



“Federal Bank Limited Q2 FY-19 Earnings Conference Call”

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Moderator: Good day ladies and gentlemen, and a very welcome to the Federal Bank's Q2 FY19 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. – Head-Investor Relations at Federal Bank. Thank you and over to you, sir.

Rajanarayanan N: Good afternoon everybody and welcome to the Q2 earnings call of Federal Bank. With me I have Shyam Srinivasan – MD & CEO of Federal Bank, Ashutosh Khajuria – Executive Director, Ganesh Sankaran – Executive Director and other Executives.
Over to you, Shyam.

Shyam Srinivasan: Thanks and good afternoon everybody. Thanks for dialing in to our Q2 call. Let me just go straight in to the highlights of the quarter. I do hope you had a chance to see our investor deck. So I am extracting the key takeaways from that.

One we believe we have had a strong operating momentum and strong operating quarter reflected to growth, reflected to strong operating profit numbers which have been at an all-time high of Rs. 698 crores. This quarter did see some natural calamity in our crucial market of our home market. We believe we have dealt with it quite well both in terms of the human and emotional aspect as also the comeback by the bank there have been implications for people in the state but the bank has handled it quite well.

So a strong operating momentum. Our focus our developing a granular liability franchise remains intact. Market share gain is quite run off both in credit and deposits. A few milestones along the way. We crossed Rs. 100,000 crores of business outside of our home market, we crossed Rs. 100,000 crores of credit outstanding this quarter and taking our market share up to 1.12%.

Organic credit growth has been good, we have been diversifying our portfolio across the different segments, be it Corporate, Retail, SME, Agri and we believe that the vertical architecture that we put in place is now beginning to reflect in performance both in terms of credit growth, liability growth and of the fee income and that is something that we would build strength in to as we go in to Q3 and beyond.

We had recruited some senior people in specific areas and that is beginning to see traction. So in effect operating performance strong. Credit quality, the provision for credit were at Rs. 152 crores. The overall slippages for the quarter was at Rs. 477 crores and it did have some impact of the Kerala floods which we have guided for and we did an interim call in the middle of August immediately after the floods.

Otherwise our commitments and our focus which was at the beginning of the financial year was that we would have overall slippages in the financial year at that point in time we had guided for about Rs. 1,300 crores. Then we said the Kerala impact could be about Rs. 150 crores. So we think the full year financial slippage number will be in the Rs. 1,500 crores and credit cost will remain 65 to 75 which was the guidance given then and even now.

So growth strong, credit performance quite along expected lines, strengthening the balance sheet is of course core thrust area getting our strategic partners in specific areas where we have commissioned activities beginning to play out quite well. We got the regulatory approval for the Truenorth Investment this quarter. We formally conceded our investment in Equirus as well and then our associate of ours.

So momentum, credit quality, architecture of the business are quite playing out to script. We believe that the momentum of the bank as we go into Q3 should reflect this whole underlying strength that we have built and we are turning out to be an attractive employer for people who want to make impact and we are encouraging good talent to come in and work for us.

I would like to not dwell on the specifics, I am sure there are going to be questions that are going to come in. We have the entire senior team with me. So let me just open it up for questions and through that explain the quarter and importantly the period ahead. So operator, if you can turn it out for questions please.

Moderator:

Sure, sir. Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Kunal from Edelweiss Securities. Please go ahead.

Kunal:

Sir, Kunal over here from Edelweiss. Sir, firstly with respect to this entire impact of Kerala floods so how much would that be in Q2 and how do we see it going forward in Q3, is there anything which is left out to be recognized? And the related question is with respect to when we look at it in terms of the guidance for the slippage which we had given last time. So in the first half itself we are already through Rs. 950 odd crores. So how do we may be reevaluate the guidance of the overall slippage as well as the credit cost?

Shyam Srinivasan:

Kunal, at the beginning of this call I said that we are holding on to our credit cost forecast of about 65 to 70 basis points. Q1 was 71, Q2 was 64. We believe 65 to 70 basis points is our target for FY19. We had also said at the beginning of the financial year that the overall slippages we expect is about Rs. 1,300 crores and because of the Kerala floods we said we would probably be about Rs. 50 crores extra per quarter. So that means about Rs. 150 crores. So Rs. 1,450 crores is the expected slippages for the financial year. And we think that is very much in the pipeline for delivery. In specific to this quarter the slippage was Rs. 477 crores out of which the Kerala part was about Rs. 220 odd crores and corporate was about Rs. 120 crores. And we think in Q3 and Q4 the slippage in Kerala will be in that zone plus, minus and the impact of the slippages have

been addressed. We have also had the opportunity using the SLBC dispensation. So restructured accounts that are in select pincodes in select segments. So wherever the account is not in the select segment or pincode and if they are stressed we have made it NPA. And wherever the dispensation is available we have done. The restructured standard this quarter in Kerala is about Rs. 35 crores and that number in Q3 can about be Rs. 70 odd crores because the expiry date of the dispensation is November 30. So between Q2 and Q3 the standard restructured advances in Kerala will be roughly Rs. 100 crores.

