"Federal Bank Q2 FY17 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Federal Bank Q2 FY17 Earnings Conference Call. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rajanarayanan N., Investor Relations Head from Federal Bank. Thank you and over to you sir.

Rajanarayanan N: Welcome to the Q2 Earnings Call of Federal Bank. With me are MD & CEO – Mr. Shyam Srinivasan; ED & CFO – Mr. Ashutosh Khajuria; ED – Mr. Ganesh Sankaran; Chief Operating Officer – Ms. Shalini Warrier; Chief Credit Officer – Mr. Sumit Kakkar and other senior officials. Over to MD & CEO – Mr. Shyam Srinivasan.

Shyam Srinivasan: Thank you and good afternoon everybody. You all probably had a chance to see our results which were declared a while ago and the investor deck has already been put on the website. I do hope you had a chance to go through it, but I will draw your attention to a few of the highlights.

We do think that Q2 was quite along the plans that we have laid out for ourselves internally and the trajectory is encouraging and many of the milestones that we wanted to be touching are on course. Importantly, for the first time the bank's balance sheet crossed 100,000 crores and the overall business size crossed 150,000 crores. If you look at the key numbers in terms of net interest income on a Y-on-Y basis, we saw close to 19% growth. The other income of course was flattered a little. Treasury gain saw 44% growth, total income grew 25%, operating profit grew 41%, net profit grew 25%, this is all Y-on-Y. We had very healthy sequential growth between Q1 and Q2 of this financial year. So the headlines are that we have had a very encouraging quarter along the lines we visualized it to be. We managed to ensure that the slippages remain quite along the expected lines. Q2 this year is the lowest slippage in the last 5 quarters; that trajectory in retail, SME and agri looks okay.

On corporate, we had flagged off in the past for about an account which has passed its moratorium in the restructured account. They belong to the steel category, they did manage to keep the account alive in Q2, though that may not continue in the Q3 or Q4. So that is one account which we do continue to have as one challenge, but barring that, our projections and performance is very much along the expected lines. Credit pickup was quite material. This quarter, we had a strong organic growth combined with one-off opportunity to make a bulk portfolio purchase. Combined, we saw a credit growth of about 27%. We saw good growth in corporate & retail. Gold loans started reversal of trend, for many quarters we saw a slack in the gold loan or a de-growth, this quarter we saw that pickup. Consequently, better credit utilization, higher CD ratio almost touching 75% saw us deliver an improvement in our NIMs.

One area that has been under our watch is the impact of the Middle East remittances into Kerala. We did see a marked slowdown whether it is seasonal or linked to the events there, we will keep a close watch. So that is an area that we are working very closely to ensure that the trajectory on the NR remittances and the deposits we are gaining share. But in absolute terms, the growth also we would like to make sure that, that continues the robust momentum.

Our expansion of footprint into markets which is the relatively newer geographies are turning out quite encouraging both on credit and deposit growth, we have seen healthy progress. So all in all, Q2 is in the direction we had laid out for ourselves in FY17 and we believe that we should be able to push along this trajectory in the coming quarters. So at this point in time, I am only drawing your attention to the various inputs given in the investor deck and as usual, the entire senior team is available for this call to take questions. So let me without further ado, turn this open for Q&A and then we will take it from there. So thank you very much and thanks for joining the call.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: Two questions. One is great performance obviously on loan growth. To the extent that as you said on the last concall, we are gaining share in the mid corporate segment presumably from public sector banks, this is something that several other private sector banks are also trying to do and from what little I believe through research on this especially we are targeting A or AA or above customers, it can get quite competitive there on deals because PSUs are willing to go fairly low to retain customers and other banks are willing to price very aggressively here especially the banks with a large suite of products because they can try and make it up on cross-sell, so if you are initially you see Kotak, you can get really aggressive on pricing in this segment because you hope to make it up by one of the many other things you be feeding the customer. Given this we have a more limited suite of products, how we responding to this means is it basically given that we are going to see some yield compression because of this growth because that is the price you pay to be able to get good risk adjusted growth or are there any other ways in which we may be able to juice up yields and the second question is you flagged off the Kerala remittance scenario, is this something where we could see deposits actually de-growing and NRdeposits de-growing in an absolute number or is the risk more that they will stagnant, so would be grateful to get some kind of outlook on that?

