"Federal Bank Limited

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Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY '24 Earnings Conference Call of The Federal Bank 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 after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Souvik Roy, Head, Investor Relations, The Federal Bank Limited. Thank you, and over to you, sir.

Souvik Roy: Thank you, Sagar. Good evening to all of you, and welcome to our earnings call to discuss the results for the quarter that went by. I am sure you all had a chance to go through the results deck, reviewed them well and also heard our post-result press-con in which our MD has probably answered a lot of questions already.

We have had a strong year of performance, and we have delivered on most of our aspirational return ratios with the right consistency on earnings while maintaining a very good balance sheet as well. During the year, we also maintained the right growth trajectory as you have seen in our deck, of course, across all our focused business segments. We scaled up the branch network as we crossed a milestone of 1,500 branches, and that's almost a 10% increase in our network.

We exited the year with an all-time high annual profit. Our total business crossed INR4.6 lakh crores and our balance sheet also crossed the milestone figure of INR3 lakh crores. The last quarter, in particular, as MD already mentioned during the press con, was operationally one of our strongest ever. Some of the numbers, as mentioned in the deck, we did give a call out there, has slight wrinkles due to a one-off impact on account of certain wage-related matters. I'm sure most of you have noticed that and made the right calculations already. Our margins did expand marginally, but it did, and our asset quality continues to remain pristine.

With this, I'll hand over the call to our MD, Mr. Shyam Srinivasan, who is also joined by the entire senior team. Thank you. Thanks again for joining, and over to you, sir.

Shyam Srinivasan: Thanks, Souvik. Good afternoon, everybody. I think Souvik mentioned the high points of the financial outcomes. I'll just draw our attention or take us back to March '23 when we had our Investor/Analyst Day and spoke about our outlook and our aspiration for the -over the 2-, 3-year period. And one of them was to ensure, if you all recall or many of you may recall, we talked about the three ends that are non-negotiable. One is around NPS improvement. Second is around the NPA being best-in-class. And the third is accretion and net worth. And those are obviously driven outcomes, but driven by a meaningful improvement in our return ratios.

So I'm happy that in FY '24, along those lines, we did deliver. While Q4 reported net profit is INR906 crores, it did have the one-off impact of the pension effect of about INR160-odd crores. So barring that, I think the quarter was quite along predicted lines. Growth has been consistently good. Expansion in the margin is beginning to trickle through, even though the cost of deposits seems -- remains elevated. That's because of the pivot in business. But at the scale we operate, it takes a while for margin expansion to happen, while the cost of deposits remained high. The trajectory return has happened, and we believe that going into FY '25, that should sustain.

Operationally, a strong quarter, like Souvik pointed out, but I just want to call out the remarkable consistency and quality of credit is something that we are very proud of. And Q4 was particularly exaggeratedly good. I've said this in 3, 4 earlier calls. So looks like it's a repeat. But in Q4, in particular, our slippages were lower than the recovery and upgrade. And the recovery and upgrade didn't have any one-off chunky cases that came through. It's more the structural, granular, regular accounts that sort of recovered or upgraded.

So on balance, the year that went by was strong. Our outlook going into FY '25 remains quite confident. We are entering '25 with some industry-level tailwinds and headwinds, I would say, tailwind in terms of credit growth looks quite promising. There is demand that is consistently good across business -- across business segments.

Deposits are growing, but the quality of deposit and the cost of the deposit structure is something that we have to deal with. In particular, for us, thankfully, our footprint expansion across the country has played out well. You may have noticed our rate of growth of our CASA in the geographies that were not traditionally as stronghold as now in mid- to high double digit -- sorry, high teens, and that's something that we are confident of -- to keep sort of that trajectory up, while we deal with some structural changes that have happened and how the non-resident flows come in.

