"The Federal Bank Limited Q1 FY23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY23 Earnings Conference Call of The Federal Bank Limited. As a reminder, all participants' lines will be in 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 '0' on your touchtone phone. Please note this conference is being recorded. I now like to turn the conference over to Mr. Anand Chugh from The Federal Bank Limited. Thank you and over to you, sir.

Anand Chugh: Thank you so much. Good afternoon, everyone and thanks for joining us on this call to discuss our FY23 Q1 numbers. I am here to officially hand over the baton to Souvik with whom most of you would have interacted by now, just as you would have had a chance to go through our numbers and investor deck for the quarter gone by, this has been a good quarter for the bank with everything from NIM to asset quality to cost-to-income ratio to ROA, ROE, improving on a sequential basis. We have on the call Shyam, Ashutosh, Shalini, Harsh, Venkat, along with other senior officials of the bank. And without further ado, I would hand over the mic to Shyam for his opening remarks and we will follow this up with Q&A.

Shyam Srinivasan: Thank you everybody and good afternoon and thank you Anand for a great job and all the best to you in your new role and welcome to Souvik as he settles into the new role. Like Anand mentioned, yes, Q1 was good. It was very much along the plans that we laid out for the financial year, and I am happy that we have made a good start. I do think all of you would have had a chance to look at our numbers. I will keep it very short and open it up for questions and answers. The high points that we have sort of wanted to talk about is through all this the asset quality continues to be strong and we believe that that momentum will continue through what may look like a tough period even going ahead. Credit growth has started picking up. We did see good growth in Q1, definitely better than many years, the quarter 1 tends to be sluggish. I am happy that Q1 this year, buck that trend and started seeing a meaningful growth both sequentially and on Y-on-Y and it was quite broad based as you may have observed.

Our liability franchise continues to be very granular and growing quite well in areas that we want to be focused on and I am hopeful that the environment that we are in today is actually advantage Federal in terms of deposit growth. And that sets us apart for the year and years ahead. Many of the platform enablers we have been putting in, be it some of the new businesses like credit cards, personal loans, micro finance, gold, business banking, commercial vehicle, commercial equipment, have all started seeing traction through the COVID period. Some of you may recall in February of 2020 we had a pretty much, almost a full day conference in Mumbai and shared our plans and some parts of the last two financial years I had to go on to slightly slower gear given the environment that we were operating. Happy that that period is cleared, and all these businesses have come back to trajectory and particularly micro finance, commercial vehicle, commercial equipment and credit cards are giving us a good feel about the opportunities ahead and over the next 2-3 years those should become meaningful incremental parts of the growth of the bank.

For the quarter that went by you would have seen sequentially revenue grew, so did Y-on-Y. And these are the quarter saw no one off either on the upside or on the downside, if at all the treasury and the bond market rates has had an impact on treasury to some extent but equally we benefitted to some extent on the employee provisioning cost, so there were no significant upsides or downsides and we could smooth land the quarter quite well and happy that we have entered the sixth handle in our net profit and more importantly our ROA touched 1.1 and this is the third quarter sequentially ROA is trending up and we are hopeful that we should see this progress. So, I won't deliver much on environment. I am sure all of us are living through it. I don't have any unique commentary differently from the market gurus who have a better view. I tell myself and the team, let's behave like bumble bees. We don't have to believe that the market is tough and start to hide behind anything. We just have to make sure we flap our wings, and we will fly. Now we are well positioned to do that. So, I am going to say that our opening remarks are that we said what at the end of the March quarter, that we do believe this year mid-teens or higher growth is possible and we will course along to make sure that our ROA commitments are honored, and our credit quality remains as strong as it always has been, and liability growth will be pretty granular in nature. And of course, fee income trajectory is strong. So, barring anything like a treasury gain or a treasury loss which has not much that you and I can do, we are on course to making sure that FY23 is along expected lines or hopefully every better. So, with that I will pause. Once again, thank you very much to everybody and happy to take questions. Like Anand mentioned our entire senior team is on the call. I am sure all of them will chip in and share their insights as and when required. So, allow me to just open the call, operator, and we are happy to take questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have our first question from Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: I have two questions. Firstly, on the margin front. So, with about 90 bps rise in repo rates so far have the yields for EBLR loans also be raised to that extent because on the saving account side, the increase has been much less at about 25 bps.

Shyam Srinivasan: You said two questions anything else?

Mona Khetan: The second one was, what's aiding such healthy growth trend in Q1, which is as you mentioned as seasonally weak quarter, so your thoughts on the demand scenario and also sustainability on the current growth trends.

Shyam Srinivasan: On the first part I think the answer is there the rate transition has happened in terms of that which is linked to the repo. It's transmitted almost the day after the repo phase or whenever, Yes on the next day T+1 and anything linked to any other benchmark is on reset date automatically happens. All of book is getting repriced as and when the reset date happens and like you pointed out on the deposit side, we've had a modest increase. We are now caught up with many other banks which had much higher, we at least matched up to SBI to get to 275 on savings. Otherwise, we haven't….and term we are priced quite competitively in the quartile.

The second part of your question on credit growth, we saw, and we noticed fairly all-round growth. I think there is an inherent shift to banks as lenders has increased visibly combined with, I think the demand for credit based on inflationary requirements and also the fact that maybe large capacity utilization is probably at peak in most instances, I think there's a demand increase of banks and we are participating more aggressively. Our share gain is visible. Outreach has improved quite substantially I think this trajectory will continue. We are at about 1.2% share of the credit, but incremental credit our share of gains. I mean, our share of market is closer to 2%. I think we will be able to grow this quite meaningfully and therefore thereby achieve or exceed some of our growth aspirations.