Shyam Srinivasan: I will answer both, but I will request after that Ganesh, our Corporate Head also to share. Essentially if your question is in terms of gaining market share in the mid-market, I do think pricing is only one matter, coverage is another, ability to pick and be there when they need the money is another and importantly the range of offerings that we have annualized to the banks we mentioned. I do not think we suffer from lack of any of the offerings, but we do have quite a meaningful digital strategy based on which we are going into these corporates and able to package a lot better and we personalizing a lot of solutions. So I think that is helping and the evidence is the growth that you have seen on the last 3-4 quarters. Greater coverage, regular calling, being there when they needed, being there fast enough to make the offer, at a meaningful price we are definitely, our MCLR is higher than some of the banks you mentioned. So I think the combination of this is helping us get breakings. On the NR topic that you pointed out, will the remittances taper off, the data suggest that the remittances to India over the last 2 quarters have been lower, but our growth continues and we are seeing the gain in share. I have mentioned in a few calls earlier that we were largely Middle East Kerala as the biggest corridor. While that continues to be a dominant part of our incremental flows, we are seeing Middle East, non-Kerala, non-Middle East non-Kerala flows also increased. Our catchments outside Kerala are working quite well. That said if the Middle East closed down materially and there is a sort of flow of money coming down, we will certainly see a reduction, but we are trying to corner that by gaining share which we have demonstrated over the last probably 8 quarters the growth of share of remittances that come into India, we are dominant in that segment. But I cannot take this for granted, it is something that we are very watchful of. We are also looking at newer expansion into other geographies. The far East is a geography we started combing last quarter. We just completed a board meeting where the board has approved us to go out with rep office potential in some of these far East markets. So we are making efforts so that this does not become a bottleneck for us. That said, it is an area of extreme watch.

Moderator: Thank you. We will take the next question from the line of Nilesh Parikh from Edelweiss. Please go ahead.

Nilesh Parikh: Sir just on the corporate growth again, so it is a very impressive growth. Just wanted to understand the sustainability of that, the nature of growth in terms of working capital, long-term financing, if you could just share some color around that? Thank you.

Ganesh Sankaran: This is Ganesh here. I think growth in corporate, we have been demonstrating over the last 2-3 quarters as Shyam already mentioned in his preamble, it is a function of having a better coverage model, it is a function of being available to the client when he needs it and it is also us being little more aware now of the opportunities that are available in the market. I think we are getting a little better on approaching our clients and we must also take this opportunity to let you know that we historically enjoyed very good presence in certain regional markets with a very good vintage clients and our ability now to go back to those clients and present ourselves as a very compelling option or the option is also helping us get better share of business from those very clients. So I think it is a mix of us approaching our existing clients in a more forceful and effective manner and also reaching out to new clients. That said as we also keep saying, we are fundamentally looking at only the well rated companies and as has been clarified in our previous concalls also, this does not necessarily imply the bigger companies. There are well rated companies in the local corporate space, in the mid corporate space, in the institutional space and we are equally focused on all of them. So we believe that there is opportunity available with what the distractions in the market that the PSBs are facing. Our own understanding of the buckets of opportunity and how we approach them, I believe with a combination of these things, we will be able to maintain our focus on the corporate book may not be at the same clip because yes, there is a certain base and there is a certain opportunity, but yes we will grow ahead of the system and in a healthy manner, I would like to believe so.

Nilesh Parikh: And just to confirm this again, the rating that we put out are internal right?

Ganesh Sankaran: No, these are the external ratings of the company specific.

Nilesh Parikh: Sure and in terms of coverage on the non-funded side right, so this is a loan product. Now in terms of how well are we covered offering the non-funded products to the clients because at some point, that was also one of the drivers for fee income potential. So where are we, where do we stand today on that front?

Ganesh Sankaran: We are approaching clients with all the products between funded products, transaction, banking, non funded and other products that they require. It is a function of the appetite we have on a certain client and the need that the client has got. So we will offer the products that meet both of these. So that is how we are approaching and that said while you mentioned on fees, I think it is relevant to point out that on most non-fund, now the risk capital is 100% based on various situations. So it may be better to look for certain funded offering with a client if you want to optimize your appetite. So I think there is no one set approach that we are adopting on this. Whatever gives us the best results, whatever the client needs is what we are going, we have a very ventilated approach to the whole thing, that is how we are looking at.

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

Jay Mundra: Sir the question on asset quality, so now we believe that SME and retail slippages have more or less stabilized in the 60 to 135 odd range which is kind of a new normal. I just wanted to get your sense on the corporate pie wherein you had highlighted there were some 2 steel account which were kind of under watch list, so just wanted to know apart from those accounts, any resolution or any addition or deletion in the stressed watch list?

Shyam Srinivasan: Those are the only accounts of the corporate which bother us, otherwise you have seen two quarters are 40 odd crores. That is the trajectory we expect.

Jay Mundra: And sir secondly just coming back on the loan growth, so while you mentioned that you have been maintaining the credit rating and we sort of also combination of working capital plus some other term loans but would it be possible for you to throw some light on the focused sectors if any so in the sense wherein you are finding relatively better opportunities.

Ganesh Sankaran: Every client who enjoys a good rating and as they need is our focus. So we are not kind to define boundary conditions beyond this for approaching any client. So yes, certain sectors of the economy are seeing certain credit pickup be it in somewhere in the mid corporate manufacturing, but we are not looking at, to answer your question, I do not know whether you are alluding to that, but I just wanted to let you know we are not looking up at steel, power, infra, long-term projects. It is easier to define what are the numbers than tell you what is the yes. The rest of all of it is a yes for us.

Jay Mundra: And sir lastly there is a huge jump in the retail loan book, so the section others if you can just tell us what is clubbed under that others?