Flows are coming in, but it comes in, in the form of term more than savings. So I think we enter FY '25, quite mindful of the business model that we're pursuing, the commitments we have made in terms of our return ratios. ROA expansion was guided for about 4 to 5 basis point improvement every -- sequentially every year. I think for the seventh year on track ROA expansion has moved up. We are now correcting for the one-off. It would have been a strong quarter, but full year was 1.32 in ROA, previous year at about 1.28. I see that expansion continuing into FY '25 and beyond.

So with those sort of opening words, as usual, we have the entire senior team, we'll be happy to take calls -- take questions and give insights wherever you guys want to. So I'm opening this up. Operator, you can open it up for questions.

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

Mahrukh Adajania: Hello Sir, I have three questions. So the first question is on your recovery upgrades, which are almost at an all-time high for you. So congratulations for that. But would there be an impact of the recovery and upgrades on the NII because a lot of PSU banks take some amount of recovery income through the NII. So was there any interest -- recovery interest income in the NII? And then if there was, what was it last quarter or some comparison like that? That's my first question.

Shyam Srinivasan: Yes, go ahead complete the questions, I'm sure between Venkat and other, they will take care.

Mahrukh Adajania: Sure. Then the second question is on fees. So if you see on an annual basis, your fee growth other than investment profit is strong at just a little under 30% other than investment gains. But the problem is that just like in the fourth quarter, there's been some softness. So while the card fees have been strong, para banking has been softer, and there's a lot of movement across segments.

So any longer-term guidance we can get on fee income and what drove the Y-o-Y growth and the Q-o-Q growth in the fourth quarter to look a little softer than earlier quarters, if there's any seasonality or any reason? And how – what growth do we build in, in the next year or so? Does it be 25% up or what?

And then the third is on opex. So if you exclude the employee provision from your annual opex, right, of 1.62 billion, you still have a growth of around 25%, a little higher than 25% year-on-year. So is that -- will that run rate continue? Or how does it moderate from hereon, on an annual basis? These were my questions, sir.

Shyam Srinivasan: Okay, all useful and good. On fee income, I think, it's -- no, I don't believe you can sort of sequentially plot it and say this will grow at. But a Y-on-Y basis, anything between 20%, 25% is very much on the cards, and we believe FY '25 will also see that kind of momentum. Q4, you did see a pickup in card fee going up, loan processing fee going up materially, but some of the lines like para banking was slightly lower, but that's certainly a sort of a modest change versus the sequentially previous quarter, it was much higher. Q3 was a little higher than Q4. Otherwise, it's been on trajectory around INR50 crores to INR55 crores or INR60 crores.

So you could -- we believe the core fee income growth, roughly about 20%, 25% is something that minimally what we will do, we will seek to do it even higher without any one-offs. The one-offs will hopefully be positive and kick it up higher. So that's on the fee income. On the first question on recovery, upgrades. Yes, that recoveries and upgrades happen, certain degree of interest income benefit also comes through because the URI benefit also comes through. And the third question was on -- sorry, remind me the third question.

Venkatraman V.: Opex growth.

Shyam Srinivasan: Yes, yes, go ahead, Venkat, maybe you can take the second question.

Venkatraman V.: Yes. So thanks, Shyam. Mahrukh, on the opex growth, if you exclude the staff cost, onetime impact, the growth levels would probably be around the same, considering the fact that we'll continue to invest in new branches. Our investment in technology will continue at pace, and there will be a small uptick in the staff cost with all these recent changes also, which will come through next year. So a combination of all this will see the opex around the same levels.

But what is important to note is that the branches, which we are investing, you'll notice that the payback is now getting faster. It's approximately 18 months. Of the 75 branches we opened in last year, FY '23, almost 55% of them, about 40-plus branches are already now profitable. So it's encouraging to see that the pace at which we are able to make the branches productive is faster. But having said that, we will continue to be investing in these areas as we believe that this will be the drivers for the strategic levers, which we have outlined in terms of NII growth, CASA and distribution.

Moderator: The next question is from the line of Rikin Shah from IIFL.