Mona Khetan: Sure, coming back to the first question. You mentioned that almost the entire 90 bps has been passed on or the entire thing has been passed on to borrowers. So, is it fair to assume that for a large part of the EBLR book, at least for half a quarter which is probably one and a half months because the rate rise happened post May the entire benefit is already reflecting in the margin for Q1?

Shyam Srinivasan: 40% of the book will have a 40-day gain and rest of the book will be at sort of a measured across periods in time.

Mona Khetan: 40% of the EBLR book?

Shyam Srinivasan: 40% of the book is linked to repo.

Mona Khetan: And just one clarification. There's been some reclassification in loan book between commercial banking, business banking and retail. What does this reclassification pertain to?

Shyam Srinivasan: Every year, rest of the year we reset in terms of businesses that move to corporate, commercial or business banking depending on ticket size. So, some reclassification would have happened within, in the beginning of the year we reset the accounts focused changes.

Management: Can I just come in just to make it clear so that they will, subsequent questions if there are on this particular, the EBLR linked book is 48%, 47.9, fixed is 26% and MCLR is 17. So that's broadly the distribution.

Moderator: We have next question from the line of Mahrukh Adajania with Edelweiss, please go ahead.

Mahrukh Adajania: My first question is on slippage; the retail and business banking slippage is higher QoQ. Is there any slippage on restructured in ECLGS or earlier restructured account that has led to it? What explains the higher flow to slippage in retail and business banking? That's my first question.

Shyam Srinivasan: Do you have the second one?

Mahrukh Adajania: Yes, I do. I just wanted to get your thoughts on this whole PPI ban and how it affects you positively or negatively, that's my second question.

Shyam Srinivasan: Let me go with the retail one, just for the quarter reported is about 200 odd crores. Normally in the pre-COVID we were running at about 141-150 depending on the quarter and we believe that for the quarter this that went by and for the next two quarters, you will see roughly about 20% increase from that 140 base, closer to 200 crores or 180 crores. Lastly, because the restructured book, the demand for the restructured portfolio was on the customers to repay and certainly there is an element of at least between 15% and 18% slippage on the restructured book on retail and that's where we are seeing it. It's very much along our guided lines or our expectations and our provision. If you recall, last year, when we added up almost 530 crores of provision, we had done a reasonable amount of restructuring on retail and we said, we are building up for a 20 to 25% slippage on the restructured portfolio and yet keep the 65% coverage. It's almost to script and we don't see anything that at this juncture differently, from what if anything it may include. On GECL, thankfully almost nil and at this point in time, it's in lakhs. Would you want to complete something?

Mahrukh Adajania: No sir please go ahead.

Shyam Srinivasan: On PPI I think as you probably know, we don't do prepaid cards or anything to do with that. We see that it may shift to demand to credit cards and that's an area we are putting a meaningful focus. I expect credit card to be advantage and therefore we may have an opportunity.

Mahrukh Adajania: In your repo book, reprices in the month of the increase or after every three months?

Shyam Srinivasan: Repo book is instant, T+1.

Mahrukh Adajania: Instant T+1, okay that is so helpful.

Moderator: We have next question from the lineup Aditya Jain from Citi Group, please go ahead.

Aditya Jain: I just wanted to confirm, the EBLR would change on the day or T+1, but individual loans might have their own reset date, which as per regulation could be up to three months, is that understanding, right or are you saying that even the individual loans have a T+1 one replaced?

Shyam Srinivasan: And do you say individual?

Aditya Jain: Individual I mean, any loan as per its own contract might have some reset period. So, that reset period itself is one day effectively. Is that what you're saying?

Shyam Srinivasan: Yes, all repo linked are T+1 and anything else is contracted and the reset is based on the contract.

Management: If I may add entire EBLR is not REPO linked, there's the t-bill, which has a defined periodicity, three months or annual on whatever it is, that is t-bill book. So EBLR is two, one is Repo linked, the other one is treasury bill.

Moderator: We have next question from the line of Prashant Kumar from Sunidhi Securities. Please go ahead.

Prashant Kumar: My question is on the accounting side, on provisioning for the quarter, there is 167 crores approx. and in which a loan loss provision is 150 crores and other standard account. In this quarter, I think so the banks hit by MTM provisions. So where has been shown this provision?

Management: I think MTM provision is separately taken as a provision on investments, not a loan loss provision. Loan loss provision is 150 crores and balance amount is... See, in MTM that amount itself is very small and it is netting of your appreciation versus depreciation which is what is the regulatory direction. We did not find much of investment related depreciation because our AFS/HFT book was very-very thin.

Prashant Kumar: It means that MTM provision has not impacted during this quarter, right?

Shyam Srinivasan: The resultant number which is marginal.

Prashant Kumar: Only the treasury income that is the part of…

Management: Income is impacted, because in first quarter as you would be aware, there is a tradition of shifting from HTM to AFS, inter-category transfer I would call it, not external to it, inter-category transfer is permitted in the beginning of the year. We have not made any inter- category transfer this year. So, our AFS/HFT book is very safe.

Moderator: We have next question from the line of Nitin Agarwal with Motilal Oswal Securities, please go ahead.

Nitin Agarwal: First question is on the restructured assets. If you can share some colors to what proportion is now under moratorium and any color on SME overdues of these accounts.

Shyam Srinivasan: I think about 1,300 crores of the restructured book has already been in the demand….

