# "Federal Bank Q2 FY16 Earnings Conference Call"

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Federal Bank Q2 FY16 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 this conference call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Isaac EA – Investor Relations Head. Thank you and over to you, sir.

**Isaac EA:** Thank you Darryl. Good day and welcome to all to this conference call with the Federal Bank management. We have with us today our M.D. and CEO – Mr. Shyam Srinivasan; Executive Director and Chief Financial Officer – Mr. Ashutosh Khajuria; Executive Director Corporate – Mr. Ganesh Sankaran and the senior executives and business heads.

Now let me hand over to our M.D. and CEO – Mr. Shyam Srinivasan for leading the call. Over to you, sir.

**Shyam Srinivasan:** Thank you and Good Evening to everybody. About half an hour ago we put out the Q2 results and most of you may have had a chance to see the headline numbers and probably the financial deck. And through this call we will hope to address and answer the questions that many of you may have and certainly we will keep this call going for as long as everybody would like the questions to be answered.

By way of introduction, Q2 we certainly did not flatter ourselves with results that we would be very proud of. Having said that there are certain areas that we have worked on and seemed to have had success, there are challenges in terms of the credit portfolio and I will try and speak to that. In terms of overall deposit growth continues to be robust across all segments of the book and overall deposit growth was about 14% and our core deposits actually on a Q on Q basis grew almost 4% in the sequential quarters.

In terms of credit growth, the SME credit continues to trend in terms of growth, sequentially it had about 7% so annualized about 26% growth. The launches of various products particularly in the area of mobile and digital continue quite robustly. But without taking away from the core of what we have had as challenges in Q2, let me just try and describe where we saw stress and where we are positioning ourselves as we go into Q3, Q4.

My headline comment for Q3, Q4, our plans remain intact and we are quite confident that the volume momentum we saw and the annualized rate that comes from the September kind of growth, when I say September I mean the month of September, we will see our original commitments of credit growth being in the high teens and deposit growth certainly to match. Our overall CD ratio is sub-70 and therefore that gives us both need and opportunity to grow credit quiet meaningfully and there is an active plan to ensure that that happens and we now have reinforced our senior team with Mr. Ganesh joining us from another competitive bank and he is steering this whole agenda and I am sure in the course of today's call and period ahead you will have a chance to interact and understand the specific plans that we are putting in both in streamlining credit delivery as also in ensuring credit growth.

In particular to Q2, the slippages were about 405 crores and this was distributed across largely in corporate and in SME. We saw increase of corporate slippages of about 170 crores and SME slippages of about 155 crores. The encouraging part of this is that they came from the accounts that had been restructured and we had guided for some of these accounts being on the border line, being in and out and we saw them coming out and we recognize the impact this quarter. So it has been probably our highest slippages in many-many quarters and it was a conscious call, we did not seek to do anything that in terms of trying to keep the account afloat by just ensuring some minimum payments. We saw stress and we could not find a solution for the clients, they could not find a solution. So five accounts in corporate totaling up to 174 crore slipped and in SME it is 155 crore which have been higher than the normal run rate of between 80 crore and 100 crore. So the slippages this quarter were 405 crores largely dominated by corporate at 174 and SME at 155 crores. In the course of the call we will give you a lot more texture about these slippages.

Our CASA deposit continues to trend well, on a year-on-year basis close to 20% growth and our overall CASA ratio is now close to 32%. So the full year impact of some of these implications of what has happened in Q1 and Q2 in terms of higher slippages, we see opportunities for recoveries. As you know the SME book has largely collateralized and we are quite confident that by end of this financial year we should see a large part of the SME book certainly coming back and that should give us the sense that the overall net NPA which has worsened past one which has not happened in the past should come back to a number more like what we saw between Q4 of last year and Q1 of this year. So on balance the first half has not been very significantly good credit numbers of profitability, profitability dented by higher slippages. But the plans that we have put ahead in terms of volume growth, credit momentum sustaining our deposit progress but ensuring the credit deposit ratio improves quite materially the operational excellence initiatives that have been put together largely driven by the digital strategy and the excessive focus around recoveries should ensure that the second half of the year does turn out to be much better than how our first half.

So broadly these are the headline points. What I would request is for a large number of us to ask us the questions so which help us explain or give better clarity around what the portfolio looks like, what are our way forward plans and where we will put our excessive focus around. But I want to re-stress that the focus certainly will be around ensuring that the strong businesses continue to grow, credit growth will certainly see momentum and the recovery focus will be highlight of what we will ensure that second half looks like.

So let me turn it to questions and then from there we will take it on and happy to answer any number of questions, the entire senior team with Ashutosh, Ganesh, my CRO, CFO, everybody is here and we will be happy to take questions. So let me turn it over to operator. Operator, you may open it up for questions.

**Moderator:** Thank you very much sir. We will now begin the question-and-answer session. Our first question is from the line of Veekesh Gandhi from Bank of America. Please go ahead.

