"The Federal Bank Q1 FY19 Earnings Conference Call"

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Moderator: Good day and welcome to the Federal Bank Q1 FY'19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then 'o' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajanarayanan – Head, Investor Relations, Federal Bank. Thank you and over to you sir.

Rajanarayanan N.: Thank you, Stanford. Good Evening, everybody and welcome to the Q1 earnings call of Federal Bank. With me are Shyam Srinivasan -- M.D. & CEO; Ashutosh Khajuria -- ED & CFO; Ganesh Sankaran -- Executive Director; Sumit Kakkar -- Chief Credit Officer and other executives. Over to Shyam.

Shyam Srinivasan: Good afternoon, good evening and thank you all for joining. This call is post our results declaration earlier today. Like always I will share the key messages and of course then we open for questions and clarifications. Investor deck has been posted, details have been sent out but let me just share some of the highlights: Our operating momentum that has been continuously improving was strengthened this quarter, visible across many parameters. Most importantly, operating profit for the first time crossed Rs.600 crores and the credit growth that has seen meaningful growth for nine, ten quarters, continue to be robust, and even more importantly was fairly wide spread across both products and geographies. That momentum will continue seeing us gain share. We are now well north of 1% or 1.07%.

On deposits, particularly the granular nature of the deposit profile and the retail nature of the deposit profile was strengthened even further; 96% of our deposits is now retail, in this quarter after shedding a sizeable part of our CD book, deposit growth also matched credit growth. So on balance, the operating performance was strong and will continue to be along the same line.

On the credit portfolio, we had said that the credit cost for FY'19 will be around 65-70 basis points and that momentum or that commitment still holds and Q1 reflects the same number.

In terms of the sort of franchise strengthening, the verticalization of the businesses getting in more sharp focus and talent into the bank, that momentum continues, we have introduced some more senior people into the team to strengthen specific areas which are prospective focus, in particular retail unsecure or areas of government business, fee income or some of the newer initiatives on vehicle finance. So quarter is along the sort of direction that we choose to do. CASA continues to grow; we are at 33.47%, marginal uptick from the previous quarter.

Some of the key events for the quarter: One, the Fedfina, our subsidiary has got the strategic partner who is waiting for the final clearance from the regulator, that should be coming in a few days. So True North will step in as a strategic partner in Fedfina. Two, we had mentioned in the last call, there is an active effort in one of our joint venture initiatives of IDBI Federal. That I do not have much to share as an input because the key partner in this relationship has seen some change in their mix. So we will know more outcomes as the Q2 proceeds. So beyond that, the investment in Equirus is beginning to take shape, we are seeing some good traction on that account and a few other initiatives of the bank are beginning to sort of play out and we are mindful that Q2 should continue this kind of momentum as we sort of strengthen our operating performance.

So without getting into too many numbers, I am sure that will be the focus of the questions for most of you. I am happy between me and the senior team to clarify and answer the questions. So I am not getting into any further details. I could read out some of the scripts but that is there for everybody to see; operating profit of Rs.603 crores, net profit of Rs.262.71 crores, overall business grew 19.5%, net interest income grew 22.4%, matching credit growth and deposits I pointed out grew 16% after shedding some bulk deposits. So overall, momentum is strong. Credit cost is on guidance. Operator, you could open for questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Nagaraj Chandra Shekhar from Laburnum Capital. Please go ahead.

Nagaraj C Shekhar: On slippages, given your guidance in the last concall on Rs.1100-1200 crores for the year and Rs.460 crores amount we have seen this quarter, are you projecting a significant fall in slippages in the next three quarters to meet this guidance? Secondly, how much more of the restructured book do you expect to slip into NPA over and in what period would that happen?

Shyam Srinivasan: The restructured standard book as we speak is about Rs.555 crores, one large account of Rs.250-odd crores, the rest is a granular bunch of accounts. So we had guided between 1100-1200 crores of slippages and 65-70 basis points of credit cost. Both of that look quite possible. This quarter of the Rs.207 crores of the corporate, Rs.163 crores for the restructured standard, so the 461 has 207 crores on account of the corporate slippage, the rest is about Rs.250 crores and therefore we think the quarters ahead another Rs.800-850 crores will be the slippages which should be split in the same ratio as I mentioned ex-corporate, in corporate we do not give many significant slippage. Air India is the only wild card which I have been saying for many quarters, I think there is a solution that may come through.