Management: 43% has emerged out of moratorium and it has spread across till 2024 it has spread across. In Q4, 1,000 crores has emerged and coming three quarters it is 700, 300, 300. So that is the split.

Nitin Agarwal: So, when we say that 25% is like the outlook that we carry on the slippages that can happen from this, that includes non-paying accounts also and do we have a good degree of confidence on these accounts which are under moratorium?

Shyam Srinivasan: Yes. I mean we have to rely on the experience of say the last two quarters. Roughly it's been between 10 and 15%. So, at the top end could be 20 that's where the trendline.

Nitin Agarwal: The other question is on the RWA growth this quarter, if I look at the loan composition, the corporates has been shared marginally, but RWA growth looks to be a tad higher resulting at

Tier-1 consumption also of 110 odd basis points. Now that we are looking at a much stronger growth in FY23 versus what we have seen in the prior years, how do you look at this consumption as well as any thoughts around the capital raise? Like how do you see that?

Shyam Srinivasan: On the second part on capital, I'll hold that answer because we will see how the next two three-quarters shape up and how the environment is. In terms of capital consumption this quarter, if you break, you mentioned about hundred odd basis points, but 70 basis point is our RWA increase for the credit growth. There were elements of credit growth, which had businesses that are short-term loans to companies which have greater than 10,000 crores borrowings from the market. And, as you know that RWA goes up even for a highly rated company RWA goes up to 100% so to that extent, the RWA is on consequence of this. In terms of unsecured growth particularly credit cards, while balance sheet growth is yet to pick up, we've seen good line extension already happening. And that also consumes capital. Two parts, one, both the credit quality and the credit extension for the segments we want are going well. In terms of how much consumption happens and what we are able to add back as the end of financial year, we will see if we dip below, say 13, 13.5, we may consider. But at this point in time, it's too premature.

Nitin Agarwal: I'll ask you this one contribution on the earlier answer that you gave around the loan-mix, how's the like mix of floating loans. Our yield on advances on a sequential basis is pretty static despite like the T+1 repricing of repo, and we have also broken across segments. So why is that? How do you see the repricing playing out in the coming quarters?

Shyam Srinivasan: It will come through, there are some businesses, like agri where the slippage is also means that revenue offset. This is to that extent, you will see that play grow, but over two quarters that will stabilize and we are guided for somewhere in the 325, 327, and then we think there are 322 another 5-7 basis points will happen.

Moderator: We have next question from the line of Kaushik Poddar with KB Capital Markets Private Limited, please go ahead.

Kaushik Poddar: Your advance growth has been good, but deposit growth was not keeping pace. To that extent, what's your strategy for upping the dividend, sorry, deposit growth. I am talking of deposit growth; your deposit growth was not keeping pace with your advance growth? So, how do you plan to up your deposit growth?

Shyam Srinivasan: I think the deposit growth elements we have to see. We can pay more in growth term; term is very price elastic. So, we are focused on growing the granular retail CASA which has grown 15% Y-on-Y. And CD ratio being at about 82%, we are reasonably comfortable even if it went up to 84-85. That said, in Q2 you may see that our deposit rates now for both domestic and NR deposits are in top quartile. So, you will see pick up on deposit. Deposit to some extent is dial up, dial down, depending on how the CD ratio is and what you want to do with growing term. If you notice in FY22 end consciously we didn't grow term because there was no great point in pricing up and taking term. As we see opportunities, we are doing that. But our more structured CASA is growing quite well. Domestic and NR.

Kaushik Poddar: What you just now said is that you have up to your term deposit rate, is it?

Shyam Srinivasan: Yes. In Q2, you may have noticed our term deposit rate is in the top quartile.

Kaushik Poddar: Okay. And about the relaxation that RBI has made regarding that FCNR deposit, so do you see some opportunity there also?

Shyam Srinivasan: Again, there we have very-very competitively priced probably amongst the better banks. And we are 7% of India's nonresident deposit market share, about 10 lakh crores is the deposit share of nonresident deposits. We had about 80,000 crores as Federal Bank. So, we are about 7%-7.5%. So. if India gets $2 billion, which is what most people believe will come in the next 2-3 months or through the window of this dispensation given, we should get our share or higher.

Kaushik Poddar: Okay. And as far as capital raising goes, I mean, you are holding it back by another three quarters or something, that's what you said?

Shyam Srinivasan: No. I said there is no plan at this point of the time. When people said there is a likelihood of consumption of capital and therefore the need to go to the market. I said we will wait to see how the year shapes up and then we will decide timing, opportunity and price. At this juncture, there are no plans.

Kaushik Poddar: Okay. And on this ROE, what is your target rate? I mean, if I remember correctly, you are aiming for something like 1.25, is that what is you have in mind? And if that be so, when you plan to reach that?

Shyam Srinivasan: We said we will exit FY23 between 1.10-1.15, and happily we are at 1.10. I think we take 1.15, we said exit FY24 we will be 1.25. I think we are in course for that at this point in time unless something dramatically changes.

Moderator: Thank you. We have next question from the line of Rakesh Kumar from Systematix Shares. Please go ahead.

Rakesh Kumar: Thanks for the opportunity and a very good set of numbers. Quite a lot of surprises on treasury operations, though we had close to around 1/5th of investment in AFS and HFT. So, this is quite a surprise there. So, some queries that I have, firstly related to the PSLC and like overall PSL shortfall that we have. So, just a calculation I did that what the purchase we have done as a PSLC investment in our IDF and then IBPC that we have on the net basis in this like for year FY22 that is quite sizable number of the total PSL outstanding. So, why that we have so much of dependence on PSLC?

