"Federal Bank Limited Q3 FY-16 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen, and welcome to the Federal Bank Q3 FY16 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Isaac EA, Investor Relations Head. Thank you and over to you sir.

Isaac EA: Good day and welcome to the earnings call with Federal Bank management. We have with us our MD & CEO – Mr. Shyam Srinivasan; ED & CFO – Mr. Ashutosh Khajuria; ED (Wholesale Banking) – Mr. Ganesh Sankaran; Chief Operating Officer – Ms. Shalini Warrier; Chief Risk Officer & CGM – Mr. Mohanachandran KR and other senior team members.

Let me now handover the call to MD and CEO – Mr. Shyam Srinivasan for leading the call.

Shyam Srinivasan: This call I will try and address the following points. One is we have put out our investor desk, those of you may have had a chance to see I will not dwell on the numbers I will only talk about the first slide which is I thought quite important the key messages. So let me just talk about them and then we will expand in to each of them with the relevant leaders speaking to some of those. And of course as always answer questions that may be on anybody's mind.

Firstly, the liability profile continues to be very strong and we are happy that the CASA grew quite significantly this quarter and CASA ratio crossed over to 32%. You may remember that only four years ago it was 24%. So CASA growth continues to be robust and we will discuss the points which may be on many people's mind the impact of the Middle East. So we will address that as well. But CASA growth for now and the liability profile continues to be strong.

Our credit delivery which was been a source of worry for us with CD ratios below 68% has moved up 70.5%. We saw a meaningful credit growth in the areas we want in Q3 and that is largely good growth in SME; comeback in corporate and of course retail ex gold is growing reasonably well. The area that certainly that worries us and many of our interested investors and people watch us closely certainly is around the stressed assets and the impact thereof. This quarter turns out to be the highest ever in terms of the stressed assets recognition we did have considerable challenges.

When we finish Q2 we signaled that we have one larger account which we have putting through a sale to ARC and during the course of the quarter the two other large metal accounts that we were concerned we have recognized that also. So this quarter in some sense is a watershed quarter in terms of recognizing the stress on the corporate book and whatever we saw as pain has been addressed and we believe that with this we should be able to look forward with confidence and move on.

So the stressed assets to the extent possible that we have identified we have addressed. Credit growth is coming back and liability profile continues to be strong. I had pointed out in the last call that we were looking at strengthening our top team further. Last call Ganesh had joined us; this call Shalini Warrier has joined us as the Chief Operating Officer in addition to our existing senior team. That makes for the full team from different functions and businesses in full complement and we believe that this formulation along with some of the recent actions we have taken in addressing credit stress and seeing growth should position us for FY17 and also exit FY16 with the kind of trajectory we would like to see.

Lastly, the other point in terms of my opening messages would be around the areas we have chosen to strengthen. One is certainly we have launched our GIFT City; we saw some early traction and that will be an area of focus. With the arrival of the ED for corporate bank a full-fledged corporate strategy and RM strategy is coming in to place. Some effect has seen in Q3. Our credit growth for the first time crossed over Rs. 2,000 crore in just corporate in Q3. So that gives us the confidence that we have positioned and more importantly clients are willing to bank with us and we have the ability to go out and get business.

Our digital strategy has been something that we have been good with our offerings but probably not as well received as well understood. So there is a very full-fledged digital plan in place and the bank has got a team exclusively identified probably one of the few banks at a full-fledged with digital plans and digital play. And at the heart of what we are trying to do and this is the team which will guide us. This is not a nice track line but digital at the fore and human at the core.

So this page 3 of our investor deck in some ways summaries my key messages and it is about getting growth back; it is about addressing whatever we have known as stress. It is having recognized what is that we saw as challenges and importantly we have nothing that the regulators have identified as something that we have not addressed. So I think there is a key confidence in the management that what needs to be done is done; we have put it behind us and we are looking at growth and we believe that we have a formulation that can take us ahead.

So those are our key points. I am not looking at any specific numbers but through the call we will be happy to take every question and answer the questions around growth; around slippages; around restructured books; around anything that may form as questions by anybody. So without repeating every details in the slide I am happy for us to open this for conversation and take questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Sanket Gada from IDFC Securities. Please go ahead.

Mahrukh Adajania: This is Mahrukh from IDFC. had a couple of questions. The amount that you sold to ARCs is that already a part of slippage or that would be over and above your slippage?

Shyam Srinivasan: The overall slippage if you see our deck, we have said that the slippage is Rs. 571 crores including the two sales-to-ARCs.

Mahrukh Adajania: And just one more question that when you did talk through your NPLs and slippages you talked through the few accounts that you had indicated earlier as stressful and now has slipped. Which means that they were all pending accounts and you also mentioned that there is no regulatory overhang. So which means that your corporate slippages will fall significantly over the next few quarters. Is that the way to look at it or?

Shyam Srinivasan: Yes, that is entirely the objective and certainly the effort. I do hope that markets do not deteriorate even good turns bad but yes, we do not have anything that we need to largely worry about.

Mahrukh Adajania: Okay because most newspapers are talking about big lists that the regulator has given banks so that most corporate banks would have some overhang even in the fourth quarter. Is the impression without talking specifically about any list?

