



“Federal Bank Limited Q1 FY-17 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Federal Bank Q1 FY17 Earnings Conference Call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' followed by '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajanarayanan N., Investor Relations Head. Thank you and over to you, sir.

Rajanarayanan N: Good evening and Welcome to Federal Bank's earnings call. We have with us Mr. Shyam Srinivasan – MD & CEO; Mr. Ashutosh Khajuria – ED & CFO; Mr. Ganesh Sankaran – ED; Ms. Shalini Warriar – Chief Operating Officer and Mr. Jose K. Mathew – General Manager.

Over to Mr. Shyam Srinivasan for leading the call.

Shyam Srinivasan: We had announced our results about a couple of hours ago and have uploaded our data in the investor deck.

Let me begin by sharing the fact that we have begun the year along the lines we liked to. There is scope for lot more good work but the numbers are encouraging from our standpoint. After a relatively stressful FY16, driven by higher slippages; the quarter saw almost halving of credit cost and slippages. But more importantly I had pointed out in our investor deck that it is beyond provision. It is about growth and on the back of a reasonably good growth, margin expansion and overall operating profit momentum that we saw in Q4; Q1 of FY17 continues to keep that trajectory.

Operating profit grew 16% YoY from a credit point of view. The book expanded about 19%. Our continued strength in retail nature of our deposits, NRI franchise, the growth in savings books, share gain in our relatively newer geographies strengthening our presence in our home market have trended quite well.

SME YoY has grown close to 18%. NRI growth at 14.5%; Other income grew quite handsomely at 23% largely driven by some very strong performance in treasury and total income were 16.5% operating profit grew 16% and the net profit grew 18%. From a financial standpoint of view there is a trending to along the lines what we liked and we want to build on this momentum. We have put in many initiatives be it the front ending of our resources for client facing and streamlining our physical distribution network. We are not adding branches but getting more for the branches we have launched ensuring that the value and renegotiation on various cost initiatives are happening. They are playing through in the numbers. The signal of what we would like for FY17 is the commitment to ourselves and what we had indicated in the last investor call are tracking okay.

So without going into too many specifics at the outset I think we will try and keep this call more interactive. All the details that we wanted to share are largely captured in the investor deck. So we will be happy for myself, Ashutosh, Ganesh, Shalini, Mohanachandran, Jose the entire senior team is here. We will happy to take questions clarify and then come back with some of the key points again.

So operator, I will be happy for the call to be open to all our investors analysts who are on the line.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Rakesh Kumar from Elara Capital. Please proceed.

Rakesh Kumar: Sir, just firstly on the corporate traded side there is a strong growth in this quarter and if you look in to the numbers as specifics. There is a strong growth we saw in the metals, real estate then power then metals, textile. So like I assume that there would be other banks also in the consortium. So in which geography is the growth is coming from and whether it is just working capital loan or it is for some projects? If you can just explain that part.

Ganesh Sankaran: This is Ganesh here. Just to explain most of the growth that we are seeing in the corporate book is outside of Kerala what we call as network 2. And since you alluded to some specific sectors our exposure is typically working capital. I would like to prompt saying that these are not the levered groups because you started by saying metal and power and all that. I do not have the feeling at hand but I am quite confident that these are all to the well rated companies and they are also from the mid corporate space.

A lot of our growth has also come from our existing clients because of our relationship structure. We have been able to bring predictable outcomes to the client and improve our business with our existing clients. A lot of them are in the mid-corporate space as well. So it is a combination of mid-corporate and the well rated corporates where the growth has come from.

Rakesh Kumar: Sir, what could be the average ticket size here?

Ganesh Sankaran: The average ticket size would be about Rs. 40 crores- Rs. 50 crores. There would be large exposures obviously but removing those outliers out it could be about Rs. 40 crores to Rs. 50 crores.

Rakesh Kumar: And secondly, on gold loan book actually some of the other South based banks also announced the numbers for Q1. For the gold loan like in this quarter there was a sequential dip . So what is the reason behind this?

Shyam Srinivasan: See in the gold loan book we are seeing challenges to grow the retail gold loan book. The agri book is trending okay but overall gold is impacted by lower or de-growth in retail gold. We have not been able to put a finger on why we have not seen significant growth or demand on that front. We do not have a good answer on why there is nothing that we can point out as a particular event or issue. The only thing that we are able to determine is that we do not want to do bulk loans on the guides of retail to intermediaries. To that extent we do not have the ability to grow in bulk. So it has to be more granular. We have de-bulked the portfolio so tried to extend the reduction. Incremental growth from here should be possible as we get more granular in our growth. So I do not have a better answer in terms of why retail gold does not grow either for us or in the market.