Ashutosh Khajuria: See, PSLCs were available at 1 basis point. 0.01%, 1 basis point towards the end of the previous quarter. So, I think that's one part. So, whatever shortfall was there, we have fully taken care of that. And there is something called average PSL and all, for every quarter and all. So, whatever earlier quarter shortfalls were there, those also were taken care of in the March quarter, but we are not into PSLC in this quarter. You would not have seen the same. Because it has quick mortality. On 31st March it all expires becomes zero. So, in this quarter you would not have seen that.

Rakesh Kumar: I was referring to…

Ashutosh Khajuria: Are you talking of CSLC certificates?

Rakesh Kumar: I was talking about what we have done in FY22, entire FY22 as per the annual report. So, what purchases that we have done. So, I was referring to the annual report numbers, not this quarterly number.

Shyam Srinivasan: That's exactly what Ashutosh said.

Ashutosh Khajuria: That's what I was telling about FY22. FY22, we had a shortfall, cumulative shortfall going on for the first three quarters. In fact, most of it was H1. The third and fourth, we took care of it mainly in fourth by having the PSLCs done and PSLCs were available at a very, I mean, the least possible price, 1 basis point, that's the least, you don't have a price below that. So, it was a good economics also to do that.

Shyam Srinivasan: Rather than acquiring portfolios and other things, these are the options, this was the cheapest option available.

Rakesh Kumar: Based on the industry weighted average premium, would we have spent close to 170 crores on the entire year FY22 for PSLC purchases?

Ashutosh Khajuria: I don't think our number is that.

Shyam Srinivasan: 170 crores is the cost of acquiring PSLC?

Rakesh Kumar: You just said, cost of it.

Shyam Srinivasan: No, not even a fraction of that.

Management: Nowhere close to that, no.

Rakesh Kumar: And secondly sir, in our annual report we have discussed about expanding our branch network which has been so far kind of stand still. So, what is the change in strategy there we have?

Ashutosh Khajuria: Shyam, before that, just to complete the earlier question, I just want to add that in this financial year, month on month we are on target. PSLC there is no shortfall.

Shyam Srinivasan: So, let me just answer the question on branch expansion. For about five, almost six years, we added only 20 branches. And the objective was in my first five years we added about 750 branches. We wanted to make sure they are all productive and performing. Happy that at the end of March 31st, 2022, there was only one loss-making branch of the bank. So that said, we were confident that our traction on leveraging our franchise is working. And we also said we would focus on digital and do digital quite successfully. So, while we did that, we said we will move from branch light distribution heavy to light branch heavy distribution. So, light branch means smaller and compact branches in locations where we don't have our flag. So, even in Q1 we added 10 branches this financial year. We have committed to adding about 65 branches this financial year and over the next three financial years, including this one, we think we would add about 200 to 250 branches. And that was very much included in all our guidance in cost income, revenues, and plans around that. So, we believe that we will create 2-3 more geographies where we are quite potent and dominant.

Rakesh Kumar: Sir, we have got like total written off loans close to around 3000 crores as on end March, fiscal year end 2022. So, what kind of recovery that we are expecting for this year, FY23? We did very well in previous year. So, any guidance on that front.

Shyam Srinivasan: I am not calling anything specifically out on that. Our overall credit cost factor and the ins and outs, but Yes, there are opportunities, but that said, the bulkier opportunities we may not be the primary lender or the only lender. Our strength is when we are one or the main lender, then we have opportunities, when its part of a consortium, part of a much larger platform then there are too many elements to play, and legal processes take endless time. So, I am not in a position, but we made full provisions so therefore those should end up being gauged when they come.

Rakesh Kumar: Sir, just one last question. There is a government security in the non-SLR portfolio. So, what is the correct restrict of that non-SLR government securities?

Ashutosh Khajuria: See, there are certain bonds which are issued by the government, but they are not part, they are not SLR securities. I'll give you one example. These are, when this SEB restructuring was done, you had these state government bonds issued, but these state government bonds in lieu of the liability of SEB, these bonds were not given SLR status. Similarly, I mean, whether it was oil bonds given to oil marketing companies, bonds given to banks for recapitalization, these are all central government securities, but these do not have the SLR status.

Moderator: Thank you. We have the next question from the line of Pranab from Rare Enterprises. Please go ahead.

Pranab: Sir, I have three questions. First of all, the loan growth was very good. And can you just elaborate factors that are leading to it and sustainability of the same? Second is in terms of slippages, so as you mentioned that there will be some slippages uptick because of restructured book, so this will continue. This is happening in both retail and other categories of restructured. And is there any other something like inflation or economic slowdown leading to retail restructured book, that is a second question. And third question is how you are looking at now employee expenses, because you have given guidance, I think of 200 basis points of cost to income improvement. So, how are you looking at employee productivity going forward and how are you measuring it, tracking it? Thanks a lot.