- Kunal:** Sir, this quarter you highlighted the impact of Kerala out of Rs. 477 crores was?
- Shyam Srinivasan:** Total Kerala was Rs. 220 crores and the impact of the floods would have been about Rs. 40 crores to Rs. 50 crores which was the number we thought will be.
- Moderator:** Thank you. The next question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.
- Renish Bhuva:** My question is on the loan processing fee which has witnessed a pretty sharp jump on Quarter-on-Quarter basis at Rs. 52 crores versus roughly Rs. 30 crores, Rs. 35 crores a quarter for last three to four quarters. So what explain this sharp jump in the loan processing fees?
- Ganesh Sankaran:** There is nothing unusual. I think it is to do with our penetration with more middle market and those kind of clients in the deeper geographies who are more amenable to fees and does have probably a little more energy and focus on the system on fees. So I think that explains and renewal fees. So it is just that looking a different feel and a little more closely bringing more intensity, pursuing the right kind of clients who are amenable for fees and the expansion of the wholesale bank book in to deeper geographies.
- Renish Bhuva:** So is it fair to assume this kind of a run rate in processing be going forward of course it will be in line with the overall disbursement?
- Ganesh Sankaran:** Yes, assuming that clients are willing to pay and it depends on market process we should.
- Shyam Srinivasan:** I think the short point here is for long we have been talking about our other income being extremely reliant on treasury related income. It was one where we saw all the aspects of it coming together whether it is new processing fees for gold, for our renewals, for our corporate business book and we have also seen good traction on FX. We have also seen good traction on retail income.
- Renish Bhuva:** So broadly you are saying all these numbers are sustainable given the current market scenario?
- Shyam Srinivasan:** Yes, that is what we are working towards and our guidance remains intact on that.

Renish Bhuva: And sir, secondly on the other OPEX part. Again that number has been grown by almost 12% on Quarter-on-Quarter basis despite we are not adding any branches or any significant ATMs. So again why the sharp jump on QoQ basis on the other OPEX part?

Shyam Srinivasan: This quarter saw some increase because of Kerala flood related. We have to give support to the state. So the flood related un-dimensioned aspect beyond credit is a lack of we have waived our fee income of almost Rs. 10 crores. We spent almost Rs. 7 crores to Rs. 7.5 crores for various contributions, restoration of lives in helping employees who have had challenges. So combination of that is almost Rs. 18 crores of operating profit impact and the credit related impacts.

Renish Bhuva: Sorry sir, can you please explain this number again? I mean out of Rs. 18 crores how much is the OPEX part?

Shyam Srinivasan: About Rs. 8 crores.

Renish Bhuva: Rs. 8 crores is the OPEX part?

Shyam Srinivasan: Yes. Sorry I wanted to point out which is not a fancy thing but we did pay the penalty of Rs. 5 crores also.

Moderator: Thank you. The next question is from the line of Nanda Kumar, individual investor. Please go ahead.

Nanda Kumar: I have two questions. What is Federal Bank's total investment in financial services, Fedfina what is our total investment and what is the valuation by Truenorth and what is the price at which they will subscribe 26% stake? I understand there was a press note saying that they may at a later date increase their stake to 45%. Any agreement with them as to at what price they will increase the stake to 45%? Then I have one more question about the Equirus.

What was the valuation of Equirus and what percentage of stake did Federal Bank buy and at what values? What are the other future plans for enhancing our stake in Equirus? And in these two cases, both in the case of Truenorth's investment in Fedfina and our investment in Equirus? What is the benefit envisage for Federal Bank from these two investments?

Shyam Srinivasan: Firstly, on the Fedfina investment. We have received the regulatory approval. The valuation we are waiting for the last step in the process which will be completed by November the 7th or 8th at which time the Truenorth money will come in at which point we will be able to share the valuation. But we are happy that the valuation is at the top end of the market valuations which was done thankfully well before the sort of merged down in the NBFCs happened. The reason we have got a partner like Truenorth is not for us to make monetize the value it is for getting strategic investment in to the company which is doing well. That book is about Rs. 1,500 crores and growing. We needed to infuse capital.

We have the charge of refusing directly or getting a strategic partner. So we have brought in a strategic partner, we are not doing any sale of this. The ability for it to go to 45% is over time based on milestones. At this juncture we are happy with 26 and we have the relationship matures it could be years before we get into the 45%. So vis-à-vis Truenorth we will be able to share the moment the regulatory all the steps are completed which I think will be over by November 8th or 9th perhaps which point in time we will be show it our Diwali release so to say.

In specific to your question on Equirus, Equirus is an unlisted entity. This quarter we made the investment so in fact provided for it the regulatory requirements require us to make a provision of mark-to-market on an unlisted entity. So we have done that. The investment made is about Rs. 20 crores.

Nanda Kumar: For what percentage of the stake in the company?

Shyam Srinivasan: 19.9% is what is allowed. And beyond that we need the regulatory approvals. When it happens we will take it up to 26% and if things mature even higher. But at this juncture it is 19.9%. We are not allowed to do more than that.

Nanda Kumar: And sir, what benefits you have envisaged with the tie up with Equirus?

Shyam Srinivasan: They are an investment banking boutique firm and high net worth wealth management team for both of which our RMs are working closely with them. We are able to get in, in fact we have already got three mandates on IPOs and the team is also working very closely with our clients on getting in. It is an area of business we do not have direct skills so we are getting domain expertise.

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

Sagar Shah: My first question sir, is regarding something I wanted to know as I see in your commercial and corporate portfolio, in the commercial portfolio 12% of your lending is to real estate business actually and 6% of your corporate again is in real estate business. So basically wanted to know why something like the percentage as compared to other industries is high and do we exactly actually lent to the various projects in urban areas?

