able to fund lower. So this has nothing to do with an individual but that said, when we get a new individual that should help stimulate growth further.
- Rahul:** Because if you see other private sector banks, they seem to be gaining market share from the smaller PSU banks at least. So, are we not seeing ample opportunities in the market for us because the reason why I am stressing upon this point is that this might have implication for our non-fund based book as well which might have further impact on our fee income growth trajectory, so just wanted to understand your thoughts on that?
- Shyam Srinivasan** We agree and one of the focus areas that is what I mentioned is getting the right product set and team and we are confident that by Q3 of this year that should happen. And in terms of picking of share maybe I am totally wrongly informed, we have not seen any either losing or non-participation by us. If at all we lose it is because there are banks which have much lower base rate on picking up shares.
- Management:** DPs and NCDs, that also is...
- Shyam Srinivasan** I am not able to comment on your first observation but having said that we agree that it is a growth opportunity.

- Rahul:** Again, this is an extension of a previous question, so the FOREX this quarter was pretty decent of Rs.41-odd crores. But this number has been quite volatile in the past few quarters. So, for the next 3-quarters do you think this Rs.41 crores can sustain or we might see the same volatility like the way we saw it in the last year?
- Ashutosh Khajuria:** The opportunities that we book on the FOREX side, trades and all that. So I think this is something which you cannot have exactly the same path, but the Merchant FOREX part definitely would be having the steady growth and the core of this Rs.41 crores comes from Merchant FOREX, rest comes through the FOREX income earned through currency trades and all.
- Rahul:** So this Rs.41 crores by and large if you are saying the bulk of it comes from Merchant-related transactions we should be able to sustain around Rs.30-35 crores for ...?
- Ashutosh Khajuria:** Rs.30-35 crores is something which should be there as a core.
- Moderator:** Thank you. The next question is from the line of Sneha Ganatra from Subhkam Ventures. Please go ahead.
- Sneha Ganatra:** Wanted to know about the outlook on NIM.
- Shyam Srinivasan:** We mention that we are in the 320 to 322. We had originally anticipated 325 having had a relatively muted start.
- Sneha Ganatra:** Second question is A-plus account has come down to double-B category?
- Shyam Srinivasan:** 14 has become 13, is that your question?
- Sneha Ganatra:** Yes.
- Shyam Srinivasan:** May be one account shifted but I don't have the answer readymade.
- Sneha Ganatra:** What would be the guidance on the credit cost and what is your target to maintain the provision coverage ratio?
- Shyam Srinivasan:** Even in this quarter when we had maximum stress we kept our total coverage ratio including technically that is 80, so that is the minimum we will. We will certainly try to improve on that in the quarters ahead. Our credit cost for the full year should be in

the region of 55 to 60-basis points. We were targeting 50, but having had one account hit us, we may have a tad 55 to 60-basis points full year.

Sneha Ganatra: On the Gold Loan book, currently, gold prices are at 5-year low. What would be the kind of the asset quality risk we can see going forward?

Shyam Srinivasan We are not anticipating any credit risk on the Gold Loan which is why we have been extremely conservative for almost 2-years, after 2 very good years we slowed down on Gold and all growth has been only refilling payments and at 75% LTV we are reasonably confident that there should not be any threat on the Credit side. Growth is a challenge.

Sneha Ganatra: What is the target for the cost-to-income ratio currently?

Shyam Srinivasan Full year remains around 50-51, trending towards 50.

Sneha Ganatra: Sir, on this Corporate asset, that has been slipped from 15% to 22% quarter-on-quarter...on the rating downgrade?

Shyam Srinivasan Yes that will be the things that happen. At the end of every year in the period of April to March is when you get your results of the other companies when their rating reports come out, there can be some downgrade, that could be reflective of the market also.

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

Prakar: This is Prakar from Edelweiss. Just a couple of questions. You in the opening remarks mentioned something regarding OPEX that we made some Rs.18 odd crores of provisions. So, can you throw

Shyam Srinivasan: I think it was in response to a question on employee cost movement. There were two things – one is the one-off impact of the incremental cost required for addressing the wage negotiation that was done and signed off on May 26. In addition to what we had provided in the period FY-'15 there were Rs.18 crores extra that came in. And as a consequence of the new wage negotiation the impact in this quarter is Rs.18 crores. So those are the two principle drivers of increased cost in wage.