**Veekesh Gandhi:** I just had a couple of questions. One is on your loan growth comment that you are looking at probably closing the year with high-teens kind of growth. Now even if I assume a 15% odd kind of growth for full year in fiscal 16 we are looking at something like an absolute number from here on of something like Rs.80-odd billion of credit flow versus last year's second half you did like 28, 29 billion. So, where are you likely to see such a big jump coming from, which sectors or which part of the corporate SME or otherwise retail, etc.? And probably you can answer that and then I will ask you my second question.

**Shyam Srinivasan:** Sure. The SME book in the first half grew close to 900 crore, our pipeline suggests that this will grow between 1500 crore to 1600 crore for the second half. The corporate book, we have a sanctioned pipeline of close to 3000 crore and with some very senior persons focusing and driving and the relationship management model that we are putting in that should grow between 2500 crore to 3000 crore. So roughly our anticipation on credit growth is between 4500 crore to 5000 crore in the second half.

**Veekesh Gandhi:** And sir the other thing was, can you give some more color, so you mentioned in your opening comment of five accounts from the corporates of 174 slippages, some more color would be appreciated.

**Shyam Srinivasan:** The accounts do not have any particular, 174 split across five accounts roughly comes to about 35-odd crores, one account is 60 and the remaining are distributed between 23 to 40, that is the broad split of 174. They do not belong to any particular segment, they are distributed across the different geographies and so we are not able to give any…

**Veekesh Gandhi:** Sorry, in terms of sectors than what would that be?

**Shyam Srinivasan:** One if from pharmaceutical packaging, one is from an aluminum foil company, the other is from Distribution Company in Delhi. So there is really no pattern to it, other than that they are in the range of, barring one which is 23 most of them are between 36 crores and 50 crores, these accounts were in the restructure, three of them were in the restructured pool and it is something that we have been sort of worrying and watchful of. In some ways we are relieved that it is out of our portfolio and we can focus exclusively on the recovery efforts.

**Veekesh Gandhi:** So you have been giving watch list kind of a number, is there anything now there in the watch list quantum wise?

**Shyam Srinivasan:** Much lower, I would be misrepresenting if I say there is no stress, there is, but certainly the magnitude has come down and the recoverability of the ones that have gone through is what we are now seeking to recover. But the magnitude of the problem, because large number of it has come through NPA channel for many quarters now and we have not had any new credits of the bulky nature for many quarters, so we do not anticipate that as a challenge. There is one account that we have after the quarter completed our transactions in ARC for 140 crores, that will happen in Q3, the impact will be in Q3.

**Veekesh Gandhi:** So you have sold something in this quarter, right?

**Shyam Srinivasan:** In Q2 we sold one account for 35 crores.

**Veekesh Gandhi:** And what would be the outstanding SRs now?

**Shyam Srinivasan:** SR outstanding is 582 and book value 432.

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

**Nilesh Parikh:** The question is around the fee income, so again this quarter the trends have been quite modest, so just wanted to hear your thoughts, when would this line item start swing traction because it has been a while that efforts have been put in but for the overall revenue momentum to pick up I think this stream of income needs to start kicking in. So just wanted to hear your thoughts, the progress that we have made and when do we expect the results to actually come out?

**Shyam Srinivasan:** We will try and give two inputs to it, one Ashutosh will talk to you about the treasury side of it and Ganesh will talk to you about the corporate side of it and then you piece it together for the overall picture.

**Ashutosh Khajuria:** I think, one is that the expectation of the yields falling and as such there is good MTM position, positive position in the book. So that depends at what opportune time it is converted, but that would come in trading gain, apart from a lot of that a lot of initiatives taken on the merchant FOREX side together with corporate banking as a joint effort is going to give results. Some of it, I mean some breakthrough has been made so we expect more of it coming in the second half, it was just a beginning and on the third party distribution also there has been a good traction in second quarter. So these are the three areas where we can expect a non-interest income growth happening in third and fourth quarter.

**Nilesh Parikh:** Sorry, just on the treasury side that is more opportunistic right, because that will depend on how the yields behave. So I just wanted to understand more on the sustainable part of it.

**Ashutosh Khajuria:** That is what I spoke about the merchant FOREX part, the FOREX which together with corporate banking as a joint strategy is going to yield the exchange FOREX income and I think…

**Nilesh Parikh:** So today all your distribution, everything gets clubbed into your commission exchange with broker, right?

**Ashutosh Khajuria:** That's right, yes.

**Nilesh Parikh:** So that has just barely grown at a couple of percentage points and FOREX is actually down. And you are saying that this will start picking up in the second half of the year?

