“Federal Bank Limited Q1 FY-22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Federal Bank Limited Q1 FY22 earnings conference call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Chugh - Head Investor Relations, Federal Bank. Thank you and over to you, sir.

Anand Chugh: Thanks, Nirav. Very warm welcome to all of you who have joined us for the quarterly earnings call. I hope and pray that you and your near and dear ones are safe in this challenging environment. And just as 92% of eligible employees have taken at least one shot of the vaccine believe all of you would have also played your part in this fight against COVID. Let me begin with the latest development. Our board has today approved issuance of shares to IFC Group to an extent of 4.99% of bank's paid-up capital, and I use this opportunity to welcome IFC as a significant shareholder of the bank.The addition of this marquee name to the list of our prominent shareholders reinforces the trust and confidence reposed by IFC Group on the bank and its management. The infusion of quality capital further strengthens tier 1 and overall CRAR of the bank. We are pleased and encouraged that RBI has well ahead of the due date confirmed the extension of term for MD and CEO for three years. And we believe this approval gives us stability and continuity at the top, that too at the time when the economy is passing through one of its toughest phases.

Our digital and retail teams were on overdrive as their hard work over the past several months started seeing the light of the day. We launched our own credit card and opened it up for employees and existing to bank customers. The onboarding process for the same is simple and digital and it consists of just a few clicks. Fi and Jupiter, our neo banking partners launched their services and initial response has been encouraging. We also partnered with Digivridhi and Amul to digitize farmer milk payment's lifecycle that aims to cover base of 36 lakh farmers. We were adjusted as the best private sector bank by Outlook Money. Also, we ranked high in employee satisfaction index as great places to work institute ranked us as 47th best workplace in the country.

Coming to financial performance of Q1 FY22, the Quarter was marked by onslaught of wave two and its lethal impact. Despite the turbulent external environment, we were able to report steady performance as we saw new highs being achieved on the front of operational profit and CASA percentage. We were able to largely hold on and maintain collection efficiency, asset quality and provision coverage ratio. I am sure you would have got a chance to look at the numbers and investor deck. The entire senior team is on the call and would be happy to respond to any query or question that you may have. With this, I would like to hand over the mike to Shyam for his opening comments. Over to, Shyam.

Shyam Srinivasan: Thanks, Anand and good afternoon, everybody. I hope everybody is safe and all going well. I am not going to elaborate too much; I think Anand has mostly spoken of the headline items. I do want to take this opportunity to both say thank you and welcome our friends from IFC. I believe this is a good advertisement for Federal Bank's commitments to green Federal Bank's focus around getting in marquee investors, So, thank you very much to IFC and welcome to our investor base.

The Quarter you know if we thought Q1 last year was tough, and we were tested, i do believe it looks like a trailer because this year, certainly April May took us all by storm, nobody was spared. We did see a lot of our employees and their families having impact of one form or the other. We in fact did lose some employees and well over 2,000 employees over the period have had unfortunately been affected by COVID. We did lose 12 employees but I am greatly encouraged that the team has rallied around. Any amount of preparation was never enough. It is only the attitude that matters and I am quite encouraged that people have actually made their best possible effort and all branch related activity or field related activity, which meant going into the branches meeting customers were affected for a greater part of this quarter. No surprise, everybody knows that. And it does have an impact. I do think people rallied around quite nicely in June to recover lost ground.

The Quarter like Anand mentioned, did see a very strong performance by our Treasury team on the back of being able to, you know, sort of do some good work on the bond market side and that has given us strong cover, which we use quite prudently sensibly to ensure that we continue to remain well provisioned. The portfolio while held out well did see challenges in pockets in geographies where accessibility was modest, literally stopped in some instances. And we took some calls around our gold loan business to make sure that the customers who were already sort of impacted by the environment, we are not subject to even more stress. So, for the first time in all our life, we saw some slippages or restructuring in gold, but both of which, I believe, is only a matter of time before it cures itself.

So, but prudently we made very significant provisions for that as well. Anand did mention about some of our digital forays. I have mentioned for long, I see digital, not just as, you know, sort of a technology lead, but it is the way of work. And it can potentially give a bank like us extreme reach. And some of these partnerships that we are working with FinTech can open up lakhs of customer opportunities, and cross sell opportunity, all of which we are acutely focused on and I think as the base builds, and our analytical capabilities are getting better every passing days, this cross-sell opportunities, only materially improve.

Even through this pandemic, the one thing that I am greatly excited by is we built about a Rs. 2,000 crore personal loan book, all of it digitally originated and from our existing client base, not new to bank. Through this period, they have held out well. In fact, it has marginal or almost no slippages so evidently the choice is good, the analytics is good, the ability to keep the best customers going is good. So, I am encouraged that as we get the credit card opportunities, which unfortunately is temporarily on hold for the MasterCard issue. As I mentioned in the last call, our credit card is largely going to be initial period existing to bank digitally capable digitally originated, I do see that looking like a nice opportunity as things open up and we are making a plan B come alive very soon. So let me just say that Q1, in the face of quite challenging environment, we did brave quite well. The environment is beginning to look better, not across the country, between weather and COVID there seems to be one challenge or the other at any point in time.

But I am hopeful that it is something that is now become par for the course and our teams are both adjusted to the new reality and are able to cross over this challenge. Portfolio quality while it held up, there have been pockets of challenges. And our collection efforts are sort of getting redoubled. As things open up the ability to meet clients and have conversations and recover is improving. And on the overall corporate book, mercifully, all through this period, we have had no significant challenge on the corporate side. So more than half of the book is well sealed. So, it is the Small Business, Business Banking, select commercial banking customers who are going through the challenges and between array of solutions that we have, we should be able to navigate through and ensure that hopefully the rest of the financial year turns out pretty decent.

