"Federal Bank Limited Q2 FY-18 Earnings Conference Call"

October 16, 2017

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Moderator: Good day, ladies and gentlemen and a very warm welcome to the Federal Bank Q2 FY18 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajanarayanan N. – Investor Relations Head, Federal Bank. Thank you and over to you, sir.

Rajanarayanan N: Good afternoon and welcome to the Q2 Earnings Call of Federal Bank. With me are Mr. Shyam Srinivasan – MD & CEO; Mr. Ashutosh Khajuria – Executive Director & CFO; Mr. Ganesh Sankaran – Executive Director; Ms. Shalini Warrier – COO; Mr. Sampath D – Executive Vice President and other executives. Over to Shyam.

Shyam Srinivasan: Thanks everybody. Good afternoon. Like Raj pointed the entire senior team is here. Let me just begin by saying that we are quite encouraged by our Q2 outcomes and not simply because the operating profit was good but I think it is important that I point out this is the seventh sequential quarter of operating profit improvement and last four each one being better than the previous. Points to the underlying operating rhythm of the bank improving which has been the focus for many quarters and even more importantly the mix of business and the sequential growth across our different businesses all have grown between 5% and 6% sequentially which I think is a very encouraging sign.

This quarter did see us focused consistently on our presence in the newer geographies for us through our campaign and other outreach activities. We did see that payoff quite well. So overall the quarter 2 backed by good operating performance and the consistent improvement in credit quality. Like I pointed at the last call when we had at the end of Q1 it was slightly scarred by one large corporate which we knew did face the challenge. Backed that out the improvement in credit quality is consistent and we see that happening.

But some texture in terms of the kind of growth was most heartening is that this quarter we did 45% more business in terms of new business originated in clients in deposit clients, retail clients than ever before and it coincides that it was the period when we are outreached marketing was at its peak. I have maintained that our approach has been around distribution heavy branch light. For two years now we have not added footprint in terms of branches that does not mean we have stayed away from the market. We have added presence, reach, distribution, feet on street, RM, Digital, activating Fedfina the combination is working quite well.

So that is also reflective in the kind of 97% of the book is now retail deposits. So I would like to point out the quarter went on plan on many accounts. There are still lot of work to do but we are encouraged by the place we are in and there are no one offs, there are no transactions we either sold or bought. So what we have on offer is the bunch of organic improvements that have begun to come in to place. And the feet on street and the coverage model and the RM model is helping and sequentially all the four businesses have seen 5% or more growth.

I do not want to repeat what is in the investor deck. I am hoping that all of you have had a chance to see it. Since the entire senior team is here, we will be happy to take pointed questions and clarify areas that you may want to.

Last quarter I mentioned that the retail origination for the quarter was Rs. 1,000 crores. This quarter is Rs. 1,688 crores. This is new business originated in retail. So those are the encouraging high points. Do we have challenges, yes, we do. But we sort of organized to approach and address them. Yes, so let me just request in whatever order you may start questions and we will clarify like Raj pointed out the entire senior team is here. He did not mention Sumit is also here. So all of us are here in the call.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.We will take the first question from the line of Devansh Lakhani from NVS Brokerage. Please go ahead.

Devansh Lakhani: One question I had was regarding the security receipts. I think what I understand from the presentation we had a book value of around Rs. 873 crores. So has there been any write down or anything which has been included in the provision part of the P&L in this quarter or in the H1 also?

Ashutosh Khajuria: Only Rs. 5 crores. Only provision if you say provision or this thing net asset value then there is only Rs. 5 crores.

Devansh Lakhani: Okay on your Rs. 5 crores diminution in the NAV?

Ashutosh Khajuria: Yes.

Devansh Lakhani: So do we see any?

Ashutosh Khajuria: You can round it up to Rs. 6 crores because it is more than Rs. 5.5 crores, Rs. 6 crores.