Prakar: I was referring to your Slide # 18on Retail assets composition. If I see for the same quarter last year that is Q1FY15 if I total your Retail book, the number does not seem

to match the overall proportion, so there is some disconnect I guess in this; the overall Retail book is Rs.14,496 crores as on 2QFY15; however, if I look at various segments and added, does not come out with that number.

- Shyam Srinivasan** We will get that checked if there is any error we will correct that.
- Prakar:** What is the NPA composition in your Iron & Steel segment?
- Shyam Srinivasan** Iron & Steel only Loha Ispaat which we took last year 3rd quarter, and another account of Rathi Steel this quarter. So there is nothing significant and no new names to add.
- Prakar:** On outstanding basis, what is the gross NPA number in Iron & Steel segment?
- Shyam Srinivasan** The number we have is roughly about 175, but if you wish to you could ask Isaac and he will respond on e-mail on that. (Rs.279 crore)
- Management:** I think in that Retail Loan book gold needs to be corrected.
- Prakar:** My basis question is out of the overall exposure in Iron & Steel, what is the proportion that has slipped into NPA and what is the outstanding standard restructured book for the total stress in your Iron & Steel?
- Management:** Standard restructured advances for Iron & Steel is 13.28%.
- Moderator:** Thank you. The next question is from the line of Pritesh Bumb from Prabhudas Lilladher. Please go ahead.
- Pritesh Bumb:** One is what are our outstanding risk weighted assets?
- Management:** Rs.52,233 crores.
- Pritesh Bumb:** What is the Tier-1 ratio in terms of percentage?
- Shyam Srinivasan** 14.4%.
- Pritesh Bumb:** Also, on the priority sector loans, how much will be that outstanding?
- Shyam Srinivasan** Priority sector loans is 39.5.
- Pritesh Bumb:** In the absolute number you used to give it in the presentation earlier?

- Shyam Srinivasan** That also we put it on the webon the page just now.
- Pritesh Bumb:** Two qualitative questions on the NRI business. How you are seeing this quarter and going ahead?
- Shyam Srinivasan** NRI Deposits is growing very robustly; grew 29% on a Y-o-Y basis, continues to be strong, though typically the period starting August through to October is usually the slowest period because that is the period in which particularly, the Kerala-bound NRIs come back and its Onam period, as we speak its growing, by August it starts moderating. So there would be some slow down in the NR deposits August to October, then starting the Christmas season it picks up again.
- Pritesh Bumb:** I want the cost of deposits on the NRI?
- Shyam Srinivasan** It will be quite significantly not very different because NR term is a same rate as domestic term, so there is no rate difference at all. FCNR book is not significant, so all the deposit is same as domestic.
- Management:** Term Deposit rate is same, FCNR there is a little bit this thing and that book is not much, that is about less than Rs.2,000 crores.
- Moderator:** Thank you. The next question is from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.
- Shrey Loonker:** Just wanted to get two-three things; One was, if you can give me some idea of how much you would have provided for the slippage that we had in the Corporate side this time because we seem to have provided something extra I presume?
- Shyam Srinivasan:** Rs.70 crores for the main account.
- Shrey Loonker:** You almost provided 50% of that?
- Shyam Srinivasan:** Yes, our principle objective is to meet our overall PCR ratios, our norms are higher than the IRSE norms. So we provide more conservatively earn slippages.
- Shrey Loonker:** Does your watch list now shrinks down... if you can give me that number please that would be helpful?
- Shyam Srinivasan:** This account goes out of the worry list in terms of slippage, now it is in terms of recovery; Yes, to that extent, Rs.300-odd crores comes down by Rs.130 crores.