Rikin Shah: I have a few questions. So the first one is on the restriction placed on the co-branded credit card. May I check what are the corrective actions which are underway? And how soon do you expect that to resolve? So that's question number one. Question number two, an extension of the first one, if you could help us think through the financial impact of the same, right? While this proportion of that credit card book is less than 2% of the total loan, the card fee income had been growing at a very strong rate of 50% Y-o-Y. And even the digital personal loan, which we believe is the cross-sell to those customers has been growing north of 50%. So how do you think about that going ahead?

The third question is on the yield. So if we look at the increase in the yield since the rate hike cycle started, the yields have gone up around 150 basis points in total for you, which is the least amongst most of the banks. And this is despite we having the highest share of floating rate loans. So is there any pressure points in some of the segments that we operate in? Or are we pushing on growth at the expense of profitability? That's the third one. And the fourth one is on the asset quality. If we look at the provisioning part, there was expected to be AIF related provision in 4Q, has that come through in fourth quarter? And in the presentation, you have mentioned there is some reversal of provision even on other purpose loans. So if you could elaborate what is that? Those are my questions.

Shyam Srinivasan: Okay. Shalini, do you want to go on co-brand?

Shalini Warrier: Sure, Shyam. Thanks. On the core brands sector, as you rightly indicated, we have paused the co-brand credit card. We are in the process of working through the details of what RBI has requested us to look at. And we worked through most of the details that need to be done. In the next few days, we will be going back to RBI and presenting our plan, indicating where the corrections have been made. If all goes well, RBI should be able to allow us to resume. I can't give you dates and timelines as to when RBI can come back because that's really dependent on the RBI's review thereof.

In terms of financial implications, as you indicated, its contribution from an overall asset perspective, cards is really small in its overall perspective, and there are other products that are able to kind of lift the potential flat that will come from nonavailability of credit cards on the co-brand cards.

On the fee income side, also, as Shyam referred to when he was answering the question to Mahrukh, we do expect that the fee, overall fee income will continue to keep up the pace of growth we've seen so far. Cards will definitely earn whatever we don't get on credit cards will get compensated by other products. On personal loans, you refer to that also, our personal loans are not necessarily tied into our credit cards. The personal loan book that we have built had two kind of fundamental pillars. One is cross-sell to our existing savings bank customers, who have been with us and who we can assess through various means from a credit perspective. That's one part of the book.

The other part of the book is new to bank customers, who are coming in for a personal loan through our digital lending partners. So summary of earnings and where we put together is we don't expect too much of an implication either on the balance sheet or on the fee income. We will be going back to RBI and as always, I'm sure they will bless our resumption very shortly.

Rikin Shah: A couple of clarifications, please. When you say that the corrective actions are underway, would the partnership with OneCard continue? Or is this something wherein you can tweak the processes and fix it?

Shalini Warrier: So for us, all our partners are critical, and we've been -- as much as a partner has invested in it, we have also invested in it. We will be going back to RBI with corrective actions on the partnership. So we do expect that with the corrections we have taken, RBI should be -- this is really a discussion that we will have with RBI when we are ready.

Shyam Srinivasan: Just to add, I think the question was will partnerships continue. I don't believe either the regulator who asked us to stop partnerships and or we are looking at that direction. Certainly, when we started out, our fintech partners and where we are now, a lot of evolution has happened. We have learned, they have learned, regulations have changed. Now we are continuously readjusting to it. But the fundamental objective of expanding reach and digitally using partners has not evaporated. The scale, size, quantum will vary based on how much filters and how much guardrails are there. But structurally, we are not saying we are going to shut out of partners, unless there is a regulatory requirement to do so. Hopefully, that won't happen.

Rikin Shah: Got it, sir. So OneCard should be able to share the customer -- or transfer the customer data back to Federal Bank and give away that data access.

Shyam Srinivasan: Yes. Unfortunately, what gets reported, written about is all conjecture, it's never the full fact, right? It's not like we were lax about letting somebody else take our data and so on and so forth. But there were some additional firewalling that have to be done, additional controls that have to be put in place, and those are effectively happening.