Shyam Srinivasan: No, I would not react to any external lists or speculation. From our point of view in the large corporates we had identified some metal accounts, which we have addressed. We had identified a shipping related account, which we have addressed. Now it should be the normal course of business whatever is stressed we will take. But it should not be of this magnitude.

Mahrukh Adajania: Sir, and just in terms of SEBs what would be the accounting treatment for the amount that has not converted to bonds?

Ashutosh Khajuria: That will continue to be in the loans and advances form. Big chunk of it would be taken by the state governments and the remaining would continue as SEB bond to begin with and rest would continue as loan until the entire thing is converted in to bonds.

Mahrukh Adajania: What I am saying is that of the remaining 25% there was some news reports that because of some stress in some of the discoms RBI wants the remaining portion to be classified as NPL; the amount that is not converted in to bonds?

Ashutosh Khajuria: We have not aware of that at least.

Moderator: Thank you. The next question is from the line of Dhaval Gala from Birla SunLife Asset Management Company. Please go ahead.

Dhaval Gala: Sir, three questions; first, I wanted to understand of the total slippages in the current quarter how much was from restructured loans?

Shyam Srinivasan: Go ahead with your other two questions, I will ask somebody to pull that up.

Dhaval Gala: Yes also, if one has to understand your net interest margins on a long term or say next two quarters, after means next one quarter when you look at MCLR guidelines and a little medium term guidance on your net interest margins, where do you see net interest margins in times to come? And whether this is a number which is largely at the lower level of your overall guidance or the net interest margin the bank wants to make?

Then also third question again on asset quality how much of the restructured loans, so it is related to the first question is how much of the restructured loans ends the moratorium say by end of FY16 which is March 2016 and then in FY17?

Shyam Srinivasan: March 16 restructured moratorium lending is only one account and then it is in FY17 across first two quarters there are another about Rs. 200 crores that is the moratorium is ending. The first question I think is around restructured slippages?

Ashutosh Khajuria: How much was the slippage from restructuring, it is Rs. 49.56 crores, Rs. 50 crores.

Shyam Srinivasan: Around Rs. 50 crores is the slippage from restructure in Q1 in this quarter, the one that went by.

Dhaval Gala: So if one has to understand correctly of the large accounts, which has slipped means the two metal accounts and one shipping account, none of these were part of any stress recognized portions earlier?

Shyam Srinivasan: No, they were not.

Dhaval Gala: So all were only performing standard loans, will that be right way to look at the stress?

Shyam Srinivasan: Yes, they were performing standard but always under stress.

Dhaval Gala: So they were part of your watch list may be but not?

Shyam Srinivasan: Yes, they were the accounts that of high worry for us.

Ashutosh Khajuria: Till September.

Dhaval Gala: And you mentioned Rs. 200 crores in the first half of F17 coming out of moratorium, how much is the quantum for fourth quarter?

Shyam Srinivasan: Rs.50 crores if I remember right.

Dhaval Gala: And just to understand what would be your say fair assessment on these basically the Rs. 200 crores of first half FY17 and one account of FY16 and, looking at the way scenario has been panning out almost wherever the moratorium is getting over for most of the banks, accounts are just slipping into NPL category, there has not been much of success whether it comes to bilateral restructuring or CDR restructuring. What would be a fair assessment say if one has to ask you?

Shyam Srinivasan: In the Q4, we donot see much of an issue. Next year one account we are watchful of.

Dhaval Gala: But till the last quarter as we understand if watchful of will that be more than Rs. 65 crores,Rs. 70 crores which you think?

Shyam Srinivasan: Rs. 100 crores.

Dhaval Gala: So after that will there be very large accounts because you have been mentioning in last few calls that there are very few accounts about ticket size I mean three-digit ticket size one has to look at?

Shyam Srinivasan: Yes, this will be one of them. This would be probably the one there. This is also a combination of two accounts but in a group interrelated accounts.

Dhaval Gala: So the only question remains to be answered is your trajectory I mean your expectations on net interest margins both near term then the impact based on MCLR and little medium term guidance?

Shyam Srinivasan: On MCLR as you noticed that both are base rate. Currently is 9. 63 and our cost of funds has come down to 6.89 and that should trend lower in the current interest rate environment. However, the key point in the MCLR and the competition and therefore the NIM is also going to be a function of how the situation pans out in the pricing strategy of different competitors. So I cannot take a decision in isolation. Having said that, we are focused on ensuring that the NIMs are north of 3.1%. This year also the last two quarters has been particularly this has been impacted by the interest reversal on account of the slippages that were quite substantial, Rs. 30 crores is the interest reversal. So if you put that back, it will be about 3.15% and our focus is to ensure that the slippage is modest and therefore the margin is not impacted by slippage related matters and therefore the high yield product growth ensuring that our deposit CASA continues to grow. It should take us to the MCLR currently if you compare it is not very different from our current base rate. But then it is competition less so we have to keep a close watch. So we would say something between Rs. 3.10 to 3.15 is where we put our margins for FY17.

Dhaval Gala: But say just to understand little medium term, say what could be your net interest margins for the full year FY17 if one has to understand?

Shyam Srinivasan: That is what I said. I mean the outlook is between 3.10 to 3.15 but I am only caveating that, by knowing how our different competitors act once the MCLR goes live and it is something that I think everybody will learn and readjust. For now it does not look that variants from our current base rate.