Devansh Lakhani: Do we see any other like in the next H2 further write offs or something in the NAV of these SRs?

Ashutosh Khajuria: See this is subject to what NAV is advised by the ARCs so we are totally dependent on them so whatever valuation they provide based on that we have to provide. Every quarter we have something or the other Rs. 5 crores, Rs. 8 crores, Rs. 10 crores like that, that is the range in which we have been having consistently every quarter. No one, bulk one. Last year I think in one quarter we had Rs. 20 crores, but that is the highest we had in any quarter.

Devansh Lakhani: Okay, so there is nothing major that we are seeing here, we are just seeing some?

Ashutosh Khajuria: As of now, no.

Moderator: Thank you. We will take the next question from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: Do you think the whole performance have come the bank has got in lot of ways transformed what is it that you think the bank has done differently is that this has happened?

Shyam Srinivasan: Rakesh, this is not one quarter or few quarters, it has been the engineering of the bank for many, many, many quarters. We have steadfastly stayed away from sectors that we were worried about and once we gain that confidence we started putting in people of the right profile who can drive the growth. We then stepped up on the client outreach both in Corporate, SME and in Retail. The bank now commands a fair amount of support from our client base because our offerings are no less, pricing is competitive, our distribution is pretty compact. So I do not think there is one magic formula. It is part of a journey and I still think we are half done.

Rakesh Jhunjhunwala: No, but still there are two things. One is your retail advances and your fee income is still very small for a bank of our size. I mean the okay you have grown Rs. 600 crores, Rs. 700 crores is okay. But what it is not even Rs. 10 crores; once you are not even Rs. 10 crores, Rs. 15 crores in a while? So what are we doing to get this retail thing going and that will also lead to much higher other income?

Shyam Srinivasan: Absolutely. Like I mentioned one of the heartening points of the quarter is retail sequentially grew more than 5% all organic. The combination of organic stepping up and portfolio buyout opportunity comes up we will pursue. One thing you are aware and I think we have sort of repeatedly stressed, we would not do things that are looking good for today and not tomorrow. So in that context our rate of growth in all these businesses will be in the mid twenties unless we sight an opportunity to pick up a good portfolio at a price that is valuable. Organically the step up is happening.

We have stepped up our outreach like I mentioned in the distribution whether it is Fedfina our own subsidiary, our own branches. Our network of branches outside Kerala is now firing on all cylinders. They had 3x of the rate of growth in SME that they did in the past, likewise in retail. And we think that momentum will continue. That is why I pointed out at the top of the call that Rs. 1,688 crores is the new distribution we have done in retail this time.

Rakesh Jhunjhunwala: Mr. Shyam, but it is still a very small percentage. Other banks are having much larger retail books?

Shyam Srinivasan: We will get there, Rakesh.

Rakesh Jhunjhunwala: We have seen old private sector banks, there is no culture for marketing of financial products?

Shyam Srinivasan: I think that statement may not hold true for Federal Bank at this juncture. You saw a remarkable campaign this quarter which even the best banks struggle to understand how we could do that and we have a work in progress. We will keep pacing up, we will not do things under duress.

Kunal: Kunal over here from Edelweiss. Sir, firstly in terms of on this slippages side, when we look at it on the retail and agri, it is higher as compared to that of say the run rate. So how much of this would be technical in nature and how do we see the recoveries and the trends of the cash attrition in both of these segments going forward?

Shyam Srinivasan: The slippage in retail and in agri in this quarter was almost Rs. 150 crores which was higher than the previous quarter. We had sensed that the demonetization led dispensation and the farm loan waivers did have its impact. It was more significantly pronounced in one state where we have a larger share and also the state is going through its challenges. We think the worst of the retail is over because the dispensation period is all completely over. The few that had held out in Q1 could not manage to meet their requirements in Q2 so they fell off.