So, let me just pause here and say that we are hopeful of a reasonably decent year with the worst being over I am assuming wave three does not become anything like what we faced. And should that hold, we should be able to repeat our FY21 kind of outlook or better. So, let me just pause here and open up for questions. As Anand mentioned, our entire senior team is here. We will be happy to answer any questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: Sir, my first question is if at all you could give us a breakdown on your home loan slippage? Of course, you have given extensive disclosures but if at all, you could share that number? This is on home loan.

Shyam Srinivasan: You mean of the retail how much is home loan, is that the question?

Mahrukh Adajania: Yes.

Shyam Srinivasan: I would think about half of it would be home loan, Mahrukh. Exact number I do not have but roughly about half of it 60% will be home loans. Other than that is LAP.

Mahrukh Adajania: And the other question is in terms of gold loan, what is the LTV on gold loans? And how do you think these get resolved because most of the gold loans, especially that were in last year would have been by those customers who would not have got other unsecured loans. Would that be correct?

Shyam Srinivasan: Our gold loan book between restructured and slippage is Rs. 275 crore. Rs. 225 crores on restructure and Rs. 50 crores on the slippage. Of this Rs. 275 crores if I remember right about Rs. 40 crore, Rs. 50 crores are the only one which is about 93% LTV so it is really very marginal, Mahrukh.

Babu K A: Sir, Babu here. It is a supplement LTV, our book LTV is only 74%.

Shyam Srinivasan: No, I was narrowing down to her question, but yes.

Mahrukh Adajania: And would you have any buffer provisioning now?

Shyam Srinivasan: We have only two types of provisioning, credit provisions or standard asset provisions. Standard asset provision we have made accounts that were in SMA-2 or which were challenged and which needed help. They become restructured and all restructured we make 15% provisions.

Mahrukh Adajania: And what about NII reversal what was that for the quarter?

Shyam Srinivasan: Rs. 65 crores.

Mahrukh Adajania: Last question. In terms of your capital issuance, you have taken Board approval for an issue, I am not talking about the private placement that happened today. But otherwise, you have a board approval so you will be raising as much or that is just the outer limit?

Shyam Srinivasan: If you answer you have been tracking us. Last year also, we had a similar number. And over my 10, 11 years, the only time we raised was a QIP four years back. We are very stingy and prudent about our capital allocation and usage. We have just got an enabling resolution as we did last year, very unlikely we will go for an issuance in a hurry. And if we do, we will be calibrated to the requirement. But Yes, we do have an approval on hand.

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

Jai Mundhra: First question is sir, on restructuring. So, restructuring 2.0 if you can, I mean, you have given the outstanding number, but if you can bifurcate how much was restructuring 1.0 and 2.0 or is it the balance is the 2.0 versus last quarter?

Shyam Srinivasan: Yes, about Rs. 850 crores is this quarter restructuring.

Jai Mundhra: And there was no balance increase in the previous restructuring, right?

Shyam Srinivasan: Very marginal.

Jai Mundhra: Second question on your slippages sorry, on and any range for the, you know, we still have three months for this current window in restructuring. Any sense sir, and how much more could come?

Shyam Srinivasan: We had said at the beginning of April, sorry, May 16 when we did our results, we thought about 1% of the book like last time was 1%. We said this year also we want 1.2%. I am thinking that it will be around the same thing. Rs. 850 crores have been done, another Rs. 400 crores maybe the restructuring that will come up in the quarter this quarter.

Jai Mundhra: And secondly on slippages sir, I think in your opening remarks you had mentioned that, you know, things are looking better incrementally. So, safe to say that, you know, assuming no third wave as you said in your opening comments that if it is not, you know, I mean, if it does not become unmanageable, then the slippages would have already peaked in this quarter. I mean, would that be a right statement? Or how would you look at it the slippages' trajectory?

Shyam Srinivasan: Yes, I will only draw on the following Mundhra is that last two financial years our slippages are roughly about Rs. 1,800 crores each year. Right, this financial year should be around that or plus minus another 10%.

Jai Mundhra: Last question from my side is sir, you have given a lot of details on FinTech and of course your annual report also talks about very improved digital capability. Any thoughts on how does I mean numbers perspective when do we see this translating into (a) either higher growth or (b) higher fee or (c) higher cost efficiency? I mean, any qualitative comments around those?

Shyam Srinivasan: So, I think all of that are the reason we are doing these and be relevant and in the, you know, really at the forefront. We are seeing that I mean, we are seeing that happened. You know, our non-people cost has been flattish or dropping.

So, and we have not added branches, but we are growing quite smartly. And these are proof points of the digital capabilities of the bank. And in the face of very dominant names, we are either top one, two players in the universally accepted **MEITY** scorecard.

So, on every count our capabilities are matching or rivaling, or sometimes better than many. And we do not like want to let us steam on that. And in terms of translating into numbers, we are seeing it happen, right? I mean, our cost to income there is one stubborn part of our costs, which unfortunately is not entirely in our hands. I know, nobody likes to hear that. But it is the truth is the pension related. If you sniff that out, our efficiencies are improving every quarter.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from Motilal Oswal Securities. Please go ahead.

Nitin Agarwal: Few questions like firstly, on the restructuring the corporate segment, if you can give some account to the number of accounts that you have restructured in there and how the LTVs have been, and what is your sense on those LGDs in the corporate accounts that you have restructured versus the say bad loans in that segment?

Shyam Srinivasan: In the corporate there is only one or two accounts. I think these are only 2 accounts. Babu, was that right?

K. A. Babu: Yes, in RF2 there is no restructuring, it was in RF1 only what you referred, sir.

Nitin Agarwal: Okay and in commercial banking?