Shyam Srinivasan: Credit growth, I mentioned we are looking at the outlook is quite positive at this juncture. We grew sequentially at a rate of about 18% and that should be our run rate for FY23. There are some businesses that we do 25%, some businesses maybe 12% and 14%, for blended will be about 18% odd growth which we are confident will happen. Don't hold me to 18%, it could be 16.5%, 17.5%, 18.5%, 19.5% but that is all. And that is what we are working on. And it is broad based, it's not just one business. The second question was around retail slippages. I did mention that I think the best way to look at us is financial year 2021 financial year 2022, and I said this in the March call also. Our overall slippages for the year were about 1800 crores, both the years. And I also said, I think FY23 will mirror that. And if you saw Q1 which is about 444 crores, that's exactly on course to where it is. Now within the quarter within the product, there will be some mix up and down, but I don't see it will be wildly varying. Thankfully, our corporate book is holding very well for many quarters, nothing was even in the SMA book. So that will continue. Commercial banking, business banking tends to be sometimes you have one account of 30 crores, the next quarter nothing at all. So, between commercial banking and corporate banking, there is not much of a threat on that count. Business banking, retail SME, agri, you will see some impact driven by the COVID restructuring coming out of COVID restructuring and the current that is slowdown in the economy in some pockets. But on balance the numbers that we have pointed out, look quite possible. And that's how we have given our full year numbers are around 1800 crores or plus minus a few crores here there, the slippages.

Pranab: Sir, my question is that, is it just restructured book or is it economic slowdown or anything else, like inflation or restructure in retail causing this?

Shyam Srinivasan: The restructuring guy, restructuring he took because he saw some stress in the environment and they were hoping things will work in favor. If the environment continues to be a bit sluggish, their recovery, their ability to repay may take a little longer, but these are secured books, right? Because large part of our retail is home loan or lands loan against property. So, I won't call out specifically saying it is recession or slow down or inflation. Those are already built into the statement that the restructure guy may have settled. That's why we said roughly between 18% to 20% or whatever that number is, may see slippages in FY23 and that's how this number of giving the full year slippage guidance is. Within quarter, we may swing a little bit here there. Q1 was 200 crores retail, Q2 maybe less, Q3 maybe a little more. So, order of magnitude won't change materially. And these are largely secured books.

Ashutosh Khajuria: Just to supplement that, I think there may be, because of the need for restructuring and all that, the probability of default there could be a 10% to 15% or whatever it is because this is yet to be tested also. The loss giving default here is going to be very-very low because these are all mortgaged books.

Shyam Srinivasan: And the third one on employee cost. I think we have already said, you know we get misunderstood for the fact that as though it is a productivity issue, and I have said this many times Pranab, it's not a productivity issue. It's the issue of cost that we have to carry for pensioning. And unfortunately, last year there was a family pension for people who even retire, right? We can't make an old man who's retired to make productive. But that's a cost, the cost of doing business. Thankfully, when he has sort of gone up, while treasury doesn't get the gain, there are some gains that come on the employee cost because the actual pensioning requirement comes down, as you saw that this quarter. So, we think we are in the 500-core employee cost for FY23 first quarter. If we are in and around this region, somewhere this number, if we will start trending lower, it may go to 530-540 but we think the full year employee cost would be about 2500-2200 crores.

Moderator: Thank you. We have the next question from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: I just have one question. How much of your deposits are repo linked? And what is the repricing timeline there? And also, what percentage of your incremental deposit mobilization is typically repo linked. So just wanted to know that.

Shyam Srinivasan: Our savings book is repo linked and we are not obliged to pass on the entire gain as we didn't. In the Q1 you would have noticed, it went up from 250 to 275 is our saving grace. Repo minus something, that minus is our choice.

Abhishek Murarka: Okay. So, just to clarify, if I have a repo linked SA and repo goes up by 40 basis points, it is not necessary that my SA rate will go up by 40 basis points.

Shyam Srinivasan: Not that. Because the spread…

Management: Not immediately, Mr. Murarka. But only thing is in case bank revises the spread which has done by ALCO and all, then entire thing would not be passed on. If it is not revised by ALCO, that spread is not revised, then entire thing would be passed on because its repo linked.

Abhishek Murarka: Exactly. So, that's what I wanted to understand. So, if I have a repo linked SA and the repo goes up 40 basis points, then the next day it goes up by 40 basis points until the ALCO comes up with the revised spread.

Management: ALCO makes the same day.

Abhishek Murarka: Okay. So, they may revise down the spreads. Okay. And have you seen any revision in those spreads after this 90-bps cumulative repo hike?

Shyam Srinivasan: That's why our rates are 275. It's gone up from 250 to 275.

Abhishek Murarka: Okay. So, 20 bps effectively. Okay. Got it. Thank you.

Moderator: Thank you. We have the next question from the line of Renish Bhuva with ICICI Securities. Please go ahead.

Renish Bhuva: Two questions, one again on the slippage side. Of around 400 crores of slippages, how much of this has flown from the restructured book?

Shyam Srinivasan: About 110 crores of the entire 444 is from the restructured portfolio.

Renish Bhuva: And right to assume mostly from the retail restructured book?

Shyam Srinivasan: Retail business banking, the two large parts.

Renish Bhuva: Got it. And second again on the deposit side. So, in our presentation we highlighted that around 4.5 lakh accounts have been opened every month by Fi and Jupiter. So, on the aggregate basis what is that run rate of new account opening on the liability side?

Shyam Srinivasan: Roughly about 12,000-14,000 accounts a day.

Renish Bhuva: So, large chunk of these accounts is opened by Fi and Jupiter?

Shyam Srinivasan: This are the 2-accounts opened by our partners. I mean, we do have 12,000 accounts every day.

Renish Bhuva: And what is the, let's say average balance of accounts opened by FinTech partners versus sourced organically.

Shyam Srinivasan: Early but its lower than our normal balances built on ourselves. These are people who are younger and new to work, now to category. So, balance build will take time. I think the book is about 500 crores now.

Renish Bhuva: Okay. And sir just last clarification again on the investment side, so we highlighted that we have not transferred anything from AFS to HTM in Q1. Is that right?