Agri which has moved up to Rs. 50 crores I think will normalize around that. So we think between retail and agri that sort of deterioration we saw in two quarters is beginning to taper off. You may have noticed happily the SME has trended down from Rs. 154 crores to Rs. 106 crores, and that is largely because as I have signaled in the past that the SME in certain geographies in Kerala which was impacted by cashew, rubber and the local business having impact we had recognized those as NPA so the residual portfolio is relatively less challenged.

Kunal: Okay. So in these three segments the sense is overall the slippages should normalize going forward?

Shyam Srinivasan: We think between these three and education loan which is I am singling out education loan because there are certain set of waivers that are expected as of 31st of October for student loans in Kerala, so some population of customers are waiting to see the benefits of it. So that could have some impact but we are well provided for it.

Kunal: Okay. And secondly in terms of this overall SME you highlighted maybe all the segments be it retail plus SME plus the wholesale should grow in say somewhere around upwards of 20% range. But how do we see the overall SME maybe because of this entire formalization in GST, does it open up a huge opportunity and given that the strength which we have in this particular segment, do we see overall SME maybe a Federal Bank should be able to do much better in terms of grabbing the market share and that the overall proportion should inch up?

Shyam Srinivasan: Yes, between SME what we call business banking, commercial banking put together is SME and mid market which is sitting in our corporate we see a remarkable opportunity. In fact our stated position is to be the most admired digitally enabled mid market SME bank of the country. So all our efforts are targeted towards that, that is the natural strength of the bank and we think we are seeing that growth. Like Ganesh pointed out in the last call, the verticals have also been created so we have a business banking head, we have a commercial banking head then we have a mid market large corporate head and each of them are driving their verticals. And the distribution that they use is between branches and feet on street and RMs that combination is working. So we think we will grow and at the heart of the bank today 55% to 60% is mid market and SME and commercial banking and that will continue.

Kunal: Okay. So should not the growth maybe improve by say 5%, 10% points higher than where we are today or maybe what has been the growth over last maybe one or two odd quarters?

Shyam Srinivasan: I would think, yes, but it is only a reporting point. The blended 25% odd growth we are seeing will continue. The mix between them will depend on the opportunity and where we are confident of picking the growth. From an organization structure whether it is origination, under writing, credit collections follow through, we have created verticals to support that.

Kunal: And what was the reason for Opex other operating expense during this quarter as you have highlighted was it because of the investments which we have done on the say the branding side?

Ashutosh Khajuria: Yes apart from that that was one, but apart from that there had been operating expenses which are credit related like our own distribution related expenses whether it is Fedfina or DSAs or even for portfolio we pay service charges that we need to pay for the retail portfolio acquired last year it was only for one month, this year it is for three months. So these are mainly and then we have retrained our entire staff for I mean this is for customer service under program called Atithi Devo Bhava. So basically for that also you know almost half the staff strength was retrained, remobilized and related to that there were training related expenses.

Moderator: Thank you. We will take the next question from the line of Dhaval Gada from Sundaram Asset Management. Please go ahead.

Dhaval Gada: Three questions. Firstly, the CASA momentum seems to have slowed down a little bit. I mean I was just looking at the quarter we ended post demon it was about Rs. 32,000 crores and this quarter we are about Rs. 31,500 odd crores. I mean any comments, any thoughts on while the investments have been happening, the traction seems to be lost out a little bit. So just some color on that?

Shyam Srinivasan: Sure. You want to complete the other questions or you want to?

Dhaval Gada: Yes sure. The other was on retail NPAs. I think someone touched upon it earlier has been a steady increase there, is there anything specific to the two major events that have happened during the year or it is something that you want to give color on and the third one was breakdown of upgrades and recoveries and write offs during the quarter? Thanks.