Dhaval Gala: Just a last question if I am allowed to ask. Could you also tell me I mean looking at the way our loan growth has been and overall scenario, how will you look at say loan growth and vis-à-vis say an Opex growth? Our Opex growth seems to be fairly sticky. What would be the outlook say next year?

Ganesh Sankaran: Hi, this is Ganesh here. On loan growth I think if you see whatever you have seen in Q3, most of our verticals between Retail, SME, Mid-Corporate and Corporate have demonstrated decent growth. Now we also spoke in the last call that we are putting in place a relationship team, which initial construct of which we have got going in the month of December. So we are quite optimistic about the results that we have seen in a month that it has been in force. So we are quite optimistic about how we want to approach the market next year, and loan growth should be quite healthy. It should be in the region of about 15% to 20% is our sense. Principally I think it is not only to do with loan growth, it is also as we said earlier the strength and pitch of Federal in totality is being presented to the market through the relationship team.

And therefore it brings to fold different parts of the bank. We present the retail bank, we present the supply chains through the SME, we present mid-corporate, we look at transaction banking and all parts of the bank. So the growth in that sense will be much more wholesome and the initial signs of it are already visible. If you see our customer exposures in this quarter, between the mid-corporate and corporate has tended towards 17%, 18%. So the initial uptick is there, and we see no reason why we should not be able to sustain it going forward.

Dhaval Gala: But how do you look at say overall Opex growth if one has to understand?

Shyam Srinivasan: See on the Opex piece, there are drivers of cost, which is one of course if you add employee costs there are certain set of contractual growths that is there. Our Opex growth outside of employees was driven by branch expansion over the previous years. As you know in this financial year and later part of last financial year, we have cooled off on that, we do not have any significant physical expansion plans. So FY17 is more about consolidation of the operational platforms that we have launched and like I pointed out earlier in the opening part of my call, digital is a very big part of both digital and digitization both are very crucial part of what we are trying to do. So we are not building for a very fancy increase in operating cost, we are looking at greater productivity and ensuring the growth that Ganesh pointed out is translating in to better margins.

Moderator: Thank you. The next question is from the line of Gaurav Agarwal from ENR Advisors. Please go ahead.

Gaurav Agarwal: Sir, in total we have sold some three accounts to ARCs right?

Shyam Srinivasan: Yes, this quarter we had three transactions.

Gaurav Agarwal: And two accounts were slipped to NPA and then we sold and one account was standard, correct?

Shyam Srinivasan: No, all three are NPA.

Gaurav Agarwal: All three are NPAs, so because what I remember is.

Shyam Srinivasan: One was an old account, the other two are this quarter.

Gaurav Agarwal: So one was shipping account in total Rs. 140 crores of exposure were there, right?

Shyam Srinivasan: Yes.

Gaurav Agarwal: And what about the other two accounts what are their typical sizes at net book value level?

Shyam Srinivasan: Rs. 70 crores and the other is a smaller one. Rs. 70 crores is one account, Rs. 109 crores not Rs. 140 crores.Rs. 109 crores, Rs. 70 crores and other is Rs. 30 crores.Yes, sale to ARCsRs. 225 crores;Rs. 109 crores, Rs. 70 crores and the balance is that account about Rs. 30 crores.

Gaurav Agarwal: Sir, if I can ask are these metal accounts, which we have sold to ARCs, are these standard for some of the banks?

Shyam Srinivasan: I would not have an answer on that I mean I would have to answer from you guys.

Gaurav Agarwal: Sir again, I would like to come back to your cost to income, which is currently at 58%. So any forward guidance for it in the last quarter you mentioned that it can come down by 200, 300 basis points?

Shyam Srinivasan: We are certainly pushing for that. Unfortunately, the income pick-up is driving and that has an overall impact.

Gaurav Agarwal: Opex is also gone up by 17% that is given that in the last one year we have not added any branch?

Shyam Srinivasan: No, the increase is because last year we had some depreciation benefits. So in an optical sense it has gone up. Quantum sense it has not gone up. So if you look at next year, the increase will not be there and the productivity should kick in. The unfortunate optics of it is hurting the number. Last year there was some depreciation changes, which gave us a benefit of about Rs. 24 crores. So optically it looks higher.

Moderator: Sure sir. It is from the line of Kaushik Poddar from KB Capital. Please go ahead.

Kaushik Poddar: Yes Shyam, can you outline your strategy on interest on increase in non-interest income? I mean that has somehow not been growing?

Shyam Srinivasan: Yes Kaushik, we have had challenges in the quarter that our FX grew, the other elements did not in the quarter that FX de-grew some of the elements. So it is not all not kicked in at the same time. I think the sort of material improvement has to come when FX growth has to come back. This quarter and more recently the last two quarters FX growth has been impacted. We believe that it is a function of the environment and we need to get some tailwinds there. But barring FX the increase in fee income as a consequence of the many initiatives, one is the GIFT City initiative, the corporate point that Ganesh made about penetrating into corporate, getting much more from the supply chain of those clients, and retail fee income are all elements in place. But one big driver is an area of FX, which unfortunately we are caught on the wrong side. Some of our very strong FX contributing customers are going through pain, many of them are based in the East, and that as we had four very good clients there going through pain, in fact one of them has become a large NPA also. So it will come back but we need to see some tailwinds on the FX side.