Rikin Shah: Got it, sir. And Shalini, if you could just give a number as to what kind of cross-selling do we do to the credit card customers for personal loans? That number would be helpful as well.

Shalini Warrier: So like I said, both of our -- both our credit card proposition and our personal loan proposition are currently cross-sold to our savings bank customers. We honestly don't do much of a cross-sell between the two. I don't have the number readily available, but it's not a very large number. Our cross-sell is primarily to our savings bank customers.

Rikin Shah: Got it. Okay. Thanks for first two questions. The remaining two?

Shyam Srinivasan: I just said we have got long again. So you have to remind us the question three and four of yours.

Shalini Warrier: The question number three was on yield, I think, Shyam. The increase in yields of between the repo price hike and -- right that was the question number three on yields.

Shyam Srinivasan: Yes. I think I'll take that. On yields, the expansion, like you pointed out, is a more modest than it has been for some other banks, which it may be. I think we have to understand that our structure of how we do business is we don't trade risk for growth. I've said this for 14 years, and I'll say it for the remaining five months. We are very clear that we will do business from segments that we can manage well. And our credit costs have held admirably because of that. So to that extent, ability to go and demand, command extremely high sort of readjusting to prices is not that easy.

Within that framework, our expansion has been quite considerable keeping the risk profile in mind. So as we pivot more into the newer higher-yield businesses, which we are, you are seeing through these last four quarters, once the businesses like credit card, microfinance, personal loans, commercial vehicles are kicking in better, we are seeing the yield uptick in the blended margin increase. And I believe as we go into FY '25, that will get a little more pronounced.

So we have to deal with a rising cost of deposit situation. We thankfully, I think this is moderating at this point in time. As we do that, our business pivoting into the higher yield businesses, combined with our repricing wherever possible without compromising on risk will see pickup. But yes, I agree, the yield pickup that you may have wanted us to see, may not be fully playing through, but our overall ROA and ROE commitments are factoring in for all of that.

That's why the blended rate of growth we are committing for and we think we are honoring that, delivering it and hopefully deliver even higher in the quarters ahead.

Rikin Shah: Got it, sir. And then the last question on provisioning, AIF and the reversal in other purpose.

Shyam Srinivasan: There was no AIF provisioning in Q3 nor in Q4.

Rikin Shah: Okay. And the reversal for other purpose that we saw in the...

Shyam Srinivasan: Yes, the others -- the provisioning of INR67 crores reversal that you saw was -- we had taken an extra provision in Q3 which now has been reversed out and that has hit our income line because there were some excess fee charges that had to be reversed that were not crystallized.

So we took the hit in Q3 on provision line. So the profit was correct and that has since been corrected in Q4. So you will see a reversal interest in provision line, but corresponding hit on the fee income also.

Rikin Shah: Got it sir. Thank you for patiently answering all the questions.

Moderator: Thank you. Our next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Thanks for the opportunity and congrats on the good results, sir. Sir, a couple of questions. First is like on the recoveries taking it forward like what has really driven this strong recoveries and upgrade this quarter? Is there any one-off in this number?

Shyam Srinivasan: Nitin, I said it upfront, there were no one-off, no chunky gains. Raj, if you are on the call, you can come back, but none of them Nitin.

Rajanarayanan N: So there are no chunky calls. This has been completely granular and all the regular recoveries in upgrade.

Nitin Aggarwal: Okay. And second, sir, is on the succession planning like if you can talk about where are we on that? And by when do we plan to submit the names to the RBI? Any progress if you can comment around that?

Shyam Srinivasan: Thanks, Nitin. Yes, the board has set up the search panel. The search panel has been doing a great job. They have gathered a good slate of candidates from outside, inside. They are processing through it. I do believe in the next week, fortnight, 2 weeks, 3 weeks, they will be able in a position to share with RBI. And once it goes into RBI the process works, and they'll do the due diligence. So anything it's between 3 and 4 months for clarity around who the candidate is. But at this point in time, it's going well. We are quite encouraged by all the developments.