**Ganesh Sankaran:** Yes. One of the things that we are really looking at to give us the leg up in the coming quarters is our focus on mid-corporate and corporate lending and riding on the back of our branches which are there, one. And two, also bringing an architecture where we have a relationship model that is mapped to our branches to kind of source the right kind of proposals and then fuel our growth. While this is a bit of an initial thought and we are flushing it out and working, I think we are clear as to how we want to build this business and we are quite optimistic in terms of building a good base which is what Shyam alluded to as to what you will see in Q3 and Q4 as to where the corporate book would grow and that is one thing. Riding on top of it along with the lending piece we will also bring in two parts which will sure up our fee income, we will focus on the trade and the non-fund businesses with these clients and this is again going back to the point I earlier made that if we are trying to put a relationship model and ring in the rigger than I think that we will be able to kind of get these two revenue lines moving in a sustainable manner.

**Nilesh Parikh:** Sir how is it done today, I mean it is not being done through a relationship model or something?

**Ganesh Sankaran:** Today it is being done very much but it is being done through the branch model which is a model that works very effectively and has worked very well for us in the SME which explains why our SME continues to grow in a very robust way. We really do not want to lose the advantage of having a good branch network and therefore the mid-corporate model yet would lean quite heavily on the branches to get us the right kind of sourcing. But we do believe that to bring a product in a marketing focus to the whole business we need to overlay a set of relationship managers about 30, 40 of them across the country in important geographies that we want to focus which will look at the larger corporates which is the segment of companies that is beyond the mid-corporates. So it is not to say that we did not have a relationship structure as I explained to you, we are trying to overlay with a more definitive relationship structure to address the large corporates.

**Nilesh Parikh:** And just on this corporate portfolio that we have, now that will include the mid-corporate portfolio also and largely this will be about 25 crores?

**Ashutosh Khajuria:** Yes, our credit exposure is greater than 25 crores are all managed by the large corporate team, segment wise mid-corporate and large corporate and very large corporate all come under the same management umbrella. Treatment of this clients and the relationship focus of those clients varies.

**Shyam Srinivasan:** Just to add to what Ashutosh and Ganesh said, a large part of today's board discussions were really around the stimulating credit growth and where we would direct our energies and how we would lend balance sheet to ensure that we are getting the right kind of credit. So we have put together a very I would say a comprehensive plan for the bank to stimulate growth and capture the client relationships. This is a departure from what w have done so far, we have not done it very effectively, I think this is going to be quite a material part of how we do business prospectively and we will grow into it as we learn the business better and as our people graduate into more compelling relationship management model. But I think we are making a big beginning and we have already identified a few premium clients who by virtue of any of the senior connections that we have we have got inroads into, we are setting up limits for them and putting in a full-fledged plan to get the corporate in a totality and this is a big part of how we will position ourselves for growth at the very premium end of the market.

**Nilesh Parikh:** Sir just one last question, on these SME slippages saw this quarter, so anything to read into it in terms of any color that you could provide on that?

**Shyam Srinivasan:** Sure. The SME slippage this time is higher than what it has been for many quarters, it almost has gone back to what it was eight, 10 quarters back or 12 quarters back albeit on a much higher portfolio. We are seeing this has come largely from the portfolio that is highly collateralized. In the past some of these accounts which were dodgy or stressed credits may have been restructured, that restructuring is not happening so they slip and we have to work with the client for a recovery and an upgrade, or worst case, sale of assets that is why I guided by end of this year these accounts should be okay. But if your second part of your question is are you seeing a continued slippage, there is stress in the SME portfolio but the level of slippage for the quarters ahead is much lower.

**Moderator:** Thank you. Our next question is from the line of Gaurav Agarwal from ENR Advisors. Please go ahead.

**Gaurav Agarwal:** Sir what was the fresh restructuring amount for the quarter?

**Shyam Srinivasan:** 80 lakhs.

**Gaurav Agarwal:** That’s it?

**Shyam Srinivasan:** Yes.

**Gaurav Agarwal:** And sir what was the quantum of slippages from restructuring to NPA, you mentioned three accounts, I just wanted to know the quantum

**Shyam Srinivasan:** Out of the 405 crores the slippage is about 170 crores.

**Gaurav Agarwal:** No, that is of corporate, but I am asking…

**Shyam Srinivasan:** No, no the slippage from the restructured portfolio… Sorry 102, apologies, 102.

**Gaurav Agarwal:** And sir you mentioned in the last quarter that there was one shipping account which may slip in Q2.

**Shyam Srinivasan:** Yes, that is the one I said, in Q2 they were okay but that is the account we are putting through the ARC process, the sale has already completed in Q3.

**Gaurav Agarwal:** So in Q3 sir what was the net number, excluding provisions?

**Shyam Srinivasan:** Of the asset?

**Gaurav Agarwal:** Of the ARC sale.

**Shyam Srinivasan:** The impact of loss on sale of assets will be roughly about 25 crores which will get amortized across eight quarters, but remaining six quarters.