Moderator: Thank you. Next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: I just had a query on the there were newspaper reports and also bank's commentary about RBI discussing with banks and providing them with a list of accounts which are considered to be stressed by RBI and not yet provided by banks. So are you part of that discussion, if yes how have you dealt with the list that RBI has given to the banks?

Shyam Srinivasan: I mentioned in the opening part of the call, we have nothing that the RBI has told us and we have not done. Everything that needs to be done is 100% addressed.

Amit Premchandani: So there is nothing pending on that list at all?

Shyam Srinivasan: Nothing is pending with Federal Bank.

Amit Premchandani: And sir, of the Rs. 225 odd crores that you have sold to ARC loan accounts, what is the SR book on that value that you have taken?

Shyam Srinivasan: One transaction was sold at a discount of about 40% and the other transaction was sold at a discount of 20%.

Amit Premchandani: So if you can share with us the outstanding SR book in the books of Federal Bank overall?

Shyam Srinivasan: About Rs. 550 crores.

Amit Premchandani: And there were few overleveraged steel accounts for the sector as such and you also had some exposure into that?

Shyam Srinivasan: We have addressed all steel related challenges that Federal Bank has.

Amit Premchandani: So the couple of accounts that you were talking about both of them have been taken into account this quarter?

Shyam Srinivasan: All addressed.

Amit Premchandani: And they have also been sold to ARC right, so it is not part of any?

Shyam Srinivasan: Not all of them, one of them has been sold.

Moderator: Thank you. Next question is from the line of Praful Kumar from Birla SunLife Insurance. Please go ahead.

Praful Kumar: Sir, just wanted to check in terms of now incremental stress points in watch list so we are saying that nothing more in terms of watch list or what are we saying here in terms of after this quarter?

Shyam Srinivasan: Praful, I think book of Rs. 53,000 crores if I tell you that there is nothing at the watch list then we are lying.

Praful Kumar: No, in terms of the stressed accounts that?

Shyam Srinivasan: Whatever we had identified as very high stress at an industry level, we have addressed it fully. But and then also confidently say we do not have anything that any regulator or any external party has identified. We have nothing that we need to address. Now it is the normal course of business, we have to deal with our stress.

Praful Kumar: And what is the SMA two number that you have if you can share that number with us?

Shyam Srinivasan: From last quarter when we spoke ex-SCB it was about 7%, it has come down to 6.4% now.

Praful Kumar: Okay, it has come down to 6.4%.

Shyam Srinivasan: Ex-SCB.

Praful Kumar: And can you just now quickly last question elaborate more on the growth strategy for you and also the Middle East part that you wanted to address in terms of, is it something that you are worried on in terms of deals, remittances flow or the, on that if you can just comment?

Shyam Srinivasan: Growth I am sure between Ashutosh and others they will talk about. On the remittances part which I just wanted to share. At this point in time as you would have seen in our numbers, the NR both remittances and deposits have grown very handsomely at 25% growth. But more importantly we are cornering and consolidating any gaining share in the NR remittances businesses, quite materially. So our belief is we have stressed it up to 25% fall in remittances just to ensure that we understand where we will be placed.

On the deposit portfolio, remittance portfolio, we are quite confident that we will be facing no significant challenge. Then we stressed it for the credit quality impact on accounts that are linked to India because we do not do any credits outside India. So those customers from the Middle East who have some kind of either family or linkages or borrowing in India, we are sensitizing that and ensuring that that part of the book does not sort of have material challenges. There will be some uptick if you may have noticed even in our retail, it has moved up from something like Rs. 48 odd crores to Rs. 60 crores. While the quantum is not significant in the bigger scheme of things, there is an impact of about Rs. 10 crores, Rs. 12 crores a quarter that you will see on the retail side for the next three, four quarters, if the NR remittances continue to have challenges, people lose jobs. Just now there are no signs of anything, but we are sensitizing ourselves for that.

Praful Kumar: But the impact would be limited yes, understood.

Shyam Srinivasan: It should because for two reasons – One is the deposit portfolio, there is no arbitrage, pricing arbitrage has disappeared. So then there is only a domestic growth versus NR growth so which we have extended possible. Substitution one-to-one is possible. Second is credit for Federal Bank CD ratio being low, we chasing deposit is not required at this point in time as much as getting good credit up. So it is these stress that may arrive on account of the fact that the NRs either have a job loss or have to take a pay cut or have to slow down, we are sensitizing our retail portfolio largely for that. And like I pointed out, it is a good secured book. We donot have an unsecured book in India. So we are not expecting too much, but having said that we have factored some credit increase on the retail. But it is in the order of Rs. 12 crores to Rs. 15 crores a quarter.

Praful Kumar: Final comment on growth strategy. Gold has bottomed out in terms of your advances and if you can just elaborate on the growth strategy now?

Ganesh Sankaran: Yes, our growth as we have said earlier also is going to be a function of how we present the entire strength of Federal Bank. As we already said earlier in this call, we are today represented with a team of Relationship Managers in some of the prime markets in the country. Our customer visitations in the last month end have been very encouraging and the pipeline that we are seeing based on these customer visitations is quite healthy. The internal architecture to deal with this pipeline and convert it is also looking quite good and the initial month does indicate that we can remain optimistic about this panning out in a sustainable manner in FY17. So that is not an issue. As far as SME goes, our SME is originated largely from the network and that has been we have a natural inclination and flair to do SME business. The idea is how to and we have also relooked at some of the origination processes as to how we can activate our systems better or get more bank for the buck, that also in terms of what we have seen in….