Shyam Srinivasan: Largely these are leased rental discounting, rent securitization and these are done in specific geographies for about seven year tenure with the lessee is being of high repute and sufficient caveats and covenants to make sure that the bank's interests are well protected.

Sagar Shah: So we are basically not lending to any other something like certain projects or project financing?

Shyam Srinivasan: No, we do not do any of that.



- Sagar Shah:** You are more in to leased rental discounting you say?
- Shyam Srinivasan:** Only in to that.
- Sagar Shah:** My second question is regarding as what percentage of our total loan book has been linked to the new MCLR?
- Shyam Srinivasan:** It is about 80% to 83%.
- Sagar Shah:** 83% of the loan book has been linked to the higher MCLR you are saying?
- Shyam Srinivasan:** No, it is at MCLR.
- Sagar Shah:** Because I think as I learn your cost to deposits I think would have gone up like other banks actually. So are we able to pass on the extra cost to our customers or even previous customers?
- Shyam Srinivasan:** No, at the time of renewal we are able to. In certain instances based on the agreement we have been. My apologies, non-base rate book is 90% out of which direct MCLR is 50%. Base rate is 10%, non-base rate is 90%, MCLR is 50%.
- Sagar Shah:** Okay non-base rate is 90%?
- Shyam Srinivasan:** Yes.
- Sagar Shah:** So how much is it floating and how much is it fixed of the total loan book?
- Shyam Srinivasan:** Fixed is a small component.
- Moderator:** Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.
- Rakesh Kumar:** Sir, firstly the capital consumption rate in this quarter appears to be quite high. So credit risk rate growth is pretty high. So can you elaborate on that issue?
- Shyam Srinivasan:** Normally in a quarter it is about 35 basis points to 40 basis points. This quarter has seen a higher capital consumption. We have seen a significant pick up in assets and the capital consumption on that has increased. We do not have any specific observation on that, other than the fact that our trend line is about 35, 45 points per quarter as capital consumption.
- Ashutosh Khajuria:** Half yearly profit is not added in this also?
- Shyam Srinivasan:** Yes, that is another observation. Half yearly profit number is not been added. So to that extent when we add the half yearly profits the CRAR will go up.

- Rakesh Kumar:** No, just I am looking at the gross advances growth and your credit risk rate. I am not looking at other total risk weight or may be the Tier-1 capital. I am just looking at these two absolute numbers?
- Shyam Srinivasan:** Yes, so like I have said there is no unique explanation other than the fact that a trend line of about 35, 45 basis points.
- Moderator:** Thank you. The next question is from the line of Amit Rahane from Quantum Securities. Please go ahead.
- Amit Rahane:** Sir, I would like to know how much is our exposure to NBFC sector as a whole of the total Rs. 1 lakhs crores of the loans that we have how much we have lent to NBFCs?
- Shyam Srinivasan:** Between 10% to 12% of our total assets is NBFCs. Largely in the top rated, all of them are in the top rated. With the top 4 names Rs. 3,000 crores.
- Amit Rahane:** And sir, what are the average yields on this?
- Shyam Srinivasan:** It varies in line with market but roughly it is on the average of the books is there. There if you see our page 25 of our investor deck has got the NBFC total.
- Amit Rahane:** Sir and going forward what is your view on this 10% to 12% number that we are having today so one year down the line where do you see this exposure in the light of the current developments?
- Shyam Srinivasan:** For one we are not looking to rush in and take new exposures. We are reviewing the entire portfolio where we are confident and comfortable with the company we are willing to give some exposure. Otherwise we are turning down upon renewal or pricing increase.
- Amit Rahane:** And sir, on the net value of security receipts is around Rs. 411 crores what is the gross value of this?
- Shyam Srinivasan:** Rs. 630 crores.
- Amit Rahane:** And sir, our exposure to IL&FS?
- Shyam Srinivasan:** Nothing, no direct exposure to IL&FS. We have three completed projects where annuity is being coming in for many quarters. Those are still standard assets doing well. We have no direct exposure to ILFS.
- Amit Rahane:** And sir, on the loan book guidance for the year as a whole?
- Shyam Srinivasan:** Last two quarters and for many quarters we have been tracking between 22% and 25%. We think there is enough potential for us to keep that momentum going. We may choose to dial down in

certain quarters depending on what our other priority is. But confidence of growth, ability to grow, opportunity to grow remains we believe 25% is doable.

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

Jay Mundra: Most of the questions have been answered. Just one clarification. So after this quarter when this restructuring window of flood ends what was the amount you said this Kerala restructure books would look like?

Shyam Srinivasan: Between Q2 and Q3 about Rs. 100 crores will be the restructured amount from Kerala. I want to point out here that this is the carved out portion that is eligible for restructuring that is being restructured during the dispensation.

Jay Mundra: And as of now this is Rs. 30 crores?

Shyam Srinivasan: Rs. 35 crores in Q2 and we expect that number to be about Rs. 70 crores for Q3.

Jay Mundra: And sir, can I have the breakup of provisioning for this quarter in to loan loss provision and the credit related provisions, investments related provisions?

Shyam Srinivasan: Rs. 152 crores of loan loss, Rs. 32 crores of standard assets and Rs. 105 crores of investment and treasury provisions.

