

## Conference Call Transcript

Federal Bank

Q1FY10 Results

August 3, 2009 | 11 a.m. IST

### *Corporate Participants*

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**Mr. P.C. John**  
*CFO*

## Questions and Answers

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**Moderator:** Ladies and gentlemen good morning and welcome to the Federal Bank Q1FY10 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's opening remarks. If you need assistance during this conference call, please signal the operator by pressing \* and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. M B Mahesh of Edelweiss, thank you and over to you Mr. Mahesh.

**M B Mahesh:** Thank you Rochelle and good morning to all participants, this is Mahesh from Edelweiss. We have with us Mr. P C John from Federal Bank to discuss the company's 1<sup>st</sup> quarter earnings. Congratulations sir on a good set of numbers. We can start off with the opening remarks, discussing the results before we start off the question and answer (Q&A) session, over to you sir.

**P C John:** Good morning and welcome to all of you. Thank you for your interest in Federal Bank and for sparing your time at this point of the day. I hope you would have gone through the results. Still, I will mention a few highlights of the results.

Net profit has doubled and has increased to INR 136.38 Crores from 68.18 Crores last June. However, the operating profit growth was lesser at about 10%. Gross NPA was 2.65% and net NPA at 0.29%. Provision coverage is about 88%. Growth in net interest income was very low at just about 4.3% and the NIM also showed much pressure and came down to 3.31%. Return on assets continues to be good at 1.40 and return on equity is 12.41, the book value at percentage 260.90.

In business growth, there was a year-on-year growth of about 18% in deposits and 15% in advances. Lower growth in advances, coupled with pressure on interest rates, has caused shrinkage of margin. We expect though from this quarter onwards, credit pickup will be better and if so the results in general would be much better. Net profit increased about 100%, mainly on account of contributions on treasury both by way of increased profit from sale of securities and write-back of provision.

This was the overall position of the results. A detailed presentation, investor presentation has already been put onto our website. I hope that you would have gone through that. Whatever is there in the presentation, questions may not be asked again on the same point, so that we can save time, but on other issue or any other point I would invite you to ask questions, thank you.

**Moderator :** Thank you very much Mr. John. Ladies and gentlemen we will now begin with the Q&A session. At this time participants who wish to ask questions may please press \*, followed by 1 on their touch-tone telephone. If your questions have been answered and you wish to withdraw from the questioning

queue, please press \* followed by 2. You are requested to use your handsets while asking a question. If you have a question, please press \* and 1 now. Our first question is from the line of Abhishek Kothari of SPA Securities, please go ahead.

**Abhishek Kothari:** Sir, could you give us an update on CSB's takeover and what is the ratio that is being worked out?

**P C John :** I am sorry that I am not able to give a proper answer for your first question because final decision has not been taken on that, so the ratio, etc., will come on after....

**Abhishek Kothari:** And by when do we expect this to get done at least in another 6 months or something?

**P C John :** Yes, yes reasonably we can expect in that timeframe.

**Abhishek Kothari:** And what was your SLR duration?

**P C John:** SLR duration, AFS plus HFT, SLR duration is 2.94.

**Abhishek Kothari:** Any shift from AFS to HTM or something?

**P C John:** Yes, there was some transfer from AFS to HTM and also from HTM to AFS, both were there.

**Abhishek Kothari:** Can you give us the amount sir?

**P C John:** AFS to HTM was below INR 400 Crores, 375 something and HTM to AFS was about INR 650 Crores that happened in the 1<sup>st</sup> quarter.

**Abhishek Kothari:** And what was the total size of the SLR portfolio?

**P C John:** Total size of?

**Abhishek Kothari:** The portfolio.

**P C John:** Total size of portfolio comes to INR 11,800 Crores something.

**Abhishek Kothari:** INR 11,800 Crores?

**P C John:** Total investment book, 11,800 something.

**Abhishek Kothari:** Okay thank you sir, if I have something I will get back to you.

**Moderator :** Thank you Mr. Kothari. Our next question is from the line of Rati Pandit of Gupta Equities, please go ahead.

**Rati Pandit:** Hello.

**P C John:** Hello.

**Rati Pandit:** Yeah sir congratulations for good set of numbers.

**P C John:** Thank you.

**Rati Pandit:** I just want some data points and first I would like to have the yield on your SLR and non-SLR investments and apart from that I would like to have your outlook on the interest rate situation going forward and the greater demand overall. I mean in which all segments do you see a good pickup in the next few months and also your outlook on the NIMs going forward?

**P C John:** With respect to investments the total yield on investment is 6.83 that is interest yield on investment is 6.83 and SLR yield is slightly over 7.2 and non-SLR yield is below 6-5.85 because non-SLR constitutes to mainly off short time CDs CPs, etc. is slightly below for non-SLR yield. And regarding the interest rates, we will feel that interest rates will continue to be soft at least for the next 6 months, but towards the end of 3<sup>rd</sup> quarter or in the 4<sup>th</sup> quarter, yields can start rising. But till that time, we do not expect any increase in the interest rates, but slightly lower interest rates are possible with respect to lendings because the pressure on lending price will continue and the demand from borrowers is very, very significant nowadays.