Shyam Srinivasan: We made an inorganic purchase of about 1500 crores in the retail side.

Jay Mundra: So that is largely MFI or I mean PSL kind of a book?

Shyam Srinivasan: Home loans and mortgage.

Moderator: Thank you. We will take the next question from the line of Vishal Goel from UBS Securities. Please go ahead.

Vishal Goel: Sir one question on the NRI related basically as you have already spoke about deposits side, but on the asset quality because I think what we understand is like many families in Kerala would depend on remittances and some businesses would have even taken loans on the strength of those remittances. So how are things actually on that count and if you can like help us understand this has been happening for last may be 6-12 months, some of it is may be already appearing in your numbers as well.

Shyam Srinivasan: One of the reasons slightly elevated retail and SME is because of the stress on the NR regulated borrowings in Kerala which I think about 3 quarters back I had guided saying that will be the new normal which somebody pointed out in the earlier speaker or so, so that trend is continuing, do not deteriorating, it may not deteriorate. So we are not hugely alarmed on the credit side. Our incremental originations we have been very watchful of. In fact if you see this quarter and the last, we are toning down some of the credit extension in Kerala. We are ensuring that it is more broad-based and more segment in geographies where there is greater opportunity so that we can de-risk this part. So are we alarmed on the credit side for Kerala? No. Will this trend continue for 2-3 more quarters, I would think yes. On the deposit side is where we are putting more energy and focus on how to diversify that.

Moderator: We will move on to the next participant that is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Firstly sir, could you give some color on how many large corporate clients we would have added in the last couple of quarters, 2-3 quarters?

Ganesh Sankaran: I think it must be in the region of about 30 or so I think.

Dhaval Gada: And this would be on the basis of like what would be your total client base now in the large corporate segment?

Ganesh Sankaran: Large base has been moving, let me be honest, it is not the right way to look at it because the client base has been there at a certain point in time. We may take a certain static point I think it will not represent the growth correctly.

Dhaval Gada: In terms of sir in the restructured book, this large change in the standard restructured book, so how many accounts were added if any during the quarter?

Ganesh Sankaran: One infra account to which additional financing was required to be done as a part of restructuring.

Dhaval Gada: And what would be the fresh restructuring number then of this one account?

Ganesh Sankaran: There was no incremental finance because of a technical…

Shyam Srinivasan: 8 crores was the total incremental.

Dhaval Gada: And sir any S4A done during the quarter?

Ganesh Sankaran: S4A, couple of accounts not initiated by the lead banks, so we have to fall in line, but those ticket sizes are about I think 35-40, sub 50 for sure.

Dhaval Gada: Cumulatively, 35-40 crores in couple of accounts?

Ganesh Sankaran: Couple of accounts are there.

Management: About 80-85 crores.

Dhaval Gada: And lastly sir on margins, this is third consecutive quarter we have done more than what we have been guiding for, any sort of color how do you see incrementally margin shaping up for rest of the year and beyond that sir?

Ashutosh Khajuria: It is basically a function of higher CD ratio. So once your CD ratio is higher, your NIM increases. So last year same time we were struggling with 68%-69% CD ratio, now it has touched 75. So that is the change where the treasury investments are moving to credit.

Dhaval Gada: So you expect the current level to sustain?

Ashutosh Khajuria: I think but the same rate would not be maintained.

Shyam Srinivasan: I think our guidance in the earlier used to be in the 315-320, we may up the guidance to 320-325 maximum.

Ashutosh Khajuria: For the year as a whole.

Shyam Srinivasan: Yes, FY17.

Moderator: Thank you. The next question is from the line of Girish Raj from Quest Investment. Please go ahead.

Girish Raj: We have seen beef up in the borrowings, so will this alter our overall cost of funds going forward?

Ashutosh Khajuria: In fact, you see cost of deposits and cost of funds, you will find cost of funds are lower and partly because the borrowing is coming at lower than the cost of deposits.

Girish Raj: So second thing, can you give me the movement in GNPA and the provision breakup? The slippages, cash recovery, write-offs.

Ashutosh Khajuria: Gross NPA opening for this quarter had been 1747.31, accretions of 268 crores, then recoveries of 44.35, upgradations of about 79, write-off of nearly 80 crores and final number is 1820.

Girish Raj: And provision breakup, standard asset?

Shyam Srinivasan: Standard asset provision for this quarter is 56.

Ashutosh Khajuria: For this quarter, standard asset provision is 56. See, it is a reversal in case of investment. Loan loss is about 98 crores, restructured accounts are 2 crores and standard asset 56.

Moderator: Thank you. The next question is from the line of Kaitav Shah from SBICAP Securities. Please go ahead.

Kaitav Shah: Just one thing, from a trend line, where do you see CA headed?

Ashutosh Khajuria: CA would continue to remain between 5% and 6% because that has been traditionally bank's CA composition vis-à-vis total deposits.

Kaitav Shah: In from CASA perspective, would SA be a driver for it, aspirationally where would you like to hit?