Jay Mundra: And lastly sir, because this quarter has seen sharp improvement in the cost to income ratio. Your thoughts on FY19 basis that would be much helpful?

Shyam Srinivasan: We had guided at the beginning of the year that our exit rates will be around these lines and we think that trending along those lines.

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

Krishnan ASV: Just wanted to understand a little bit more the Reserve Bank's instruction the penalty that has come through in those reports came this month?

Shyam Srinivasan: This pertains to the RBS of March 2017 which the report was completed in October or November of 2017, reviewed and closed with RBI in January 2018 as you know that we have never had divergences and we are still happy that, that never occurred even through this process.

However their enforcement department looks at all the RBS reports completed and they showcased the bank on seven points we explained and with these four points they saw as one off instances that has had issues in prior period of March 2017 and the regulatory requirements

required them to levy the penalty and we have despite explanations they have levied it and we have gone ahead and completed it and moved up.

Krishnan ASV: And does this have any lingering implications for the 2018 proposition cycle at all?

Shyam Srinivasan: It is very difficult to answer. We believe not but it is for us to be on guard and ensure that we do not do anything silly. We think it is not. The early signals are very positive but we will be in a very dynamic environment so we just had to be prepared for everything. Nothing that is leaving us par at this juncture.

Krishnan ASV: I just wanted to also understand I mean there was one of the four issues raised in the RBI's directive was around submission of information to the central repository. I just wanted to understand does that in anyway impinge on the kind of systems that you have in place, anything to do with what is not been captured or going below the radar?

Shyam Srinivasan: No, I think one of the observations was that the data in submission was inadequate. It is unfortunate that this is the fifth year of RBS. Through the first four years they accepted it, fifth year they believe that we were inadequate so we have taken a set of steps to make sure that that does not happen. We have a full-fledged data validation team.

As you know that the submission to RBI is online. They pick up about 520 odd data points directly system-to-system and there is little room for interpretation. We did have areas where we have understood it one way, they had expected it another way. We have since fixed it.

Krishnan ASV: Just one another question on what this environment has meant for remittances and Federal Bank's capabilities on the remittances front I mean how do you see that having progressed far and what else has been done to probably tighten that even further?

Shyam Srinivasan: We enjoy a good market share in the entire remittance business pan India and in particular to the flows that come in to Kerala we are a very dominant player. For a range of reasons one we have presence; second we have a great set of people doing a wonderful engagement with the exchange houses; third is the technology support that we offer and you may have recalled last year we even commissioned a bluff in experiment and we have just announced the tie up with Corda which is going live by end of this calendar year which is again a scalable Blockchain based technology solution.

So we are involving technology our presence and the relationship we have with the very wide range of Middle East based exchange houses and we are also widely going in to other geographies. So across the four quadrants, Kerala Middle East, Middle-East Non-Kerala, Non-Kerala rest of the world all the combinations we are working on.

Moderator: Thank you. The next question is from the line of Anirban Sarkar from Principal Asset Management. Please go ahead.

- Anirban Sarkar:** Just one question. Wanted to know if you have done any portfolio purchases during the quarter and if yes what would be the quantum for the same?
- Shyam Srinivasan:** No, we have not had any purchases.
- Moderator:** Thank you. The next question is from the line of Girish Raj from Quest Investments. Please go ahead.
- Girish Raj:** So of the investment provision there was something related to Equirus. What was the quantum and what exactly was the reason for that?
- Shyam Srinivasan:** The investment provisions like you pointed out had three sort of just to clarify, three separate segments in it. One is the market related for G-SEC and bonds that is about Rs. 30 crores. Then the two strategic investments we have made where one is in Equirus and the other is in CCIL that were about Rs. 30 crores and the rest is strengthening our SR provisions. This Rs. 30 crores pertains to Equirus and CCIL based on these are unlisted entities and the regulatory requirements require us to do a mark-to-market and the value of provision is about Rs. 30 crores. It is a onetime provision for this quarter.
- Girish Raj:** So investment is Rs. 20 crores and against that Rs. 30 crores is the provision?
- Shyam Srinivasan:** No, two we have got CCIL and Equirus.
- Girish Raj:** And sir, one question related to fee income. Total core fee income would have been Rs. 260 crores which is Rs. 54 crores increase compared to last quarter. So this Rs. 260 crores is on a run rate basis it is sustainable, how should we look at it?
- Shyam Srinivasan:** Yes, I think that is what we were working on because all of these elements are fairly granular.
- Ashutosh Khajuria:** It is not one off, nothing is one off.
- Girish Raj:** And finally NIM and ROA guidances if you may?
- Shyam Srinivasan:** NIM we said we will trend we are at 3.15 we think we will push it to another 3, 4 basis points and I had initially said 3.2 which seemed ambitious at that stage. We are nudging closer to that. And ROA we want to exit at 1% for financial year 19.
- Moderator:** Thank you. The next question is from the line of Pranav Gupta from Aditya Birla Sunlife Insurance. Please go ahead.
- Pranav Gupta:** I have two questions. Firstly, the SME slippages are slim despite a little bit. Anything specific account related in that respect?