**Rati Pandit:** Okay, so I mean overall what the NIMs can we expect, I mean in the medium-to-long-term?

**P C John:** In long-term basis may be at around 3.25.

**Rati Pandit:** Sir, why such a lower guidance, I mean this is even lower than what it was in Q1?

**P C John:** That is true, we did not expected this much fall in NIM. Falling NIM was contributed by 3 factors, one the cost on deposit was not much, cost is still at 7.06%, though in the 4<sup>th</sup> quarter the cost on deposit was 7.21%, it has come down only to 7.06%. Second, yield on advances came down much steeper than our expectation, so it was about 12.30% in March; yield has come down to 11.42. There was a BPLR reduction of 50 basis points during the quarter. Apart from the BPLR reduction, there is demand from many of the borrowers who produce the interest rates to consider the competition existing in the market and in many cases we had to reduce the interest rates and as a result the yield came down to 11.42. Then another thing there was the growth in credit was less comparable to the growth in deposits. The credit pickup in general was slow. So, again the credit growth was muted with of course of the lower credit growth in comparison to deposit growth that is also affected the yields. But, however, we expect that the credit growth will be better. Slight improvement we have seen in the credit uptake.

**Rati Pandit:** Okay and which all segments do you see a good growth this year, I mean which are expected to see a pickup?

**P C John:** Retail will continue to grow, 20% to 25% growth is expected in the retail segment. Then corporate segment of course there is demand but only thing is that we should be able to lend at lower rates. We are willing to lend at lower rates, there is demand in the corporate segment. A demand from SME is comparatively lower, may be at around 15% growth or so in the SME segment.

**Rati Pandit:** Okay sir that is it from my side thanks a lot.

**Moderator :** Thank you Ms. Pandit. Our next question is from the line of Manish Choudhary of Citigroup, please go ahead.

**Manish Choudhary:** Hi, sir just a couple of questions from my side. First, in terms of restructuring advances you have given the number for this quarter, could you also give the total outstanding restructuring after this quarter, at the

end of this quarter?

**P C John :** This total outstanding restructuring taking to their last year's restructuring and this 1<sup>st</sup> quarter restructuring together comes to INR 980 Crores, which was about 4.2% of our advances.

**Manish Choudhary:** And sir could you also tell us whether it is facility wise or borrower wise?

**P C John:** It is facility wise. More than 90% of the banks show it as facility wise.

**Manish Choudhary:** Sir, I mean have you done any calculations that in case it was borrower wise how much would it be?

**P C John:** It will lower by another INR 100-150 Crores.

**Manish Choudhary:** Okay, sir secondly, in terms of your cost side expenses have increased significantly over the last year by about 31% or so, any particular sign that you are seeing on of the reduction and forward because you still are looking to expand in the branches segment?

**P C John:** Increase in expenses is mainly with respect to employee cost and the reasons that there is a performance based incentive schemes from the second half of last year, it was not there in the 1<sup>st</sup> quarter of last year. This performance linked incentive was additional cost for the bank that is one reason. Second, are the retirement related provisions like pension, gratuity, leave encashment, etc., AS-15 related things. On provision, on account of that, amount provided for that was INR 18 Crores against 10 Crores last year so that also was a reason for the increase in the employee cost. And again there is an increase in the number of employees by 600 from last June to this June there is an increase in employees' strength by 600. These three factors contributed to the increase in the staff cost. Other operating expenses will show a normal growth of just between 20-22%, mainly because branch openings will be there and the shifting of premises and other things will be there that is the reason why the increase in the operating cost.

**Manish Choudhary :** Okay that is all from my side thank you.

**Moderator :** Thank you Mr. Choudhary. Our next question is from the line of Piyush Harlalka of HSBC AMC, please go ahead.

**Piyush Harlalka:** Yes sir good morning. Sir, you just gave the NIM guidance of around 3.25% for the year. So, last year your yearly NIM was around 4.28% as given in your presentation, so are we seeing that the NIMs will come down by 100 basis points?

**P C John:** Actually, considering the present market situation, we expect that NIMs will come down.

**Piyush Harlalka:** But sir seeing that we are expecting the credit offtake the yield is coming I agree, but the cost of deposit will also fall accordingly?

**P C John:** The problem is that any fall in deposits is only prospective, whereas fall in advances happens across the board.

**Piyush Harlalka:** No, but sir the existing bulk deposit or high-cost deposit will also get re-priced at lower levels?

**P C John:** That is true, we have about INR 6,700-6800 Crores of this high value plus CD that will get re-priced, part of it during this quarter and major part in the next quarter, and a little bit of it in the quarter following that. Of course there will be some gain, but of course some gain on that portion about INR 6000 Crores something that gain will be available. But at the same time, many banks are offering loans at very lower rates that competition is found to be more clear compared with earlier times. Considering that pressure also, the advantage we get on re-pricing the deposits likely to be offset by the pressure on lending rates, so that is why I am not bold enough to say that NIM will go up.

**Piyush Harlalka:** No, it will not go up we agree, but such a dramatic fall is not also has estimated from any of us, like we were expecting that we have a 1<sup>st</sup> quarter NIMs is lower but as the year progresses, NIMs will also increase going forward.

**P C John:** But by just going through the Economic Times report today that most of the banks were showing a decline of 20-70 basis points in the NIM. In our case it is 49 basis points. As market situations do not give us sufficient NIMs so that the NIM can go up.

**Piyush Harlalka:** But sir if you can give an exact, you said that the bottom number is 3.25?

**P C John:** Around 3.25, 3 to 3.25.

**Piyush Harlalka:** 3 to 3.25?

**P C John:** Yes.

**Piyush Harlalka:** So, at best you are seeing 3.25?

**P C John:** 3.25 should be okay.

**Piyush Harlalka:** Should be okay, okay. Now, sir total AFS is somewhere around INR 3,000 Crores?

**P C John:** AFS?

**Piyush Harlalka:** Yes, HFT and AFS are around INR 4,000 Crores.

**P C John:** Yeah, HFT and AFS together are INR 4000 Crores.

**Piyush Harlalka:** Okay so out of this how much is liquid investment that is invested in mutual funds in CDs and all those?