Shyam Srinivasan: Restructuring in commercial banking is about totally to Rs. 275 crores, this quarter will be about Rs. 100 crores, Babu?

K. A. Babu: Yes, this quarter commercial banking which is only Rs. 64 crores.

Nitin Agarwal: So, when you say like that, this year can still be better discounting Covid-3, but how do you read the situation in Kerala because we are seeing high COVID cases there how worried that does that make you when you like look forward and project things for FY22?

Shyam Srinivasan: No, we have long said that we are as India as anybody else. Kerala is one geography where we have material presence, but that is not in any way hampering our overall activities. Yes, there are certain things that will get affected but we have got offsets. And despite Kerala's number of instances, the ability to sort of address is improving.

It is not that it is totally disappeared, but ability to address is improving, people are braving it and must remind ourselves that our strongest suite in Kerala is our liability franchise. For five, six years we have been quite cautious about our credit growth in Kerala. The book that we have is quite vintage and well-seasoned.

Nitin Agarwal: Okay. And lastly sir, if you can give some details on the recoveries from the written off accounts?

Shyam Srinivasan: This quarter was exceptional because we had one strong recovery on a written off account. public and everybody knows Kingfisher, so that is the only thing.

Moderator: Thank you. The next question is from the line of Renish Patel from ICICI. Please go ahead.

Renish Patel: Sir, just two things. So, one on the collection side. So, because of lockdown we have raised demand for April and May or how is it sir?

Shyam Srinivasan: Babu, you want to go?

K. A. Babu: Yes sir, yes. There were demand and we collected and our collection efficiency stands at at par may be at the same level that where in the March and December. Now it is 95.2%. That is our collection efficiency. That was almost the same level in the previous quarter.

Ashutosh Khajuria: Additionally, I would add that there was no moratorium as such, you know, so there was no moratorium. So, everything, you know, there was a demand certainly, you know, as per the IRAC norms also.

Renish Patel: And Shyam sir, now coming back to this FinTech tie ups, okay so, of course, you know, we have been tying up with the almost leader of each segments, but initially, you know, so in this partnership who is going to bear the customer cost of acquisition, it is us or the partners?

Shyam Srinivasan: We have a cost sharing and a revenue sharing model. And the model is not unique I mean it is not the same across every partner, it depends partner to partner. But it is not a high-cost model. The model is structured in such a way that the FinTech carries the bigger part of the originating cost.

Renish Patel: And on this again related to this BharatPe tie up so now here what is the MDR cuts we get?

Shyam Srinivasan: Shalini, you want to go?

Shalini Warrier: So, I think I am about to say anyway the, on the UPI transaction, the MDR is governed by NPCI as you know, so depending on the value of the transaction, there is a certain level of MDR that we are supposed to charge. And there is a sharing formula, therefore, that we have agreed with BharatPe on the basis of which we do it. But I think the broader point that needs to be made is, I mean, these are person to merchant payments, being encouraged to bring up the entire digital landscape in the country.

So, the MDR pieces anyway governed by NPCI. And we have a sharing between ourselves. But I think the broader point I would like to make is the BharatPe relationship is designed in such a way that it gives us, it opens up the opportunities for access to a range of merchants across the length and breadth of the country, which we normally would not have had access to.

Renish Patel: Okay. So, I mean it is fair to assume that the escrow mechanism is with us?

Shalini Warrier: Sorry, I did not get that?

Renish Patel: So, for BharatPe, we will be managing the escrow account for them, or how is the arrangement?

Shalini Warrier: There are different models that are in place, depending on the kind of merchants that they onboard. So, it is a varying kind of a model. Some merchants there is an escrow with us, some merchants, there is an account with another bank and we are a pass through. So, it is a, it depends on the kind of the merchant, the geography we have got varying arrangements in place. And all automated I mean we do not do any of this manually.

Renish Patel: So just last follow up on this. So Shyam sir, so of course initially I do not think so we will be getting any revenues. So, on let us say a cost to income matrix where do you see this partnership breaking even? I mean, let us say 6 months, 8 months, 12 months?

Shyam Srinivasan: I think the way we see these things, you know, all these relationships are three elements of revenue. One is the incremental CASA that it will build up. Second is the increase in the increasing cross sells that we can put up on this base. And the third is the new client base that we will keep adding and therefore the franchise gets expanded. All of these are activities we are working on. Like I said, it is not incrementally cost. It does not throw a big costs on us. Revenue depends on many things right the balance built and the cross sellability.

Moderator: Thank you. The next question is on the line of Rakesh Kumar from Systematix Group. Please go ahead.

Rakesh Kumar: Sir, my first question is with respect to PSLC what we purchased this year, like, previous financial year of on around Rs. 12,000 crores. So, what was the total cost that we had to bear for that?

Shyam Srinivasan: In last year?

Rakesh Kumar: Yes, sir.

Shyam Srinivasan: Last year it was Rs. 35 crores.

Rakesh Kumar: Rs. 35 crores, sir?

Shyam Srinivasan: Yes.

Rakesh Kumar: And sir, this quarter we have seen there is a bit of sequential decline in the CA deposit number. So, like, if we have to like, is it because of that, you know, that in the larger corporates, you know, clients are, you know, might be drifting away to the, you know, larger bank, where the funding costs are low. Is that the reason? Because the competition for, you know, CA account is increasing day by day. So, is that the reason or is just a blip for a quarter?

Shyam Srinivasan: I think there are many things. One is CA usually year end is already both customers also place a lot of CA on the banks, then as the year goes on the drawdown. Second is there is going to be some shift in current account behavior, courtesy RBI's mandate. So, I do expect the CA to be more moderate. At this point in time, I do not see CA exploding, but where we exited last year, for us to build back will be the challenge for the coming quarters. It will be a little more harder work than the past.