**Gaurav Agarwal:** And what were the security receipts that you are getting?

**Shyam Srinivasan:** 80%.

**Gaurav Agarwal:** So basically what was the quantum, I couldn't just do the math, what was the quantum?

**Shyam Srinivasan:** 140 crores.

**Gaurav Agarwal:** And sir, again on SME side as one of the other guy asked about SME slippages, so you said that going forward you will be looking at again growing the SME and corporate side maybe under the new management of under the new head. So I just wanted to ask, is there any change in credit appraisal policies or any change in strategy, any change in the target audience or if we are hiring any new people to grow that book, so any comments on that side will be helpful.

**Shyam Srinivasan:** Ganesh did mention as I did, I just mentioned the departure from earlier practices, the incremental thing that we are doing is to ensure that we are looking at a large credit exposure in the AAA and the premium end of the market on AA and above in terms of the relationship management model and a holistic corporate relationship, that is the one thing in addition to what we have been doing in terms of SME.

**Gaurav Agarwal:** Sir what are your yields in corporate, the new account deals that you would be offering at?

**Shyam Srinivasan:** New account yields as in?

**Gaurav Agarwal:** So basically if a new corporate customer, what would be the yield?

**Shyam Srinivasan:** Pricing varies.

**Ganesh Sankaran:** Pricing would depend on the market; it would be a function of the products, maybe a bit early to give a precise number on it.

**Gaurav Agarwal:** Because sir you are focusing on AAA customers and…

**Shyam Srinivasan:** Yes, so it will be around 10%, in and around base rate.

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

**Amit Premchandani:** The SME book ankle ratio is not 4.3 and the lending rate is around 11.9, so at these kind of risk adjusted lending rates does it make sense to be in this business?

**Shyam Srinivasan:** Sorry, did I hear you saying does it make sense to be in the SME business?

**Amit Premchandani:** Yes, because if it is a 4.3% NPA business and you are lending at around 12%, are you making any money at all?

**Issac:** This return is after the reversal of the interest so the rate is little high.

**Shyam Srinivasan:** No, you have annualized this quarter's slippage into the NPA ratio, is that right?

**Amit Premchandani:** No sir, in the presentation 4.3 is the number for the gross NPA in the SME.

**Shyam Srinivasan:** So the gross NPA percentage is of 4.31, right?

**Amit Premchandani:** Yes.

**Shyam Srinivasan:** Yes, the yield is after the impact.

**Amit Premchandani:** Yield is after the impact after you have not accounted for that interest in this 4.3% of NPA, but you will have a credit cost on the absolute amount right so if you have even 50% loss given default that is 2%, 2.5% credit cost.

**Shyam Srinivasan:** Yes, if you take one quarter as a snapshot there is a challenge, but if you take across quarters and if we look at a portfolio level this is an exaggerated outcome in Q3 and Q2 and that's why I pointed out that the impact of SME in the quarters ahead should be lower because this is a business that comes in good collateral and the customer has had stress in the past, he may sought restructuring because there is no benefit or there is no opportunity to restructure, they have slipped but reasonably confident they will come back. In fact one of the accounts after the quarter end is already cured but there are few more accounts that need to be worked on.

**Amit Premchandani:** And sir this shipping account that you have sold, will it be reported as a slippage and then sell down or…?

**Shyam Srinivasan:** It was a standard asset.

**Amit Premchandani:** So it will not be reported as a slippage?

**Shyam Srinivasan:** Yes.

**Amit Premchandani:** And sir the watch list that you have mentioned last quarter has gone down from 300 crores to 170 crores because of slippage last quarter so this 170 crores after Q1 is now say less than 100 crores, or any tentative figure that you can give?

**Shyam Srinivasan:** Around 150, between 100 and 150.

**Amit Premchandani:** Even after a sell down of the shipping account?

**Shyam Srinivasan:** Yes. This I am including two industry level large metal accounts which our exposure is materially smaller but the industry does have a large exposure so we have to work with the industry on that. We have not added to the exposure but we have reduced it considerably but to some extent we are influenced by what happens at an industry level.

**Amit Premchandani:** So can it be a situation the industry refinances it and you kind of decide to just exit these accounts and report as NPA?

**Shyam Srinivasan:** We are working out possibilities, for now the accounts are standard.

**Moderator:** Thank you. Our next question is from the line of Praful Kumar from Birla Sun Life Insurance. Please go ahead.

**Praful Kumar:** Just wanted some clarity on the total slippages from the restructured pool to the NPA, you said 102 crores that includes the SME as well?

**Shyam Srinivasan:** That is the corporate, 18 is SME so 120.

**Praful Kumar:** Okay. Shyam, just coming back to the basics, in terms of now you said that there are a lot of plans in terms of growing the business, so as you discussed today and spent a lot of time discussing strategy, the key focus today is growing the book or looking at the slippages because every few quarters we are seeing that corporate comes and hits us couple of accounts, go bad whenever we see some confidence coming in and the trend building in the slippages. So just wanted to get in terms of strategy, key focus would be growth or still trying to consolidate the portfolio and the problem accounts that you see today?