Shyam Srinivasan: On savings momentum barring one bank which has had remarkable savings growth, there is I think sort of a taper off relatively after the demonetization led burst that happened and we have seen about 20% Y-on-Y growth and that is the pre demonetization growth. Post demonetization we have to see it how it is going to be. But there is a challenge in terms of the geography that where we enjoyed the highest growth the incremental rate of growth while we are gaining a higher share there is a certain degree of slowdown. But our non Kerala growth has moved up almost 700 basis points higher than our past run rate. So we are seeing that we are able to offset that lack of growth in one geography by our increased presence elsewhere. That said it is an area of watch, but equally I will point out the savings growing at 6% or term deposit growing at 6% is the same.

So we are not too flattered by growing savings by giving 6%. So we are quite cautious about it. We think our rate of growth in savings on a full year basis will be about 20% which is what we would like it to be. Anything more is a good outcome but I am not going to price higher to get shares which is what is happening in some institutions which are growing higher savings. The second part of your question is in terms of the increase in retail and advances in terms of these slippages. It is at the higher end of our run rate for many quarters but it is largely led by the two events, not even the two, the one event which was demonetization and the consequence of having to pay a ballooned amount in the end of Q1 and the middle of Q2.

That benefit whatever those who could meet have met, others have slipped. So we see a trend down from here which I pointed out earlier in the call. The third part of the question was in terms of upgrades, recoveries breakup.

Ashutosh Khajuria: I think the SME is 106.

Shyam Srinivasan: No that is slippage, they want upgrade recoveries.

Ashutosh Khajuria: Upgrade.

Shyam Srinivasan: Yes it is there in the slide number, recovery upgrade is Rs. 163 crores.

Dhaval Gada: And write offs sir for the quarter?

Shyam Srinivasan: Write off is Rs. 50.22 crores.

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

Manish Karva: Just wanted to check while we are doing pretty well there are just two line items where we are still not doing as well. One is in your core fees, and second is in your current accounts. When do you think we start to see decent growth coming in these segments as well?

Shyam Srinivasan: On the core fees we have grown more than 20%.

Manish Karva: No, when I say core fees the main commissions, distribution related fees?

Shyam Srinivasan: You mean the mutual fund and investment related?

Manish Karva: Yes, because the way you segregate your loan processing fees have done well but your distribution or commission related fees have grown just that 9% YoY?

Shyam Srinivasan: FX has done well, the mutual fund and insurance related, insurance typically tends to be back handed. The mutual funds our distribution power is just improving so we think as we go into FY18 second half of FY18 and into FY19 we are putting in more effort into those vertical. But on balance the combination between net sort of FX the fees on credit processing, processing fee and commission exchange brokerage in terms of the insurance business, mutual fund business that is the area that we are putting in more weight behind. On current account I have a similar view to the savings one it is getting challenged.

While we are growing the credit relationship with the mid market and SME clients, the current account volumes have to grow. We are tracking ourselves on the average current account growth as opposed to period end. On average we are growing quite well reported number you are seeing only 9% or 10% but average current account growth has been more than 14%. There is work to be done.

Manish Karva: Sure and you have been mentioning about Fedfina. Can you just give some numbers breakup of the total retail disbursements that we are doing, how much is done by the banks and how much is done by the subsidiaries?

Shyam Srinivasan: At this juncture a large I mean almost 91% is by the bank, Fedfina on the floor is now beginning to contribute about closer to Rs. 150 crores of credit origination in a month.

Manish Karva: And Fedfina is only doing credit origination or it is also booking loans on its own as well?

Shyam Srinivasan: Fedfina has four lines of business. One is it to originates loans for the bank which is written by the bank. There it operates as a DSA. They do gold loans. They do loan against property and construction finance on their books. Their book is about Rs. 1,300 crores now growing quite well and it is a profitable business.

Manish Karva: And how much profit that Fedfina make?

Shyam Srinivasan: Last year they made Rs. 25 odd crores.

Manish Karva: Okay, and in the first half?

Shyam Srinivasan: First half is Rs. 14 crores or Rs. 15 crores.