Praful Kumar: Only on the large corporate side I just want to know how many people team would this be? Are you looking to lot of cross-sell and you will be the second or third banker for the target corporate, what are your strategy in the large corporate side, only I want to understand?

Ganesh Sanakaran: I will explain to you. The team is initially about 20-25 people. It is going to build as we go along into various markets. In terms of yes, what was your second question?

Praful Kumar: You will be the second or third go-to-banker for the corporate and so in terms of underwriting how on the risk management side, what are you thinking, when you are approaching these guys, so what is the differential that you are bringing to them?

Ganesh Sankaran: Second or third banker frankly does not make a difference because there are more than a dozen banks that are dealing actively with a lot of companies in the country and they are doing it very well. So we see ourselves there is no different because understanding what the client wants is extremely important. Yes, we are also bringing to the table some of the franchise and some of the senior management of the bank has got in terms of connection with the companies, etc., and how we turn around the request. That is why I said the internal architecture to deal with the mid and large corporates is something that we have consciously worked upon in the last month, month-and-a-half. So I think we are well prepared to respond to them and turn around their request.

Moderator: Thank you. Next question is from the line of Rakesh Shinde from Bonanza Portfolio. Please go ahead.

Rakesh Shinde: I just want to understand what is our branch expansion strategy so that we are already focusing on CASA growth, so I think from last one year we have added hardly any branches. So what is the strategy going forward?

Shyam Srinivasan: More than expansion our plan over the next 12-18 months is around three things. One is certainly more productivity from what we have in place. Second is a very active plan to relocate or shift from locations that are of less value. Three is to very actively move on the digital proposition, as you know the range of offerings we have, we have not stressed much on the selfie account, which we launched. Some of the more recent innovations in terms of missed call funds transfer which probably other banks are just beginning to put up their plan. We have a very active offering and now the whole thing is to ensure that on every occasion we are able to bring those to the clients and get utilization up. So I would say the growth plan in terms of both franchise of deposits and footprint is not so much as more branches but more optimization of what we have and getting a better presentation of our offerings to the client and activation.

Rakesh Shinde: And just one more sir. Any guidance on credit cost?

Shyam Srinivasan: I would give that more effectively in FY17 beginning.

Moderator: Thank you. The next question is from the line of Gaurav Agarwal from ENR Advisors. Please go ahead.

Gaurav Agarwal: Sir, I just wanted to check if the question has not been asked, the restructured portfolio has been down by Rs. 190 crores whereas the slippage from the restructured portfolio is Rs. 50 crores. So where is the difference of Rs. 140 crores, has it been upgraded to standard?

Shyam Srinivasan: Between upgrade to standard and sale-to-ARC must be right combination.

Gaurav Agarwal: So some accounts from the restructured portfolio, which is sold to ARC, some accounts were upgraded and Rs. 50 crores is what you mentioned as NPA, which is there currently?

Shyam Srinivasan: Yes.

Gaurav Agarwal: And Sir, what about the SME slippages currently the trend is again not showing any kind of progress? It is again at Rs. 115 crores, which was the case in 2012-2013?

Shyam Srinivasan: No, I think, no I do not agree with you and that is a wrong observation. It was at Rs. 140 crores, it had come down to Rs. 80 crores. It had gone back to Rs. 110 crores;Rs. 155 crores is come back to Rs. 115 crores and the denominator all this point in time has grown at 3x.

Gaurav Agarwal: So sir, any change in the process for SME has been done over the last two, three years?

Shyam Srinivasan: In terms of?

Gaurav Agarwal: In terms of say the processes or the kind of team, which we have hired for SMEs?

Shyam Srinivasan: No, the SME and Retail and all our businesses the underwriting has been centralized now for four years and that continuously keeps improving. And the slippages in the SME barring the more recent two quarters where we saw uptick we are quite encouraged that it is trending the way we would like it to. And that is where the direction will be. But on a portfolio now that is close to Rs. 15,000 crores on SME, about Rs. 80 crores to Rs. 100 crores per quarter slippage may continue for some time given the environment that we are operating in.

Gaurav Agarwal: And sir lastly, the account which you were saying that it is coming out of moratorium in next year first half and then you see it has as your watch list. So what is the industry for this account?

Shyam Srinivasan: You mean industry exposure?

Gaurav Agarwal: Yes.

Shyam Srinivasan: This is something in related to metals but I do not know what, they are not directly in this business, they are linked to the steel industry, secondary metals.

Moderator: The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Just a couple of questions and data points needed. If you could just tell us what is the contribution of the NRE deposits across NRE/NRO savings income? And also if you could tell us what is the outstanding gold loans that we have in the agricultural side?

Ashutosh Khajuria: Agriculture gold loans is Rs.2,700 crores.

MB Mahesh: And the pickup of NRE?

Ashutosh Khajuria: Total NRE deposits have crossed Rs. 30,000 crores.

MB Mahesh: No, is this Rs. 28,380 crores that has been reported out there, could we have what will be the SA portion and what will be the term deposit per year?