Nagaraj C Shekhar: On provision coverage, this is dip slightly related to the last quarter, how really is this likely to evolve and over what period should you thought of get to above 60% if that is your sort of ballpark long-term figure you want to be at?

Shyam Srinivasan: We are sort of certainly keen to build back provisions, but I must be honest, it is not going to be in one or two quarters, we are hopeful that there can be one-off gain which can be the balance we look for, but we will keep pushing this up because as the credit quality or the slippages keep trending down, the provision coverage will go up and we keep adding up some of the provisions and not entirely take it into P&L.

Moderator: Thank you. We will take the next question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Just in terms of security receipts, how has been the provisioning on SR?

Ashutosh Khajuria: It was Rs.180 crores as at the end of 31st March, now it is Rs.183 crores.

Kunal Shah: So as of now there is nothing which has been done during this quarter. I think in terms of what we earlier guided that there would be Rs.75-80 crores which would get provided SR over a period, so that stand still continues and we are seeing any improvement over there?

Ashutosh Khajuria: If you see the gross value from Rs.725 crores, it has already come down to about Rs.660 crores, and provision is Rs.183 crores, net of it is Rs.420 crores.

Kunal Shah: No, in terms of further provisioning, how are we looking at it?

Ashutosh Khajuria: Every quarter we take the NAV, so accordingly, there is any revision in that, it would be taken care of but we have been even getting some of the redemptions done and all. So in one major account we have got full redemption. So it got security receipts and got fully redeemed and all. I think it is something which is quite fluid and over the quarters we will see how this outcome of the NCLT things and all shapes up and if we get more payments, then I think there would be less provisioning requirements and there would be more of redemption.

Shyam Srinivasan: That is why the overall guidance of 65-70 basis points on credit cost covers for all.

Kunal Shah: The other thing is in terms of the improvement in the slippage run rate for SME segment, so anything specific to read into it because the run rate is quite slow and looking at the way the overall slippage run rate is, how would be the growth prospects in the SME segment?

Shyam Srinivasan: I think we remain confident in the SME segment. In certain geographies, consciously we are deemphasizing. As you will see in our deck, in the network one as we call it in Kerala, there are some challenges temporarily, so we are scaling back or cutting off some segments which are riskier, but pan India we remain optimistic and our growth is about 25-26%, that will continue.

Kunal Shah: Lastly, in terms of recoveries and upgrades, is there any chunkier account in this Rs.246 crores?

Shyam Srinivasan: We had one account of significant upgrade.

Moderator: Thank you. We will take the next question from the line of Renish Buwa from ICICI Securities. Please go ahead.

Renish Buwa: Sir, a couple of questions; one on the margin side. So in media you highlighted that NIM should sustain around 3.2%. So what should drive this retail expansion considering it did scope for the further expansion in CD ratio, at the same time pressure on asset yield and there might be increase in cost of deposit also, so what should drive this expansion and how should help us in sustaining NIM at current level?

Shyam Srinivasan: I think the media where I spoke, I said it is just not pricing power, it is a combination of things. As slippages trend down, your reversal of interest income is a meaningful reduction, then the better utilization of the assets and the asset mix yield, there are new areas of business that we are foraying into. So the expansion or a full year guidance of 3.2% visualizes all of this.

Renish Buwa: Secondly, on our corporate rating profile, this quarter we saw sharp increase in BBB-rated book to 16% from 9% in previous quarter. So I am sure we must not be lending to any risky corporate but why this sudden increase in the …?

Shyam Srinivasan: In the beginning of the year, we reclassify this year in wholesale assets, we have added commercial banking and corporate, so earlier we were only reporting corporate.

Renish Buwa: Some part of SME now is classified under corporate?

Shyam Srinivasan: Yes. I think we have said that at the bottom, if you see, includes all rated corporate and commercial banking assets.

Ashutosh Khajuria: Commercial banking is between 5-25Cr

Renish Buwa: Just a small question on the costing. Despite absorbing the full impact of the gratuity related expense our cost-to-income has actually declined by 100 basis points sequentially. It should trend downwards going forward considering there will be no one-off expense on the employee side going forward. How do you see cost-to-income moving going ahead?