Ashutosh Khajuria: The only thing is the rate of growth of NRE savings bank would peter out as already shared with you by MD that is because of the gulf related GCC oil price related problems and all, but on the other hand, we are seeing a good improvement in the resident saving. So resident saving growth would be replacing the NRE saving growth.

Kaitav Shah: And second question was broadly from a fee income perspective, so where do you think that should stabilize as a percentage of assets?

Ashutosh Khajuria: I think if you remove recovery in write-off accounts as well as the trading gains and I think on all of the accounts, there has been quite satisfactory growth. That shows that I think going forward, we would be having a much better other income, noninterest income growth. Even excluding trading is, trading is of course because yields have fallen, so they are there everywhere in every bank. We also have a share of it, but even excluding that, there is a quite sustainable growth happening in the other segments of fee income**.**

Kaitav Shah: And this would be a combination of both retail and corporate?

Ashutosh Khajuria: It is a wholesome this thing, even corporate related, fee income may be classified as part of retail because it is coming with a total package offered to the corporates by the bank. So you may have salary accounts and other things and where anything related to that and fee income accruing may go to retail, but actually on account of corporate relationship. So like that vice versa.

Moderator: Thank you. The next question is from the line of Sri Shankar from Prabhudas Lilladhar. Please go ahead.

Sri Shankar: Shyam mentioned about the SME issue in terms of slippages, if you see the Q2 numbers for FY16, Q2 FY17 has been much better, are you seeing this particular number heading downwards probably more maintained at these levels.

Shyam Srinivasan: Within the 125 or so will be where it will stabilize. That said, that is not our desire. Certainly, we would like it to improve. Like I mentioned the Kerala stress that some parts of the portfolio is seeing in cashew, rubber, tourism, hotel, we have been little more sort of worried about that. So around 125 is where we think it will be.

Sri Shankar: Next question was regard to you mentioned about specifically no sales to ARCs and no 525 restructuring etc. but again when you are talking about this rubber and everything, does it fall in agriculture or is coming in SME or is it processing industry?

Shyam Srinivasan: Rubber and others would be largely SME, agri would be smaller part.

Moderator: Thank you. We will take the next question from the line of Manish Karva from Deutsche Bank. Please go ahead.

Manish Karva: Just one on your CD ratio which has gone up from 68 to 75 over the last 12 months, do we think that this can inch up further from here on and what level would you be comfortable with?

Shyam Srinivasan: If you recall in the call after FY16 results, we had guided for regular growth in credit, more consistent disbursal and somewhere in the 78-80 where we would like the CD ratio to be and that is the trajectory we are on.

Manish Karva: And the second question is on your slippages on the SME front, now unlike the large corporates, I think would it be fair to assume that most of the SME loans that you have, have got a very good backing of security against it while there are slippages which may happen but the recovery potential from SME will be much better than large corporates?

Shyam Srinivasan: I think on couple of calls, I pointed out to many of our investors that the SME portfolio particularly Kerala is highly collateralized and these are relatively longer vintage accounts. Now they are going through some stress which is why we are not very aggressively forcing the security in transaction because the value realization in a tough market will be bad. Overtime, certainly the recovery rates on SME slippages is much higher. So the point in time slippage in SME over lifetime value realization in SME particularly in Kerala is much higher on the back of higher security.

Ashutosh Khajuria: Even in this quarter, Kerala recovery has been higher than the rest.

Manish Karva: Then, does it mean that we should be actually seeing decline in credit cost with every successive quarters because look large corporates except one or two accounts, nothing much is left and SMEs may not give you very high credit cost as such?

Shyam Srinivasan: That is the trajectory we are working on.

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

Rakesh Jhunjhunwala: I wanted to know about the cost-to-income ratio, it is still at 52%, I think which is quite high. So what do you think is you think is an ideal and achievable cost-to-income ratio and what is the time horizon you think obviously you will be able to achieve it?

Shyam Srinivasan: Our problem more is on income as opposed to cost. We do not have a very elevated cost structure. The improvement you have seen in the last 2 quarters is almost the improvement by almost 500 basis points, from 57 odd to 51.9 is driven largely by a fairly flattish cost structure and a good income momentum. This trajectory being, so we would like to exit quarter Q4, exit rate for the quarter around 50.

Rakesh Jhunjhunwala: But even larger banks have got 45%-46%.

Shyam Srinivasan: The definition is because of larger banks, Rakesh because they have built scale. We need to work on to get that scale.

Rakesh Jhunjhunwala: Lot of the costs are because you opened new branches and we had opened lot of new branches 2-3 years ago, I think will now be coming to, do not you think our cost-to-income ratio, 47%-48% is something not achievable?

Shyam Srinivasan: FY18, yes.

Rakesh Jhunjhunwala: Anything around, 47%-48% is…My personal feeling not I am an expert in banking but I think there should be scope for the reduction.