Rakesh Kumar: And sir, thirdly on this NR deposit still, you know, we have done quite good performance on that front. But just to understand that, how the markets there in the country and Kerala state has moved in the last one or two quarters?

Shyam Srinivasan: Happily, and thanks because it is doing well even now, at least for us our share of remittances is going up to publicly last disclose the RBI number we are at about 18.5% of remittances of India. And, you know, that seems we are trending closer to 20% now. So even if the volume shrinks, we are gaining share.

Rakesh Kumar: And NR CASA sir, NR CASA's composition?

Shyam Srinivasan: I am talking about NR CASA because NR term is usually much smaller, it comes as SA, and then only shifts to terms.

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

Ajit Kumar: So, first in the credit card business, how much delay we can expect in order to switch to Visa and then again Bank will start issuing new credit cards?

Shyam Srinivasan: We think between six and eight weeks, Ajit.

Ajit Kumar: Okay 6 to 8 weeks. And sir, second on deposit side. If you look our cost of deposit has further come down by 25 basis point in this quarter. And on the other side, if I look at your TD rates, that has remained broadly unchanged from past five to six months. So, for how many more quarters do you expect this cost of deposit to further come down mainly because of this lag impact of repricing considering TD rate cut has probably bottomed out?

Shyam Srinivasan: We may be at the closer to the bottom of our overall cost of funds. I do not expect it to drop materially from here.

Ajit Kumar: And sir, on the loan side where will be your focus in terms of growth, considering gold loans, which used to be going at a very higher rate will now see moderation?

Shalini Warrier: Yes, I think we heard you. I do not know whether Shyam got disconnected.

Ashutosh Khajuria: So, I think I will take that questions, and I think the areas that we have been earlier also sharing with, you know, our stakeholders are that that we would be interested in increasing more of our business banking portfolio, retail and definitely, I think this credit card has been a temporary blip because of this, you know, banning of MasterCard or so. Otherwise, that was also one of the areas that we were focusing on parallelly with gold and. For your information, off late in last couple of weeks or so gold once again has started picking up.

So, it is not going to remain stable. Yes, it was stagnant for almost three months. But now again, it has started moving up.

Shyam Srinivasan: Sorry, Shyam here. I am back. But anyway, Ashutosh, I am sure you have answered. I do not know what your question is, but I am sure Ashutosh should have answered it.

Ashutosh Khajuria: Question was, you know, I mean, because now the gold is going to moderate or rather remain stagnant, which are the areas you would focus on compensating for it? Because that was high yielding sort of assets.

Ajit Kumar: So lastly, one just data keeping question. What is the updated number for ECLGS disbursement till now?

Shyam Srinivasan: The same. This quarter not much Rs. 3,000 odd crores over the last quarter end. I do not think it has changed much. Mohan or Ratish, would you know? But I think the number is consistent.

Ajit Kumar: So, nothing under 3.0 and 4.0?

Shyam Srinivasan: Yes, even if it is very marginal, very marginal.

Moderator: Thank you. The next question is from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar: Shyam this thing, just a minute. Let me see the slides. Yes. The stress book to total average assets has gone up to 2.24%, which is where Federal Bank was in third quarter 18. So, and this is basically because of the huge restructuring that has happened. So how do you see that your restructured books playing out? When do they become standard in how many quarters?

Shyam Srinivasan: Kaushik, the demand on these are in different quarters. Q2 and some Q3, Q4 because the restructuring portfolio has really are not moratorium written. So, I think in the course of the next 12 months, this will start trending down. Now whether this 2.24 goes back to the 1.08 in 12 to 18 months, it depends entirely on the recovery from here on. But at this point in time, very early indicators look very encouraging.

K. A. Babu: To supplement on this, 14% of the restructured book was in demand in Q1 where we collected 95.5%. So, we do not find any stress on collection, even though it is in restructured book.

Ashutosh Khajuria: I think the initial signs are that the restructured book is fairing quite well, because mainly it is secured. These are home loans. These are you know loan against property LAP and all. So being secured book, even if there was some probability of default that has been taken care of through moratorium or through restructuring, the loss given default even otherwise, even after slipping and all has been very low in these portfolios.

So, that is the reason you know if you see, most of our restructured book is from retail home loan, retail LAP type of categories or so. We do not have unsecured there where the probability of default and loss given default both are high.

Kaushik Poddar: Yes, I saw your portfolio on the restructured loans and most of it seems to be secured.

Ashutosh Khajuria: And plus, additionally to just to add to your question, you said when will they turn standard, actually as per regulatory prescription post restructuring, they remain standard. So, they do not slip.

Kaushik Poddar: But when will you take it to the standard asset I mean, when we are updating as restructured? They are standard assets?

Ashutosh Khajuria: Yes. And till they exist on the book they would be called restructured assets.

Kaushik Poddar: Okay. It is not that after a few quarters payment they become standard?

Ashutosh Khajuria: When the status IRAC status slips to substandard then you make it standard and then you say out of this substandard has been elevated to standard assets after the satisfactory performance but that is there when the restructuring is done, wherein the status of the account slips. Here in these cases status has not slipped.

Kaushik Poddar: So, they will remain restructure till the time that they repay the amount or how does it work?

Ashutosh Khajuria: Yes, restructured standard. They will remain restructured standard.

Kaushik Poddar: They will remain as the restructured standard, okay. Till the time it is repaid or something on that sort they will go to the book?

Ashutosh Khajuria: Yes.

Kaushik Poddar: Okay. And how do you see the NII growth playing out? And Shyam, you just commented that you do not see the cost of fund not coming down. So, in light of this, how do you see the NII growth playing out over the quarters?