Shyam Srinivasan: I always maintain for many quarters it is less the cost issue, it is more an income issue and income trajectory moves, one, second, if the pensioning cost which is unfortunately variable that is not entirely in our hand, that is the only wild card, otherwise, whether operating cost or employee cost are pretty much in our grip.

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

Kaushik Poddar: As of 30th June, your total stress book ratio is at 2.01%. Where do you see it on 31st March 2019?

Shyam Srinivasan: The stressed assets on account of restructured standard is at 588 and the SR book is at about 469 unprovided for, so that is about Rs.1000-odd crores. We believe that should trend down to another Rs.250-300 crores reduction on that. The net NPA is about Rs.1620, should come down to another, so we see that trending down and roughly 1.7% to 1.75% at this juncture.

Moderator: Thank you. We will take the next question from the line of Suresh Korada, an individual investor. Please go ahead.

Suresh Korada: This quarter there was a Nipah scare in Kerala. Did it have any impact on the business? Secondly, the gold loan book has come down to a significant extent. What are the reasons?

Shyam Srinivasan: Thankfully, on Nipah scare, the government did a remarkable job of intervening quickly. In fact, the chief minister was given some global award in the US for early intervention. That has been nipped quite well and has not spread, it was very localized in one geography in north Kerala, so we have not seen any impact. Even worst, last two days the rains are the ones is worrying us. But coming to your second part of your question on gold loan, gold as a category we have all been tracking, industry level has started trending down. Our retail gold has come off but our agri gold is going up nicely, so the gold loan book is actually growing but retail gold is coming off. That is a client preference and a client behavior.

Moderator: Thank you. We will take the next question from the line of Siva Subramanium, an investor. Please go ahead.

Siva Subramanium: Sir, actually my question is regarding that gratuity amount of Rs.54 crores which was absorbed in this quarter. Whether it is fully absorbed, there would not be any further debits in the subsequent quarter, sir?

Shyam Srinivasan: Yes, it is fully absorbed, it is there in report also, point #11, specifically talks about the impact was Rs.54 crores for the full year, we took it in one quarter and therefore the impact for the residual period is not there…of course if government makes Rs.20-25 lakhs, that can change, but that is unlikely.

Siva Subramanium: And then this True North proceeds 26%, when it is likely to coming to books?

Shyam Srinivasan: It is not proceed, they are a strategic investor, introducing capital into the company, it is not coming into the bank's P&L. Having said that, we are awaiting RBI approval, that is going through its process. We are hoping that in the course of the quarter that approval should be in hand.

Siva Subramanium: The reduction of Rs.43 crores in other income. Can you please elaborate on that sir?

Shyam Srinivasan: Last year Q1 treasury had a remarkable gain because where the yields were. That unfortunately has got reversed and that is an industry wide phenomenon.

Moderator: Thank you. We will take the next question from the line of Rahul Sharma, an individual investor. Please go ahead.

Rahul Sharma: Sir, could you give me a breakup of the Rs.340 crores provision number, how much of it is on the assets side, the NPAs?

Shyam Srinivasan: Rs.166 crores is credit, Rs.3 crores is standard assets, Rs.30 crores is treasury, Rs.199 crores, balance is tax.

Rahul Sharma: Also, what has led to the increases in net NPA ratio marginally, just trying to get some granularity?

Shyam Srinivasan: I think the recovery upgrade and technical write-off is Rs.400 crores, slippage has Rs.466 crores, so balance is Rs.66 crores, that is provision, balance goes into net NPA.

Rahul Sharma: Now all the banks are saying that we want to do retail assets of the banks, etc., so do we see any NIM pressure going forward in the retail side? Secondly, do we see any stress on mortgages which DCB has seen?

Shyam Srinivasan: Two parts; one is we have for long and hopefully we will continue to stay, we want to be balanced across segments, we are not biased one or the other. If you notice our corporate has been growing nicely and our business model is effective, so that is growing at 30%, so is our commercial banking catching up. Retail is growing nicely in pockets. Barring one or two geographies, we are not seeing any stress on the mortgage portfolio.

Rahul Sharma: Any pressure on the NIMs because of the competitive intensity in the retail?