**Shyam Srinivasan:** Certainly growth is a big part of our agenda, that said, we cannot take our eyes off the stressed accounts and the implication, so I will not say it is either or, large part of what we wanted to do in terms of streamlining and consolidating and not adding to the problems we have held on, now we have enough horse power to grow and the ability to grow and we are more encouraged by the opportunity, certainly we will grow. Equally I have to add that it is not growth for the sake of growth, so we will…

**Praful Kumar:** Understood, yes that we completely agree.

**Shyam Srinivasan:** And the credit quality, if it is any consolation, many of our more recent practices, none of the accounts that have slipped are from any of the recent originations. That said, we are accountable for everything that slips so there is an effort to ensure that to the best possible effort, we have to work with the client to keep the account standard. But if they are unable to solve for whatever reasons, environment or our inability to influence their outcomes we have to recognize the pain, large part of the pain we have recognized.

**Praful Kumar:** And lastly, when you said two big accounts in the industry also, industry has a much higher exposure, these would be the key stress accounts that we are indicating in terms of 150 crores odds, no stress accounts left, correct?

**Shyam Srinivasan:** Principally those are the ones I am mentioning but I am not flagging them as non-standard, the accounts are standard with us.

**Praful Kumar:** Correct, but those are the key problem accounts that we envisage today, the bigger ones?

**Shyam Srinivasan:** Yes.

**Moderator:** Thank you. Our next question is from the line of Anurag Mantri from Jeffries. Please go ahead.

**Anurag Mantri:** Just a couple of data points actually. First one is, what would be your provision for NPA in this quarter and in the previous quarter? And the second is, could you help me understand your exposure to the state electricity boards and what portion of that exposure would be restructured?

**Shyam Srinivasan:** Credit provision 127 crores this quarter, sorry what was the second question in terms of provision?

**Anurag Mantri:** This quarter and the previous quarter.

**Shyam Srinivasan:** 117 the previous quarter. So what about the second question quarter, the DISCOM is it?

**Anurag Mantri:** Yes.

**Shyam Srinivasan:** We will get that exact number shortly for you, maybe we can go to another question, and meanwhile I will get the exact number.

**Anurag Mantri:** Anything commentary that you can highlight on your growth prospects in terms of what are they key sectors that you would focus on, key geographies, would you want to probably grow on the funded side or the non-funded side?

**Ganesh Sankaran:** See, our growth strategy is not really based on specific sectors but it is based on better and proper selection of clients, so wherever there are good clients we are not closing ourselves from any sector and we will go all across the country side to do clients that are good and bankable. Having said that, if you have heard us earlier, yes we would lend our balance sheet to the good credits and equally we would try and participate in trade and non-fund opportunities to shore up our fee line, so that also is a mix of products that we will be pursuing with each of this credits.

**Nilanjan:** Hi, this is Nilanjan, if I can just add a question to that. So this new direction that we are taking on the corporate side after Ganesh has come on board, if we have to track a metric let's say return on risk weighted asset how should that new business perform vis-à-vis the existing businesses?

**Shyam Srinivasan:** In the sense what would you like to hear…

**Nilanjan:** So which line item if we have to look at broadly the P&L for example right, which are the let's say two key lines, will it be the margins and fee for example or the credit cost, I mean just the three essentially, how should they start to behave let's say two years down the line?

**Shyam Srinivasan:** Yes, I think the model that we are talking off is one little more holistic than just a credit growth, we are looking at a corporate relationship which has been a weakness of the bank, we have not had much inroads into any large corporates where we are able to present the entire bank including our retail products and our digital strategy. So the relationship model will certainly give us inroads, but if you ask for hard numbers we have internally got metrics if it is a large company what all we can do for that company, number of payroll accounts and what we can do in terms of number of other activities for the company and how do we get a supply chain of that company. But if you are looking at just from a credit extension point of view certainly interest income would be one and second is the non-fund based business growth. So these would be the two metrics that we would look at.

**Nilanjan:** Right. So if I hear you correctly one part of the strategy would also look at entire cash management handling part of relations, right?

**Ganesh Sankaran:** The cash management we would focus on areas that we are traditionally strong on, we have a very good network already in Kerala and Tamil Nadu and Karnataka which probably combined gives us a very good hold on the south. So cash management and we are already, it is not that we have not been doing cash management, we have been doing cash management in these places, essentially we may not have formally allotted it into some cash and product, but the fact of the matter is if we are collecting for the customers through check and cash in these geographies pretty much we are doing cash management already. But as Shyam was mentioning, the idea is not only cash management, one is to credit extend to the large companies, other is to look at fee based opportunities and more importantly as a bank we have a whole suit of products which are on the retail bank side and the idea is to take those products to those companies and try and develop a different channel for boosting the power retail bank as well. That is something that we can do even on the supply chain side because we are traditionally very strong on the SME space and it would require as to join a few dots with the large corporates to see how we can leverage the full value chain and maximize bank for the business so to speak.