Manish Karva: And last question just wanted to reconcile, while your profits have grown by your profit for this quarter is like Rs. 260 crores but your net worth increase is only Rs. 100 odd crores. Is there some adjustments that you have made in the net worth line? Is it the dividend adjustment?

Shyam Srinivasan: Yes, the dividend adjustment.

Moderator: Thank you. We will take the next question from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Just a couple of very basic questions. One on the OPEX line you have seen some reacceleration in growth in that line. Where do you see it kind of ending for the next couple of quarters? Second on the retail NPAs that you kind of mentioned earlier, which product lines within the retail portfolio is creating a problem? And the third if you can give us a breakup of provisions?

Shyam Srinivasan: The second one is in terms of the retail largely the book is home loans and loans against property. So retail in particularly in Kerala is impacted by the NR remittances related payments that have been made in those segments and a slowing down market. So they are all secured products. We do not have an unsecured portfolio. So that is the thing. So they had to pay a bulk five dues as opposed to usually paying one or two dues. So I think like I mentioned the bulk of that problem has been addressed. Sorry the first part of the question was in terms of? Mahesh, what was the first question sorry?

MB Mahesh: The OPEX line you have again seen it is kind of growing back to 18% odd. It was 11% in 4Q of '17, it went to 14% and now it is at 18%?

Shyam Srinivasan: Yes, Q1 typically tends to be the lower expense quarter. The current OPEX does capture a part of the marketing spend and we see that marketing and technology, like Ashutosh pointed out the spend increased is on the three areas that we have been guiding for marketing, technology and specific people related and that will continue. So we think it will be in the mid teens as we go into FY18.

MB Mahesh: Okay and the third is on the provisioning lines the breakup for this quarter and also probably for the first half?

Shyam Srinivasan: For the quarter provisioning for September '17 NPA related is 140, standard advance is 20, the income tax is 143.

MB Mahesh: And could you give for the first half?

Shyam Srinivasan: For the first half would be you can add 230 for NPA, 111 for tax and standard advance is 3, so that was 233 plus 111 that was 344 plus 140, plus 143 plus 17.

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

Anand Laddha: Just wanted to sir seeing your borrowing also increasing can you give some color on the composition of borrowing and cost of borrowing and also sir on your cost to income ratio, though it has now stabilized at 50%, 51% can you give some color how do you see next couple of quarters, where does the cost to income ratio stabilizes**?**

Ashutosh Khajuria: Cost of borrowing is less than the retail term deposits and about 40 basis points benefit on account of CRR SLR benefit also because this borrowing is nothing but refinance taken by one of the eligible institutions and that has replaced the purchaser means the CD issuance and the bulk deposits. What is the second one?

Anand Laddha: If you can give how much is the refinance taken by in this quarter? Overall how much is the composition of this borrowing?

Ashutosh Khajuria: The net would be because there are repayments also. I can separately give you the number but should be of the order of Rs. 20 million.

Anand Laddha: Okay that is the refinance amount?

Ashutosh Khajuria: Yes.

Anand Laddha: And where do you see the cost to income ratio stabilizing for us?

Ashutosh Khajuria: See we have been guiding that though we can I mean we wanted to spend for marketing and all and therefore we want to hold it at around this level 50%, 51% or maybe a range of about 49% to 51%, this is what we have been targeting. We would have held back our expenses and all that, for brand building then we can definitely go to 46% or so.

Shyam Srinivasan: I think we should factor in 50% to 51% as the run rate for the next six quarters.

Anand Laddha: Next six quarters?

Shyam Srinivasan: Yes, there are lots of areas we want to invest into, and we want to make sure that we are building the franchise for this so fiftyish is what we should build up.

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

Ravi Singh: Sir, your yield on loans has fallen steadily down around 300 basis points YoY and QoQ also down 45 basis points compared to cost is falling by 30 basis points. I think main expansion partially explained by some refinancing without entire improvement in the CD ratio. So how do you see the NIM settling, where would it settle and what is the outlook on the yield on advances getting better?