Ashutosh Khajuria: Actually as gold loan has grown. So the bank as a whole and for those loans particularly where we have the highest concentration of gold loan like Karnataka, Tamil Nadu and parts of Kerala. So I think total gold has grown but the retail gold has not grown.

Moderator: Thank you very much. The next question is from the line of Gaurang Ved who is an individual investor. Please proceed.

Gaurang Ved: Sir, as you have said in the annual report that a perfect storm for the bank is behind now and we embark on a new journey now. So can you please elaborate what is the medium term strategy for the bank for next three to four years point of view? Just broad numbers like ROA, credit growth, gross and net NPA, balance sheet size. Sir, why I am asking this is that by then you will be close to completing a decade within the bank. So sir, what is your aspiration and any color on that will be very much appreciated.

Shyam Srinivasan: I am glad that you read my letter on the profit storm. And we do believe that in the last financial year was many other ingredients of what could have been a perfect storm and we do believe that the storm is well behind us. Our outlook is that I would try and not define it by numbers. I will try and define it by what we would like to be. Certainly we have positioned the bank as one of the digitally enabled mid-market admired bank. So if you were to look for a catch line it will certainly be digitally enabled mid-market most admired bank. And everything that needs to be done to ensure that positioning is what all our efforts are. And when I say midmarket the market opportunity is quite significant as all of you know.

Our growth is more predictable growth. Consistent growth is what we are pursuing and therefore we do not want to see excessive blips in one form or the other. So all the process procedures that are being put in the bank are to enable that. And we are happy to see that in last three quarters barring the impact of slippages that has been growth evident in all our metrics. As the slippages cool off which was really the result of what I had characterized in the perfect storm. The amplified features will start showing up in terms of quality of growth and consistency of growth. So if you take a three-year view and thanks for pointing out that in 10 years or in a few years we would certainly like for the bank to be amongst the most admired

digitally enabled middle market bank. And more consistent predictable and high quality growth.

Gaurang Ved: Sir, my second question comes to that as we are guiding for a healthy credit growth for FY17 and considering our capital adequacy ratio at around 13.59% with tier 1 at 12.99%. So sir, going forward most probably in near term we will require capital for growth. So therefore what are your capital raising plans and if any when are you planning for it any color on that?

Shyam Srinivasan: Like I pointed to somebody else a few minutes ago it will happen at the backend of this financial year or early part of next financial year after seeing three more data points of consistent growth. As you know we have a very high opportunity on tier 2 and I think that for growth capital we will start looking for it in FY18.

Moderator: Thank you very much. The next question is from the line of Kaushik Poddar from KB Capital. Please proceed.

Kaushik Poddar: See your deposit growth is quite anemic which is around 12%. So can you throw some color on that because your advance is growing say at the rate of 18% or whatever so?

Shyam Srinivasan: Consciously Kaushik if you see our CD ratio for most part of the previous financial year and for the early part of FY16 were in the Late 60. So we did not want to put up a liability profile which had a deposit term book which unnecessarily blows apart cost. And we wanted to ensure the regular granular savings current account growth which you would have seen. And given our CD ratio opportunity going up to 75 or 76 I do not see the need to unnecessarily bloat up our deposit cost or the deposit book. We thankfully enjoy a very significant liability franchise and the opportunity to grow is relatively flexible to pricing. So we saw cost of deposit drop sharply this quarter on the back of a more prudent decision of not to grow the term at any cost.

Kaushik Poddar: Okay, so deposit growth you do not see it as a problem to take care of your credit growth?

Shyam Srinivasan: Not quite. It is a more conscious choice.

Kaushik Poddar: And my second question is on SME slippage it has of course come down from the last quarter but that is the worst or bad apple. So any thoughts on that how you take care of the SME slippage part?

Shyam Srinivasan: See SME for most part till mid-FY16 was trending in the area of Rs. 80 crores to Rs. 100 crores then it tracked up to Rs. 150 crores. It is trending at between Rs. 125 crores to Rs. 130 crores right now. It is driven by a few pockets largely in Kerala and some sectors so those are vintage accounts which we have to. But like I have pointed out these are very well collateralized. We look at SME slippage when you look at just to the length of slippage it is a concern. But when you look at the recovery upgrades in SME they tend to be much higher than the recovery upgrades on corporate. And a bulk of our recovery upgrades every quarter, is

roughly about Rs. 60 crores, Rs. 70 crores of SME. So in the normalized lifecycle profitability of an SME books the loan slippage is about 3% odd, which is in the zone where we would like it to be. So we are not alarmed at that, it is higher than where we were tracking but in a point of time we are quite confident that things improve in the economy. So we do not see as a risk to the book.