Shyam Srinivasan: Yes, we had said this year between 315 and 320 would be our NIM range. We are at 350. As the year picks up and the slippages trend better, we expect that is getting closer to 320.

Kaushik Poddar: So, will the NII growth be more than your asset growth?

Shyam Srinivasan: It will last quarter, last two three quarter we saw it happen. This quarter because of the higher reversals, that trended down as we see that coming down and the credit growth pickup and particularly with the higher margin businesses like gold and business banking, you will start seeing this pick up again.

Kaushik Poddar: In this regard, I recollect you saying that you used to have some high-cost deposit or something and they were supposed to get wound down over the years or something. I mean has that happened or there is some scope of some relief from that side?

Shyam Srinivasan: Not much, Kaushik. A large part of it is already unwound. I do not see material improvement in the cost of funding. Yes, it will be a few basis points but not material.

Ashutosh Khajuria: I would like to add here, though cost of funds has bottomed out or closer to the bottom or so, because of winding down of high-cost ones or so, or the earlier deposits which were contracted at a higher rate of interest term deposits also. But on the other hand, you will see even the yield on advances that was I mean correcting of falling or was more or less stagnant will also start rising up. So NII would come out of that differential. So, I do not think there is going to be any impact just because cost of funds has bottomed out, because so has the yield on advances.

Kaushik Poddar: But you are looking towards 3.2, that is what Shyam said?

Ashutosh Khajuria: That is the NIM, yes.

Kaushik Poddar: And how do you see the cost? Do you see I mean, you are not putting up any branches so, to that extent, of course, you are putting up a lot of money and all this new technology and all those stuff so how do you see that cost running I mean, cost growth compared to NII growth?

Shyam Srinivasan: We are seeing like I mentioned, cost to income. Of course, this quarter is extremely flattering at 45%. We think that will be getting close to 48%.

Moderator: Thank you. The next question is from the line of Piyush from ICICI Direct. Please go ahead.

Shyam Srinivasan: You can go to the next one please.

Moderator: We move on to the next participant. The next question is from the line of Sameer Bhise from Axis Capital Limited. Please go ahead.

Sameer Bhise: Firstly, just wanted to understand what is the split between the existing NPL in housing and LAP? So, if total retail NPL is roughly Rs. 1,280 crores how much of it would be housing and LAP?

Shyam Srinivasan: Babu, do you have it offhand? I would think it will be 60:40 is my sense, but we can take on that.

Sameer Bhise: I mean, the question basically was, so if roughly half of it is housing and LAP and if I look at roughly Rs. 1,300 crores of restructuring from these two books, the total stress seems to be roughly 7%. Is that a bit too high? Or does it make you uncomfortable?

Shyam Srinivasan: I would encourage you not to view restructuring equal to stressed. That is not in our scale. We have made the conscious calls the situation to help customers who may have challenges and who may need the comfort of paying in over an extended period of time. It is not that they have all run into a problem. I can reconfirm we are not using restructuring as a means to avoid NPA.

Sameer Bhise: So fair enough it is it is visible from slightly higher slippage so I am sure you guys have been prudent enough to take that call. But just going by a gross number of say 7%, 8%?

Shyam Srinivasan: Yes. That is why I think it is important you read it alongside the message Babu gave, 14% demand 95.2% collection, which is the normal collection efficiency.

Sameer Bhise: I would still probably take the numbers later offline. Secondly, what is the yield on the corporate books?

Shyam Srinivasan: Nothing changed much. It would be in the same eight point something Harsh and Venkat, would that be the right number?

Harsh Dugar: There is the 12-13-basis point reduction over Q4 on the yield.

Sameer Bhise: One final bit on the credit card fees. Any numbers of what proportion of the ETB customers have taken the card and any sense on their profile like age wise or vintage wise, any sense there?

Shyam Srinivasan: It was looking very good. But very early Sameer, we are getting closer 25,000 cards in one month. But it is early days.

Sameer Bhise: But what is the pilot show? I mean, I am sure some of these customers would actually already be credit card users or maybe they would be old customers of the bank?

Shyam Srinivasan: See means I do not know if we can draw much of a pattern. It is building balances. If I extrapolate this, we will be the world's best credit card. I am not even getting there. It is very early. At least two quarters or one quarter you should see to see the traction. The first billing cycle is over for them.

Moderator: Thank you. The next question is from the line of Prakhar Agarwal from Edelweiss. Please go ahead.

Prakhar Agarwal: Just a couple of questions. First on your SMA book, what will be your number of SMA book in terms of SMA-0, 1, 2 if you can just highlight that?

Shyam Srinivasan: It is flattish till the last quarter. I do not if we give specific numbers but the SMA book is almost the same as last quarter at the end of June. At the end of July or 23rd of July, it is improved even further.

Prakhar Agarwal: Last time we had somewhere sub 5% level. So, would that probably stays?

Shyam Srinivasan: Yes, it is there. If you said that, that is the same number. It is improved slightly.

Prakhar Agarwal: Secondly, in terms of Fedfina when I look at the portfolio.

Shyam Srinivasan: This is SMA-0, 1, 2.

Prakhar Agarwal: Yes, I got that. In terms of Fedfina, when I look at the asset quality performance, there has been some hick up in there. Where is this rise coming from and what will be your actual contribution?

Shyam Srinivasan: Two of theirr large commercial real estate I mean for them large maybe like Rs. 5 crores kind of transaction. They have taken two transactions as an advance NPA. Their core book is still looking quite intact.

Kaushik Poddar: One has corrected in July, Shyam.

Shyam Srinivasan: That is why just two.