Shyam Srinivasan: Blended first half is 3.25 or so is NIM. We think the second half will mirror that in that zone, which has been our guidance for the year ahead between 3.20 - 3.25. When we are acutely sensitive to all that is happening in the market the regulatory changes that may come on NCLR so we have to be prepared for that. The things that are in the control of the bank is the regularity of credit growth, the quality of credit growth, therefore lower reversals, the higher CD ratio and the mix of products so we are stepping up on all four of them. The outcome of what the regulator points out in terms of NCLR and the change in pricing and external benchmark may have impact and in some cases we are not the leader, so we have to follow if we have to be comparative. So we will be fairly reacting to the opportunities as they come. The focus that we are pressing hard is the growth and the mix of the products.

Ravi Singh: So in terms of loan mix which would be the high yielding products we will be targeting at?

Shyam Srinivasan: Ravi, you are very much in the market. There are no arbitrage opportunities where somebody can cream the market and others cannot. If it is good everybody is there and all the meaningful banks which have any scale and size are pushing hard even the famous big banks are pursuing clients of ours and at base rate or at MCLR. So I think those myths are slowly disappearing. Having said that there are pockets in terms of the lower end of the market where there are some opportunities, mid market there are opportunities.

Moderator: Thank you. We will take the next question from the line of Dhaval Gala from Birla Sun Life Asset Management. Please go ahead.

Dhaval Gala: I had just a couple of questions. One was on your net interest margin. I think you partly answered on the yield just when Ravi was asking you. But just to understand what could be the range in net interest margin; despite the reasonable size of capital raised few months back we look at the net interest margin they are not I mean if you exclude for the positive free fund effect, margins are largely under pressure would be the right way to look at?

Shyam Srinivasan: The benefit of capital is about 5 to 6 basis points. 3.25 is what our number is and that is where we are at this point in time. We think like I explained as long as the slippages remain in control which we are focused on, credit growth remains robust. The regularity of growth is not only back ended but consistent, CD ratio in the mid to early 80s, we will see this kind of margin and the composition of products mid market and SME is a good opportunity that produces a higher yield compared to the corporate or the home loan kind of market and we are stepping up on that. Where we are not doing and we are not yet confident of doing aggressively is retail unsecured which we will be very watchful of.

Dhaval Gala: Okay. Just to ask you a question linking your margins even to the retail slippages, what would be expectation and do you expect more slippages or the run rate to remain similar on a higher side or to trend down in the next two quarters and will that also have any bearing on the margin number?

Shyam Srinivasan: The incremental slippage in retail non education loan has already started trending down, even in Q2 the first month and the first month and half was the worst because that was the last month of the dispensation. The second month and a half was way better and that momentum will continue into Q3 and Q4. Education loan there is a pocket which is impacted by some rather influenced by some Kerala Government dispensation that is coming. So that impact will play through in October, November. Barring that we do not see anything significant.

Dhaval Gala: And ROA means any number in mind where you would like to have and since I mean then you would look to raise another round of capital. I understand you recently raised so you would not need now for next 24, 30 months. But any guidance on the ROA number which you would like to achieve and therefore then the next raise?

Shyam Srinivasan: Firstly, we are trying to move away from ROA to risk weighted. Now we are tracking quite well, we are 1.4 and as you know that the IndAS numbers are going to be all risk weighted related. Second, we are not looking at raising money, we are still waiting to deploy the money that we have more meaningfully and sensibly so I think that part of the.

Dhaval Gala: We have been growing at a faster rate so our consumption of capital?

Shyam Srinivasan: Yes we will consume another 200 basis points in the next 24 months and that will bring us to somewhere in the mid 12 and then we will look at time opportunity situation, the willingness of the market to support us but at this juncture we are not looking at that and you must realize it is about Tier 1 bond opportunities will come up.