**P C John:** That will be come to around INR 2,000 Crores.

**Piyush Harlalka:** Around INR 2,000 Crores, so 50% of your AFS are still in the liquid funds and...

**P C John:** But non-SLR, AFS plus HFT comes to INR 2,700 Crores, of which, equity is about INR 240 Crores, bonds etc less than INR 500 Crores. Then the other things are mostly in mutual funds, CDs, CPs and other things, roughly slightly less than INR 2,000 Crores is short time.

**Piyush Harlalka:** So, sir like your HTM is around is around INR 7,800 Crores?

**P C John:** HTM is INR 7,300 Crores under SLR and about INR 500 Crores in non-SLR so that it is INR 7,800 Crores.

**Piyush Harlalka:** Okay, so remaining out of INR 4,000 Crores of HFT and AFS to around INR 1,500 Crores is SLR?

**P C John:** Not 1,500....

**Piyush Harlalka:** INR 1,200 Crores.

**P C John:** Yeah 1,200 or something.

**Piyush Harlalka:** Okay so the liquid fund is total INR 2,000 Crores?

**P C John:** Non-SLR liquid?

**Piyush Harlalka:** Yes, non-SLR liquid, so out of total investment book of INR 12,000 Crores if INR 2,000 Crores is liquid, then going forward our yield on investment should also come down?

**P C John:** No, yield on investment, we do not see much pressure may be from 6.83 it can go down up to 6.8 or 6.75 maximum, maximum fall it can be up to 6.75 to 6.80 because any substitution is happening at a higher rate. And part of it will get converted into credit also this is short, as and when credit pickup goes up that will be substituted by credit. We do not expect much fall in investment yields.

**Piyush Harlalka:** Sir, like the floating provision that we were having did we use that as there is Tier 2 capital?

**P C John :** No, floating provision has been netted from gross NPA to arrive at the net NPA based on the specific RBI permission obtained.

**Piyush Harlalka:** Okay so how much is the floating provision that we are having?

**P C John:** 179.52.

**Piyush Harlalka:** Okay sir thanks a lot.

**Moderator :** Thank you Mr. Harlalka. Our next question is from the line of Ram Nath V of Kotak, please go ahead.

**Ram Nath V:** Yeah hi good morning sir.

**P C John:** Good morning.

**Ram Nath V:** Sir, I just wanted to ask a couple of questions. One is on your interest expenses, they have gone up on a quarter-on-quarter basis, now whereas your deposits are actually declined and cost of deposits, I am not able to understand.....

**P C John:** Say in quarter-to-quarter?

**Ram Nath V:** Yeah, yeah quarter-on-quarter, 4<sup>th</sup> quarter to the 1<sup>st</sup> quarter, it has gone up by around INR 40 Crores and what is the reason for this jump sir, have you raised any Tier-2 bonds or borrowings have gone up because if I look at deposits the deposits have actually declined and the cost of deposits also you

said that has come down marginally, so how can this be?

**P C John:** The reason I will explain now the quarter-ended suggest, as on 30<sup>th</sup> of June is less than the 313 figure. In fact the average deposits during the quarter are much higher than the average deposits during the previous quarter. For example in the March quarter, the average deposit was INR 28,722 Crores, whereas in the June quarter, the average deposit was INR 31,789 Crores, so there is an increase of more than INR 3,000 Crores in the average deposits and interest rate is depending on the average deposits and not on the year end or quarter end.

**Ram Nath V:** Okay yeah, got it. Sir and another question that I had was relating to your this one, the proposed takeover of Catholic Syrian Bank, what is the status on that and when can we expect any news from that particular front?

**P C John:** Final decision has not been taken yet. It may take some more time, may be a few months.

**Ram Nath V:** Okay fine sir that is it. Thanks.

**Moderator :** Thank you. Our next question is from the line of PS Subramanian of SBI Cap Securities, please go ahead.

**PS Subramanian:** Good morning sir.

**P C John:** Good morning Subramanian.

**PS Subramanian:** Sir, could you tell us what was the recovery from written-off accounts in this quarter?

**P C John:** Recovery from return of assets was INR 24 Crores.

**PS Subramanian:** And sir your rise in gross NPLs during the 1<sup>st</sup> quarter, is it more of a seasonal thing or is it because I think in the same time last year also you had a sudden sharp spike in gross NPLs, so I just wanted to understand the nature of the slippages for the quarter?

**P C John:** We have gone up from INR 590 Crores to INR 631 Crores. The slippages have happened mainly in the retail segment and also SME and a little bit in corporate. But these are not serious slippages because we hope that in the coming quarters some of it will come back. Certain portion will come back again, some other things will go into NPA that is the pattern we are seeing. For example, in housing loan it slips in the NPA just when three installments are in arrears but when we proceed against surfacing of an issue start sending notice, etc., somehow they raise funds and they accounted coming back at standard asset. Again in certain other accounts, we will slip into NPA but that is not going to result in any loss but slippage wise it can be higher.

**PS Subramanian:** Okay, sir another thing on your total growth that you are looking for you are saying that if you do kind of the corporate lending business, margins will tend to be lower because yields are not attractive. But even that you are kind of comfortable both in terms of liquidity as well as capital adequacy, what is the strategy that you propose to and of that is would you be doing only the kind of high margin business or would you be looking at growth



despite some lower margin, so that you can adequately leverage on your capital?