Kaushik Poddar: You do not see this run rate worsening at least?

Shyam Srinivasan: It is not over in the last four quarters which have been the most adverse. If anything it is improving.

Moderator: Thank you. The next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please proceed.

Pavan Ahluwalia: Yes, I wanted to ask a little bit about the credit growth side and particularly on the corporate side of things. Now we hired several senior people in the corporate and mid-corporate segment to drive that. Could you just give us some sense, I mean this is a system where credit growth is growing very slowly. Even when we look at the likes of HDFC Bank having to be very competitive on yields in order to make loans and I am just curious what is our strategy for going out and gaining share. How are we able to price relative to other large banks like HDFC, that have a big funding cost advantage against us. Because the numbers do look impressive. I would be curious to get some color on what the business strategy is behind those numbers and how you drive them?

Shyam Srinivasan: Thank you. We have not hired too many people just one ED who has come in for the corporate book for now. Yes, we do have a couple of more names lined up, so that is maybe in the next quarter or so. Having said that, the growth is impressive due the effort by the team. One, in terms of the processes that we have put in place of the field orientation. The RM structure, combined by couple of calls backs. The Board and we have sat down and looked at our risk appetite for the very high end high quality corporate, but these are not just credit extensions. We would like for that to be only an opportunity to open the relationship with those good corporates. And we are seeing the RM structure being able to go and talk to these clients, get the credit into the table but importantly start looking for further business from these clients. So the model for credit growth is not just extension of credit but ability to get a larger share of the business. In a reasonably distracted market where there are some of the better or bigger players I am leaving aside the HDFCs and IndusInd who do not have too many challenges other than just managing a high quality book. But there are large public sector banks who have their challenges in some geographies or nationally, which places an opportunity for us. We do not have significant credit challenges that gives us an opportunity to be less distracted and focused on client growth. We have a distribution model, we are well funded, well capitalized, we have the relevant risk appetite for these segments and that shows in the numbers that you see.

Pavan Ahluwalia: Just one more question on the OPEX what kind of rate of OPEX growth should we be expecting going forward?

Shyam Srinivasan: Our focus in terms of the cost structure is most on calls that has been around the operating expenses and we are focusing on ensuring that there is productivity. We would like that to be in the early double-digits or less. Operating expenses, not staff expenses have to be sensitive that yields falling may have an impact on the pensioning which we are building into it.

Management: That is what the reason is when you compare it with last year June to this year June you will see a double-digit growth 14.5% but when you see vis-à-vis March because from September, December and March quarter you would have seen considerable amount has gone in for provisioning for superannuation benefits, pension and gratuity. So I think this year again you know we have been given a number by the actuary and it has been equally apportioned in four quarters. So I think going forward, you will not see a double-digit growth in this particular segment unless yields fall drastically. If yields fall drastically, we will review it provisioning guidance.

Pavan Ahluwalia: I am sorry when you say this segment you mean employees or non-employee OPEX?

Management: It is employee. Non-employee is already there is a 4% negative growth vis-à-vis March and if you see our cost income ratio, it is gradually falling from December onwards. In December it was 58.72, it fell down to 56.78 in March and now it is 54.19.

Moderator: Thank you. Our next question is from the line of Nilesh Parekh from Edelweiss. Please proceed.

Nilesh Parekh: Just wanted to check on this. We have been looking at over the last three four quarters on the corporate side, the riskiness of the book has actually come off in terms of the new risk that we have done. So is there a mix that we are targeting because despite the transition the margins have held up. So is it fair to assume that the improvement that we see in cost will further lead to this transitioning happening?

Shyam Srinivasan: The reason for the NIM improvement has been only part explained by the portfolio mix, but also we must remember that the cost of deposits has come down. We had pointed out that three years back or about a thousand days back we had issued the thousand-day deposit which were all maturing within February and March of this last financial year.

Management: April/May.

Shyam Srinivasan: Sorry, April/May of this financial year. Those having matured are being replaced by more current pricing lead term. So the expansion has come through a mix of many things, better deployment of credit, so improving CD ratio, lowering cost of deposits and then blend of the

book being high rated corporates and mid-market growing. SME growth as you have seen is close to 18%.

Nilesh Parekh: Yeah, so my question was that the margins have kind of stabilized at these levels and obviously there has been a benefit which has come from the cost. Which on the face of it, is a very competitive segment, given that we are moving to a better rated corporate portfolio, we have still been able to hold on to our margins. So I just want to understand going forward like the AAA and AA portfolio means five quarters back it was 25% kind of range and it has now moved to about 51%?