Nitin Aggarwal: Okay. And sir, the other question is on the branches. We have been opening branches at a healthy rate in this quarter like we have opened at a very accelerated pace. So how are we looking at in FY '25, the pace of branch expansion? And related to it, how do you see the cost income ratios moving from here?

Shyam Srinivasan: About 4 years back just coming out of COVID we had said -- 3 years back, we'd like our expansion to be between 5% and 7% increase in network every year. This year was closer to 10% because we saw some opportunities and we were willing to put in that extra energy to get that going.

So we think FY '25, we will do certainly between 5% and 7%. If P&L can accommodate we will do a little more. But a consequence of that, like Venkat said that breakeven is turning to be faster. And if that stays because those are businesses that are microfinance, gold loans and deposits then maybe the business case for expanding it to will be higher. But I would think in FY '25, about 100 branches minimally, more than that depends on what kind of P&L space we have.

Nitin Aggarwal: Sure. And sir, lastly, one observation on the business concentration. If I look at the deposit concentration has been inching up like over the last 2 years and has, like almost, say, doubled in the last 2 years. So generally, as the bank gain size, this is either in control or it improves. So why is it so and how do you really see that internally?

Shyam Srinivasan: Sorry, I didn't get the question to be honest.

Nitin Aggarwal: Sorry, this is in respect to the deposit and advances concentration one of the slides in the presentation. The top 20 depositors concentration has been like on a rise. And if you see like the trend over the last 2 years this number is going up significantly. So how do you really read that, while there is no harm as such this number is still pretty much in control, but how do you read this trend internally and any level that you will want to watch out over here?

Shyam Srinivasan: Nothing to comment on, Nitin. There's nothing at least in our dashboard nothing shows us anything that is alarming or change in direction. If we are going at term deposits which is the trend of the market, then there will be some kind of concentration, but largely customers who are consistent. But apart from that, honestly there's nothing to add as an insight here. We still would like to be granular, but retail in nature.

Nitin Aggarwal: Sure, sir. Wish you all the best.

Shyam Srinivasan: Thanks, Nitin.

Moderator: The next question is from the line of Param Subramanian from Nomura. Please go ahead.

Param Subramanian: Good evening and thanks for taking my question. First question is on provisioning. So we've -- this year the standard asset provisioning line has been INR200 crores of write-backs. And I'm assuming it's coming from the restructured asset provisioning reversal. So just trying to get a sense on what is the PCR we have on the restructured assets? And we are seeing INR200 crores of reduction in this restructured portfolio every quarter. Is that something that will continue going over the coming years? That's my first question.

Shyam Srinivasan: Outlook for FY '25 looks consistent to '24, Param.

Param Subramanian: So -- and Shyam, what is the provision cover we have on the restructured portfolio? And has it changed through the year?

Shyam Srinivasan: Raj or Venkat.

Venkatraman V: Yes, we are maintaining the regulatory minimum provision, Param. So they are well above that for the restructured part.

Param Subramanian: So it's close to 10%, is it because I remember it used to be 20%?

Venkatraman V: 15%-plus.

Param Subramanian: 15%-plus okay. Okay. Fair enough. And secondly, again on the provisioning so because some of these unsecured portfolios have become -- have grown quite a bit like credit cards and they tend to be higher credit cost businesses once they get seasoned. Do we see any upward delta on credit cost as such going into FY '25 or would you like to put some outlook on credit costs in FY '25?

Shyam Srinivasan: If you normalize for FY '24 overall credit cost is about 24. Is it Venkat 24 basis points full year?

Venkatraman V: 23.

Shyam Srinivasan: 23. Yes. I've said that, that is low, but I'm happy that low may not dramatically alter and shift up. But yes you could argue that somewhere around 30 basis points is what we would push and try to deliver in FY '25, but that's the run rate.

Param Subramanian: Fair enough, Shyam. And one last question again on the corrective action you've taken on the partnership. Is there -- on the Fintech partnership, is there any opex that one should expect related to that? Yes, that's my last question.