**P C John:** We cannot concentrate on high yield advances alone, then credit growth will be very, very low. We will continue to do both. On the high yielding, of course, we have alternate preference, but at the same time we should be able to get growth

**PS Subramanian:** So the quantum is not there you mean to say?

**P C John:** The retail segment of course comparatively high yielding, then even SME also high yielding, but in corporate also we have to go. For, example in the last quarter in the 1<sup>st</sup> quarter itself we went for substantial low-yield advances especially to the oil companies, etc., for short-term, one month, two months, three months etc they were asking 5-6% and we have also lent at that rate. So, depending on the opportunity, this has to be a dynamic strategy. You cannot have a constant or permanent strategy in the present market situation. Depending on the liquidity position, market competitiveness and rates prevailing with other banks, etc., we also have to be flexible with respect to this. We hope that in credit, we will have a growth of 20% in normal goods, but if a faster credit offtake happens, then it can go up to 25% also, otherwise about 20%.

**PS Subramanian:** Because in the March and December quarters, we actually grew slower than the industry on a quarter-on-quarter basis?

**P C John:** Quarter ending March and December?

**PS Subramanian:** December, yeah, that was only when you grew actually slower than some of the industry participants?

**P C John:** But this quarter our growth was not bad.

**PS Subramanian:** Yeah this quarter it was fine, so I just wanted to understand if this is what is going to be the trend, are you now more comfortable growing the loan book faster than the industry?

**P C John:** Now, we hope that we will be able to grow slightly higher than the industry, the credit book. Third quarter was showing similar trend and the year half also it should be possible.

**PS Subramanian:** Okay and for deposits you are pretty comfortable, so this trend of slower growth in deposit would continue or do you see some more deposit mobilization picking up?

**P C John:** No, we will be slower with high value deposits, but retail growth continues and we cannot say no to retail growth, the retail deposit growth is continuing at a reasonably good rate. But the thing is that the retail rates are higher than the wholesale rates that is only problem.

**PS Subramanian:** So you are not cutting retail rates?

**P C John:** Retail rates, today also we have an ALCO meeting today, we were deciding about their rates today.

**PS Subramanian:** Okay thank you sir.

**Moderator :** Thank you Mr. Subramanian. Our next question is from the line of Chellapa S of Pari Washington, please go ahead.

**Chellapa S:** Good morning Mr. John.

**P C John :** Hi good morning.

**Chellapa S:** Can you please give us the details of restructured assets in the corporate, SME, and retail segments?

**P C John:** INR 350 Crores is the total restructuring, out of which, about INR 310 Crores is from the corporate segment and the balance only a very small portion only about INR 40 Crores from SME plus retail, another which is about half-half.

**Chellapa S:** Okay, see what is the nature of this restructuring? Is it only a rollover of repayment or does it involve any reduction in rate of interest as well?

**P C John:** No, we do not give any reduction in interest rates. This is basically a longest of the repayment period of principle, for example it has to be repaid in 5 years and we will make it to 6 years or sometimes 7 years. Similarly, some repayment holidays if any from six months to 12 months that type that type of changes are there in most of the cases. But of course as part of any CDR thing, interest rate will be reduced then we have to join that otherwise, but more than 90% of that is only principle.

**Chellapa S:** Okay thank you.

**Moderator :** Thank you. Our next question is from the line of Amit Rane of Quantum Securities, please go ahead.

**Amit Rane:** Hello.

**P C John:** Yes.

**Amit Rane:** Yeah sir good morning. Sir, my question is regarding your policy with respect to restructured loans. Like if you have restructured some, your method of restructuring is facility wise, so if the same borrower comes for incremental borrowing, what would be the bank's strategy?

**P C John:** It again depends on the assessment of his needs. This restructuring is need based and also depending on the cash flows. The fact that we have restructured that is not prohibited from giving something more in case he needs more working capital or some other facilities.

**Amit Rane:** Okay, so sir you restructured some INR 6.3 billion in Q4?

**P C John:** Pardon.

**Amit Rane:** You had restructured INR 6.3 billion of loan in Q4 of FY09, did you lend incrementally to the same borrower during last three months?

**P C John:** No, no this quarter we did not have practically anything but I am not ruling out, in case if there is a necessity we are open to consider that is all.

**Amit Rane:** Sir and about your performance in non-interest income your target for the year is around 25% growth and it has come down excluding treasury gains it is down 16%, so would like to know your outlook like what are the

reasons for this and going forward what do you see?

**P C John:** The 1<sup>st</sup> quarter fall was on account of two reasons, one was that some of these charges and other things, which we debited to the party's account in some cases parties do not have sufficient balance and remains as OD all such cases we have invested and we are not taking into P&L if it is not readily available then balance is not there in the account, we are keeping it separately and tracking that is not taken into P&L that is one reason. Secondly, in last year the 3<sup>rd</sup> quarter was around or so, RBI came out with certain fillings with respective charges that can be leverage by banks, for example in collection of tax you can charge only this much there is a filling for transfer of funds and collection of taxes. Many items or fillings are fixed which were much lower than the rates being charged by banks in general. So, it has also contributed to the slight fall in the interest income. But as we a whole non-interest income, we expect 25% growth should be possible.

**Amit Rane:** Okay sir and out of 4.3% in the total advance has restructured. In a worse case scenario, what could be converted into gross NPA that you are assuming?

**P C John:** How can we say about that because that can only be a guess. It has now based on the restructured times in the normal course borrower should be able to repay, but there are some part of it can slip into NPA and I am not saying that it will not happen but at this point of time, I am not be able to give any percentage specifically.

**Amit Rane:** Sir and can you give us hints of re-pricing of your deposits in next 2-3 quarters, what amount of deposits are expected to get re-priced and what would be the benefit to the bank?