Shyam Srinivasan: Our guidance on margin Nilesh is more around 3.20. 3.28 is indeed the higher end of the band. We believe more like 3.20, because as MCLR becomes more prevalent and the entire portfolio moves to MCLR, there will be some impact of it in the coming quarters because the base rate is 9.63 when we converted to MCLR.

Management: And flexibility will not be there in cutting the cost of deposits because they are more or less now flat at 7.5% or so because that is what the industry level is for one-year term deposit. So as CASA grows gradually and your term deposit I mean is contained it is commensurate with the CD ratio. I think 3.20 would be the right number to really guide for rather than 3.28 and all.

Nilesh Parekh: But on our risk adjusted basis margins will be still better because right now?

Shyam Srinivasan: Yeah, better they will be better, yes.

Nilesh Parekh: And just one last question on the corporate slippage that has fallen off. But obviously given that we had two quarters of that AQR and what we had done in terms of preponement. So is it fair to assume that large part of the stress on the corporate side is behind us and maybe obviously Rs. 45 crores is a very small number but that it is not going to throw any major surprises going forward?

Ganesh Sankaran: Yes, you are right in the sense that there will not be any major surprises going forward. But I think two, three things that we had indicated in the past I think and maybe we should reemphasize that. One the AQR itself did not have much to show or action out in terms of what it meant for the bank apart from the fact that there will be provisions. And they will have their accounting impact of that will flow through in FY17, one. Secondly, all the credit originated over the last four years I think we would not have any slippages whatsoever which is our data point which we had shared last time also. Having said that we had also brought out the fact that we have been able to hold ourselves in terms of not doing any SDRs or 525s and the like. But we recognized that we are a player with the smaller voice in some consortiums which maybe large and we have been able to manage that outcome. We have guided in the past that there are certain exposures that are coming out of moratorium in Q2, Q3 and that is about a couple of hundred crores. So that is about the only impact. So there is nothing incrementally that we have to share on the whole thing. Otherwise as you rightly pointed out our mix of

incremental origination is only getting polarized towards the well rated companies. Just to dimension on your previous points since you had concerns on how we are moving and remaining competitive, when we say well rated and AA or AAA it is not necessarily to imply the larger companies. There are AA and AAA, I mean that is manner of expression of a well rated mid corporate company, a well rated small business company also could be a AA kind of thing in the sense that it adds its credit standing. So I think we are therefore to sum this up, incrementally we believe we will be able to hold ourselves barring the few accounts that we have guided for.

Management: Additionally, there certainly would be an impact of ageing of the existing GNPA portfolio. So there, would be a credit cost on account of migration from say doubtful-1 to doubtful-2 or substandard to doubtful one and so on and so forth. So that impact certainly would be there and it would continue till FY18, not I mean, it would not be limited to only FY17. But I think, the new recognition the new slippage certainly has been contained and likely to be contained.

Moderator: Thank you. The next question is from the line of Girish Raj from Quest Investments. Please proceed.

Girish Raj: You have briefly explained on the SME front. Just wanted to get some granularity. Our annual report suggests that we have exposure to cashew processing marine food processing, rubber, spices and contract. I also believe there is educational and polyclinic. How are each of these sub-segments behaving and what to look forward, is the first question?

Ashotosh Khajuria: Well, cashew overall is okay, barring a couple of units. But that of course is a part of business. You will have 20 units, one or two can have stress and all. All other areas, educational institution is another one where there is some stress noticed. We are working on because it is mainly on the engineering college side where seats are vacant and they are not fully utilized. With introduction of new courses and some infusion of fresh capital I think in some cases these are being sorted out because the collateralization of these accounts is very high. That is the positive point.

Girish Raj: And last quarter we mentioned one account coming out of Moratorium in second quarter and at that point in time we were 50:50 on this. So any insight to share as we have come one quarter ahead?

Ganesh Sankaran: Until it comes out of it is like a match where until the last ball is bowled you cannot have the verdict. So we will have to wait and go through the quarter. We working with the client and with the system because we are a small player in a large company. So we will have to figure out.

Management: It is the consortium account.