Shyam Srinivasan: Yes.

Ashutosh Khajuria: Other than the regulatory shift which is to be done in case of your PE and venture capital investments or so, which is a very small amount, there you can keep it in HTM only for three years. So, in fourth year you have to shift it to AFS. So, that's a regulatory transfer. Other than that, we have not done any inter-category transfer.

Renish Bhuva: Maybe just again a follow up on that. So, I was just wondering, despite a sharp increase in the yields, why we have not been impacted on the treasury side, I mean, why it is just 8 crores. Maybe you can take it offline also.

Ashutosh Khajuria: If you keep your investments in HTM, you are not required to mark to market, number one. And number two, if you are having a very small say T Bill, mainly T Bill and AFS and all that, which are taken at cost, there would be no need depreciation.

Renish Bhuva: Even if I look at the credit substitute portfolio, I think we have roughly 2000 crores of that portfolio, so there also I mean, even if you consider the corporate yields going up, of course, I mean, we would be factoring all these things, so net-net it is 8 crores, and we don't see any further hit or how one should look at this?

Ashutosh Khajuria: Actually, for your information that portfolio is appreciated. Had it been Ind-AS, we would have booked some appreciation there.

Renish Bhuva: Okay, thank you sir.

Ashutosh Khajuria: It is always netted off, your appreciated bonds are netted off, and that appreciation is netted off against depreciation.

Renish Bhuva: Correct sir. I was just wondering, why there was no depreciation, but maybe we can just take it offline.

Moderator: Thank you. We have next question from the line of Jai Mundra with B&K Securities. Please go ahead.

Jai Mundra: Sir, during the quarter, we had raised the card rate of SA by 25 basis point and the overall cost of the deposit is actually down by 8 basis point as if you can help explain, where did you gain actually?

Ashutosh Khajuria: Sorry, please come again.

Jai Mundra: So, I'm saying sir, on your SA, the total cost of deposit is down 8 basis point quarter-on-quarter whereas in general we are in rising rate environment, and you anyway had upped your SA cost by 25 basis point during the quarter so which area did you actually benefit, which would have offset such increase.

Ashutosh Khajuria: The term deposits which are there for 3 to 5 years, the higher value so called deposits, they mature and get re-priced. So, when you have something in 7 series getting matured, if it is a 5-year deposit, you have to carry it because it's a fixed deposit, you have to carry. So, your higher yielding deposits rather where the cost is higher, when they get re-priced, you get the benefit. So right now, this is just a coincidence that it has just stabilized, number one. And number two, the CDs and all which if you see during the quarter, have also got matured. So overall the impact on that had been 5, 6 basis points but that's not going to be the trend. You would see the cost of deposits moving up in the following quarters. So, let me not give you a picture where the cost of deposits still has scope to fall. This is the earlier ones which have longer tenure deposits, maturing, and getting re-priced at a lower rate.

Shalini Warrier: If I can just add to that, this is Shalini here. I think to add, as Ashutosh has summarized it correctly, normally when there is an interest rate change, obviously liabilities lag in terms of catching up with the interest rate as assets, we pass it on a Repo basis as we explained earlier, that is 1. 2, the savings account rates actually were changed in 2 tranches, in May and June so you've not seen the full impact of that for the quarter because they were changed in May and then in June and term deposit rates in the month of April, till the Repo started increasing, we had very strict control on our term deposit rates. I think it's the combination of all that. There's a lag impact. Clearly the forward-looking view will be different because next quarter, for example, we will see the full impact of the savings account interest rates. Term deposit rates have been raised by us as Shyam alluded to in the earlier part of the call. This is just a question of catching up and it will happen in the coming quarter.

V. Venkateshwaran: Jai, this is Venkat here, just to clarify here, we recollect you mentioning cost of deposits savings going down, actually savings has gone up, but the overall cost of the deposit has come down 8 bps between last quarter to this quarter, the savings has gone up by 12 bps but the overall is down eight. That's for the reason which Ashutosh mentioned, Ashutosh and Shalini both mentioned the reason here.

Jai Mundra: Yes, right. and secondly sir, if you have this, I think the number is very small but just to get this correct, that if you have the bifurcation of MTM hit and TWO recovery, I think both these things are clubbed together so as to arrive at that number, if you have that number, it would be useful.

Shyam Srinivasan: Sorry.

Jai Mundra: The MTM hit during the quarter and TWO recovery.

Shyam Srinivasan: So, its other income line, is it, you want that?

Jai Mundra: Yes.

Shyam Srinivasan: Usually we don't share that Jai, you know these things tend to be…we just net it off and give. It changes every quarter. There is some quarter; we have a remarkable gain on one line, so the blended numbers are more appropriate numbers.

Jai Mundra: Understood. And last thing sir from my side, if you have the ECLGS outstanding or disbursement and any NPA number there, thank you.

Shyam Srinivasan: ECLGS, like I mentioned is in lakhs, thankfully there's nothing to report in terms of the NPA. Outstanding if I remember right, it's about 3000 crores. Raj, is that number right, 3000crores?

Rajanarayanan N: Sir, it is 4000 odd crores.

Shyam Srinivasan: Okay.

Jai Mundra: So, this 4,000 is outstanding, right, not the disbursement?

Shyam Srinivasan: Yes, it is outstanding.

Rajanarayanan N: It is just the balance outstanding, yes.

Jai Mundra: Sure, great. Thank you, sir and all the best.

Moderator: Thank you and we have next question from the line of Mahesh from Kotak Securities, please go ahead.