Shyam Srinivasan: FY18, yes. We need to scale. We noticed in the last 2 years we have not added any branches materially. I think the infrastructure we have created are digital if you have seen our deck, you would have seen the marked progress on digital and we have put a full slide on that. In quarter-on-quarter, it is almost doubling, so I can point to one of the slides there where we have said the digital transaction volumes and more than 50% branch transactions are now migrated to digital and one of the first banks. So we are seeing good traction on digital.

Rakesh Jhunjhunwala: Even medium cost reduction?

Shyam Srinivasan: Yes. That should give us. So I am not guiding for it just now, but yes, FY18 that is the trajectory.

Rakesh Jhunjhunwala: Next question, we have seen the other private sector banks, they have got a big fee income in selling products, mutual funds ,insurance, credit cards, what do you think this one area which we need to attack inflation?

Ashutosh Khajuria: Yes, very much. In the fee income side retail, the client base also is slightly different in terms of the client to maximize other products like insurance and investments. We are doing an okay job on insurance. On investments, we have not put a good wealth management platform which we are working on.

Rakesh Jhunjhunwala: Another thing is what about the insurance subsidy? How is it doing, we know nothing about it, you do not talk about it, I mean the insurance business is now gaining scale, you know lot of them are getting listed, so what is the strategy for the insurance business?

Shyam Srinivasan: IDBI Federal as a standalone entity is doing well, but again there is a challenge of scale largely limited by its two parent banks who have their own scalability related. So they are looking at getting in, the whole structure of IDBI Federal is being revisited by the board of IDBI Federal. May be I can sit with you offline and share that with you.

Rakesh Jhunjhunwala: Another question I had was regarding we have a NBFC. Now, I borrow banks and I want them to finance me, I am not talking about my borrowings, but there is a very big element of the economy which is being financed by the NBFC. So do you have any plans for the NBFCs?

Shyam Srinivasan: Our NBFC is trending quite well right now. This year, they will probably grow over 100%, albeit on a smaller base both on book and on profitability .In fact, we are looking into get into a strategic investor also into the NBFC. NBFC is doing well this year.

Rakesh Jhunjhunwala: Where are you reaching about strategic investors, have we appointed a merchant banker, are we close anywhere, whether it will take 6 months, 9 months, 3 months?

Shyam Srinivasan: We think by March 2017 we will have a new partner.

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

Rakesh Kumar: On the slide #11, the comparison of rating is for the wholesale, it is quarter-on-quarter, right?

Ashutosh Khajuria: Q1FY17 and Q2FY17 on wholesale sector.

Rakesh Kumar: And secondly on this decrease in CASA and RTD percentage, that would be mainly because of NR remittances or there is any other reason getting into?

Shyam Srinivasan: Two parts, one is the rate of growth of savings slowed down on NR, second is the denominator increase because we had borrowings also this time where we had good growth in others. So the share ratio changed.

Ashutosh Khajuria: Actually, deposit growth Y-o-Y had been 17% while CASA growth has been 14%, that has been the case.

Rakesh Kumar: Correct and thirdly this credit risk number which has increased quarter-on-quarter. So suddenly like it is being driven by the credit growth, what we have done quarter-on-quarter, but it is looking on the higher side and second thing is that the retail loans what we have bought like how is the risk weight and how is the return there on that book?

Ashutosh Khajuria: These have been bought from an AAA entity and they are mainly housing loans.

Moderator: Thank you. The next question is from the line of Darapan Shah from HDFC. Please go ahead.

Darapan Shah: Just wanted to understand what proportion from the restructured book will be coming out of moratorium in the next 6 months or 9 months?

Ashutosh Khajuria: I think one major account. PSU account will be coming out in the fourth quarter of this financial year. Other than that, we do not have any major account. One has already come out of moratorium in this quarter, somehow it has managed its quality this quarter, but remains stretched.

Shyam Srinivasan: Account that will come out as far as I can tell you is Air India.

Darapan Shah: So 4Q will be Air India.

Ganesh Sankaran: Yes, fourth quarter it will be Air India.

Darapan Shah: No, other steel account or anything. There were two steel accounts which I remember, right?

Shyam Srinivasan: It was mentioned, there is nothing else.

Darapan Shah: And sir just one more thing, what explains the rise in sequential increase in the restructured book from 1348 crores to 1493 crores when we say we have an alternate restructuring, am I missing something?

Shyam Srinivasan: KSK right? But that is one account, infra account.

Darapan Shah: We have added during this quarter into restructuring book.

Moderator: Thank you. The next question is from the line of Rinesh Patel from Antique Stock Broking. Please go ahead.

Rinesh Patel: Sir just one question sir, how much portion of our deposit is due to redemption under FCNR next month or probably this month?

Ashutosh Khajuria: See, the total FCNR under the special scheme was 65 million raised by us. We are not into that leverage business. But for us, it was the genuine depositors coming to us, therefore our redemption also is 20% of the total portfolio, means 13 million only. Remaining is for 4 and 5 years. So it is not maturing during this period of September to November because we did not go for any leverage.

Rinesh Patel: So basically FCNR impact for us would be restricted to 13 million only, right?

Ashutosh Khajuria: 90 crores.