- Management:** So we will have to play with it and see how it pans out. That said our guidance has been conservative and we stand by it.
- Moderator:** Thank you very much. The next question is from the line of Sarvesh Gupta from Trivantage Capital. Please proceed.
- Sarvesh Gupta:** My first question was on the slippage. So from the restructured book how much of slippages did we see in this quarter?
- Management:** Rs. 4 crores.
- Sarvesh Gupta:** Only Rs. 4 crores?
- Management:** Yes.
- Sarvesh Gupta:** Okay, so basically I think in the previous quarter we had guided for a certain percentage of slippage to happen from our restructured book. So what is the guidance for the FY17, slippage out of restructured book?
- Shyam Srinivasan:** See the restructured book as you may see in our deck, the standard restructure is about Rs. 1,400 crores. Our normal slippage from restructured books has been in the 17% to 18% range. Thankfully this quarter was almost non-existent. Like Ganesh just pointed out some of those accounts that are coming out of Moratorium, roughly in the order of about Rs. 200 crores, which is four or five accounts is the only thing that we are concerned. And watching how to deal with. Barring that there is nothing significant that we are allowing the bottom.
- Ashutosh Khajuria:** See one this SEB accounts once they are out and converted into bonds and all that there is not much of a stress remaining in restructured standard.
- Sarvesh Gupta:** Sir, would you be able to share your SME 2 book right now?
- Shyam Srinivasan:** The overall SME 0, 1, 2 is trending better across quarters. It is amongst the best quarter over the last four quarters.
- Sarvesh Gupta:** Sir, one more question was on the cost to income. So basically what we have seen that while there has been some seasonality but we have come back to Q1 FY16 levels. So is there any trend here that we are having or is it just the seasonal?
- Ashutosh Khajuria:** But there is no seasonality. It peaked in December and from there on it is continuously going down. Certain issues, certain things which were no reason for it, I mean they have already gone past. Now the only risk there is, if the yields fall considerably then I think actuary may relook at asking for the provisions for superannuation benefits like pension and gratuity. That

is the only risk on the employee cost side. I think non-employee cost is well contained and it will continue to be like that.

Shyam Srinivasan: But since you mentioned, the cost to income the crucial part of the improvement comes through improvement in income as you have seen in the last two quarters. And we think that trend line is most crucial which means the growth of the business is focused on.

Moderator: Thank you. The next question is from the line of Shri Shankar from Prabhudas Lilladher. Please proceed.

Shri Shankar: A quick couple of questions. Shyam, this is effectively coming from your yield on credit. See when we have seen your deficit cost reducing, what is the kind of impact that you have had on your late yield on advances?

Shyam Srinivasan: Yields on advances is 10.6.

Shri Shankar: Are we seeing any significant reduction out there or you have been able to manage that?.

Shyam Srinivasan: I think over one quarter from March to June it has dipped by about 26 basis points. So I think unless there is this regulatory cut happening in the quality signaling rate. And in the system itself you have more of people cutting their MCLR we will not see any pressure on us to really tinker with our benchmark credits.

Shri Shankar: Okay I think you answered it regarding the cost to income ratio. But again how has it managed to come to 54. Are we seeing effectively the branches which has opened earlier, has it start contributing anything to your income to that extent or are we likely to see a spike back in our cost to income ratio?

Shyam Srinivasan: See Shri Shankar, I think the point is both lines cost and income. But the bearing is more significant on the income. We are not a very extravagant cost structure bank, quite frugal barring for some statutory cost that we have to carry. One of the drivers of costs in the past was the footprint expansion and the consequent productivity thereof. Last three quarters those branches having matured, have seen growth. If you see a slide 18 in our deck we have pointedly shown share gain and these are not numbers we fabricated. It is market moving out numbers. Share gain is very pronounced which means we are gaining share in those geographies which we did not present earlier, that is come out of the branches. So I think that momentum we will certainly keep. So combination of income growth driven by good credit expansion, CASA, principally savings growing at very handsome flip of 20%, no significant increase in the cost structure. We continuing to be frugal where we need to. We believe that the cost to income ratio should trend in the right direction.

Ashutosh Khajuria: Actually the growth of CASA to the extent of 20% YoY has been because of this footprint. So this footprint has started paying dividends now.