**P C John:** About INR 6,000 Crores of deposits are likely to be re-priced in the next two quarters, this quarter and next quarter and then little bit in the last quarter also. So, then there can be a benefit of more than 1%. Then there is a possibility of reduction in the existing deposit rates, which is today also there is ALCO meeting, I do not know what will be the decision, but there is a possibility of at least some of the rates being reduced.

**Amit Rane:** Sir and what is your outlook on lending rates going forward?

**P C John:** Lending rates at least for some more times, lending rates there can only be a reduction in the rates at least for few months 5-6 months I think.

**Amit Rane:** Okay thanks a lot.

**Moderator :** Thank you Mr. Rane. Our next question is from the line of Aditi Thapliyal from Noble Group, please go ahead.

**Aditi Thapliyal:** Good morning sir, my first question is on NPA addition what is the number for this quarter as on June 2009?

**P C John:** It is just increased from INR 590 crores to INR 631 crores.

**Aditi Thapliyal:** Okay thanks and sir what is the written-off assets sir?

**P C John:** Written-off assets now come to about INR 750 Crores.

**Aditi Thapliyal:** And what was it for the last quarter?

**P C John:** Last quarter recovery was INR 24 Crores.

**Aditi Thapliyal:** Sir the written-off assets in June 2008?

**P C John:** Pardon.

**Aditi Thapliyal:** The written-off assets for the bank as on June 2008 on a Y-o-Y basis I just wanted to understand?

**P C John:** That is portfolio size you mean or the written-off portfolio?

**Aditi Thapliyal:** Yes, outstanding written off portfolio.

**P C John:** Well, I do not have the exact figure I can workout and give you separately.

**Aditi Thapliyal:** Okay sure, I will get back to you. And sir, on restructured assets you mentioned that in Q1 much of the structuring was focused on the corporate portfolio. What I wanted to understand was in the overall restructured assets, I think they are about INR 978 Crores, what is the sectoral composition there?

**P C John:** Before I answer that I will also say that corporate for our internal classification purpose corporate is treated as exposures of INR 10 Crores and above, not the conventional corporate and the higher proportion of restructuring in the corporate segments basically is because of the a higher level of awareness larger borrowers it was there more aware about the facility offered by RBI, so most of them come from taking advantage of that facility whereas these small borrowers they do not have that much knowledge about what is happening in little bit that is what we have contributed to our restructuring front that segment and-

**Aditi Thapliyal:** Sure, so what you are saying it is not strictly on need base basis, it might not be.

**P C John:** Not strictly on?

**Aditi Thapliyal:** Need base basis for the corporate loans.

**P C John:** Need base but at the same time some corporate feels oh this is one time facility available they are also expecting some problems etc, some restructuring we also might have to give.

**Aditi Thapliyal:** Okay, yeah coming back to my original question the overall composition of restructured assets, the sectoral composition?

**P C John:** The sectoral composition is about, this quarter or the total?

**Aditi Thapliyal:** Yeah the outstanding restructured assets of around INR 980 odd Crores.

**P C John:** Out of that about 15% or something will be in the commercial real estate segment then 10% or something will be in the steel segment, then textiles will be about nearly 9% to 10% will be in the textile segment, the retailing that is malls and other things that also comes to 7% to 8% then various other sectors together.

**Aditi Thapliyal:** Okay thanks and sir one last question what is your overall outlook on credit quality for the bank and for the banking sector?

**P C John:** Credit quality can slightly get affected but which will not be any alarming nature, there is marginal increase for example, last June our gross NPA percentage was 2.64 now it is 2.65, sometimes it can be 2.75 or 2.80, let us say marginal changes can be there, nothing more than that.

**Aditi Thapliyal:** Okay that answers all of my questions thanks.

**Moderator :** Thank you our next question is from the line of Sneha Kothari of Subhkam Capital, please go ahead.

**Sneha Kothari:** Hello.

**P C John:** Yes.

**Sneha Kothari:** Sir you are planning for 60 more branches sir, when these branches would be and in which area you are planning, outside Kerala or within Kerala?

**P C John:** 80% of the new branches will be outside Kerala and about 20% will be inside Kerala.

**Sneha Kothari:** Okay can you give some of the guidelines for the credit growth as well, your business growth for FY10 along fee income growth?

**P C John:** For FY10, we are targeting for a growth of 25% but at the same time, sometimes it can be even 20%, depending on the credit growth, credit offtake. At present level, it may be 20%, but at the same time if there is some improvement in the offtake and the overall situation if there is improvement, the credit growth will be 23% or even more. We expect that it will be between 20% and 25%, the lowest will be 20% and the on the higher side 25% or 26% this is the expectation now. Similarly, in the non-interest income side also we expect about 25% growth.

**Sneha Kothari:** And sir can you throw some light on your NRI deposits how it is, I mean going forward what is your outlook on that your NRI deposits?

**P C John:** NRI deposits as such if we take all the NRI deposits together, including the NRO deposits, then there is very good growth in that segment but at the same time if these NRO deposits attracts interest rates as applicable to resident deposits. If we take the low cost NRI deposits annual for this purpose then the growth is only about 6% year-on-year that is low cost NRI means their average cost will be about 3.75% around that rate only. Such deposits grow at a lower rate say Y-o-Y growth was only 6% this year, but we have identified this as a focused area and certain new initiatives we started to tackle the NRI business. But we hope that there will be some improvement in the NRI segment.

**Sneha Kothari:** So, this will help you out for the further cost for fund reduction?

**P C John:** If that has been helping out for the last one year as we are having this portfolio and that has been helping reduction of the cost of deposits, but

with the added thrust we are giving to NRI deposits we hope that say contribution will be still better in the days to come.