Shyam Srinivasan: Not significant in opex. It's only a model of where data resides, how it resides, who holds it. To that extent, we don't believe any cost impact should be there.

Param Subramanian: Okay. Fair enough. Thanks Shyam and team. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: So firstly just with respect to fee income on the general banking charges. So is it like we need to add this INR60 crores to INR67 crores of reversal to it or there was no impact in this quarter and that fee income was also in Q3 itself?

Shyam Srinivasan: No. The reversal is from the fee income in Q4.

Kunal Shah: General banking also there is a similar gap on a quarter-on-quarter basis of INR60-odd crores. So is that the impact?

Shyam Srinivasan: Yes.

Kunal Shah: Okay. So last time we just made the provisioning of INR62 crores maybe the provisions were almost like INR62-odd crores in Q3. So last quarter we merely made the provisions out there. And was it booked in some other line item maybe in opex also and this quarter we are doing it in say more of a fee income and reversing the provision how is that happening here?

Shyam Srinivasan: Last quarter provision was made. This quarter the provision has been released and the fee income has been hit by that amount.

Kunal Shah: Okay, INR60 to INR62 crores. So ideally when we look at it in terms of the fee income it should have been near INR680 crores, INR690-odd crores for this quarter?

Shyam Srinivasan: Yes, you see general service charges for three preceding quarters were in the region of about INR100 crores.

Kunal Shah: Yes that's what. So that INR60 crores need to get arrear out there. And secondly in terms of the overall opex. So last quarter also there was some provisioning towards the wage revision. This time it is towards the retirement benefit. So we need to adjust almost like, say, INR200-odd crores in the employee cost just to make sure that the entire wage provisioning impact gets over and that should be the normalized level of employee cost for full year FY'24, just deducting INR200-odd crores?

Venkatraman V: Yes, that's correct. Yes, it's approximately around INR200 crores, INR162 crores plus there were some arrears and all which we had, and there were a lot of other new things which have come in with the wage agreement. So we factored all of that.

Kunal Shah: Yes. So if we have to look at it ideally the normalized opex for FY'24 in terms of be it either cost to assets and where should we see it settling if you can just guide in terms of how it should move in FY'25?

Venkatraman V: FY'25, excluding this one-off impact, we should look at similar levels. I would add probably another 5% more to the opex cost.

Kunal Shah: Okay. So 5% to the overall opex cost?

Venkatraman V: Overall opex, yes.

Kunal Shah: Okay. Got it. And there were no one-offs during the year on the overhead side?

Venkatraman V: In the overheads, there were no major one-offs. Because the spend -- like I said earlier, the spend on branches, technology, all of them have been happening, which will continue as well.

Kunal Shah: Yes. So more business related without any one-offs?

Venkatraman V: Yes.

Kunal Shah: Okay. Yes. Thanks and all the best.

Moderator: The next question is from the line of Mona Khetan from Dolat Capital.

Mona Khetan: So firstly, you mentioned about this ROA expansion continuation that 4 to 5 bps in FY'25 as well. So given that credit cost will idly normalize at higher levels and there could be some headwinds to margin with interest rates may be declining and the impact on floating rate loans. So what accordingly to you would be the key levers with the assumed expansion here on?

Shyam Srinivasan: You rewind 2 years, 1 year, 3 years, which [inaudible 32:30] the credit costs are low, you don't have much space left, how will my ROA expand? You have seen ROA expand over the last 3 years. We've always maintained a little bit -- a few basis points here. We don't have one silver bullet, which will change the narrative. So our NIM expansion by a few basis points, credit cost holding well, efficiency kicking in, fee income growing should be the driver of this.

Mona Khetan: Okay. And sorry, you guided for credit cost of around 30 bps for FY'25 if I got it right?

Shyam Srinivasan: Yes, in that range. Yes, you're right in that range.

Mona Khetan: Got it. And just finally, there was -- on this opex growth guidance that we talked about in the previous question, so ex of the INR200 crores one-off, what you are saying is opex could rise by about 5% year-on-year. Is that what I understood correctly?