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

Sri Shankar: Gentlemen, would you like to share your SMA-1 and SMA-2 outstandings at the quarter?

Shyam Srinivasan: It is in the region of the same 5% or so.

Sri Shankar: Out of it, how much is SMA-1?

Shyam Srinivasan: Sri, I do not normally share that. So there is nothing unique or abnormal to share.

Sri Shankar: Okay and the earlier question was with regard to the restructured accounts and of the restructured accounts, all of them will be out by the fourth quarter?

Ashutosh Khajuria: Moratorium.

Sri Shankar: Ones forward to moratorium, yes.

Shyam Srinivasan: This year, the account, there were 2-3 accounts. Two of them are Air India and the other one is a small SME account.

Sri Shankar: So by the fourth quarter, out of these restructured accounts, everything will be out of the moratorium?

Ashutosh Khajuria: Yes, moratorium they will be out.

Moderator: Thank you. The next question is from the line of Amit Rane from Dalal & Broacha. Please go ahead.

Amit Rane: I just need one data point. So how much is our contingent liability sir at the end of this quarter?

Ashutosh Khajuria: 22,133 crores.

Amit Rane: And sir your outlook on credit cost for the rest of the year?

Shyam Srinivasan: The current trajectory in that zone.

Moderator: Thank you. The next question is from the line of Sri Karthik from Investec. Please go ahead.

Sri Karthik: Excluding the borrowed portfolio, what is margin trajectory look like?

Shyam Srinivasan: It is slightly better.

Sri Karthik: It is higher than the 3.31 which we reported?

Ashutosh Khajuria: Yes.

Sri Karthik: Okay sir and you mentioned that the CD ratio could be taken up to about 80%. Do you see any further levers available for us on the margin front?

Ashutosh Khajuria: No, I think with increase in CD ratio, it would be coming at a slightly squeeze margin, may not be the same margin, so that would increase in CD ratio may put some pressure on NIM.

Shyam Srinivasan: I think Sri, you probably better know it. There are 4 things that impact the margin other than the rate you get from the client is the regularity of disbursal of credit, the higher credit disbursal and importantly no negative or contra entry that in terms of higher slippages and therefore the interest income reversal. So on all levers we are working on and the things that I am in greater control we pursue the best credit in the market, pricing is something that you have to be more flexible, so the regularity of disbursal, the frequency of disbursal, the quality of disbursal, the quantity of disbursal and lastly is the lower slippages is what we are working on.

Sri Karthik: Thanks. One data keeping question. The breakup of the reductions during the quarter with respect to upgradation, write-off in sale to ARC?

Shyam Srinivasan: No sale to ARC.

Sri Karthik: Write-off?

Ashutosh Khajuria: Write-off 78 crores.

Sri Karthik: And upgradation?

Ashutosh Khajuria: Upgradation is 72 and write-off is 79.

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

Jay Mundra: Sir just want a clarification, you mentioned there are some 2-3 couple of accounts under S4A scheme aggregating somewhere around 80 crores. So just wanted to know are these standard accounts or some of them have already slipped?

Ashutosh Khajuria: These are standard accounts. That is why standard asset provision if you see, it has moved to 56 crores this quarter. No sooner they go to S4A you are required to provide 20% upfront.

Jay Mundra: And do we have any exposure to SDR scheme?

Ashutosh Khajuria: No.

Moderator: Thank you. We will take the next question from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: Just wanted your thoughts on the gold loan portfolio, how you are thinking about it, what is the outlook there?

Ashutosh Khajuria: See after a long time, the total gold loan book has taken a U turn, I mean I would not say that it is very aggressive growth and all, but it started growing. It was falling, then it got stagnated, now it has started growing.

Moderator: Thank you. We will take the next question from the line of Ravi Singh from Ambit Capital. Please go ahead.

Ravi Singh: Sir apology if this question has been asked. What are the growth targets we are looking at now for the loan book?

Shyam Srinivasan: We had talked of 18%-20%. We may be able to improve it because we have had one or two good inorganic opportunity, but that is on plus minus depending on what kind of inorganic opportunities come through.

Moderator: Thank you. We take the next question from the line of Abhijit S from Kotak Securities. Please go ahead.

Abhijit S: Sir just one question, on the portfolio that you purchased, sir could you just highlight what the nature of the loan is, whether it is pure home loan, LAP or any other kind of retail loans and secondly on the rationale for buying out this portfolio?

Ashutosh Khajuria: The composition of the book is a mix, it is a mix of home loans, mortgages, so that kind of thing. Rationale is I think this is an opportunity. As a bank, we are looking out for all kinds of opportunities and we believe we have the capabilities to pursue those opportunities, so it is as simple as that. Opportunity is available and we pitched for it.

Abhijit S: So the counter party would be an NBFC?

Ashutosh Khajuria: It is a very well rated, AAA rated entity.

Shyam Srinivasan: Highly competed for business, we fought and bought.

Moderator: Thank you. We will take the next question from the line of Shiji Phillip from Religare Securities. Please go ahead.