**Nilanjan:** And probably just a small last question on this new corporate growth direction, the underwriting is going to be centralized at the headquarters or do you still have some bit hub and spoke on this?

**Ganesh Sankaran:** Our underwriting model typically for the larger exposures more or less gets conicalized and that has been the arrangement already, so we are not changing anything on what is running. As is the case, I mean more on the SME and as you move down the spectrum towards upper end retail and then retail you have an element of decentralized credit processes but as you go up the chain more or less the credit is centralized.]

**Shyam Srinivasan:** DISCOM exposure is 861.

**Anurag Mantri:** And sir can you get a breakup of that exposure in terms of how much would be for generation and how much would be for distribution?

**Shyam Srinivasan:** All are distribution barring one which is probably more than… so you could argue that entire 860 is distribution.

**Anurag Mantri:** And is this standard or is this a restructuring the book?

**Shyam Srinivasan:** Standard except for 44 crores.

**Moderator:** Thank you. Our next question is from the line of Sanket Chheda from SBI Cap Securities. Please go ahead.

**Sanket Chheda:** Sir I wanted to ask the same question, so out of all SMEs how many is Discoms, so I got the answer.

**Moderator:** Thank you. Our next question is from the line of Anish Tawakley from Barclays. Please go ahead.

**Anish Tawakley:** So I wanted to talk firstly a little bit about OPEX, OPEX growth this quarter was about 16%, what is the trajectory we should expect going forward and what is the spending on given that balance sheet growth is lower? Secondly, if you could also talk about what you are doing on the deposit side because again deposit growth is much faster than loan growth, so presumably you are earning a negative carry by putting this into SLR. Are you planning to cut deposit rates or the entire alliance is on growth picking up?

**Ashutosh Khajuria:** Answer to the first question is that in OPEX you have two components, one is the employee cost other than staff expenses because of wage revision and all. This cost has already gone, I mean it is about 22% higher vis-à-vis last year so that component would continue for this year. So I think overall the number is going to be slightly lower than this but may not change materially.

**Anish Tawakley:** This is more escalation of salary as opposed to more people, so it is not really revenue generating then?

**Shyam Srinivasan:** Yes, the truth be told, the expense increase on people has been on account of the wage negotiation and the pensioning impact and that is something that till we find other ways we will continue at the same run rate, but we are certainly driving efficiencies and not adding to the cost and we have cooled down our branch increase as you may have noticed for almost five quarters and most certainly that will be the trend. So the throughput in terms of either people increase or branch increase it is certainly got to be much lower except for replacement for retirement and stuff like that. And the important part of driving is the focus around operational improvement and efficiencies and there is a very significant effort through digital and centralization that is happening. I mentioned in the last call when we did the investor call that we would soon have our ED and the Chief Operating Officer join us, ED has joined us a month back, Chief Operating Officer joins us two weeks from now on 2nd November and they have come with a very clear mandates on which areas of the business they would drive and focus. So we have seen one set already activate and certainly the COO comes in will focus on the operational excellence and digital and that should give us the leg up in quarters ahead.

**Anish Tawakley:** Could you give the headcount numbers last year and this year at the same point?

**Shyam Srinivasan:** It should be about 800 people, roughly about 700 people.

**Anish Tawakley:** And on the deposit side?

**Shyam Srinivasan:** Deposit side I think your question was why is it growing and where do you see it trending. As you may have noticed our retail term, our rates are probably amongst the lower quartile and that will remain for a long time, we do not see neat and it is fairly elastic to price, so if you ever need we can go back with pricing. And the NR deposits both term and domestics are doing exceedingly well and certainly there is a customer at the other end, we will not stop that or choke that. The credit growth is the principle driver of how we will address our CD ratio and in terms of ensuring the term deposit rates we will be at the relatively lower end of the market because we do not see any tearing need to increase that.

**Ashutosh Khajuria:** And if you take marginal deposit there is no negative carry even for SLR and all that, SLR yield of the portfolio is higher than the marginal cost of deposits.

**Anish Tawakley:** Sorry, marginal cost of the term deposit or the marginal blended cost?

**Ashutosh Khajuria:** Term deposit, with blended it is much lower.]

**Anish Tawakley:** So what is the term deposit rate currently?

**Ashutosh Khajuria:** 750 we are offering, except the senior citizen thing.

**Anish Tawakley:** So the deposits are not at least unprofitable on the margin?

**Ashuthosh Khajuria:** Of late, yes. Because there is a maturity pattern and coming two quarters we will have a good chunk of our deposits maturing which presently have a coupon or the interest rate of 8% plus, when that matures we certainly would be in a much better position.

**Moderator:** Thank you. Our next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

**Anand Laddha:** Sir Most of my questions have been answered, sir just wanted to understand that we had a target of 1.3% ROA, given the first half has been subdued is it for FY17 or F18 we should look at?