**Sneha Kothari:** Okay thank you sir.

**Moderator :** Thank you Ms. Kothari. Our next question is from the line of Abhishek Kothari of SPA Securities, please go ahead.

**Abhishek Kothari:** All of my questions have been answered, thank you.

**Moderator :** Thank you Mr. Kothari. Our next question is from the line of Ajitesh Nair of UBS Securities, please go ahead.

**Ajitesh Nair:** Good morning sir.

**P C John :** Hi good morning Ajitesh.

**Ajitesh Nair:** Yeah sir, my first question is on the restructured assets. What is the kind of collateral coverage are we keeping on these assets?

**P C John:** In all cases, there may not be collateral coverage. Of course the primary security is there in all the cases, collateral coverage may be there in about 50% or more than 50% of the cases, but it may not be sufficient to cover entire advances this collateral. Collaterals are generally available in this SME and retail segments or largely advances do not always get the collateral coverage fully.

**Ajitesh Nair:** Okay so sir in this entire INR 980 odd Crores, what would be the corporate contribution in the last corporate?

**P C John:** Not large corporate, but for internal classification we take it as INR 10 Crores and above, so then there will not be large corporate even in the mid corporates and small corporates are also there. But major portion of the restructuring, for example about 80%, is from corporate segment out of restructuring about 80% is from the corporate segment that is INR 10 Crores above category.

**Ajitesh Nair:** And so your large part of this would not be 100% collateral, is that right?

**P C John :** Would not be 100% collateralized, primary securities is there but in all cases 100% collateral equity will not be there, but in some cases 50%, in some cases 70%, some case of collateral securities may not there that also can happen.

**Ajitesh Nair:** Perfect sir, secondly I think this question was asked, I did not catch it what is the gross addition to NPA this time and are you seeing that slippages base is declining or it is still the same?

**P C John:** No, what we see is that both the slippage into recovery and also coming back from both our fast turnout. More accounts slip into NPA similarly the faster coming back is also see that is the trend nowadays.

**Ajitesh Nair:** Okay so what was the slippage sir this quarter?

**P C John:** 217, 2-1-7 was the addition and 176 was the reductions.

**Ajitesh Nair:** Okay sir thank you so much.

**Moderator :** Thank you Mr. Nair. Our next question is from the line of Raunak Agarwal of CRISIL, please go ahead.

**Raunak Agarwal:** Yeah good morning sir.

**P C John:** Good morning.

**Raunak Agarwal:** Sir, we have about INR 980 Crores of total restructured assets as of June of 2009 right?

**P C John:** Yes.

**Raunak Agarwal:** And how much is pending as of today?

**P C John:** No nothing is pending now, all the pending applications have been disposed off.

**Raunak Agarwal:** Okay so it is only INR 980 Crores. Alright, thank you sir.

**Moderator :** Thank you Mr. Agarwal. Our next question is from the line of Kaushik Poddar of KB Capital Market, please go ahead.

**Kaushik Poddar:** See, in the March quarter that is annual press release, that time you had talk of your engagement of BCG in connection with reorganization, so the recent press release it is completely silent on that, can you update us on that?

**P C John:** BCG study is still going on, we are still here doing that study and they are giving us recommendations periodically that is not yet over that is going on and they have identified few areas, focused areas and certain new initiatives have been suggested and we are under process of, some of them have been implemented, some of them are being implemented that process is continuing now.

**Kaushik Poddar:** Can you just enlighten us on the focus areas and the things that have been implemented to take care of the focus areas?

**P C John:** Some of the focus areas is on this current account, current account of example our market share is below the market share of branches in current account.

**Kaushik Poddar:** Below the market share of what?

**P C John:** Branch market share in current account. One is current account, there we have found that our market share in current account is lower than our branch market share. So, that is an area to be focused, that is being identified that is our focus area and the certain new initiatives who have been suggested by them, major part of that have been implemented and some of the remaining things are so under the process of implementation. Another focus area is the NRI segment, there also we have brought about certain changes in the products than marketing sectors, there are so many other changes have been introduced in the NRI segment also. Similarly, 2-3 other areas also they have identified and we are taking steps to implement those things.

**Kaushik Poddar :** And what is the timeframe by which BCG should give the recommendations?

**P C John:** No periodically they were being giving recommendations. Now, all the recommendations are not being given at the end, so during the course of study, periodically they have been giving certain recommendations for faster implementation.

**Kaushik Poddar:** Okay and this expense towards BCG, whatever you are paying to BCG are those expenses being capitalized or you are writing off as you are paying?

**P C John:** That is right that is debited to P&L.

**Kaushik Poddar:** Straightaway debited to P&L.

**P C John:** Yes.

**Kaushik Poddar:** My second question is, besides anemic growth we have seen in the net interest income, another area of concern is the exchange in commission income being more or less is not growing as much as say other banks. So what is the game plan for that, because, if net interest income is not growth, exchange and commission income is also not growing that surely is cause of concern?

**P C John:** Even though exchange and commission that the specific income may not be growing, overall on interest income will be growing, but particularly as I said earlier there are certain ceilings imposed by RBI on the collection charges and some of the other charges, -- charges collection charges that is one reason.

**Kaushik Poddar:** See this quarter you have been helped by the profit on sale of securities, I do not think we can bank on that?

**P C John :** No, no we cannot bank on that, but the same time we are giving more focus on certain other areas like a distribution business, gold sell, life insurance, non-life insurance, mutual funds that is being given a more thrust-

**Kaushik Poddar:** Can we get a number as to kind of growth in other income you are looking at?

**P C John :** About 25% overall.

**Kaushik Poddar:** Okay and my last question see you just now talked about because of the incentive part of your salary has gone up substantially. Now, we have seen two things, interest income has not grown, your other income growth is not good as it should be, so how come incentives have been given without corresponding growth in business?