Mahesh: There is one question, the change in lending yield as compared to the sensitivity of the book, I still didn't get the answer that you explain. Why has it been so small despite it being re-priced….

Shyam Srinivasan: You will see it in the quarters ahead because there have been ins and outs. We had some higher slippages in retail and agri, which is why there would have been the reversal of interest come on that count.

Ashutosh Khajuria: And also, this increase, this Repo increase has happened over 2 tranches, the second one was only for 22 days, 8th June and first one happened on 4th May. So, the first part which was 40 basis points and second one, which was 50 basis points, that happened in the middle of the quarter. I mean, first part was 40 basis points, which was available for nearly 2 months. The second one was available only for 22 days.

Mahesh: Okay. And in your assessment, the direction of margin simply because of the change in yields will be a positive one for at least a few quarters or it re-prices much closely given the way you have re-priced the deposit side.

Shyam Srinivasan: So, I mentioned that our blended margin NIMS, we are looking at 325, 327 which means another 5 to 10 basis points for the coming quarters.

Mahesh: So, you'll keep despite much probable appreciation of the lending, isn't it?

Shyam Srinivasan: Ins and outs of everything, book profile, slippages, cost of borrowing, I mean, cost of deposits going up, blended we think between 5 and 7 basis point improvement in NIMS is what we are working on.

Mahesh: Okay, last question sir, when you speak to your Business Heads like you say Harsh or on the retail side, that business environment continues to remain quite positive, despite all what we are hearing outside because the stock market is in a slightly different world right now.

Shyam Srinivasan: Like I told you at the top of the call, I said, we believe in the bumblebee. You shouldn't get to swayed by either great news outside or bad news outside, just focus on doing the right stuff, things will happen. It's not a profound answer but it's the truth.

Mahesh: Okay, perfect, sir. Thanks a lot.

Moderator: Thank you, we have next question from the line of Pritesh Bumb with DAM Capital, please go ahead.

Pritesh Bumb: I just want to check our Gold Loan yields has been down by 64 basis points on quarter on quarter, anything there, any increment in loans lowering, anything you can give out.

Shyam Srinivasan: Yes, we have some attractive entry pricing for loans for shorter tenure and that is priced more attractively.

Pritesh Bumb: So, it's like a teaser right now.

Management: It's a teaser with the belief that some of them will roll over, some of them will pay up but I'll be honest, a larger number of people are paying off.

Pritesh Bumb: Okay and how much time this will continue any road map on that.

Shyam Srinivasan: I think it goes on this quarter, till July or August of this quarter.

Pritesh Bumb: Okay. And then after that it moves to a normal rate I will assume.

Shyam Srinivasan: Yes.

Harsh Dugar: Just to add, these are given very selectively where the LTV is much better. It does attract a lot of new customers, so part was building a large customer base where the repeat business comes in. Secondly, there was, as we said, mainly competitive offers by other had been we had offered very competitive prices, so it was kind of continue and minting our share. But I guess the competitive pressure on NBFC players have increased with the increase in interest rates, so we see the pressure easing off over here marginally.

Shyam Srinivasan: But one point on gold I do want to state, we should not assume gold equal to what it was 2 years back when it was a high yielding product. It is certainly higher yielding but no longer in the mid-teens to higher teens, it's a comparatively priced. Those thankfully in Q-1 of this year, some sanity came; it's not as low price that is then. Q4 and Q3 of last year, some banks and NBFC took the market to a very low rate; maybe other forms of credit were not growing. So gold, it almost became like a home loan. At a market level, some sanity is coming now.

Pritesh Bumb: Sure. And thank you and second question is on a credit substitute, I think of, we've seen a sharp rise of 20% on quarter-on-quarter, any strategy there I thought in an increasing rate environment anybody will not go on back off credit substitutes, anything there?

Shyam Srinivasan: Harsh would you add anything?

Harsh Dugar: Yes, I will. The credit substitutes includes both short term and long-term. We have largely been in the short term of the curve; we are into commercial paper. So, the increase in pricing is already seen over there, that’s number one. Number two, the strategy mainly the corporates need to tap a big capital market because that's was the large exposure framework issued by RBI. So, under that guidance, many corporates need to tap those markets and we as a bank want to give entire fleet of products including substitutes. But all these products are priced in as per current levels and never done at the cost of margins.

Pritesh Bumb: Last question was on personal loans, I think Shyam, you were mentioning from last quarter that we will not be pushing personal loans, but do you still see environment a little difficult in terms of not pushing personal loans to especially to our retail customers.

Shyam Srinivasan: Beginning to pick up, we did delay the reset of parameters to the erstwhile pre COVID. In the middle or towards the last month of this quarter, we saw pickup; I think from here on, we will see some pickup. We may do about 100crores a month kind of run rate on ETB base but it has started seeing the pick-up.

Pritesh Bumb: So, it should be ranging in a range of 15%- 20% is what we can see ahead?

Shyam Srinivasan: In terms of growth?

Pritesh Bumb: Yes.

Shyam Srinivasan: Full year we are still looking at a growth. We ended the last year at about 1700 something. We think we will get it to 2300 -2400.

Pritesh Bumb: Sure, thank you so much. That's it from my side. Thanks.

Moderator: Thank you, we have next question from the line of Vipin Kumar Jain, with APAC Capital, please go ahead.

Vipin Kumar Jain: Thank you sir for giving the opportunity. My question, I need little clarification when most of the banks are saying that there will be a treasury loss because of the rising yields so how this a Federal Bank is able to come with the profit. That is my question.