Shiji Phillip: I just wanted the outlook for NIMs for the next two quarters?

Shyam Srinivasan: I had said that the full year numbers we think between 320-325.

Moderator: Thank you. We will take the next question from the line of Kaushik Poddar from AD Capital Markets. Please go ahead.

Kaushik Poddar: Shyam, this is for the first time after lot of quarters that your adequacy ratio is below 13%. Do we see you issuing some shares next year?

Shyam Srinivasan: Answer is Kaushik, as you know it is all tier 1, so we do have room in tier 2, but if this trajectory of good growth and we are pursuing growth capital, we will look at raising money, may be not early next year, but sometime FY18 there is a need for us to revisit.

Kaushik Poddar: And regarding the cost-to-income ratio, this 48% is your aspirational target or your committed target?

Shyam Srinivasan: At this point in time, it is aspirational.

Kaushik Poddar: Okay and 50% is what you are committing for this financial year?

Shyam Srinivasan: 50% is where the exit rate is what we are working on.

Ashutosh Khajuria: Not for the year as a whole.

Shyam Srinivasan: Exit rate.

Ashutosh Khajuria: Yes, December it was 58.72, from there it has come to 56.78 in March, 54.02 in June and now it is 51.92.

Kaushik Poddar: This exit ratio you are talking, this 50?

Shyam Srinivasan: Yes, that is what we are working into.

Moderator: Thank you. We will take the next question from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: Just if you could provide the breakup of deposits, savings and term, so that would be helpful?

Ashutosh Khajuria: NRE term deposit excluding FCNR is 21,167 crores, FCNR equivalent Rs. 2042, ONR term deposit **7**33 crores, NRE saving 9167 crores, ONR saving 1208.

Rakesh Kumar: This NRE savings how it has behaved quarter-on-quarter?

Ashutosh Khajuria: There has been some dip, small dip.

Shyam Srinivasan: -1%.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investment Advisors. Please go ahead.

Manjeet Buaria: I have two questions. First one was what are unsecured loans as a percentage of your retail book?

Shyam Srinivasan: Totally, unsecured book is about 150 crores, it is few decimal points.

Manjeet Buaria: And on this inorganic portfolio the buyouts, I did not understand one thing. So you mentioned there were mortgages etc. in this portfolio which you bought, so they do not get classified as a part of mortgages in the retail loan breakup you have given in your presentation, they all go in the others?

Shyam Srinivasan: It is all in others.

Manjeet Buaria: That is the only thing that is classified as others?

Shyam Srinivasan: Yes. Next quarter we will see it all move it into the different segments.

Moderator: Thank you. We will take the next question from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.

Sarvesh Gupta: Sir on your wholesale advances where we have seen a growth of 47%, is there a one-off there as well?

Ashutosh Khajuria: So much is growing, you are seeing only Y-o-Y. If you see quarter-on-quarter, it is not one-off. We have started growing from December quarter onwards and going on, December, March then June and now. What you are seeing is Y-o-Y that is why because in previous year September quarter, there was a de-growth. So even base was poor.

Sarvesh Gupta: So even including that 5% de-growth that we saw in Q2 FY16 it looked like a very high number, so I was just wondering if there is a one-off or not?

Ashutosh Khajuria: Yes, naturally I think after our senior functionary joined as ED, after that relationship management team was set up and thereafter the degrowth in corporate first was recouped and the new growth was set up. I think there had been focus on that and that has resulted in it.

Sarvesh Gupta: And secondly sir your fee growth has been around 20% odd. So will you be guiding at similar growth going forward, are we getting the fees from the new business that we are generating?

Ganesh Sankaran: Fee income yes, we are getting. One is from the new business which are our mid corporate HSE clients, we are getting loan processing fees. If you see our loan processing fees is correlating very well with the loan growth. So that is coming in. Even on loan processing fees, the other fees I think there is a life cycle of relationship management, you typically do credit products, you bring in certain consistency of providing credit to the companies and then you are able to participate in other fee opportunities. That is why I would say that we are seeing initial signs of some positivity in transaction banking mandates that the bank has been able to secure in the last couple of quarters. So hopefully that will result in some fees.

Sarvesh Gupta: Understood and sir this 47% growth that you have come on the wholesale advances, how much of that is Kerala versus non Kerala?

Ganesh Sankaran: Most of it is non Kerala.

Sarvesh Gupta: And is this majorly consortium loans or these are…?

Ganesh Sankaran: This is not necessarily kind of consortium loan, but wherever there is an opportunity, Federal Bank has tried to be present in that opportunity. So it is an opportunistic loan.

Moderator: We will take the next question from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Sir my question is basically in previous call, you had mentioned that our advance book would be divided one-third, one-third, one-third between SME, the wholesale and the retail and incrementally what we had seen over the last few quarters, most of the banks are saying that we would be focusing more on retail and more on SME. So sequentially the amount of pressure on the advances in these segment, is it getting set it off by better margins in the wholesale bank portfolio for us, as a result our yield on advances are stable at the levels sequentially or how do you see this thing?