**P C John:** Incentive is depending on various parameters

**Kaushik Poddar:** Yeah, the parameter is right do not you think you should look at the parameters because your other income has not grown the way it should be and your exchange and commission income has not grown, net interest income has not grown; these are the two basic parameters on which the incentive should be given?

**P C John:** You are fully correct, but at the same time the actual amount of incentive to be paid this year has not been decided, but now we have made a provision. A provision of INR 12 Crores has been made towards that.



**Kaushik Poddar:** Towards what?

**P C John :** Towards the incentive for the first quarter.

**Kaushik Poddar:** Okay that can be added back if the growth is not proper?

**P C John:** If the actual payment is less than that, there will be some write back...

**Kaushik Poddar:** What I am saying there has to be something, I mean incentive has to be based on some performance, as a shareholder I am not seeing the performance, so how come the incentives will be there that is all I am asking you. I mean I do not mind incentives been given if there is proper you do not have growth in the exchange and commission income, you do not have growth in the interest income also, so how come the incentive will be there? I mean last year I did not grudge you, you paid that is fine because the growth was there on the both the fronts but this year if it is not there I would light as a shareholder to cut it down.

**P C John:** Yeah the incentive is depending on the achievement of targets

**Kaushik Poddar:** See, the target has to be seen by the shareholders, the target is not been seen by the shareholders that is all I am saying, you show us the target take the incentive that is not a problem.

**P C John:** Target has not been achieved I agree.

**Kaushik Poddar:** So to that extent incentive has to be cut down that is all I am saying.

**P C John:** Yes, this point has been mentioned by our board also.

**Kaushik Poddar:** Absolutely, I mean I think we need to have something on that that you are working for shareholders and not only for the employees.

**P C John:** Yeah, I understand a provision has been made, the actual payment has not been made, actual payment is being worked out, your point is well taken note of.

**Kaushik Poddar:** Okay thank you.

**Moderator :** Thank you Mr. Poddar. Our next question is from the line of Jaiprakash Toshniwal of ULJK Securities, please go ahead.

**Jaiprakash Toshniwal:** Yeah good morning sir.

**P C John :** Good morning.

**Jaiprakash Toshniwal:** I just wanted a break up of this high value deposit into bulk deposit and CDs?

**P C John:** High value deposit that is INR 5 Crores and above deposits comes to INR 3384 Crores, that will be CDs; deposits come to INR 3,005 Crores.

**Jaiprakash Toshniwal:** Okay sir and my question is, I am just repeating question. This NIM reduction, which you are saying is coming due to the reduction in interest rates or the high rate on deposits?

**P C John:** Three reasons are there, one is reduction in the interest rate on

advances then comparatively higher cost of deposits and then lower growth in credit compared to deposit growth, but with the credit pickup gaining momentum it would be partially interest.

**Jaiprakash Toshniwal:** Okay and about sir your branch expansion plan you said 20% would be in Kerala and according to your presentation slide it is 55% of advances are from outside Kerala, so why this I mean, in Kerala again we are having Catholic Syrian Bank, which will be merged by next close to 6-8 months, so what are the things strives on the branch expansion in the Kerala itself?

**P C John :** Two things, one the license have presently held, are based on the application submitted last year and approval received from RBI last year that is one thing. Second is even if we want the certain specific center the policy of RBI is that if we want to a good sender then we also need to have an unbanked or underbanked center. So, we cannot always choose only the best senders alone, based on the RBI's branch licensing policy a mix of both has to be taken then while collecting such centers we find that there are certain centers classified as underbanked centers in Kerala, which have good potential for CASA that is why some of the centers from Kerala also included.

**Jaiprakash Toshniwal:** Okay sir, I just wanted to know one number point in Catholic Syrian Bank, what is the deposit amount would be on that bank?

**P C John:** It is INR 6,000 Crore or something, roughly INR 6,500 Crores.

**Jaiprakash Toshniwal:** INR 6,000 Crore of deposits.

**P C John:** 6500 both together 10500 deposits, plus advances below 11, 10000 or something.

**Jaiprakash Toshniwal:** Okay sir thank you.

**Moderator:** Thank you Mr. Toshniwal. Our next question is from the line of Deepika P of Capital Markets, please go ahead.

**Deepika P:** Hello sir, good set of numbers congrats, many of my questions have been answered, but a small clarification how could we see that NPAs in particular when we are letting of the floating provisions it should be actually taken into or Tier 2 to capital right. Many of the banks and many of peer groups have been letting off, but how should we consider the NPAs, can you just give some clarification on that because I mean when we did not let it off the NPAs were blooming like around 50% up, is it the NPA?

**P C John :** That is net NPA?

**Deepika P:** Yeah.

**P C John :** We have netted it from gross NPA to arrive at the net NPA because RBI gave us specifically to cut the charges and RBI gave special permission to us to net it from gross NPA. If that is not allowed to be netted off then net NPA will go up to that extent.

**Deepika P :** What were the conditions that RBI not to net off these floating provisions?

**P C John :** No, RBI permitted us to net for arriving at the net NPA subject to

the condition that it should be disclosed.

**Deepika P:** Okay sir thanks.

**Moderator :** Thank you. Our next question is from the line of Raj Gopal of Centrum Broking, please go ahead.

**Raj Gopal:** Just one question sir I have happen to go through your rating release wherein you have said that there is 4% surge in your FD 5 to 10 loans. Yeah, so is that an indication that overall asset quality is under pressure as far as the bank is concerned and if that is the case are you expecting, you of course said that you do not see too much pressures on gross NPAs but if I look at this number it seems tell me a completely different story?