Ashutosh Khajuria: Rs. 9600 crores, SA.

MB Mahesh: A couple of questions on in Slide #12. There has been provision of around Rs. 20 crores, in others. What does this pertain to and also there is an investment provision of about Rs. 16 crores, what does this pertain to?

Shyam Srinivasan: The other provision is standard asset provision is Rs. 9 crores and loss on sale of assets is balance and in the investment provision it is a NPA account of which there was this bond which we have taken an exit on that also 100% provided.

MB Mahesh: Rs. 16 crores, is it?

Shyam Srinivasan: Yes.

MB Mahesh: Okay there was no other G-Sec provision around this quarter?

Shyam Srinivasan: There is a write-back but the impact on these investment losses was 20 write-back was the balance so it was paid off.

MB Mahesh: My last question is on Slide #15. While you have taken base rate cuts this quarter the entire impact is just been seen on the corporate business side. Your corporate business yields is down 68 basis points in about a quarter. And no other segment of the business has seen any change, what is driving this?

Shyam Srinivasan: The corporate is Rs. 30 crores is the interest impact on account of unrealized interest.

MB Mahesh: But why is the base rate impact not reflected in any other segment?

Shyam Srinivasan: The base rate impact is for less than 30 days, I think it was 30 days right? So it will come through in the quarters ahead, you have seen some impact on the remaining portfolio also.

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

Kaitav Shah: Sir, can you give us the break up for your investment book in terms of AFS and modified basis?

Ashutosh Khajuria: I will give you offline, you can collect it.

Moderator: Thank you. The next question is from the line of Hardik Shah from Birla SunLife Insurance. Please go ahead.

Hardik Shah: Sir, one question on the UDAY Scheme where the Discom exposure will be swapped by bonds? So on the NIMs what is the kind of impact that you see because of that?

Shyam Srinivasan: We see a quarterly impact between Rs. 5 crores and Rs. 7 crores on income reversal.

Hardik Shah: The reversal?

Shyam Srinivasan: Yes.

Hardik Shah: And in percentage terms if you were to put it as say if your NIMs are (+3) right now?

Shyam Srinivasan: Rs. 5 crores a quarter would be your impact about on NIM. Full year it will be 2 to 3 basis points.

Hardik Shah: So not very significant?

Shyam Srinivasan: Yes not significant.

Hardik Shah: Sir so I was asking in the sector which you have significant exposures, are you seeing any signs of growth or green shoots?

Shyam Srinivasan: The growth of the bank that we saw in Q3 is not any specific sector, it is more the good names. And like Ganesh pointed out, we have developed our full bank plan and the architecture is to go out and canvas business through an RM model and seniors are opening their doors into these. So it is more the chosen names where we are getting an ability to penetrate and our offerings are quite competitive. So I cannot say that there is any particular sector, it is more around the good names that we have identified.

Hardik Shah: Because presently you have a significant exposures to certain stressed sectors like power, real estate and metals, so going forward you expect this mix to change?

Shyam Srinivasan: Yes, if the names that we are chasing are not in these segments, therefore we are going by good names as opposed to sectors. By definition things like that will come down. For example – our iron and steel exposure has come down from 5% to 2.1% now. So infra used to be (+5%) is now is (+1%) now. So we are seeing sectoral shift because we are canvassing business from segments where names that we are more comfortable with.

Hardik Shah: Okay so you expect the large corporate exposures to go up?

Shyam Srinivasan: Large corporate exposure will go up, but they are not singly going up, that is also enabling us to grow our retail and some parts of mid-market opportunity and of course SME is bread and butter business for us, which has been growing and will continue to grow.

Ashutosh Khajuria: SME has grown 17% retail and gold has grown 19%.

Shyam Srinivasan: And corporate I will not make any judgment till we see two-three quarters of sustained momentum. We have seen some uptick in Q3, which is encouraging. But we need to see that are more sustained because they tend to be in the past more choppy.

Hardik Shah: Okay and just final thing. In this real estate exposure is it mainly LRDs or it is a project finance kind of exposures?

Shyam Srinivasan: Largely LRDs. We do not have a major project finance exposure.

Moderator: The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar: One question I had about the fresh accretion in the investment book. So that is driving I think the market was quite fast this quarter and that is also getting reflected in the higher yield on investment. So if you could slightly elaborate on that front?

Ashutosh Khajuria: There may be some credit equivalents that have come in investment book. There is otherwise no conscious increase in any market accreditation. Could you be specific what exactly you are looking at?

Rakesh Kumar: So what I am trying to understand is that there is some pressure on the credit yield side obviously because of base rate thing and then your slippage number. It is getting bit of a compensated by the higher yield on investment and for that we are taking higher market risk. So where that book has gone actually what kind of credit substitute and which sector we have taken that?

Ashutosh Khajuria: These are money market instruments mainly these are CPs very short term CPs three months, six months and all that so that is not something which is.

Ganesh Sankaran: This is Ganesh here, I do not know where you are reading and I think you are not joining the dots correctly. This is essentially part of a very comprehensive plan to deal with the top rated companies. And it has not isolated subscription to commercial paper and so on and so forth, it is part of our larger product basket that we are offering to the companies and one of it, and you could have seen and this is also if you see we have also seen loan growth in our corporate segment in the last month. So it is to be read along with that and seen along with that. So there is no incremental investment or market risk that we are trying to assume in this whole thing. This is actually credit risk and as Ashutosh rightly explained, it is a credit equivalent or credit substitute.