Dhaval Gala: Any timeline on Fedfina you are supposed to look for external?

Shyam Srinivasan: Yes we are working on that, in the course of this quarter we will have greater clarity. We are in a very advanced stage of discussion, boil down to the last two, three serious investor opportunities.

Dhaval Gala: We would look to do any OFS there or it would be only fresh infusion in the minor combination up to?

Ashutosh Khajuria: Fresh infusion no OFS.

Moderator: Thank you. We will take the next question from the line of Cyrus Dadabhoi from Anand Rathi. Please go ahead.

Cyrus Dadabhoi: My first question is related to the corporate book. So you obviously maintained a good run rate in corporate loans over last few quarters. I just want to understand what is the average ticket size you are dispersing and what is the turnover of these corporates and also the rating of these corporates you know on your internal book I can see the internal rating but what would be the external rating be how closely are they correlated?

Shyam Srinivasan: Ganesh is there he will give you a better texture on this.

Ganesh Sankaran: I will go the reverse way. 70% of incremental origination is rated A and above. That is one. The second is that the turnover of the company I think as we have been explaining, our definition of the corporate and institutional bank is extremely wide. It has got all kinds of companies, it has got large institutions, large corporates, emerging corporate, local corporate etc etc. So there is no one turnover. Average turnover will be about say Rs. 400 crores and above. You know and it can go right up to whatever is possible the large industrial houses and groups. So that is what, what is your first question, I missed out?

Cyrus Dadabhoi: Yes what would be the average ticket size?

Ganesh Sankaran: Average ticket size is in the region of I mean if you take an average it will be about Rs. 50 crores, Rs. 60 crores.

Shyam Srinivasan: Rs. 40 crores to Rs. 60 crores.

Cyrus Dadabhoi: And what are the incremental yields you are seeing on the book?

Ganesh Sankaran: Yields so what the market is offering to the best banks they are offering to us in the wholesale space, but jokes apart I think the yields will differ because I think the yields are different for different set of clients.

Cyrus Dadabhoi: No, blended yield I am saying overall?

Ganesh Sankaran: Blended yield is close to about nine quarter.

Cyrus Dadabhoi: Nine?

Ganesh Sankaran: `Quarter.

Cyrus Dadabhoi: And just on the housing and mortgage piece if you could go back, what is the blended yields you are seeing?

Ganesh Sankaran: It is a similar range. Because these two ends of the spectrum behave somewhat similarly in the market I think you know.

Cyrus Dadabhoi: Okay finally sir some credit cost guidance for next two years?

Shyam Srinivasan: See I would like to take a six months view on these things because everything that anybody says some regulator or somebody comes in and Post IndAS the nature of how things will pan out is going to be quite different and anybody says they know it, I am not sure they know it. I make this statement but that apart I think the next two quarters the similar run rate or slightly better than where we are today.

Moderator: Thank you. We will take the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: If you could share what would be our exposure to the IBC referred cases on books as well as part of the security receipts, there is a 40 cases which RBI has asked to refer to IBC.

Ashutosh Khajuria: There is only one Amtek Auto where we have investment exposure that also is about Rs. 15 crores and that is a 50% provided.

Shyam Srinivasan: On the investment 50% provided, on the credit 100% provided.

Rohan Mandora: Okay. So total exposure is Rs. 15 crores?

Shyam Srinivasan: Between investment plus credit is Rs. 22 crores.

Rohan Mandora: And sir like what percentage of the book do on MCLR?

Shyam Srinivasan: 77% of the book is in MCLR.

Rohan Mandora: And sir at the beginning you had mentioned a comment on 45% of the business origination, so is the new business that is getting originated, I just could not understand that?

Shyam Srinivasan: The new accounts opened in the quarter was 45% more than the previous quarter, average was about 200,000 accounts in a quarter. This quarter we opened 290,000 accounts.