Venkatraman V: Yes, excluding the INR162 crores, you'll have to -- see, there are costs which are directly proportional to business growth. That will continue to rise in line with business expansion, but the other overheads and opex costs overall increase will be curtailed within the 5% of the Q4 exit run rate.

Moderator: The next question is from the line of Saurabh Kumar from JP Morgan.

Saurabh Kumar Sir, just one question. On your current accounts, normally you see seasonality in Q4, you are flat. Is there something happening there?

Shyam Srinivasan: No particular answer. Actually, I'm quite pleased it didn't show any swing because usually it tends to bulk up at the end of the quarter and fall off. I'm pleased that Q4 didn't see anything and not have we seen any fall in Q1. So it's a more sustainable outcome, I would believe. Harsh or Shalini, if you want to comment?

Shalini Warrier: No, Shyam has covered this. Sorry, Harsh, go ahead.

Harsh Dugar: Yes, sure. More or less what Shyam is saying is right. We have been increasingly focusing on current account balances. But there's no bulk up that is happening, and the current account balances average issuing a steady increase.

Shalini Warrier: Yes. Just to add to what Harsh says, our entire kind of focus has been that on an average is what we measure ourselves on. So we don't see too many month end or quarter end or year-end kind of spikes here.

Moderator: The next question is from the line of Pritesh Bumb from DAM Capital.

Pritesh Bumb: Two questions from my side. One is on the retail gold loans. This quarter, also, we've not seen any material growth despite gold prices being up, our LTV being stable. Any strategy on that because this is one important piece for our high-yielding group strategy?

Shyam Srinivasan: Is that true, Harsh? Sequentially, we...

Harsh Dugar: No, it's not. 27% is what is grown.

Shyam Srinivasan: Yes. Sequentially, it grew 6%...

Venkatraman V: I think this question is on retail gold, which is separately shown in the investor deck. Retail loan growth...

Shyam Srinivasan: Okay. Retail growth.

Venkatraman V: Okay. If I recollect, it was 4,540 to 4,572 or something like that.

Pritesh Bumb: Yes. It was flattish, like 1% odd, quarter-on-quarter despite gold prices being so high in the last quarter. So anything on that?

Harsh Dugar: Harsh, here. Nothing specific over here. We have been tracking the entire overall portfolio. We've been monitoring the LTV. We do not encourage top-ups just because the gold prices go up because it tends to hurt us when the reversal happens. So that's there. So from that point of view, we have been monitoring it. Our organic growth was robust. The one which you're seeing in retail has a mix of both. The organic growth has shown robust growth over there, on the retail gold side.

Shyam Srinivasan: But your question on can retail growth happen? I think there is certainly an opportunity, but there is a pricing game there. People are tending to price it and take share there. So it's not as easy as it appears, but certainly, there's an opportunity.

Pritesh Bumb: What I see is that the ticket sizes are falling quite sharply, and it's from about INR40,000 to below INR30,000 now. So I just wanted to check what are you thinking on that side?

Shyam Srinivasan: Yes, I mean, since we are all giving you an answer, which is kind of not very research, it's best we'll come back to you.

Pritesh Bumb: Got it. Second, sir, you mentioned about the partnership correction in terms of co-branded. Are we taking a corrective action, if any, in the other partnerships as well, lending or otherwise apart from the co-branded cards?

Shyam Srinivasan: Yes, let me help you with this. We have, on the lending side, on the credit card side, two material co-brand partners. One is OneCard and the other is Scapia. The others are more the deposit side into which we cross-sell. On both these things, the corrective actions are happening. On the personal loan side, they are really not impacted by this process. That said, all our fintech or partnership, any partner we are subjecting it to the same level of scrutiny to ensure that gaps, if any, are addressed.

Pritesh Bumb: Got it. And the last question was basically our retail share of deposits slightly dropping from a few quarters and bulk has been now at about, I think, 20%. So any gap there we want to put in terms of how much we can go to in terms of bulk deposits and retail deposits.