- Shri Shankar:** Can I ask another question also please?
- Shyam Srinivasan:** Actually others in the lines should not scream.
- Shri Shankar:** See you mentioned to an earlier question about the educational scenario, you have mentioned about the engineering colleges. But what about the individual educational loans given? Are we seeing slippages from those side?
- Shyam Srinivasan:** The book is not significant, Shri Shankar so we are not. Yes, there are some challenge but the book is very small.
- Moderator:** Thank you. The next question is from the line of Shiva Kumar from Unifi Capital. Please proceed.
- Shiva Kumar:** One question was regarding the wholesale advances. You have always been saying that your strategy would be to keep wholesale, retail and SME at 33% each of the pie. Now that wholesale has reached 35% and it has grown sharply over Q4 and Q1 of FY17. Can we assume that going forward the focus would entirely shift to SME and retail instead of wholesale?
- Shyam Srinivasan:** No, I think I want to make it clear, the book will be weighted in that zone. It is not like the moment it cuts 35 we will just. But having said that the opportunity for us to grow in good corporates presented itself and I mentioned earlier in the call that due to some disturbed competition, our ability to go and extend ourselves is giving us an opportunity. But these corporate relationships is helping us grow our retail and SME. We are not seeing corporate as a lending opportunity alone, we are looking at corporate as an opportunity to go and build out a whole. Their employees, their vendors their customers so there is a significant opportunity so we look at corporate more than just extension of credit. But certainly the relationship starts with a good opportunity to give a good credit opportunity to these large corporates. And also our exposure is greater than Rs. 25 crores. We capture as corporate more for our internal management because the disciplines we put in are more stringent. But if you define corporate in the more sort of corporate sense, it may be Rs. 50 crores plus. And then the mid-market book comes to about 55% which is really the heart of Federal Bank.
- Ganesh Sankaran:** Actually in mid corporates there is no separate segmentation for that, but that is the area where the bank is focusing very much.
- Shiva Kumar:** Sir, and coming to the fresh accretion in the asset quality parameters, we see that from Q4 the wholesale fresh accretion has come down sharply from 254 to 45. So can we say that the worst is behind in terms of wholesale slippages?
- Shyam Srinivasan:** Yes, we would like to.

- Ashutosh Khajuria:** Barring that guidance which already I think we have been giving for last three, four quarters to the extent of about Rs. 200 odd crores, having some four or five accounts put together. So I think that could be the only risk as of now what we foresee.
- Shiva Kumar:** Right, and coming to the provisions or quarterly provisions we have clocked around Rs. 168 crores in Q1, so can we expect the trend to be in similar lines for the rest of the year, that Rs. 160 crores to Rs. 170 crores?
- Shyam Srinivasan:** Yeah there is two provisions which are more in the nature of one-off. For example, the impact of food credit and there is nothing to do with the reason that the impact and amortization impact of the sale to ARCs, which is about Rs. 21 crores a quarter.
- Ganesh Sankaran:** Rs. 22 crores a quarter.
- Shyam Srinivasan:** So the Rs. 160 odd crores, Rs. 21 crores is almost like a run rate for the remaining three quarters. If food credit falls off, the slippage will define the other provision. We would certainly like to see the slippages trend in the right direction so we want to believe that it should be better but yeah that is our end.
- Shiva Kumar:** So this Rs. 160 crores would actually trend to somewhere around Rs. 140 crores to Rs. 130 crores going forward, that is your internal estimate?
- Shyam Srinivasan:** That is the direction, yes.
- Ganesh Sankaran:** Now look at increasing this year that could be other option.
- Moderator:** Thank you very much. The next question is from the line of Shrey Loonker from Reliance Mutual Funds. Please proceed.
- Shrey Loonker:** Just one question. The 37% wholesale growth, are we in a situation to give that how much of this growth is driven from existing clients and how much is from inorganic acquisition?
- Shyam Srinivasan:** No inorganic acquisition.
- Shrey Loonker:** Inorganic in the sense new to Federal Bank customers?
- Ganesh Sankaran:** Okay we have had a mix of both as we have been articulating in the previous calls also the relationship managers team is now reasonably stabilized. They are in the market there is a higher presence and consistency in our calling on clients. So we are getting two twin outcomes of this. One existing clients we are able to present ourselves a little more forcefully and we tried to climb up in their scheme of things. Second, we are also getting new clients to the bank. So it is a mix of both. In fact from existing clients with good existing clients in Federal Bank

where our share of wallet was low we have I think made reasonable progress over the last two quarters in getting better share of wallet from well rated existing clients.