Prakhar Agarwal: Okay so essentially these large part of the rise is driven by these two accounts?

Shyam Srinivasan: Yes, in fact it is only these two accounts.

Ashutosh Khajuria: Actually, their book is faring quite well barring these large I mean according to them, this particular portfolio real estate portfolio was there, which they are gradually depleting and basically, it is no fresh underwriting is happening in this particular portfolio.

Shyam Srinivasan: Not now, for the last two years.

Prakhar Agarwal: Any further capital infusion that is required in Fedfina or any other services?

Kaushik Poddar: That was done recently in June, the last one.

Shyam Srinivasan: We are not looking for at least next say two quarters, three quarters delay which we have been pick up. They remain capitalized at this rate till March 22.

Prakhar Agarwal: And just last question in terms of your trading gains that has happened this quarter, so probably, would that be a result of change in the toggle between AFS SM book that we are allowed to do once a year or probably that capital is still left?

Shyam Srinivasan: That is exactly right.

Ashutosh Khajuria: That is normally done in the beginning of the year and that exercise is done. If you compare these numbers with last year's numbers more or less same. Slightly less than last year, but almost, you know, I mean same range. Overall other than this bond, there had been other areas where the overall performance of the Treasury had been quite good. So, whether on the currency side or derivatives or I mean, even equity everywhere it has been much better than the earlier quarters.

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

Abhishek Murarka: So, a couple of questions. One on these FinTech tie ups. So, can you sort of give some sense of the throughput you are getting in terms of number of retail accounts or retail SA accounts? I mean SA accounts from these tie-ups. And maybe some sort of trend let us say a few months back what were you getting and what are you getting now?

Shyam Srinivasan: Normally, in the non-COVID time, we were doing about 3,500 new accounts a day normally, and in good days, 4,500. But in the COVID times that has come down to about 2,500 or so. And our tie-ups are now beginning to kick in about another 1,000 1,500 a day.

Abhishek Murarka: Okay, about 1,500 a day, okay.

Shyam Srinivasan: But that is probably we are looking at much higher as things stabilized. But they also are doing some very intelligent marketing they do by invitation. So, they are also building a demand.

Abhishek Murarka: And any targets let us say, one year out, what is an aspirational number you intend to get to?

Shyam Srinivasan: Shalini, she has a big agenda. Shalini, you want to talk about it?

Shalini Warrier: I think it is very difficult to kind of give. We have got some internal targets obviously that we work with the partners etc. Let me just say that we expect this to be reasonably substantial portion, if I can couch it that way and keep it that way. I think give us a couple of quarters more, and we will be ready to kind of reveal a little more.

But I think the broad point is that I think I will just add to what Shyam has said earlier also. The numbers are kicking in, both on neo banking partners on savings account are currently on a kind of waitlist approach, rather than just open to all. So, and that is clearly because we want to calibrate the profile, they want to calibrate the profile, we want to calibrate the profile etcetera that is coming in.

So, we will wait. So, it is on a waitlist but both have a very, very attractive and healthy waitlist. And I think that will give us the numbers. The numbers are beginning to kick in. EpiFi has scaled up more than Jupiter, because EpiFi was about two months earlier than Jupiter. Two quarters down the line, I think we will be able to kind of give a little more texture to it. The profile of a customer coming is obviously also important. These are the salaried millennials, the so-called Digital Natives, the ones who kind of depend on the mobile and work through the mobile. So that is also an important aspect of this partnership.

Shyam Srinivasan: Let me just add. For long I have said two things, right. One is digital at the fore, human at the core. And second is branch led distribution heavy. You know, we have not added a thing. In five years, we have added 20 branches or something. And my aim is, as many as our branches give that many or more partners will bring in per day. So, we are doubling our network. My fee, I want the bank feed of 1,250 branches should feel like 3,000 branches. That is what we are working on.

Abhishek Murarka: And right now, it is not really about cross sell, like it is just about getting access to those?

Shyam Srinivasan: Now we are originating. Like cross sell will be 6, 9, 12 months away as the base builds.

Abhishek Murarka: And the second question is on gold loan. Now can you like pinpoint any particular reasons why across the board that stress we are seeing restructuring, NPA is going up. Is it because of let us say last one year, when we have seen a lot of growth here, it is probably to a relatively weaker customer profile or is it because of the LTVs, which went up to 90?

Shyam Srinivasan: No, I think multiple things, Abhishek. One is just the sheer impact of COVID, which has killed everybody. Second is the LTV coming down. Third is gold price falling, right. So, bunch of stuff. So, ability to service. And fourth is at least us and I think many other well-meaning banks and NBFCs have chosen not because I do not know of many of you may or may not know, in 2013 when the gold prices fell, and I do not plead guilty, but I was the leader of that pack. I said just sell and get out.

So, we were quite wicked with customers, we protected ourselves. That backlash took good two years to cure, because people said you are good weather friends. This time, we have decided to be a little more I would say sensible about it and said, fine if it means in this very, if it was normal times, I would not have allowed that. But these are extraordinary times we must be a little more sensitive to customers.And we said, let us take that hit in either as if they are eligible for restructuring great, otherwise take the hit as NPA and we will cure it in one or two quarters. At least that is our approach. I cannot quite speak for others. But when I spoken to a couple of bankers their view is the same.

Abhishek Murarka: Okay, and fair to assume that incrementally even though LTV may be lower, but growth will anyway be cautious? I mean, it would not be like last year?

Shyam Srinivasan: I had not well before we visualize this problem and I said this year it will be 35%, 40% because last year grew 70% right. It is impossible to repeat on a larger base so I said 35% to 40% first quarter has been flat or slightly degrowth. I expect this we still to see if things pick up by August or not still, we should see 30% growth.