Shyam Srinivasan: We are talking of NIMs for a full year roughly 3.2%, so it is an upgrade from where we are.

Moderator: Thank you. We will take the next question from the line of Viddhi Shah from Prabhudas Lilladher. Please go ahead.

Viddhi Shah: I was just looking at the corporate level. Where exactly in Outside Kerala you are seeing the increase in the corporate advances? Second, coming to retail growth. Are we actually seeing on the retail ex-gold not being able to grow when you compare with the fourth quarter?

Shyam Srinivasan: First part of the question, corporate is growing pan India and of course by definition Mumbai has been headquarters of many corporate, naturally western region which is the maximum growth. But ours is fairly balanced across the country, so we do not have any geographic bias. So that 30%-odd I would say would be split across the country and that will be the rate of growth across. Denominators being different in each state. Second part of the question, ex-gold was 4%.

Viddhi Shah: If I compare it with the Q4 presentation…?

Shyam Srinivasan: Typically, Q4 is a bulk quarter for anybody across products. Usually Q1 is for us been traditionally sub-1, we are quite pleased with that, it has been a very robust growth on retail this quarter because the distribution mechanism is very different and that is fairing quite well.

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

Jai Mundhra: First, on the margin side, just arithmetically, our yields have declined by 2 basis points QoQ and cost of deposits have actually decreased by around 12 basis points whereas the NIM is slightly let us say 1 basis point up. Is it something more than this? Because arithmetically margins could have expanded more.

Shyam Srinivasan: But you are looking at it through the lens of yields only, you have to look at the slippages and the consequence of the reversal.

Ashutosh Khajuria: You have the investments also. Interest comes from various segments. Interest on advances, interest on investments and other sources. Yield on advances certainly what you are saying is exactly like that. Cost of deposits has come down, but you have the interest on investments that also has flattened, or it has reduced because we have decided to reduce duration. So when you have lower duration, yield will be lower.

Jai Mundhra: Sir in terms of cost of deposits, this quarter again it has fallen off and lately we have seen the cost of deposit has been rising. So what is your sense, when would we start seeing the cost of deposit rising on a blended basis or we can still have one or two more quarters wherein cost of deposit could still fall?

Management: We expect that in the current quarter it would be either flat or would start reversing from here because the impact of it is only in term deposits. As regards CASA is concerned, we continue to have savings bank rate of 3.5% and 4%, 3.5% for up to Rs.50 lakhs and beyond that we pay 4% and current account would not have because these are basically the fixed rate deposits. When it comes to term deposit, certainly the peak rate has gone up. But the impact of that would probably start coming in towards the end of Q2 or beginning of Q3.

Jai Mundhra: Just wanted to check, last quarter we had mentioned there was Rs.150 crores of SDR, 5/25, all these things put together. If we have provided that number as of first quarter?

Shyam Srinivasan: Rs.555 crores of standard restructured includes everything.

Jai Mundhra: Yes, even for last quarter that included everything but just if you have provided this pool of SDR 5/25?

Shyam Srinivasan: I do not have it off-hand. Maybe you should check it with Raj.

Jai Mundhra: Have you provided more detail on the reduction or the recovery upgrades which has been coming, is it more to do with…?

Shyam Srinivasan: Rs.246 crores is recovery upgrade and slippage is Rs.461 crores and technical write-off is Rs.153 crores.

Jai Mundhra: So this recovery upgrade, is it something from education loan portfolio that has been recovered or is it…?

Shyam Srinivasan: There is one large but outside of that it is very granular.

Moderator: Thank you. We will take the next question from the line of Bhavik Dave from Reliance Mutual Fund. Please go ahead.

Bhavik Dave: Just wanted to understand on your corporate book, can you give me the flavor of how is the SMA zero trending and what are the kind of steps that the consortium takes when account gets a day overdue, how do you manage those accounts and how is the quantum shaping up in the last three, four months?

Shyam Srinivasan: SMA overall book is at all-time low and while I am not giving you specific on SMA zero or SMA-1, our SMA book is at all-time low and it has been trending for many sequential quarters. We are not much into consortium right now. Most of it is either bilateral lending or names we are very comfortable with, thankfully have not got into the SMA category at all.