- Shrey Loonker:** Could we give any degrees to this progress, sir?
- Ganesh Sankaran:** My senses it is an equal break. I mean I do not have a firm number on it but based on what I can have a touch feel of the whole thing I think it is fair to assume that it is evenly coming.
- Shrey Loonker:** Okay and just a comment on the retail slippage accretion, how do we expect it to panning out in the remaining part of the year?
- Shyam Srinivasan:** I think the retail slippage is in the zone of Rs. 50 crores to Rs. 60 crores largely driven by some of the Kerala based NR led slippages which we had mentioned in a few quarters ago. Happily that has not accelerating or escalating. It is in the zone and the recovery rates on that is quite encouraging.
- Moderator:** Thank you. The next question is from the line of MB Mahesh from Kotak Securities. Please proceed.
- MV Mahesh:** I just had a couple of questions. One is it possible for you to give I think I do not know if I missed this one on NRE deposits?
- Shyam Srinivasan:** You want what on NRE deposits, please?
- MV Mahesh:** The breakup of the total NR deposits as well as the break up if possible?
- Ganesh Sankaran:** Break up means savings and term deposits?
- MV Mahesh:** Yeah.
- Shyam Srinivasan:** I think we had the NRE, NRO savings. I will take the next question in the meanwhile.
- MV Mahesh:** And the second question is on the balance SR book security received book which is about Rs. 550 crores, any rough sense as to where are we on that particular portfolio, do we need to make some accounts or it appears to be running okay?
- Ashutosh Khajuria:** Actually in the quarter ending September we had made the provision of about Rs. 16 crores, thereafter there has not been any need for providing for this SR book. It is holding on to it, I mean NAV has advised by the ARCs is taking care of it.
- MV Mahesh:** Okay and there has been no change to the portfolio, is it?
- Ashutosh Khajuria:** There is no change.

- MV Mahesh:** In the sense there has not been any redemption so far?
- Ashutosh Khajuria:** Yeah redemption is happening. Yes, redemptions are happening.
- MV Mahesh:** As of March we were at about Rs. 563 crores if I have the number correctly. Where would we stand as of today?
- Ashutosh Khajuria:** There is a reduction of Rs. 4 crores during this quarter.
- MV Mahesh:** NR deposits?
- Ganesh Sankaran:** NR deposits the savings event part is nearly Rs. 9,850 crores and term deposits is about Rs. 20,200 crores.
- MV Mahesh:** Is it fair to say that it has been more or less flat on a QoQ basis?
- Ganesh Sankaran:** No, actually there has been a QoQ growth . I see about Rs. 16.5% YOY & QoQ in NRE deposit has been 5%.
- MV Mahesh:** Okay and my last question is on the the non-staff expenses that is still high and clocking at 20%. Any color on that?
- Ashutosh Khajuria:** That is you are seeing YoY. You see QoQ it is fall, it is a fall of 4%.
- MV Mahesh:** Okay which is a better way to look at it because there are always some seasonal elements in the numbers especially in the fourth quarter?
- Ganesh Sankaran:** I think in the last three quarters you can take and make a sort of average of it.
- Shyam Srinivasan:** Last year first quarter there was a benefit of the depreciation.
- Ashutosh Khajuria:** And plus there was some netting of your card expenses where we earn fees and we pay. So on other income it may go and on the other side it will be on the expenses side. Now we are taking on gross basis. So going forward you will have that side because the income is being booked on other income and expenses coming on the expenses side.
- Moderator:** Thank you. The next question is from the line of Anurag Mantry from Jefferies. Please proceed.
- Anurag Mantry:** Just a couple of questions. Can you give me the breakup of your movement of NPA. I can see the addition in the PPT but if you can give us the recovery upgrade write off?
- Shyam Srinivasan:** Cash recovery and upgradation has been Rs. 83 crores, write off has been Rs. 93 crores. There is no sale to ARC, no 5/25 nothing I mean other than this. So total is Rs. 283 crores, which is

accretion minus Rs. 83 crores, minus Rs. 93 crores. That is the addition and we have moved from Rs. 1,668 crores to now Rs. 1,747 crores.

Anurag Mantry: And the provisions that we made for the quarter how much of that is for NPA how much is I do not think there will be any standard assets provisioning but?

Ashutosh Khajuria: There is a standard assets. Rs. 5 crores plus Punjab additional is the Rs. 11 crores. Rs. 11 crores in Punjab food credit. So it has become now Rs. 36 crores. There were Rs. 25 crores we had in March so an additional Rs. 11 crores, so Rs. 36 crores.

Anurag Mantry: So Rs. 5 crores and Rs. 11 crores and then Rs. 22 crores are for the amortization of the SR?

Management: Yes.

Anurag Mantry: And the balance is for NPAs?

Management: Yes.

Anurag Mantry: And sir, the restructured book I think has been restated from Rs. 1,590 crores to Rs. 1,382 crores is that because of a slippage which happened this quarter from restructured NPAs? I am talking about the Q4 numbers.

Ganesh Sankaran: No, I think it could be partly because of the movement of substandard SCB loan to SCB bonds.

Anurag Mantry: Okay so they were sitting okay understood sir

Ashutosh Khajuria: They were in loans now they have become NPA to NPI. So one year they will continue like that until they are upgraded. And some restructured standard assets would have moved to SDL, State Development Loan.