- Shrey Loonker:** The other bit was the Rs.18 crores catch up cost on the staff front that we had this quarter. That is on account of arrears or is it expected to recur every quarter?
- Shyam Srinivasan:** One Rs.18 crores is the new cost increase account of the renegotiated wage, the other Rs.18 crores is the one-off which was the short provision of the last quarter because of the change in last minute May 26 when they signed the agreement, one extra benefit was offered.
- Shrey Loonker:** So, is it to be understood that say Q2 logically the run rate of staff expenses should be less by Rs.36 crores?
- Shyam Srinivasan:** No, the Rs.18 crores will continue.
- Shrey Loonker:** So that is part of the annuity?
- Shyam Srinivasan:** Yes.
- Shrey Loonker:** But Rs.18 crores is one-off in this quarter on account of that?
- Shyam Srinivasan:** Yes.
- Shrey Loonker:** The other question was on the other expenses front, how should we think about that for this year in terms of
- Shyam Srinivasan:** There are no significant big cost envisaged. The one area that we are looking at being more visible is both on digital-related activities and digital-related communication and therefore digital-related marketing cost. That was very muted in Q1. We see some cost coming through in Q2. Branch expansion will continue to be in the same trajectory as the past and we are not anticipating significant cost increase on account of that. Our platform upgrade on technology, Finacle, we are moving to the next version. That costs are bid into our budget and should be more or less on trajectory.
- Shrey Loonker:** Should it be in the low-teens, is it fair to...?
- Shyam Srinivasan:** Yes, it will be.
- Moderator:** Thank you. The next question is from the line of Jeddy Agarwal from Ashiana Capital. Please go ahead
- Jeddy Agarwal:** Can you please give us some guidance on loan growth, fee income, and cost-to-income for the year?

Shyam Srinivasan: Loan growth, unfortunately, the blended number we are not yet giving a very direct guidance. We begin the year by saying it will be 600 basis points higher than the market growth. We still certainly are confident of doing that. But Retail, Agri, and SME look more confident around 18-20%. Corporate will grow in the teens but I think it will be more back-ended. So, the income and benefit of that growth maybe more moderate because the growth is likely to be back-ended. On cost income, we are trending 50-51, more closer to 50. Fee growth will be quite strong; we grew 24% this quarter on a YoY basis, we think we will grow between 24% and 27% for the full year.

Jeddy Agarwal: On the answer to the restructured asset, you gave a number of Rs.3,000 crores, did I hear it correct, was it closer to industry exposure ...?

Management: On the account in specific to a question somebody had asked, the account where we had Rs.134 crores, our belief is that the industry exposure of that account is north of Rs.3,000 crores.

Jeddy Agarwal: So, your exposure is Rs.134 crores overall banking industry exposure to that is maybe Rs.3,000 crores?

Shyam Srinivasan: Yes.

Jeddy Agarwal: You have about Rs.1700 crores of exposure to basic metals, that is what I gather from your presentation, out of that you mentioned Rs.175 crores is for Iron & Steel. I just wanted to know, what is the balance for – is it like ...?

Shyam Srinivasan: Rs.175 crores is not exposure to Iron & Steel, that is the stress part of the Iron & Steel.

Jeddy Agarwal: Overall might be...?

Shyam Srinivasan: Yes, we have one or two large big names in Steel where we have I think Rs.400-500 crores to that.

Jeddy Agarwal: The overall Rs.1700 crores is base metals including Steel, Copper, and everything?

Shyam Srinivasan: Yes.

Moderator: Thank you. The next question is from the line of Ankit Ladhani from Karvy Stock Broking. Please go ahead.

- Ankit Ladhani:** Have you given any guidance for slippage on a full year basis?
- Shyam Srinivasan:** We only mention that the overall credit cost should be around 55-60 basis points. In response to somebody's question, whether it will be 4-5% of the book, we panicked and said that it will be too tragic.
- Ankit Ladhani:** But if I exclude this Rs.134 crores for this quarter, so then the balance can be assumed to be a run rate?
- Shyam Srinivasan:** Yes, you can.
- Moderator:** Thank you. The next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.
- Gaurav Agarwal:** What would be the quantum of the Shipping account which is showing signs of stress...?
- Shyam Srinivasan:** It is little over Rs.100 crores. Actually, to be fair I do not want to classify that account as stress any longer because it would be inappropriate, but the stress as an industry, but they are making very active efforts to address it. So I do not want to wrongly guide a client's name.
- Gaurav Agarwal:** The senior guy who is going to join our Corporate division, could you be able to define his background?
- Shyam Srinivasan:** I think you have to be little more patient because there are many steps in the process that needs to be accomplished. I am not privileged to share that just yet.
- Moderator:** Thank you. The next question is from the line of Roshan Chutke from ICICI Prudential. Please go ahead.
- Roshan Chutke:** What is your guidance for Gold Loan book?
- Shyam Srinivasan:** I think the book will be more flattish to 3-4% growth on a full year basis.
- Roshan Chutke:** Do you worry about your SEB exposure?
- Shyam Srinivasan:** If I said, no, I would be lying. Are we working and watching closely? Yes. Yes, there are challenges but I think it is an industry-wide challenge and I am fairly confident that it would not go as bad as we all vision.