- Shyam Srinivasan:** I had mentioned that the Kerala related slippages in this whole non-corporate Rs. 350 crores was Rs. 220 crores or so. There were some accounts in Kerala because of the floods and we did have one account where we took a 100% provision for a fraud account of Rs. 25 crores in the non-Kerala.
- Pranav Gupta:** Okay so major relates due to the flood related issues?
- Shyam Srinivasan:** It was not only flood, normal run rate for SME has been about Rs. 120 crores to Rs. 150 crores despite it went up. But increase is partly because of flood and on one off one account.
- Pranav Gupta:** And my second question is, so you believe that you should have at least about Rs. 50 crores of additional slippages due to the flood, you had in this quarter and still you will have it in the next quarter. What I understand is that you got around Rs. 1,500 crores of exposure in the heavily affected areas in the flood and what that would have led to is that the collaterals that you have values of those depreciating due to any damages that might have been caused. So don't you feel that the Rs. 50 crores amount is slightly lower in your assessment?
- Shyam Srinivasan:** No, I think firstly the Rs. 50 crores has nothing to do with the damaged areas. Rs. 50 crores is the account that did not meet the damaged area which is why they have got NPAs, otherwise they would have been dispensation. So that is the general economy and impact on Kerala as a state. In the damaged area as I said we have carved out and restructured. Rs. 35 crores this quarter and another Rs. 70 odd crores in Q3. And we have about Rs. 100 crores that pertains to about Rs. 500 crores of assets which have the stress which is a two to three year repayments is there for them to sort it out.
- Moderator:** Thank you. The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.
- MB Mahesh:** There are a couple of questions. One again on the floods part. Can you just tell us what has been the entire program for the entire state and what has been overall restructuring which the entire system has taken? And the few pin codes which were affected by the crisis what was the system level exposure there for the quarter?
- Shyam Srinivasan:** I will only make meaningful guesses, Mahesh. On the system level the 12 districts were declared as what is impacted. Our belief is that the outstandings of that must be something like Rs. 15,000 crores, Rs. 16,000 crores.
- MB Mahesh:** And of this Rs. 15,000 crores, Rs. 16,000 crores your exposure is about Rs. 500 crores, is it which was impacted?
- Shyam Srinivasan:** No, outstandings in that area ours is Rs. 1,500 crores. What we think in that may be under stress is about Rs. 500 crores over two quarters.

- MB Mahesh:** And when you are putting this number in the restructured loan book you only put the carved out amount, you do not put the full amount?
- Shyam Srinivasan:** Yes, we have got only the carved out amount of Rs. 35 crores. That is what has been restructured. It has been carved out as a special loan.
- MB Mahesh:** And in some of the other districts things are back to normal and the performance of the portfolio is as what it was prior to the event?
- Shyam Srinivasan:** More or less, yes. Wherever we are seeing stress is that Rs. 50 crores extra slippage.
- MB Mahesh:** And sorry, and the other question was on the ILFS exposure just running through it you said it is negligible. Can you probably quantify what range to this number?
- Shyam Srinivasan:** I have said no impact on us. We have three exposures to projects that are completed which are running and will be coming in. Roughly about Rs. 200 crores is the total exposure. So we have no impact that we visualize currently. When you present your report you may not have seen it that number that you guys have put out does not seemed to be right.
- MB Mahesh:** Which is true, I do not know how it reached out to the media in the first place. Apologies for that.
- Shyam Srinivasan:** I would like for us to be more responsible about it.
- MB Mahesh:** And just one last question. Just to Ganesh on this question is that have you seen pricing power improving in the corporate side?
- Ganesh Sankaran:** Yes, I think we are able to price in line with the best players in the market I think. So to answer your short point, the answer is yes. And in fact I think in some cases we are able to get a relationship premium I would like to believe because we have penetrating the right kind of plans in the right markets with our insight. So we are getting and in fact on the corporate book I think incremental yields marginally for us have gone up. They may be nominal because the segment is extremely rate sensitive but I think the number suggest that there has been a yield pickup for us.
- Moderator:** Thank you. The next question is from the line of Renish Bhuvra from ICICI Securities. Please go ahead.
- Renish Bhuvra:** Sir, coming back to our this pricing of the books so in one of the comment you mentioned that our loan basic book is 90% of which 50% is MCLR linked so rest is what the T-bills and those money market link was?
- Shyam Srinivasan:** Yes, external benchmark related is about 20%.

- Renish Bhuva:** And so do we believe so going forward let us say in FY20 and not in FY19 what sort of margin expansion we see in our book?
- Shyam Srinivasan:** Renish, these will end up in the helm of speculation. We are working on diversifying the book which will give us the ability to command higher margins because the cost of money seems to be a very moving dynamic part which nobody is able to establish. If you notice one thing that did not get picked up is our focus on the granular deposits and the current accounts. We have seen marked growth in our current account which is a point I had mentioned in two or three of the earlier calls.
- Sequentially our current account is growing. From second half of last financial year you would have noticed the marked growth. This quarter was a sequential 6% and Year-on-Year 30% growth in current accounts.
- Renish Bhuva:** So sir, basically just wanted to understand whether I mean internally we have any strategy of so below a certain the spread will not do on lending or will not do business. Is there any some benchmarks we have set?
- Shyam Srinivasan:** Answer is, yes.
- Ganesh Sankaran:** We have a lot of these but we do not hardcore ourselves in to a position and an opportunity we want to miss. Let us put it like that.
- Moderator:** Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.
- Roshan Chutkey:** So you said 20% is external benchmark based book. Is there a 20% fixed rate book for us?
- Shyam Srinivasan:** Yes.
- Roshan Chutkey:** And just on this SME book so is there any improvement in SME TAT as we have been building the franchise now?
- Shyam Srinivasan:** Yes, we are almost every quarter seeing a progress as we get better in our underwriting as we put in our more seasoned and senior team and we have set metrics to monitor that. I think it is moving we are anecdotal cases of doing it in two to three days for very good cases. So we are comparable with the best.
- Roshan Chutkey:** Barring this one off slippage for account in SME otherwise you do not see any stress building up in SME portfolio, right?
- Shyam Srinivasan:** Nothing. This sort of unfortunately is the top three banks have been jointly affected.