Rakesh Kumar: Secondly, on the CA deposit side like you know there is like if you see the sequential number, bit of a decrease is there so any seasonality or what is the reason behind it?

Rakesh Kumar: Yes CA deposit number?

Ashutosh Khajuria: Our daily average current account is growing in double digit nearly 15%, 14.5% to 15%, which is the daily average. It could be only quarter end positions which you are comparing with maybe vis-à-vis September or so. So that could be one-off deposit that would have come and as you know there is a volatility, because I think in September end this number was higher because credit balances in cash credit accounts some of the drawls they had deposited towards the end of the year and cash credit account had got the credit balances. And that had added to current at the end of September, which is not the case at December end. December end we had very few such accounts where we have the credit balances and cash credit account. If you see the daily average of current account, it is growing at about 14.5% to 15% YoY.

Moderator: Thank you. Next question is from the line of Amit Ganatra from Religare. Please go ahead.

Amit Ganatra: So in one of the slides, you have mentioned about the credit rating profile of the corporate books and there you have also mentioned that third quarter specifically 89% is basically incremental lending has happened into AAA and BBB that too largely dominated by a AAA. Now this is very different from your existing rating of the corporate book. So is this now the strategy going ahead in terms so very soon I mean over a period of time should large portion of your then existing book should look like 89% towards AAA and A?

Shyam Srinivasan: Most certainly like it will be like that and certainly build on that. But I think you will appreciate that these are evolving and not.

Ganesh Sankaran: To fundamentally to answer your question directionally the risk grading of the book will certainly improve. That is clear. Second, as we have said earlier we are now going by the names specific approach rather than any sector specific approach, so the effort and intent will be to identify good rated companies. Whether that would mean A and AA and AAA is a function of the rating that they carry at a point in time. But clearly better client selection and origination will be. So overall to answer your question, you will see an improvement in the overall credit rating of the portfolio.

Amit Ganatra: But does it also mean pressure on NIMs?

Ganesh Sankaran: See as we said our growth is not coming entirely from corporate and mid-corporate. It is one element of the growth of the bank. As we have said, our book has more or less been evenly distributed between Retail, SME, mid-corporate and corporate. If at all first among equals over a period of time would be an SME book which is a natural function of the distribution that we have and the natural strength that we have and how this SME would get fuel from the corporate book in terms of supply chain and other related businesses. So I do not, yes the margins by definition in corporate will be a bit low, but I do not think it will affect overall the bank.

Moderator: Thank you. Next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu: Couple of questions. My first question is regarding your standard restructured assets. Out of your standard restructured asset, how much would be to the metal and iron and steel sector?

Shyam Srinivasan: Yes roughly about Rs. 100 crores, Rs. 150 crores.

Sudhakar Prabhu: And do you see any concern on these assets?

Ashutosh Khajuria: I think MD has already shared that there could be one account whose moratorium is going to be over in FY17 they are not able to meet their obligations that could be a stressed account.

Ganesh Sankaran: Normal business outages that we may come across in any sector we will see in this segment also.

Sudhakar Prabhu: And in the corporate segment, you mentioned that the fresh accretion in this quarter was because of two, three accounts. So how do you look at the normal accretion in this account in the corporate segment?

Shyam Srinivasan: No, you see unfortunately for us the last three quarters these have been the lumpy ones. I mean Rs. 140 crores, one quarter now Rs. 190 crores and the other in this quarter if you add the sale-to-ARC it is a very lumpy amount. But that also has been the one that has been sort of lurking large, looming large for us. So having recognized that, like Ganesh mentioned, it will be in the normal course of business. There will be some account that will face some stress, but we do not have any identified large pool.

Sudhakar Prabhu: So Shyam, directionally should we look at the gross NPA and NPA numbers coming trending down versus percentage terms?

Shyam Srinivasan: Rs. 11,000 crores was killing us just for that. So rest assured that is exactly what we are doing.

Sudhakar Prabhu: Right and would you like to give any guidance for NPA numbers one year-end, one year?

Shyam Srinivasan: I said that and I would do that in the FY17 beginning as we exit FY16 we will have a better look into, better visibility and we will have greater clarity.

Sudhakar Prabhu: Yes, but do you see FY17 being better than FY16?

Ashutosh Khajuria: Hopefully.

Shyam Srinivasan: Absolutely yes, we are all both craving and craving for it. Yes, you can be sure.

Moderator: The next question is from the line of Nilesh Parikh from Edelweiss Securities. Please go ahead.

Nilesh Parikh: Sir, the question is again on the restructured assets. So if you can just mention out of the total restructured assets how much is SEBs?

Shyam Srinivasan: As a percentage of restructured advances, 37% is SEBs; infra is 54%.

Nilesh Parikh: So basically the balance?

Ashutosh Khajuria: That includes aviation.

Nilesh Parikh: Now in terms of the balance, if you can just qualitatively talk about it because we have started to see lot of downgrades across the sectors in terms of the restructuring. So how comfortable are you and how much of that is already passed the test of moratorium or something, which is kind of getting into the moratorium penal exit? So if you can just give some color on that that will be helpful?