**Shyam Srinivasan:** My apologies, we have obviously missed the commitments made but we are reasonably confident that the second half run rates will reflect what we had given as guidance and thereon it will certainly keep momentum. The first half has been sharply impacted by the provisioning of almost 250 crores extra in between the two quarters and that is largely on account of the provisioning on the slippages that have happened, fair amount of it between that and the recovery should come back in H2 but I would not venture to give much more than that just yet.

**Anand Laddha:** Sir also on the employee cost, if you can quantify how much has been the additional provision because of the wage negotiation finalizing?

**Shyam Srinivasan:** That is in the run rate now so there is really nothing that is new other than if you see sequentially the two quarters are roughly about 250 crores, it is same.

**Ashutosh Khajuria:** It is 4 crores lower in fact, Q2 is four crores lower than quarter one.

**Shyam Srinivasan:** In Q1 we saw some incremental provision that after the wage negotiations were concluded there were some last minute 18 crores or something that we had to take.

**Anand Laddha:** Because sir as I understand the CPI inflation has collapsed, so if I had to look at the DA increase which has been disclosed which is there so that should have been very minimal.

**Shyam Srinivasan:** I did not get the question, so are you saying that…?

**Anand Laddha:** The bulk of the increase is only because of the higher pension.

**Shyam Srinivasan:** Pensioning, no it is a combination, pensioning increase was not significant this quarter. First quarter and this quarter the pensioning impact is more or less the same.

**Anand Laddha:** Yes sir, the reason I was emphasizing, so if I had to look at last quarter your average employee cost increase has been almost like 17%, 18%. So that has been pretty high and we have not seen any operating leverage, from a 40% cost income ratio today we are closer to 50% to 53%.

**Shyam Srinivasan:** No, actually it is 57% this quarter so on a blended basis it is still very high. Like I pointed out, as I have in the previous calls and certainly that is something that we have to remedy and sort out is that the income impact has been sharper than the cost impairment, income has not grown and we are not solving for that as yet and that is the crucial part, which is why I have mentioned the credit growth and the CD ratio improvement is crucial for us to ensure that we will ensure that we get the top-line going.

**Anand Laddha:** Sir as we have target to grow in the large Corporate, you still are confident that we will be able to maintain 3.1%, 3.2% NIM?

**Shyam Srinivasan:** Yes, the NIM at 3.11 and 3.12 has been in the last two quarters, we see that for the year it maybe more around 3.15 to 3.16.

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

**MB Mahesh:** Just a couple of questions. First is, qualitatively could you comment on how the movement of your SMA book looks like because though the headline NPL plus restructured book remains unchanged can you just give some direction as to how that has changed, is that showing improvement, is it remaining the same, is it deteriorating there?

**Shyam Srinivasan:** Between last quarter and this quarter there is no significant improvement or deterioration other than the known names that have slipped in the large corporate. Our SMA book is roughly between 5.5% to 6%.

**MB Mahesh:** The SMA II is it?

**Shyam Srinivasan:** No, all SMA

**MB Mahesh:** Your all SMA is only 5.5% to 6%?

**Shyam Srinivasan:** Yes.

**MB Mahesh:** And your gross NPA is 3% today?

**Shyam Srinivasan:** Yes, this 3% Mahesh as you probably realized is very impacted by the fewer accounts that have restructured portfolio, that is why you are seeing…

**Shyam Srinivasan:** the NPA restructure has not been changed much.

**MB Mahesh:** See what we want to understand is that the SME exposure that you have today, in many banks it is in the SMA book, so if I include that itself it is something like a 2.5% of your 4.5% to 5% which you are mentioning today. So it appears to be a little bit too good to be true, it has not even gone to SMA, is it?

**Shyam Srinivasan:** It is standard Mahesh.

**MB Mahesh:** No, it would be standard but it could still be part of your SMA, right?

**Shyam Srinivasan:** Right, it will be part of the SMA.

**MB Mahesh:** So if you are saying 4.5% to 5% is what my SMA book looks like and 2.5% is explained by the discom exposure then you are probably indicating a much stronger asset book than what the headline gross NPA indicate?

**Shyam Srinivasan:** No, I would not mislead like that, I need to reconfirm the SMA apart of the DISCOM book, we will check on that.

**MB Mahesh:** Yes, because in many banks the SMA book appears to be a much larger number.

**Shyam Srinivasan:** You are right, I need to check that out.

**MB Mahesh:** So my second question is on this NR deposits, could you give us a breakup on how is it split between savings NRE, NRO?

**Shyam Srinivasan:** Sure.

**MB Mahesh:** While we are that question I will ask another question, how does the non-SEB book of the restructured book look like, can you give some color on that?