Roshan Chutkey: And on the Rs. 500 crores stressed book that you have due to Kerala floods why carve out only Rs. 100 crores I mean across two quarters?

Shyam Srinivasan: I think I will explain in case anybody is missed it. The carving out as per the SLBC mandate as per the RBI approved in a scenario of natural calamity is as follows. The window of restructuring is based on the judgment by the SLBC on how bad is the situation and what is the customer relief required. IRAC norms are not violated. It is just what part of the book the client will face just that can be carved out and booked as a separate loan which can get a payment holiday.

So when the SLBC convinced they took April 2018 as the start point and give one year of interest plus principal or whatever the demand as the pool that can be restructured. So out of the Rs. 200 crores this quarter that were in the stressed pool which had completed by 30 September where relative work that needs to be done. Rs. 35 crores was the due for this period and that got carved out. The rest the customer has to pay as normal starting April 2019.

Moderator: Thank you. The next question is from the line of Harshit Toshniwal from Jefferies. Please go ahead.

Harshit Toshniwal: Couple of questions and carrying from the previous question. You said that your exposure to the 12 affected districts was around Rs. 1,500 crores. When I simply look at that particular exposure you say that your slippages in the quarter because of the Kerala flood was around Rs. 40 crores to Rs. 50 crores and your carved out to the restructure was around Rs. 30 crores. So basically rest of the portfolio is something which is still standard and you expect around Rs. 1,400 crores of that 12 districts is something which you expect to continue as usual?

Shyam Srinivasan: Let me explain. Kerala Federal Bank's outstanding credit side non-corporate is about Rs. 23,000 crores. I am just giving you the universe. In the districts and in the most affected pincodes our outstanding is about Rs. 1,600 crores. That is one data point. Normal quarter before these floods roughly our slippage in Kerala between Retail, SME, Agri, and Education is about Rs. 150 crores to Rs. 160 crores. Good quarter went towards the Rs. 130 crores, bad quarter Rs. 160 crores, Rs. 170 crores.

When we dimensioned the impact of Kerala floods and we did a call on August 20 to share with our investors. We had said there could be roughly Rs. 40 crores, Rs. 50 crores as the incremental impact; 20%, 25%. That has nothing to do with the pincodes that is the place that does not get the dispensation. If you get the dispensation that loan will not be an NPA.

Harshit Toshniwal: So that Rs. 40 crores to Rs. 50 crores you said would be mostly from Rs. 1,600 crores of the 12 districts?

Shyam Srinivasan: No, that is what I am saying. That Rs. 40 crores to Rs. 50 crores is from the universe of Rs. 20,000 odd crores. Rs. 1,600 crores is a subset of the Rs. 20,000 crores outstandings in Kerala.

- Harshit Toshniwal:** Right but my slippages you mentioned because so if you exclude that pool itself but in totally my restructured assets are Rs. 30 crores because of the floods and my NPL recognition or slippages has been around Rs. 40 crores to Rs. 50 crores in the quarter. Apart from this, this would either be slippage or restructured but the rest of the entire portfolio is working as usual in the normal way?
- Shyam Srinivasan:** Yes, certainly.
- Harshit Toshniwal:** And you expect that this Rs. 30 crores could be another Rs. 70 crores but in the slippages you do not expect you believe that Rs. 40 crores, Rs. 50 crores would also be a bit higher number going forward something which you realize later on?
- Shyam Srinivasan:** No, let me just clarify. The slippage number for Q3 and Q4 may be similar to our total Kerala slippage for Q2. In addition like we did about Rs. 30 crores of standard restructured in Q2. That number may be Rs. 70 crores in Q3 because the window for restructuring ends on 30 November.
- Moderator:** Thank you. The next question is from the line of Darpin Shah from HDFC Securities. Please go ahead.
- Darpin Shah:** Sir, just want to reconfirm you are guiding for Rs. 1,450 crores slippage for the full year and we have already done Rs. 950 odd crores in the first half which means around Rs. 250 crores for the next two quarters?
- Shyam Srinivasan:** Yes.
- Darpin Shah:** But if I see within that you have Rs. 100 crores of Kerala impact. So even if you remove that then our normal run rate is also on a higher side previously?
- Shyam Srinivasan:** Darpin, well I would not get into Quarter-on-Quarter. We I think are holding on for commitments made at the top of the year.
- Moderator:** Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.
- Dhaval Gada:** Just one question related to incremental yields in the Corporate, Retail and SME segments that we see?
- Shyam Srinivasan:** Our yields have started picking up in Q2 in every segment it was roughly 5, 6 basis points over the previous quarter. Combination one is the asset mix; second is the pricing power coming in; third is between yields and also getting full client relationship we are beginning to see traction.
- Moderator:** Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