**P C John :** I understand your question but at the same time the restructuring which has happened when it is restructured we give some weightage for that also in arriving at the ratings.

**Raj Gopal:** Sir, you mean to say all those are restructured loans?

**P C John :** Not all but some of their ratings can be affected by this?

**Raj Gopal:** And the other thing, which I wanted to ask you is as far as your NRI deposit strategy is concerned you have already had South Indian Bank come out and say that they have seen robust growth in NRI deposits and they have also spoken about the fact that they have actually seen NRI deposit growth in the NRE category, which is essentially the lower cost of portion.

**P C John:** The statistics are published by the SLBC, etc., and do not show that position because we are one of the top in the NRE growth. For most of the banks by NRE deposits they include NRO deposits also a part of NRI deposits.

**Raj Gopal:** No, no I agree but when they speak about a low cost deposit portion, I am sure that they are talking about the NRE Term Deposit, in the NRE Savings Deposit, correct?

**P C John:** I am not sure because all the banks will speak about NRI deposits, the include NRO, even in the SLBC publication NRI deposits includes NRO deposit also. If we consider the NRO deposit growth in our case year to year growth was about 600%, on INR 203 Crores in last June it has grown to INR 1242 crores. NRO growth is very, very high but all the banks take NRO plus other low cost NRI together Under NRI deposit. Even the publications show that position, but what I said is a bifurcation as even the break up.

**Raj Gopal:** Okay fair enough thanks for the clarification.

**Moderator :** Thank you Mr. Gopal. Ladies and gentlemen due to time constraints, the last question is from the line of Manish Ostwal of Darashaw & Co. please go ahead.

**Manish Ostwal:** Hello.

**P C John :** Yes.

**Manish Ostwal:** Sir what is the total cumulative restructure assets as on June 2009?

**P C John:** Total?

**Manish Ostwal:** Cumulative restructured assets.

**P C John:** That is 980 including 630 last year and 350 this year, INR 980 Crores.

**Manish Ostwal:** INR 980 Crores and any pending applications?

**P C John:** No pending applications, all the applications have been disposed off.

**Manish Ostwal:** Okay and what is your outlook on net interest margins?

**P C John :** It would be around 3 to 3.25.

**Manish Ostwal:** And what is the proportion of high bulk deposit in total deposit?

**P C John :** 20%.

**Manish Ostwal:** And average cost of that?

**P C John :** Average cost of that is around 8.5%.

**Manish Ostwal:** And during the quarter any branch addition?

**P C John :** During the quarter about 10 branches added.

**Manish Ostwal:** And for the year what is the target sir?

**P C John :** For the year, total we expect about 60 branches to be added.

**Manish Ostwal:** Okay 80 would be out of Kerala and 20 within the Kerala right?

**P C John :** Roughly 80-20, 80% will be outside Kerala and 20% in Kerala roughly.

**Manish Ostwal:** And have we done any credit rating of corporate book?

**P C John :** Yes.

**Manish Ostwal:** What is the proportion above A rating?

**P C John :** Above?

**Manish Ostwal:** Above A rating proportion?

**P C John :** That comes to about 86%.

**Manish Ostwal:** 86% and we have done entire corporate book rating?

**P C John :** Yes.

**Manish Ostwal:** Okay thank you very much sir.

**Moderator :** Thank you Mr. Ostwal. Ladies and gentlemen, we will take one last question from the line of Aditi from Noble, please go ahead.

**Aditi Thapliyal:** Sir, you mentioned that the NPA reduction as on June 2009 was INR 176 Crores, how much of this was from written off accounts?

**P C John :** 51.

**Aditi Thapliyal:** Sir and I think you mentioned this in NIM regards to another question that was asked earlier that the other commission exchange brokerage

income decline was because RBI capped charges on some of the products. You mentioned another reason I did not quite catch that?

**P C John :** Aditi, it was when we debit some charges to the account, in some of the accounts there may not be enough balance, so it goes into overdraft account, debit balance and such cases where we are excluding all those things from P&L now and we are following up separately, such amounts have been removed from the P&L?

**Aditi Thapliyal:** Right and that accounts for the 11% Y-o-Y decline?

**P C John:** Yes.

**Aditi Thapliyal:** Okay and I yet think you have also answered part of this question, I just wanted to confirm this. So, the performance based payouts are not quarterly, they are done at the end of the year?

**P C John:** Quarterly, 75% of the amount arrived at will be paid quarterly and final adjustments will be made at the year end.

**Aditi Thapliyal:** Okay, I think someone else has asked this question that if the performances are not as per the bank's expectations or targets then the performance based payouts will be revised downwards but if you are paying out on a quarterly basis, how will that should have been taken care of?

**P C John :** But our actual payment has not been affected based on the June performance that is being worked out only. Certain, parameters have already been fixed to certain items, business, NPA then often seeing profits, certain parameters have already been fixed, then we cannot be extent of achievement of target the amount is being arrived at. So, what is included in the results is the provision made for that, actually amount is being worked out.

**Aditi Thapliyal:** Okay and sir one last question, the capital adequacy ratio decline as because of an expansion and risk weighted assets right?

**P C John :** Yes.

**Aditi Thapliyal:** Okay thanks.

**Moderator:** Thank you ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. M B Mahesh for closing comments.

**M B Mahesh :** Thank you sir for taking your time out and highlighting the quarter's performance. And thank you all participants for participating on the call, have a pleasant day ahead, thank you.

**Moderator :** Thank you Mr. Mahesh, thank you Mr. John. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this afternoon's conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.

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