Anurag Mantry: This is last question if you can help me out is regarding the mortgage book if you can just help me understand the break up between housing loans and LAP and how that has been over the last few years?

Ashutosh Khajuria: Operator, you can move to next question. I will give that breakup.

Moderator: Alright sir. We will move to the next question which is from the line of Siddhesh Mhatre from Dimensional Securities. Please proceed.

Siddhesh Mhatre: Just wanted the credit cost guidance for the year?

Shyam Srinivasan: We mentioned that this quarter it is 85 basis points and we believe that it should be in the zone better. But we would certainly like to see one more quarter on how those restructured accounts

which are coming to pass the Moratorium. That is the only wild card it can be better or in that zone.

Moderator: Thank you. Our next question is from the line of Rakesh Kumar from Elara Capital. Please proceed.

Rakesh Kumar: Just actually in the Q3 and the Q4 we had a discussion on some decrease in the remittances happening from the Gulf Countries because of some turbulence there. So like what is the status there at this point in time how the things have moved over the period?

Shyam Srinivasan: Remittances as you noticed in our numbers the deposit growth is way above market average. Remittances have seen some slow down as per SLBC data. We are seeing significant share gain and therefore evidently we are wanting to keep that trajectory though it is not a marked decrease in the remittances there is a trend line which is suggesting some slowing down.

Moderator: Thank you. Our next question is from the line of Nilesh Parekh from Edelweiss. Please proceed.

Nilesh Parekh: We spoke about the ratings right the moving from 40% AAA and AA now interestingly Mr. Ganesh mentioned that this could be this mid corporate accounts which are internal so these are internal ratings that we give out right?

Ashutosh Khajuria: FB 1, 2, 3 is internal rating but what has been given on the left hand side in the slide AA, A and all that these are external ratings.

Nilesh Parekh: Okay so these are external ratings for obviously depending on the size of the corporate and these could be mapped the short term rating could be mapped?

Ganesh Sankaran: See sometimes it is the quantum of the loan for which you have the exemption and all. Sometimes it is the constitution of the account like if it is Kerala State Beverage Corporation or Supplies Corporation all that, they may be only rated through our internal system because they do not go for external rating.

Nilesh Parekh: So it could be a combination it is not a combination of external and internal on the left hand side?

Ganesh Sankaran: Left hand side is purely external and right hand side is internal. Where external rating is not available either exempted or it is a State Government Corporation or something like that where they do not go for external rating. On that break up on housing loan and LAP I mean Loan Against Property the amount of Rs. 8,000 crores and Rs. 3,300 crores. Housing loan is Rs. 8050 crores.

- Moderator:** We will take the next question which is from the line of Manu Pandey from Infinity Alternatives. Please proceed.
- Manu Pandey:** You have mentioned that you had only one significant recruitment at the ED level and there are few senior recruitments expected to happen over the next quarters. What impact do you see on the cost to income ratio regarding the same?
- Shyam Srinivasan:** Rest assured the people are not going to be so expensive to shift the ratios materially. We are talking of three individuals, reasonably comparative market packages the budget is certainly no bearing or no significant impact on the numbers.
- Moderator:** Thank you. The next question is from the line of Ritesh Bhagwati from Fortune India Finance. Please proceed.
- Ritesh Bhagwati:** I have a question in regards to the digital segment. So like yesterday our bank announced an agreement with Reliance Jio Money for the wallet payment. Am I right?
- Shyam Srinivasan:** Yes, you are right.
- Ritesh Bhagwati:** So I basically wanted to understand the financial agreement between us and them. So how is that happening, the revenue model as such?
- Shyam Srinivasan:** I would rather not talk about that, that is more a transaction specific. But we are quite excited by the opportunity and more than a revenue.
- Ritesh Bhagwati:** Yeah, I mean it seems to be quite a big opportunity but then I wanted to understand what is the quantum going to be like for us from the digital banking platform?
- Shyam Srinivasan:** Most importantly for us that we did not, we do not, and we do not intend to have a wallet of our own, that concept itself is less relevant in today with UPI coming in. So you wanted to have a very exciting ability for clients to have reward linked to using their wallets. This came up as a good opportunity. This is an example of what we had mentioned in the earlier in the call when we extend credit, we do want a relationship with that company. Through the last two quarters we have built a very solid Reliance JIO corporate credit relationship as also a relationship on the other side. So that is working, so the deal is more holistic and I cannot quite talk specifics on the numbers but broadly we are excited by it.
- Moderator:** Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Rajanarayanan N. for closing comments. Over to you.
- Rajanarayanan N.:** Thank you for patiently attending the call. The call comes to an end now.