Ganesh Sankaran: Whatever on stock we had is we are getting reflected through the standard restructured which pool is diminishing, on the flow we believe that the relevance of this is little less to us, the way we are pursuing our business now.

Bhavik Dave: On the incremental lending front also, we are doing more of non-consortium lending, right?

Ganesh Sankaran: There is nothing called non-consortium, every company has its own arrangements, some prefer bilateral, some prefer multiple banking, there is opportunistic assets, we play along with what the client wants and move along.

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

Anand Ladda: If you can give some color like, what proportion of our loan book are linked to three months, six months or 12 months MCLR?

Shyam Srinivasan: MCLR lending of the bank is now 70+.

Anand Ladda: 30% balance should be fixed rate, or they are still linked to base rate?

Shyam Srinivasan: Yes. Some small amount would be even PLR linked.

Anand Ladda: Sir, on the MCLR side, what proportion will be linked to one-year MCLR and what proportion could be a shorter duration MCLR like three months or six months?

Shyam Srinivasan: I would say some of the new home loan originations come at three months MCLR and corporate depending on the client relationship it would be, so I would say 20% of the new flow.

Anand Ladda: On the book side?

Shyam Srinivasan: On the book side, would be less than 10%.

Anand Ladda: Less than 10% is linked to short-term MCLR like three months or six months and bulk of that will be linked to one-year MCLR?

Ashutosh Khajuria: It is only in two segments of the loan book; one is under retail, housing loan and there is another one under (CIB) Corporate Institutional Banking for AAA corporates.

Anand Ladda: Which are linked to short-term MCLR?

Ashutosh Khajuria: That is right.

Anand Ladda: Our exposure to HSCs and NBFCS have been rising. So any thought on the same? Is it all adjusted in NPS exposure linked to one-year MCLR?

Shyam Srinivasan: I do not know where you are saying it is rising, it has been actually trending down; b) all our NBFCs and HSCs are absolutely blue chip and therefore we are not seeing any issue. Pricing depends by each client, it is not standard, I cannot template it and depends on the tenor.

Anand Ladda: Given that a large proportion of our bad book is linked to one-year MCLR and the interest rate in general, the term deposits are trending upwards, do you see margin pressure for us in coming quarters or how do you …?

Shyam Srinivasan: We have guided for 3.2% after factoring all these things.

Anand Ladda: Is there any part of the loan book which is linked to an external benchmark? Those parts will be what sir, below MCLR lending rate sir?

Management: Of course, vary, yes, they could be below MCLR.

Management: All included, we are talking of less than 10%.

Ganesh Sankaran: Not significant for the bank.

Anand Ladda: So less than 10% of the loan book could be related to external benchmark which are below MCLR?

Ashutosh Khajuria: Yes or three months MCLR.

Anand Ladda: Sir, if you can give the breakup of the CA and SA?

Shyam Srinivasan: 5% and 28.5%.

Anand Ladda: If you can just put that in our presentation every time both breakup of the CA and SA it will be helpful?

Shyam Srinivasan: Sure, we will do that. Our team tells me it is there on Slide #18.

Moderator: Thank you. We will take the next question from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: Sir, could you spell out the NRI current account, savings account and term deposits separately in absolute numbers for this quarter and if you have the number handy for March?

Shyam Srinivasan: NR current is Rs.200 crores, NR saving is Rs.13,283 crores and remaining is term and NR saving sequential is Rs.12,380 crores.

Nilanjan Karfa: Any updates on what is happening on the Middle East because of changes in policy, have you seen any impact on the flows because of that?

Ashutosh Khajuria: Yes, the flows have increased.

Shyam Srinivasan: I have maintained on all calls, the NR in particular Middle East Kerala corridor, invariably benefits when there is either uncertainty or rupee is weaker, and we tap the maximum part of that benefit. That behavior is different when there is instability in the Middle East and consciously we have been increasing the cut off or being more watchful on the new origination of credit on account that are linked to the non-resident borrower. It has two different behaviors and one is the very magnificent growth in deposits, we see that continuing and it is seasoned across 26-years from the gulf war. Credit book does have bearing, every time there is any kind of inconvenience in the Middle East and therefore we are sort of shaping our book accordingly.