**Ashutosh Khajuria:** NRE deposits are 27,217 crores of which NRE savings is 8,142.

**MB Mahesh:** NRE savings, you include both NRE and NRO, is it?

**Ashutosh Khajuria:** NRO is 1,000 crores. So 8,142 is NRE savings and nearly 988.27 crores is NRO.

**MB Mahesh:** So my last question, again in relation to the earlier question again on the cost side, is there any threshold limit after which you will say that look let's cut back expenses for some time and get the income up and running before we start spending more.

**Shyam Srinivasan:** Where we are is the point, there is no incremental expense visualized in terms of any of the activities and all variable costs are being crucially watched other than the committed expenses of people related there are also plans to figure out how to reduce or rationalize.

**MB Mahesh:** Do you have any internal threshold limits on any ratio that you are looking at in terms of cost to income over the next one, two, three years?

**Ganesh Sankaran:** Yes, internally we have some aggressive targets but I can communicate to you that you will see a trend down from hereon by at least 200 basis points sequentially.

**MB Mahesh:** 200 basis points sequentially?

**Ganesh Sankaran:** Yes.

**MB Mahesh:** But that is not a big number right, 57 to 55?

**Shyam Srinivasan:** Right, but the next two quarters these are the principle drivers.

**Moderator:** Thank you. Our next question is from the line of Gaurav Agarwal from ENR Advisors. Please go ahead.

**Gaurav Agarwal:** Sir just wanted to confirm our DISCOM exposure of 861 crores, that is fully restructured, right?

**Shyam Srinivasan:** Standard restructured.

**Gaurav Agarwal:** And sir of the leftover restructured book, so we have currently 2,500 crores of standard restructure of which 900-odd is let's say SEBs. So the rest 1,500 can you just give me broad industry wide exposure?

**Ashutosh Khajuria:** About 273 is aviation.

**Gaurav Agarwal:** So that will be Air India, right?

**Ashutosh Khajuria:** Yes. We would not get into client names, but yes.

**Gaurav Agarwal:** What would be the iron and steel and textile part of restructured assets?

**MB Mahesh:** Very small.

**Gaurav Agarwal:** Because last quarter I remember it was 340 crores. Sir just wanted to get the NPA number for iron and steel.

**Shyam Srinivasan:** Iron and steel is 430.

**Gaurav Agarwal:** That is the restructure number, right?

**Shyam Srinivasan:** Yes.

**Gaurav Agarwal:** And sir what was the NPA for iron and steel?

**Shyam Srinivasan:** Nothing has slipped from that in this quarter.

**Gaurav Agarwal:** Okay, so it all remains the same?

**Shyam Srinivasan:** Yes.

**Gaurav Agarwal:** Sir lastly, any account which we have refinanced under 5/25 in this quarter Q2?

**Shyam Srinivasan:** No, we do not have any 5/25.

**Gaurav Agarwal:** Or any pipelines for the next one or two quarters?

**Shyam Srinivasan:** It depends on how these metal accounts perform at an industry level and what our choices are, but right now nothing.

**Gaurav Agarwal:** And restructure wise also there was nothing left over from 31st March 2015.

**Shyam Srinivasan:** Pardon me.

**Gaurav Agarwal:** On restructure wise also there was no application which is pending prior to 31st March?

**Shyam Srinivasan:** No, we have nothing pending.

**Moderator:** Thank you. Our next question is from the line of Gaurav Jani from JHP Securities. Please go ahead.

**Gaurav Jani:** I had a question on your NIMs please, one. And the second I will just mention it later.

**Shyam Srinivasan:** NIM is 3.11.

**Gaurav Jani:** Yes, but the guidance on that please if you can.

**Shyam Srinivasan:** Between 315 to 317.

**Gaurav Jani:** That is the next quarter?

**Shyam Srinivasan:** In financial year 16.

**Gaurav Jani:** And the other thing is I was looking at your slide 20, so the rating slide, corporate rating if I look at them, so it has reduced from 59% to 55% for the BBB and above and subsequently the next segment it has increased, so any guidance on that considering we want to improve our asset quality on the corporate side and…

**Shyam Srinivasan:** No, as the credit incremental growth happens and if we are targeting the premium end of the market so this will only improve and that has been the direction. Quarter-to-quarter there has been some migration depending on the client's performance also.

**Gaurav Jani:** So this ratio how would that pan out in future piece?

**Shyam Srinivasan:** We are certainly seeking to grow that AA and AAA, so that will be the growth.

**Ganesh Sankaran:** The better rated companies, rather than getting into specific rating categories I think you will see uptick progressively on the better rated companies so this ratio will…

**Ashutosh Khajuria:** That certainly is going to be in that 55% category and not in that remaining one.

**Moderator:** Thank you. As there are no further questions I would now like to hand the floor back to Mr. Issac EA for closing comments. Over to you, sir.

**Isaac EA:** We thank all for participating in this conference call. Thank you. We will close this call.

**Moderator:** Thank you very much. Ladies and Gentlemen, that concludes the Federal Bank conference call. You may now disconnect your lines.