Abhishek Murarka: Okay. And finally, just a quick data keeping question. If you can share the breakup of the incremental restructuring? So, you have given the breakup of outstanding if you could just share the incremental broadly that would help us?

Shyam Srinivasan: Rs. 850 crores; Rs. 450 crores are retail, Rs. 200 crores are gold balance is a mix of business banking and commercial banking.

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

Krishnan: Two things. One around the gold loan portfolios, the ticket sizes have kept going up. I think Q3 to Q1 it has been flat but otherwise, it seems like a 1.4 lakh lines of ticket sizes. Is that unusually high? Is that something that tells you something about the customer profile there in terms of how much leverage there is in that portfolio?

Harsh Dugar: On the ticket sizes, typically benchmarking against some of the NBFCs, the ticket size will be in the range of 40,000 to 60,000 some of the other gold loan companies. Banks typically has a higher ticket size because the more rate sensitive customers and the larger ones typically flock to the bank. That is number one. Secondly, we are also looking at targeting a different kind of a customer base and encouraging them given the low cost of funds by way of gold loans at a steady source. So that also has been helping us or a new segment plus typically the largest set of customer comes to us. So, we do expect that only to remain at these levels. And in fact, some of the customers we are looking at could be in the region of 2.5 lakhs to 3 lakhs also.

Krishnan: Yes, my only point was could be more business loans rather than consumption loans?

Harsh Dugar: No 2 lakhs, 3 lakhs is consumption loans. That is not really business loans because that is a different segment altogether. But the ticket sizes in general, because like I mentioned, they are the more rate sensitive customers also.

Shyam Srinivasan: Also, we reach out right the rupeek arrangement is reach out. So, you get a different profile also.

Krishnan: Doorstep banking, that helps a lot and the ticket sizes are still higher over there.

Moderator: Thank you. The next question is from line of Manish Shukla from Citigroup. Please go ahead.

Manish Shukla: One clarification on restructuring. Outside of COVID what would be the restructured book of non-COVID under either RBI SMA scheme or otherwise?

Shyam Srinivasan: Almost nothing.

Manish Shukla: Okay fine. And in on the retail side, this time we are seeing higher restructuring in LAP and housing. Could you explain the nature of or demographics or whichever way you see this customer sentiment is this I mean transitory impact of COVID or I mean, how do you see the stress in this book? I appreciate that it is a secured book. But this is the first time that we are seeing these levels of numbers?

Shyam Srinivasan: It is largely COVID only, and it is the impact of COVID. Now, whether it is lasting or transitory, only time will tell but the trigger is COVID.

Manish Shukla: Is there a primarily self-employed or salaried, or how do you assess?

Shyam Srinivasan: All retail book, which is the origination from 2018 is more salaried than self-employed. And if I look at the vintage of restructuring by geography, Kerala is about 50% of the restructuring that we have done of this portfolio, and Kerala is more self-employed.

Manish Shukla: On the digital native and digital acquisitions, right, you mentioned that you would expect the volumes from these sources should be as much as branches. But do you have enough data to talk about the average balances? How do the balances compare between branch accounts and online accounts?

Shyam Srinivasan: Very early right we are sourcing two months, three months. You cannot quite make anything on that. At least six months data I need to for us to make that statement because see we have built Rs. 100 crores on this and we have said Rs. 40,000 crores on the other hard to tell you.

Manish Shukla: Last question to Ashutosh on treasury. For the treasury income of the quarter how much will be other than bond, non-bond related?

Shyam Srinivasan: I think it is there in the deck. If you see the Q1 FY22 exchange commission brokerage another fee is Rs. 161, FOREX is Rs. 41. That is the breakup and profit on sale of securities Rs. 258.

Manish Shukla: No so I am talking about. Is that all bond or something else?

Shyam Srinivasan: Significantly bond.

Manish Shukla: I am just trying to understand in a quarter in which rates were largely tad higher. You booked treasury gains. Is it largely because of GSAP or was there something else?

Ashutosh Khajuria: Yes, it is GSEC and some very small amount of non-SLR as well but mainly GSECs.

Manish Shukla: No, I am sorry, when I said GSAP, the RBI repurchase program or is it the market? Because was there enough opportunity trade in the market I am just trying to understand again?

Ashutosh Khajuria: It is both. GSAP may not be that much but Yes you have the in the beginning of the year you have the inter activity transfers. So, through that, you know, in the market, the sale has been made and all. So, it is mix of all.

Moderator: Thank you. The next question is on the line of Mahesh MB from Kodak Securities. Please go ahead.

Mahesh MB: Just one question from my side. The restructuring that you did on the retail side, can you give us some color on what is the kind of restructuring you have done? Let us say in housing or in LAP? What kind of benefited?

Shyam Srinivasan: Rs. 450 crores are the restructuring in retail. 60:40 home loans LAP. And I also mentioned the kind of mix between Kerala and non-Kerala salaried and self-employed. Sorry, what else is the question?

Mahesh MB: I am just trying to understand what you do you just kind of extended the tenor, reduced EMI what?

Shyam Srinivasan: Babu?

K. A. Babu: Yes sir, it is within the permitted tenor of four years. And where banks are given the maybe given the decision-making process depending upon the requirement of the borrower to give moratorium up to even 24 months, but from the asset, but generally the demand is only for the six months to one year moratorium, which we have considered based on the requirement of the customer. Otherwise, the tenor extension is running only after two years.

Mahesh MB: And then be classified as restructured till when?

K. A. Babu: So, it is two-year extension in the case of this retail loan the extension the restructuring tenor is two years.