Ganesh Sankaran: Yes we will give you some color I will answer this a bit differently. I think a lot of opinion that is getting formed on this subject is based on what you read around and the names that are already known in the market. As we have stated earlier also in our interactions that Federal Bank does not have exposure to most of the names that are being discussed, and has seen as potentially threatening the system. I think Shyam at the beginning of the conversation also said that in terms of regulatory divergences we have nothing and everything has been appropriately addressed. That said, we have also said in terms of metal accounts whatever exposures were creating some shocks for us have also been addressed. So I think this should answer and until this point as we talk as there is no 525, there is no SDR and there is no fresh CDR in this quarter. So I think the color should emerge very much from this and the color just seems to be a nice rainbow color is what I should tell you.

Nilesh Parikh: So that is good to hear, but the point is the last two three quarters?

Ganesh Sankaran: It is not good to hear, it is a fact.

Nilesh Parikh: So what I am trying to address out here is that there is a restructured book which is setting, which is so that is the comfort that I wanted that is it you feel comfortable with the restructured books that you carry most of that is already passed the test of seasoning, this will get upgraded?

Shyam Srinivasan: Nilesh, just let me desegregate it for you. Rs. 2,200 crores is our standard restructured, right. About 50% of that I mentioned is between SEBs and airlines. We all know the SEB plan, airline thankfully seems to be trending okay. Of the balance,Rs. 1,200 crores I mentioned about a Rs. 100 odd crores is in the metal, Rs. 100 crores and Rs. 150 crores is in the metal space. And I also mentioned that one of them is due to exit from moratorium sometime next year, which is a cause for worry. So beyond that I do not see any substantial restructured portfolio giving us heart attacks in the coming quarters. But that is got to be read in the context of nothing dramatically kills us. We do not see any major challenges because some of the restructure is in the SME books, some of the restructure is in the retail books, those usually tend to trend well.

Ganesh Sankaran: And the other thing if I may just supplement here. I think what is there is what you see, as a concept we have not done any off balance sheet and things like that. So it is a function of when you start doing comparison and figure out as to what is the restructured book and what are the end outcomes around that restructured book. I think it is important to understand what are the approaches that are being taken in management and preservation of the restructured book. Which is why I made the earlier point on 525 SDR and also in terms of off balance sheet items so on and so forth.

Nilesh Parikh: No, that is appreciated. So today the simple question was that do we expect further swap from the restructured book because that is where the most of the?

Shyam Srinivasan: Yes you are right, I mentioned to you there are some accounts that are due to exit from moratorium one of which I mentioned is about a Rs. 100 crores, which we are looking out very closely. Barring that nothing abnormal should pop up.

Nilesh Parikh: Outside of this are steel and the metals exposures being largely taken care of would that?

Shyam Srinivasan: Yes, the two big accounts which we kept talking of for almost six quarters has been fully addressed.

Nilesh Parikh: Addressed in the form of treating them as NPLs and push them means one?

Shyam Srinivasan: One is an NPA and sold to an ARC at a discount.

Nilesh Parikh: And the other one would be?

Shyam Srinivasan: Pardon me?

Nilesh Parikh: No sorry the other one would be an NPA but still in your books?

Shyam Srinivasan: Still in our books, yes.

Moderator: The next question is from the line of Ravi Singh from Ambit Capital. Please go ahead.

Ravi Singh: Sir, in this quarter's presentation the corporate loan also includes credit substitutes of roughly Rs. 1,500 crores. So just wanted to get some understanding, is it a new development in this quarter or?

Shyam Srinivasan: Very much, yes.

Ashutosh Khajuria: We have been doing in the past also but in between we had stopped investing in money market instruments. Now I think with lower CD ratio and plus the blended offering to the corporates after Ganesh's arrival, it has been given as a bouquet wherein part of it has given as a loan product and part of it has given as an investment product. So we have most of these as money market instruments normally from two months to one year. And these are CPs, mainly CPs 95%.

Moderator: Thank you. Next question is from the line of Amit Ganatra from Religare. Please go ahead.

Amit Ganatra: Yes, my question has already been answered.

Moderator: Thank you. The next question is from the line of Neha from Subhkam Ventures. Please go ahead.

Neha Ganatarao: Sir, considering you mentioned that FY17 will be better than FY16 on the asset quality front. How do you see the PCR ratio as well as the fee income trend moving?

Shyam Srinivasan: Both are very significant guidance I will not give that in the beginning of FY17. But suffice to say they will be in the direction that we left FY15 with. What we entered FY16, we want to believe that this year has been fair amount of consolidation and unfortunate NPA related incidences. So we should be looking at delivering the exit ratios of last financial year as we go into FY17. But a full year guidance we will be able to offer as we see in the last quarter.

Neha Ganatarao: And what would be the guidance on the return ratio for the midterm; could you guide us on that?

Shyam Srinivasan: See the return ration are an outcome of many of the input, so allow us to make a full-fledged input on that in the beginning of FY17.

Neha Ganatarao: Any plan for raising your capital?

Shyam Srinivasan: No, right now not at all. I mean our focus is absolutely deployment of capital and ensuring to get productivity on what we have.

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

Isaac EA: Thank you all for joining the conference. Now we shall disconnect. Thank you.

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