Rohan Mandora: And these are savings accounts that you are talking about?

Shyam Srinivasan: Savings, retail, credit and all accounts and out of that the most happy and encouraging part is 60% plus is opened by digital instant account openings.

Moderator: Thank you. We will take the next question from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.

Sagar Karkhanis: My question was on the housing side in the retail ex-agri loan book. So if I see the geographical breakup currently Kerala to outside Kerala is around 55:45. So our housing book which is now around Rs. 10,000 crores size will the breakup be similar 55:45 Kerala and outside Kerala?

Shyam Srinivasan: The housing will be slightly on the floor is much higher weighted outside because the opportunity has increased. But on the stock it will be almost half/half.

Sagar Karkhanis: Right. And could you give some outlook on that space of the business in terms of yield, do you see any pressure given the fact that a lot of players want to be in that segment?

Shyam Srinivasan: See I think I will be misguiding if I told you we have some pricing advantage. For the best customers we are all equally priced and comparative. Here it is a matter of reach and presence and turnaround, which we have increased substantially and that is why we have seen the growth pick up. Like Ganesh pointed out yield are around 9.20 - 9.25.

Sagar Karkhanis: Right and this 20% YoY growth that we have seen there do you see that kind of growth to continue in that space?

Shyam Srinivasan: You will see that improving.

Moderator: Thank you. We will take the next question from the line of Nagraj Chandrashekhar from Laburnum Capital. Please go ahead.

Nagraj Chandrashekhar: Just wanted an update on the impact of IndAS on your balance sheet, if there was any update on what you guided to the last quarter?

Ashutosh Khajuria: We are still awaiting the final guidelines from Reserve Bank of India on ECL. Other than that I think the models are being developed and all and other than ECL we see only the positive part and that could be in the form of valuation of securities and amortization of discounts. I mean if you are having discount securities in your book you can now amortize. So these are some of the areas on investment side there could be a positive outcome whereas on the credit side ECL would be a real challenge and I mean various models are being run and I mean some data is going to be submitted to RBI again as for the quarter one by 31st October. So by that time you would come to know what exactly would be the impact on the credit side.

Nagraj Chandrashekhar: And just on the OPEX side, just could you give me some color on the percentage of employees for whom COMP has moved away from the IBA formula and what are the implications for this would be for growth in employee OPEX going forward especially if you are not really adding any branches? And if all employees being added ex branches?

Shyam Srinivasan: Last quarter when we pointed out we had rolled out what we call the cost to company model or the grander pay as we internally call it. That is for about 700 employees only, the top 700 employees. The rest are all IBA terms. While we are working on many variations of it, but it is driven or influenced by IBA. November 2017 is when the renegotiations of the new contract is being worked on. We are working at an industry level. We are expecting that to be about 15% or in that zone and we are factoring that into our budgeting.

Ashutosh Khajuria: Our employee cost has gone up by 6% YoY.

Shyam Srinivasan: Go ahead please.

Moderator: Thank you. We will take the next question from the line of Girish Raj from Quest Investments. Please go ahead.

Girish Raj: Okay, how much was the campaign related expenses in this particular quarter?

Shyam Srinivasan: This quarter was Rs. 10 crores.

Girish Raj: Rs. 10 crores, and how do we see this over next?

Shyam Srinivasan: Similar number in the Q3 and Q4.

Girish Raj: Okay and anything that flows into FY19 also?

Shyam Srinivasan: At this juncture nothing of this will flow into 2019. If we commission, if we have the courage to stretch more but at this juncture, no.

Moderator: Thank you. That was the last question in queue. So I would now like to hand over to Mr. Raj Narayanan for closing comments.

Shyam Srinivasan: Thank you everybody. This is Shyam and the team. Wish everybody a Very Happy Diwali. Raj will conclude.

Rajanarayanan N: Thank you all for patiently listening to us. This call officially comes to an end. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Federal Bank, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.