K. A. Babu: I will explain sir. See this question was previously discussed and Ashutosh sir explained it. In the case of covid restructuring, the asset classification continues to be standard and is never falls into substandard if it is not otherwise normally going by IRAC norms, unlike normal restructuring. So Covid restructure book is continue to be in standard.

Ashutosh Khajuria: I would further add to that, if you see for last three years our quarterly investor presentations, you would find that we used to earlier also give a detail of you know, the restructured standard, together with you know, securitization receipts and all. Now that gradually depleted and became, I mean, materially unimportant in all. So, similarly, this restructured standard would continue to remain restructured standard, because once it is restructured, it has that tag.

Now the thing is when amounts becomes materially smaller, and at the same time, you know, I think the installments are paid and all and the principal amount also falls. Thereafter probably there may not be any need to specifically mention about it. But as long as you know, it is an important number or so it would continue to be presented transparently quarter after quarter. It would continue to be called as restructured standard.

Mahesh MB: Sorry, I just was under the assumption that if 25% of the longest tenure is paid, you can then subsequently de-classify it as the restructured asset?

Shyam Srinivasan: No Mahesh, no.

Moderator: Thank you. The next question is from line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: Sir, is it possible for you to share the SMA-1 and the SMA-2 book?

Shyam Srinivasan: I think the overall number we have shared. And it is flattish. I do not know if you want to carve out one and two share at this point of time. If you have not done it so far I would not do it just now.

Anand Dama: Okay sir, quarter on quarter will it be flattish, is it?

Shyam Srinivasan: Yes, in fact I said at the end of July 23, as of today, when we completed our board presentation, it even improved from June 30th.

Anand Dama: Secondly, that is know we were interested at some point of time into acquiring microfinance companies. And, you know, there are some microfinance players who are in trouble, and would be looking at exiting, you know, someone basically even close to home. So, would we really look at some kind of opportunity on the microfinance front? Secondly, there are portfolios also available on the credit card side. So would you really look at some of kind of inorganic acquisitions in these portfolios?

Shyam Srinivasan: Microfinance, we remain interested but last two quarters and as we speak, in the last few months, we have not looked at any I mean, many offers did come up, but we said we want to see how the COVID impact plays through. We are hearing things are improving in July. So maybe we will watch for this quarter. Nothing on hand. On credit card, the only publicly available big name, we were interested but they are not so that is not an option.

Anand Dama: Okay, so basically, is it that the portfolio is different than basically than what we want to build in something to do with that?

Shyam Srinivasan: Sorry, I lost you?

Anand Dama: So, what kind of portfolio basically will really interest you when you are absolutely?

Shyam Srinivasan: Microfinance we are still interested. If I can get microfinance portfolios or companies that sort of are good and have weathered the storm, certainly, we are interested. Basically, I do not want to take up something and then add to the problems when we have just sort of nicely dealt with the challenges on hand. So, we do not have the appetite to deal with a new problem.

Anand Dama: And sir, is it possible for you to share the asset quality details of the Fedfina as well?

Shyam Srinivasan: If you back out the two, three names, which they have taken advance and sorted that out it is the portfolio looking similar to Q4 last year. It is just three accounts which totaled Rs. 12 crores, Rs. 13 crores or Rs. 15 crores. The portfolio is looking quite alright.

Anand Dama: In Fedfina?

Shyam Srinivasan: Yes, I am talking about Fedfina, yes.

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

Rakesh Kumar: Just a small question. Is there any overlap between the externally rated corporate advances, triple B and below of 11%? and the restructured book or the SMA book, is there any overlap?

Shyam Srinivasan: It means the question is, is the restructured book carrying any of the corporate rated low? Is that what the question is?

Rakesh Kumar: Yes sir.

Shyam Srinivasan: Thankfully, our restructured book in corporate is very marginal just two, three names.

Rakesh Kumar: Yes, so means there is no overlap as such actually, with SMA also?

Shyam Srinivasan: Yes, SMA may be there. But SMA and corporate is anyway low. Thankfully, our corporate book.

Harsh Dugar: IT covers that, Shyam. And the amount is fairly insignificant. You are neither the SMA-2 or you are restructuring both of the put together as an insignificant percentage.

Shyam Srinivasan: Our corporate book is performing and I should be very careful when I say these things. But Yes they are performing very well.

Moderator: Thank you. The next question is from the line of Sameer Bhise from Axis Capital Limited. Please go ahead.

Sameer Bhise: Yes. Hi, just one quick bit on the credit card. What proportion of the customers would you think would not have a card right now from the bank base?

Shyam Srinivasan: We have a universe of close to 60 lakhs, 70 lakhs that we can pursue in our case. I do not know, maybe Nilufer or Shalini, would you be able to give any kind of color on that?

Shalini Warrier: If you assess this against our credit criteria and look at, you know, the various criteria, we take into account, our senses are and the initial round itself, we should be able to get about out of the, if you take debit cards, for example, 80 lakhs debit cards, it is a good indication that you know, about 10% of that should be eligible for a credit card.

That is typically the ratio we have seen, and what other banks have also experienced, but that is the pre-approved direct offer. There will be then a further set of customers who can go into a non pre-approved route, which means we do certain credit assessment for them. And then there is a set of customers who are eligible for what we call a secured card. The NR customer portfolio, etcetera is eligible for a secured card.

So, I think the three components are fairly substantial in that sense. But the first kind of approach we have had is for the Pre approved three click offer. And that is typically the ratio of you know about 1:10 on the debit card side. So, if you have 80 lakh debit cards, you can typically expect about eight lakhs of credit cards, eligible.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I will now hand the conference over to Mr. Anand Chugh for closing comments.

Anand Chugh: Thanks everyone for being joining us on the call this evening and have a wonderful year ahead.

Moderator: Thank you very much. On behalf of the Federal Bank Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.