Nilanjan Karfa: The second question is in the corporate business. Could you tell us in the origination part what part of it would be working capital versus long-term loan?

Shyam Srinivasan: Higher than 65% would be working capital.

Ashutosh Khajuria: Long-term is mainly LRD.

Nilanjan Karfa: How much spread you actually make because I am just curious while you have guided for 3.2%, would that mean a bulk of it is actually coming or maybe now coming from the commercial banking side and the retail maybe?

Management: Yes, a combination of the business mix, the growth rates in different businesses, lower slippages, better utilization, growth in the low-cost deposit.

Nilanjan Karfa: Are you still sticking to 1% exit ROA?

Management: Yes, we are.

Moderator: Thank you. We will take the next question from the line of Ojasvi Khicha from SBICAP Securities. Please go ahead.

Ojasvi Khicha: As we have split our SME business into two different segments, so just wanted to understand how should we look at the economics of commercial banking versus economics in the CIB segment?

Management: The commercial banking if you do sort of hierarchy of margin opportunity, corporate, commercial banking, business banking that is how it would play out and consequently the level of focus intensity and approach varies in each of these businesses; one is very heavily RM-led, the other is an RM/branch-led and the third is largely branch-led and the structure and the growth rates of these businesses are tuned to those opportunities. Margins are I would say 1% higher in each of those rates; 9, 10, 11 kind of.

Ojasvi Khicha: Secondly, this RBI circular, the working capital limits wherein higher loan component need to be provided, so do you see any impact,

Shyam Srinivasan: Nothing that we are visualizing.

Ashutosh Khajuria: It will help us in our liquidity management because higher the WC component, the lesser would be the shock on the liquidity side. Suddenly, if you are more of cash credit, one day entire amount would be deposited, the other day entire amount would be drawn, so that reduces, the volatility in liquidity management reduces, good for banks.

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

Rakesh Kumar: Sir, firstly, the CASA composition for the last one-year, it has not grown, it is at the same level for the last one-year, that is the one question. Second question is that retail deposit and CASA like put together it is a major component of our deposit and the growth is around 15, 16% year-on-year but if we look at advances growth number is much higher at around 24%. So how that is sustainable? Thirdly, this quarter there has been good cash management because we see that the cash balances having come down and then borrowings having come down and that could have helped us in some way to manage or to improve margin maybe, how margin number is sustainable?

Ashutosh Khajuria: On the margin side, Shyam has already guided for 3.2%, that part I do want to repeat it further. On the cash side, yes, special emphasis is being given on reducing the cash in hand and optimum size of cash and ATMs as well, and we have new currency chest open also and two are in the pipeline, shortly to be inaugurated. So that way I think it is helping us in reducing the cash in hand held. Now coming to your other question of CASA, yes, we have that 5% thing has got stuck but if you see QoQ, there has been a noticeable improvement. From 2011-15, consistently bank had been gaining around 1.5-2% every year. Yes, at 32-33% got stagnated, but going forward that is the project being run internally. So hopefully you would see quarter-after-quarter improvement in this particular…

Shyam Srinivasan: There also I will point out, the CASA is at 33.47%, unfortunately the CA which is 5.6, 5.7 has dropped to 5, 4.8, SA has actually gone up from 27-28.5. Like I mentioned in the last call, CA we have started seeing traction, second half grew nicely, Q1 usually is slower, thankfully even this average CA has grown. So we believe that year-end we should be closer to 34-34.5%

Rakesh Kumar: One more question just I had on the gaps in the retail deposit, CASA growth and the advances growth?

Ashutosh Khajuria: We have to look at deposits always follow the credit growth. So if your credit growth is being funded, that is the adequacy of deposit to be raised. So I will just mention here that at the end of financial year '18, we were having Rs.3,000 crores of CDs outstanding. So that was a wholesale type of resource raising. But we did not need it. So by the end of June, we are left with only Rs.75 crores, rest we allowed it to run down and we did not reissue, that means the growth in deposit presently is just adequate to fund the credit growth, in case credit growth further goes up and all that, we have 96% of our deposits being in retail. So at any point in time, we can resort to market instruments like CDs or other resources including refinances available from various institutions like NABARD, EXIM, SIDBI, NHB and all that. What I am saying is our CD ratio which used to be 68%, now has moved to 84% and we consider about 86, 87% to be the optimum and when it touches that we definitely would be looking at more of resource raising.