- Jayesh Gandhi:** Sir, there was some scale of ESOS by Mr. Shyam due to margin call. Can you explain what was that event?
- Shyam Srinivasan:** I have taken a loan to buy my shares and share price falling I did not want to sell. I wanted to meet my commitment so I had to sell some shares to pay back or stay on the loan.
- Moderator:** Thank you. The next question is from the line of Kaushik Poddar from KB Capital. Please go ahead.
- Kaushik Poddar:** Your total stress book on 30 September is at 2.01%. So where do you see this figure? I think you had committed around 1.7% as on 31 March 2019. So do you stand on that number?
- Shyam Srinivasan:** I think yes, Kaushik except that if it is not 31 March it will be one quarter down because about Rs. 150 crores of NPA got added because of Kerala but that said we are trending quite well.
- Kaushik Poddar:** Just on the slippage front. You are sticking to that Rs. 1,300 crores figure or Rs. 1,300 crores plus Rs. 150 crores?
- Shyam Srinivasan:** Rs. 1,300 crores plus Rs. 150 crores, Rs. 1,450 crores is our new guidance.
- Kaushik Poddar:** And you have already done around Rs. 950 crores or something, right for the first two quarters?
- Shyam Srinivasan:** Yes.
- Kaushik Poddar:** So you are talking of Rs. 500 crores for the next two quarters?
- Shyam Srinivasan:** Yes.
- Kaushik Poddar:** And lastly, you have not opened branches for quite some time at the same level and you are talking of say advance growth of around 20%, 25% or 22% plus and deposit growth of may be 15%, 20%. Can you achieve that without increasing your branches?
- Shyam Srinivasan:** This quarter we believe that it is indicative of our plans. Credit growth was 25%, deposit growth is 21%. And we think that run rate will continue.
- Kaushik Poddar:** So you are not planning any opening up new branches?
- Shyam Srinivasan:** No, we are not looking at but we are expanding our RM network quite materially. We are also looking at some BC arrangements. And we think we can expand through that.
- Moderator:** Thank you. The next question is from the line of Sohail Halai from Antique Stock Broking. Please go ahead.

- Sohail Halai:** Sir, just a clarification basically understanding in terms of this carved out portion for example my overall borrowings were Rs. 100 and my interest and installment due were around Rs. 10. So this Rs. 10 is the carved out portion, right?
- Shyam Srinivasan:** Absolutely right.
- Sohail Halai:** And sir, what would be the entire amount that has actually impacted?
- Shyam Srinivasan:** I said Rs. 35 crores, Rs. 214 crores is the back of that.
- Moderator:** Thank you. The next question is from the line of Hemant Patel from Alder Capital. Please go ahead.
- Hemant Patel:** This is on slide 25 where you have called out NBFC is 19% and housing finance companies is 14%. Just wanted to understand the risk assessment that you are planning to do is it on the HFCs as well or it is just on NBFCs?
- Shyam Srinivasan:** It is all on all the names.
- Hemant Patel:** On all of them?
- Shyam Srinivasan:** Yes.
- Hemant Patel:** And even in terms of see corrective action in terms of lending and disbursements to these would also be on all the names?
- Shyam Srinivasan:** Yes, absolutely.
- Moderator:** Thank you. The next question is from the line of Chinmay Desai from Anvil Shares & Stock Broking. Please go ahead.
- Chinmay Desai:** Sir, I just wanted to know you said something about I missed that part about the OPEX impact of the floods?
- Shyam Srinivasan:** One of the questions asked was some parts of the OPEX have gone up non people. We said this quarter there were two distinct events. One was the penalty of Rs. 5 crores and roughly about Rs. 8 crores was the cost of the various initiatives impact on account of the floods.
- Moderator:** Thank you. The next question is from the line of Chetan Vadia from VKL Family Office. Please go ahead.
- Chetan Vadia:** My question is on slide 18 where you are showing distribution thing Kerala and outside Kerala. Now in the previous con call you mentioned that at the end of Q2 you will be in a better position to give assessment of what is the total exposure in Kerala perse. So now that we are in Q3 and

middle of the growth in loan book in Kerala from here on for the second half as well for the FY20 where do you see the growth rate to be? And the outside Kerala what kind of guidance can you give?

Shyam Srinivasan: I think this run rates on various segments that you are seeing is being not a point in time that is how it has been from many quarters. In Kerala in particular for the last three to four quarters we have been slowing down our SME and commercial banking credit because of certain environmental issues. Retail continues to be good and selectively there are corporate opportunities we will grow. Non-Kerala the opportunity is infinite.

Chetan Vadia: And sir, finally for the asset quality side, what kind of GNPA numbers can you hope to end the year with?

Shyam Srinivasan: I think two data points we have given sort of speaks through that. Roughly Rs. 1,450 crores or so of slippages and credit cost of 65 to 70 basis points.

Moderator: Thank you. The next question is from the line of Ankur Shah from Quasar Capital. Please go ahead.

Ankur Shah: Sir, how was the new business initiatives panned out?

Shyam Srinivasan: The new initiatives if you are talking to has been in terms of the segments that we are looking to do whether it is retail, unsecured, commercials, fee income you must have seen the growth has started picking up and we have done a small base from Rs. 260 crores has become Rs. 520 crores so virtually doubled our books and it is only to existing customers of the bank who are based online so it is an instant loan. The commercial vehicles have very small piece. It is just in one geography.