Shyam Srinivasan: So one, we have said like you have pointed out, we do want to be an equally weighted, we do not want to overly weight on any one segment and try to believe that is the solution to all problems. Second, fairly distracted competition in case of all the middle markets, local geography clients and the relatively good corporate. So these are opportunities we want to tap into. So our book will be one-third, one-third, one-third and it will continue to be like that. Point in time you may see a lift if we bought a portfolio somewhere it may skew the ratios slightly, but broadly that is the direction we will go at. As a consequence of that, the credit got adjusted, margin is what we are looking at.

Ashutosh Khajuria: If you exclude credit equivalents, it is still one-third, one-third, I think you are seeing after the credit equivalents are included in that. So it is looking little higher in favor of corporate.

Nikhil Upadhyay: Sir my question was basically since we are trying to, sir over the last few quarters if we see, hear to the commentary of most of the banks, even the PSUs they have been mentioning that we would focus more on the SMEs and the retails, as a result wholesale banking has become type of a segment which not many are focusing on. So the pressure which is building in the SME and retail in terms of the rate of advances at which we are providing, so is it getting set it off with the better margins in the wholesale banking portfolio?

Ganesh Sankaran: We are not seeing what you are saying. For one, we are not pursuing retail in an aggressive way. Our approach is silent. Second, in terms of yield, what you said in the SME space we are getting the yields that we believe we should get from the clients. I do not think that we are having to compromise because there is heightened focus or chase on that segment. I do not think we are seeing that because we have fundamentally been in local geographies pursuing a single client.

Shyam Srinivasan: Your question is, are we getting better yields on corporate, is probably the question? My answer is good companies irrespective of which segment they are in are able to demand pricing.

Nikhil Upadhyay: And second question was on consortium vis-à-vis the individual client type of accounts in the wholesale portfolio, so we have seen historically that many of the banks the problem was like they entered into consortium and probably the scale was not so high as a result they had to get it impacted by the whole consortium. So over the next 3 years as you earlier also mentioned that we would try to build up the scale, so this scale build up would be, would consortium be a larger part of the portfolio or you would like to be the first banker type of a thing in the wholesale portfolio, if you can just share your broad perspective?

Ganesh Sankaran: It will be one of the bankers. Directionally if you see even in the system, I think the consortium thing is slowly coming down. It was a point in time it was a very relevant way of extending credit to certain companies of magnitudes that was beyond the capacity or appetite of one individual bank. I think that situation no longer exists. What is more important is in terms of credit discipline and information across banks, so consortium as a form of credit extension no longer is that relevant. That said, to answer your question, we would like to be one of these banks in the large well rated company. Yes, if our proportionate share and presence will go on increasing with mid corporate obviously we will be able to make a much larger impact and presence. If it is an SME, we may be probably the sole bank. So it will all depend on the scale of the client and scale of our exposure.

Moderator: Thank you. We will take the next question from the line of Hatim Broachwala from Nirmal Bang Equities. Please go ahead.

Hatim Broachwala: Sir, what is the slippage from restructuring during the quarter?

Shyam Srinivasan: 1.9 crores.

Hatim Broachwala: And sir you mentioned that there will be one account coming out of moratorium in Q4, so what is the quantum for that?

Ashutosh Khajuria: 271 crores.

Hatim Broachwala: Okay and the other two steel accounts which you have mentioned earlier are already out, right?

Ashutosh Khajuria: Yes, out of moratorium, but not slipped.

Hatim Broachwala: Okay, so they are still in the restructured bucket.

Ashutosh Khajuria: Yes, restructured standard bucket.

Moderator: Thank you. We will take the last question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir just wanted to understand the size of the two steel accounts that are out of moratorium?

Shyam Srinivasan: 110 plus 50.

Sangam Iyer: Sir in terms of slippage from restructuring going forward, how should one be looking at it? Also how should one be looking at that going forward, as you mentioned earlier that they are coming out of moratorium, almost all of it.

Shyam Srinivasan: If you see the restructured book's slippage, this quarter was 1.9. The previous quarter was sub 2 crores. So the normal run rate is very marginal. One or two of these chunky ones is what we are working to address. The steel situation slightly improving is giving us a ray of hope, but that is something that I cannot comment till I see how this quarter plays out.

Sangam Iyer: Got it. So any guidance?

Shyam Srinivasan: Other than that, there are no bulky or chunky ones.

Sangam Iyer: So overall slippage at the next slippage level, how should one be looking at it given that there is some kind of improvement in economy that people are talking about?

Shyam Srinivasan: The current two quarters that you have seen in terms of overall slippages, that is the base which we want to keep improving.

Sangam Iyer: That is around 60 odd crores at the next slippage level being.

Shyam Srinivasan: You mean after recovery upgradation?

Sangam Iyer: After recovery upgradation.

Shyam Srinivasan: In that zone, yes.

Moderator: Thank you. Ladies and gentlemen, that was the last question. With that, we conclude today's conference. Thank you for joining us and you may now disconnect your lines.