Rakesh Kumar: The rating profile of the wholesale asset seem to have deteriorated…

Shyam Srinivasan: You may have missed earlier question and also in the slide itself we have put at the bottom, it includes commercial banking and corporate.

Moderator: Thank you. We will take the next question from the line of Dipanjali Kedia, an individual investor. Please go ahead.

Dipanjali Kedia: You mentioned in the call that there has been one large recovery in the education loan book…

Shyam Srinivasan: No, I did not say education, I said one large recovery.

Dipanjali Kedia: Sorry. Is the state government scheme still on?

Shyam Srinivasan: They have a scheme but unfortunately, they keep extending the date. We should not deliberate too much on that because we have sort of neutralized ourselves to that scheme.

Ashutosh Khajuria: We have adequately provided for it.

Dipanjali Kedia: Secondly, can you share how much pro-note will be investing for the 26% stake?

Shyam Srinivasan: When the regulatory approval comes, we will declare the amount because we are waiting for that, it is only sensitivity of regulation.

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

MB Mahesh: Sir, on the savings interest part, since you have distribution which is available from 3.5 to 6.5, where do you see is the bulk of the savings book as we speak today and how much of traction that you are seeing at the 6.5% level? Second, you indicate that the 1% ROA exit for 4Q. Can you just give us some direction as to how do you see it reaching there given that the upsize on margin looks limited, how much will have to come from the cost side? The third question is there has been speculation on Federal Bank looking at a microfinance business. Just trying to broadly understand, how are you approaching some of the non-banking pieces that you are now trying to build within the bank and is it required in the first place?

Shyam Srinivasan: Three fairly detailed questions. The third one on micro business, I think in November last year we mentioned, we are exploring, now we are in July, we are still exploring, we have not zeroed in on any name, we are in dialogue. For three things that we are looking for, one, it gives us increase distribution, it gives us an opportunity to a relatively higher margin business provided it is well run I may trust the franchise and priority sector lending opportunity and they can turn out to be BC. We have not crystallized any final decision with anybody. So I would not venture to give any more detail on that. As we finalize that if and when we will certainly clarify. At this juncture, I do not have anything more to offer, other than whatever media reports are speculative, one. Two, on the weighted average cost of my savings is still 3.5%, the 6.5% is for Rs.50 crores and above and I think we have two accounts, so if there are more Rs.50 crores and above, we will be very happy to do that but that is very-very limited and that is I would say almost bespoke. The third question was confidence on the ROA expansion. Unfortunately, it got delayed by a year. We said in the FY'18 exit, it would be that number and it is a function of the various elements that we have put in place, all working together. Very crudely if the exit book is about 145,000 crores to 150,000 crores, for the quarter the profit number should be that and we have elements of various things we are doing to get to that number be it expansion and margin, be it expansion on NII, fee income, provisioning and the credit cost guidance of 65-70 basis points factor those.

MB Mahesh: The only reason I am asking is that if assuming the margin does not happen, then entire piece falls on the OPEX line because credit cost is already at about 70 basis points. Just trying to understand, is there a very strong lever apart from NIMs because that is an external variable that we are factoring here?

Shyam Srinivasan: We do not have anything that is a secret weapon, Mahesh efficiency and performance and the confidence that we have and what we have put it together.

MB Mahesh: Would you give also guidance for next year as we move along during the next few quarters?

Shyam Srinivasan: The credibility of our guidance will be after we deliver on what we have said because we have been seriously punished on occasions for commitments made. Rather performance and the conversation will take off from there.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time, we will be taking the last question, which is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Quickly two things; what is the blended yield on the corporate book currently and what is the incremental yield and similarly for the SME book if you could provide?

Shyam Srinivasan: Broadly in 9, 10, 11 is blended what I had said.

Dhaval Gada: Incremental corporate yields would be?

Shyam Srinivasan: 8.5%-9%. Remember, corporate is all not Rs.500 crores, we call anything more than Rs.25 crores is corporate.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Rajanarayanan for closing comments.

Rajanarayanan N: Thank you, everybody for patiently staying on the call. Thanks a lot. Good evening.

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