- Roshan Chutke:** What is the total exposure to the SEBs?
- Shyam Srinivasan:** Outside Kerala where the account is in great shape; Rs.500 crores is Kerala, rest of India is about Rs.800 crores.
- Moderator:** Thank you. The next question is from the line of Amit Ganatra from Religare Invesco. Please go ahead.
- Amit Ganatra:** I have a few questions; One is that till previous quarter you used to discuss your standard restructured assets of around Rs.2,600 crores. We used to get a number of around Rs.1,100 crores as exposure to SEBs and PSEs. In the current presentation it says 35% of the current outstanding which comes to around Rs.899 crores. So what is the correct number – Rs.1,100 crores or Rs.899 crores?
- Management:** Rs.1,100 crores includes Aviation also. SEBs plus Aviation used to be about Rs.1,100 crores.
- Amit Ganatra:** So out of Rs.2,543 crores, Rs.1,100 crores is towards Aviation and SEBs. That does not change?
- Shyam Srinivasan:** Yes.
- Amit Ganatra:** This Corporate slippage that we had that came from restructured book, right?
- Shyam Srinivasan:** Yes.
- Amit Ganatra:** So when we used to earlier talk about Rs.300 crores kind of watch list, this watch list included even restructured assets or those were standard accounts?
- Shyam Srinivasan:** Included the restructured also, but if you go back four quarters back we were talking of Rs.300 to Rs.400 crores, at that time this account was in a standard, went to restructure and is now slipped.
- Amit Ganatra:** So, in that sense, whenever we talk about watch list, it may not necessarily mean that watch list only from standard assets, it can be from the restructured book as well?
- Shyam Srinivasan:** Yes, standard restructured.
- Amit Ganatra:** On the Security Receipts, what is the written down value now? Last time it was around Rs.455-odd crores.

- Management:** Rs.431.77 crores.
- Amit Ganatra:** So has there been any mark down for SRs in the current quarter because you had a large investment...?
- Shyam Srinivasan:** Some Rs.78-79 lakhs provisioning.
- Amit Ganatra:** So it is the interest rate movement which has impacted the book, there was no asset quality ...?
- Management:** Not in case of SR. In that case, you need to look at the NAV provided by the ARC.
- Amit Ganatra:** So there is no change basically right now?
- Management:** There is some little bit; less than a crore; Rs.79 lakhs to be specific.
- Moderator:** Thank you. The next question is from the line of Gaurav Jani from JHP Securities. Please go ahead.
- Gaurav Jani:** I am just looking at Slide #18. I would appreciate if you can elaborate on your strategy of the ex-Retail book composition, that is your SME and Corporate and the way forward?
- Shyam Srinivasan:** SME will continue to grow in the 20% odd. Corporate and the segments that we want to pursue which is typically high rating good corporate where we can get other businesses, we are actively pursuing, growth is still very slow. That is why we have not guided for a very significant movement in the next 2-quarters, but on a full year basis we are confident that also will be between 12% and 13%. SME growth continues to be fairly widespread and we are seeing reasonable traction. There are pockets that are reflective of the Corporate sentiment, but having said that in the markets where we are operating local catchments, local businesses, certainly growth is there.
- Gaurav Jani:** I was also talking of the mix of the SME and Corporate. So we plan to maintain the mix or shift towards other sectors?
- Shyam Srinivasan:** As you can see there is no dominance in any one thing in any of these. No segment in SME is more than 10-12%, likewise in the Corporate also, that will continue. And the mix between SME and Corporate also will remain more or less the same, skew being more SME.

Moderator: Thank you. The next question is from the line of Karan Sodhi from Putnam Investment. Please go ahead.

Karan Sodhi: On your credit cost guidance, does that include the Rs.100 crores account that you have said may come under stress, may slip to NPL?

Shyam Srinivasan: I want to clarify. That is what I said. That account when I said is under stress we are evaluating options in all likelihood they are not an NPA category, they have a very solid asset behind it, we have a pricing from an ARC, we chose to evaluate other options, so we are not visualizing that to become an NPA. So, we are not applying our credit cost on that.

Karan Sodhi: So if it did become an NPA, then your credit cost would go up?

Shyam Srinivasan: Yes, it will.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Isaac EA for closing comments.

Isaac E A: Thank you, all for joining the call. Have a great day ahead. Bye.

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