We are putting out a team that may take another three to four month but the traction is beginning to come in that geography. Pricing we are getting about 10.5% to 11%. And fee income is there for you to see in terms of the FX and retail fee income.

Ankur Shah: So sir, do we have a credit card business or how is it? The personal loan is a direct?

Shyam Srinivasan: We have a co-branded credit card which has been there but it is now we are giving it more life and we are working with the SBI to see what all we can do with it. But that is not something that will happen in Q3, it will take another three to four months for it to mature.

Ankur Shah: And sir, just like how many credit cards have you issued till date?

Shyam Srinivasan: 25,000 or so, very small.

- Ankur Shah:** Okay so sir, like just from like I was seeing your customer base like it is approximately 8 million, 8.5 million customers and obviously looking at other banks and how they are trying to take up pie of this granular consumption for consumer finance team so don't you think there is an easy possibility to scale up this business to at least 1 million customers, the existing ones?
- Shyam Srinivasan:** Yes, I mean we are certainly growing and if you notice sequentially every quarter we are putting in that many customers. So our annual increase will take us to that number of about.
- Ankur Shah:** I was mentioning about the credit cards? Out of that 8 million customers that you have is there a possibility for our with the distribution strengths which we have to?
- Shyam Srinivasan:** We are working on it but I am not putting a timeline to it but very much, yes. We have a very senior person who has joined only for that.
- Moderator:** Thank you. Due to time constraints we will take the last three questions. The next question will be from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Sir, so just a clarification first. The Rs. 500 crores of slippage that we are looking at for the second half of that around Rs. 200 crores for quarter is something that is purely from Kerala itself that is what we have been guiding?
- Shyam Srinivasan:** That could be an interpretation but we are saying the full year number of Rs. 1,450 crores is what we are holding on to.
- Sangam Iyer:** And sir, regarding the OPEX outlook we said that barring the Rs. 13 odd crores of one off that were there in the quarter the rest of the OPEX should be something that should be progressive one going forward?
- Shyam Srinivasan:** Yes.
- Sangam Iyer:** And sir, on the recoveries and upgrades if you can give us some idea in terms of how the overall system is in terms of being favorable for more recoveries and upgrades going forward because that will give us better understanding of how things will move going forward?
- Shyam Srinivasan:** The recovery upgrades which are bilateral in nature are trending okay. That which is in the legal process through NCLT and the negotiations to be honest that is a very elaborate process and thankfully we do not have so many of those cases but they have not all except for one or two none of them are matured in to a win as yet. But what is bilateral, what is something that we can negotiate based on the underlying asset and negotiate I think that is moving okay.
- Sangam Iyer:** So is there any provision coverage target that you would have in mind that you would want to exit for the year?

- Shyam Srinivasan:** Including technically it is enough we would like it to be edging closer to the original number of 70%. I am not saying by end of Q4 but we will push ourselves to that over the next four quarters.
- Sangam Iyer:** And the last question from my end. For the 22% to 25% growth outlook is there a mix that you would want to see which would help us in retaining the NIMs?
- Shyam Srinivasan:** Yes, I think the first is between retail and corporate we would like that on the floor it should be 50:50. You would have seen even in this quarter our growth is about Rs. 6,800 crores and it is almost 50:50 and within that retail 50, our retail business banking and agri 50. The margin is shifting towards the higher yields products.
- Moderator:** Thank you. The next question is from the line of Chetan Vadia from VKL Family Office. Please go ahead.
- Chetan Vadia:** Sir, there was some talk regarding the stake sale in the insurance business, so is there any update on that direction?
- Shyam Srinivasan:** At this juncture, no. The company as in the course insurance company is doing well. We remain invested and we are seeing benefits of it from our retail insurance distribution. IDBI since the management change and also ownership change we think in Q3 some clarity may emerge and we may be able to deal with it process that commissioned in Q1.
- Chetan Vadia:** And sir, for this stake that we are purchasing Equirus by when you are planning to offer the full-fledged capital market services and products through all the relevant customers like?
- Shyam Srinivasan:** Already commissioned, our RMs are co-calling with them. Ganesh sits on their board so there is a very active engagement between the two companies.
- Moderator:** Thank you. Due to time constraints we will take the last question from the line of Ashwani Agarwal from Baroda Pioneer Mutual Fund. Please go ahead.
- Ashwani Agarwal:** It may be a just a repeat question but just want some clarity. When the loans are restructured you would not be booking your interest income on those restructured loan amount, right?
- Shyam Srinivasan:** All the carved out amount?
- Ashwani Agarwal:** Yes.
- Shyam Srinivasan:** Yes.
- Ashwani Agarwal:** Okay so have you factored that loss of income in your NIM guidance which you just made?
- Shyam Srinivasan:** Whatever this was the quantum is small.

Ashwani Agarwal: And this flood happened in the midway of the Q2 so your effect of how much NPA would be there would be felt only after the 90 days past the deals, right?

Shyam Srinivasan: Yes, that is why I have guided for Q3 also.

Ashwani Agarwal: So is there a possibility that the number overshoots the guidance which you have given?

Shyam Srinivasan: We have made our estimates. We are at this juncture reasonably confident.

Moderator: Thank you very much. I now hand the conference over to Mr. Rajanarayanan N for closing comments.

Rajanarayanan N: Thank you all for accepting our invitation and joining our call. Thank you and good evening.

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.