Shyam Srinivasan: Maybe you didn't get what Ashutosh explained. I would request you to connect with Ashutosh offline. He'll explain it to you maybe in a little more elaborate fashion.

Ashutosh Khajuria: In short, I can say there has not been much of a profit booking on treasury because that opportunity was not there as the interest rates had moved up but what was there was prevention of loss. The book was very slim thin and therefore the provisioning requirement was less, and that provision lies against other income. So, I just wanted to clarify that because somebody was saying breakup off 167, 150 is loan loss provision and 18 is, 17.5, 18 is about standard assets. Yes, only NPI provision goes there and there was no NPI there and the rest of it, the mark to market thing goes against other income, above the lag here.

Vipin Kumar Jain: But there is separate head here for treasury investment income?

Ashutosh Khajuria: Interest is there, separately given interest income on investments which is a separate line, which is 629 crores for this quarter and there is other income in that you have the mark to market depreciation, which is required, but because the book was quite slim, the amount also has been quite less as against some banks who would be carrying larger books. If you carry larger book, you will have a larger hit.

Vipin Kumar Jain: Thank you.

Shyam Srinivasan: Operator we should start beginning to wind up, maybe 2 questions more and close up.

Moderator: Thank you sir. We have the next question from the line of Sameer Bhise with JM Financial, please go ahead.

Sameer Bhise: Just one question, the sequential dropping in tier 1 is primarily got to do with operational risk requirements?

Shyam Srinivasan: I mentioned three things, right, credit growth; the risk weight related to that, in that credit growth some growth coming from corporates who have borrowings greater than 10,000 crores. So, there's a higher risk weight on that and growth in unsecured credit, there's a line of credit has established, then risk weight is on the full line. These are drivers. In addition, operations risk is not significant.

Sameer Bhise: Okay. Just to reiterate, did you say that for potentially 18%-20% of the retail restructured book, maybe, I mean, you have considered that it could potentially slip in the 1800 core guidance.

Moderator: Gentlemen kindly stay connected. We lost the line of the management. We'll be connecting back soon, please stay connected. Thank you for patiently holding this, gentlemen, we have the management line back in the conference, sir you may please proceed. Sir if you may please repeat your question.

Sameer Bhise: Just to re reiterate, you said that the slippage expectation which probably will remain similar to last year level probably includes around 18%-20% of the retail restructure book which probably could slip. Is that a fair assessment?

Shyam Srinivasan: I said the overall slippages guidance for the full year is around 1800 kind, plus minus a few basis points, a few points will be all inclusive.

Moderator: Thank you. We take the last question from the line of Anusha Raheja with Dalal & Broacha. Please go ahead.

Anusha Raheja: I just want to ask, what is the share of non-retail deposit in your total deposit book?

Shyam Srinivasan: 92% is retail, Anusha.

Anusha Raheja: Okay. I just missed onto that, 48% you said is EBLR linked loans and 26% is a fixed part, right?

Shyam Srinivasan: Yes.

Anusha Raheja: And 28% is MCLR.

Shyam Srinivasan: Yes.

Anusha Raheja: So, what is the percentage for the current fiscal you feel that would get re-priced at higher rates?

Shyam Srinivasan: The floating rate book which is if you take EBLR plus MCLR as floating rate, at different points in time in the financial year it gets re-priced.

Anusha Raheja: Some part of the fixed part might be probably in the later part of the year, you know…

Shyam Srinivasan: Depends on the maturity.

Anusha Raheja: Depends on maturity, yes. So largely close it around 70% or are you seeing that would get repriced at higher rates?

Shyam Srinivasan: Yes.

Anusha Raheja: And I just missed on to that, what is the full year credit cost guidance that you have been giving?

Shyam Srinivasan: Roughly about 50 basis points.

Anusha Raheja: And there is no capital raising plan in the near future.

Shyam Srinivasan: At this juncture we are not looking at anything.

Anusha Raheja: But the board approval has come in, right?

Shyam Srinivasan: We have taken board approval as we did last year also. We are going to the shareholders, the AGM is on 27th; hopefully, we will get into shareholder support. It is an enabling resolution, allows us 12 months till we go to the next AGM, if there's an opportunity for us to raise. I said we took similar approval last year and the previous year, but we are quite judicious in the use of capital. Last year we did our Tier 2 bonds, 700 crores, that's all.

Anusha Raheja: But if I just look at the Tier-1 capital, you are comfortably placed at 14% plus, I guess.

Shyam Srinivasan: Yes, at this juncture, yes.

Anusha Raheja: Okay. Just one last thing on this, how is pricing of the FCNR deposits being done currently?

Shyam Srinivasan: We have just taken up our FCNR rates to a very competitive rate. One year Dollar is 350.

Anusha Raheja: Okay.

Management: It is commensurate to how the US treasury yields are moving and plus competition of what is the competition quoting. All of these factors are taken into consideration deliberated at ALCO. Right now, what Shyam has said that is enough.

Anusha Raheja: So, don't you think this can impact your margins negatively because I mean…

Management: Dollar deposits, if you have dollar lending opportunities it won't. Second, there is no CRR on this.

Anusha Raheja: Thank you so much.

Shyam Srinivasan: Thank you very much. We can bring it to a close.

Moderator: Thank you very much, sir. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Souvik Roy for closing comments. Over to you, sir.

Souvik Roy: Thank you and thanks to Shyam sir for welcoming me into my new role and thanks to everyone for joining the call. See you on the other side of Q2 and hope to see you with a better set of numbers. Best wishes and a great weekend ahead. Thank you everyone.

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