Shyam Srinivasan: I think I mentioned it earlier when one of your colleagues asked it. Yes, we are probably at the top end of it, around these numbers where we will be.

Pritesh Bumb: Sir, given that this is more likely a top and the retail term deposits are quite high in terms of rates, where do you see our cost of funds? This quarter also, we've seen 20 basis points up. So how do we see that going in FY'25?

Shyam Srinivasan: Venkat, do you want to comment?

Venkatraman V: Yes, Shyam. Yes. So in terms of cost of funds, whilst we are seeing how the market is and the demand for deposits continues to be quite tough, whilst they will see the pressure on deposit pricing, and there will be some impact of the translating. What we are trying to mitigate that is with the yield side, as mentioned earlier by Shyam and others, working through the mix and making sure that we are able to maintain the NIMs either at the current level or improve it. So we will see the cost of funds moving up marginally going ahead, at least for the next couple of quarters.

Pritesh Bumb: Got it, sir. Thank you and all the best.

Moderator: The next question is from the line of Rakesh Kumar from B&K Securities.

Rakesh Kumar: Sir, slightly -- so broader question. So one thing that for this quarter, the calculated term deposit cost has not increased. So correct me if I am wrong or if there is a flat number on the term deposit cost?

Venkatraman V.: For this quarter, TD cost has gone up. I don't know how you arrived at that calculated number being flat. Last quarter, it was 7.06% cost of term deposits that has gone up to around 7.25%.

Rakesh Kumar: Okay. So we have calculated on the -- based on the quarterly average balances, but thanks sir. Second thing, sir, like, if I see...

Venkatraman V.: Rakesh, that's what translates to the cost of funds. Because savings is pretty much flat.

Rakesh Kumar: True. So what I was looking at is that like for the last 3 years, like whatever increase in credit yield has happened, that has largely happened with the increase in credit risk weight that -- credit risk weight density that has increased. Now with this, -- and we have around 25%, 27% of the loans, which are on a fixed rate basis. So -- and with the 175 bps increase in the cost of deposit, we have transmitted around 155 bps in the credit yield. So is there any scope to further enhance the margin at this level without increasing the credit risk weight?

Shyam Srinivasan: Yes, the account portfolio by portfolio managed. Besides that, we have to look at -- we are looking at opportunities to find how we can hedge some of our portfolios to ensure that we are in a falling rate environment, reasonably well protected. We believe we are getting to a good success on that account by managing it through multiple levers as opposed to just one that may be very visible. So it has to be seen as we slice the book, the entire INR200,000 crores into multiple buckets filed opportunities for each of them. and all of them are in play.

Rakesh Kumar: So net, sir, margin, how do you see that -- giving these numbers like for the last 3 years or maybe after May '22 when the interest rate cycle rise has started. So if we see since then now how do we see the margin panning out?

Shyam Srinivasan: I thought I mentioned at the earlier part of the call, we think that 320 should inject about 2-3 basis points in this financial year

Moderator: The next question is from the line of Jai Mundhra from ICICI Securities.

Jai Mundhra: I have 2 questions. First, I think it was asked a little bit earlier on yield. So apart from the loan mix change and maybe the usual MCLR pricing, is there anything else which could help on the yield side? Maybe if there are few loans, which are hybrid or maybe which may convert from fixed to floating? Is there such meaningful quantum of such loans?

Shyam Srinivasan: Venkat, do you want to go? Venkat or Harsh? I thought I answered earlier part, that's why I ask one of you, maybe I missed saying something.

Venkatraman V.: I think pretty much summarizes what we plan to do there, and there isn't any other silver bullet, which we have. It's all about looking at portfolio mix change, pushing through or cutting the tail or low yielding. So a combination of all this only will help us ensure that we maintain the NIMs.

Harsh Dugar: I'll just add a few points here. What we are looking at what we've been articulating is increasing the focus on the high businesses, which we have spoken about. But even within each business vertical, the focus is shifting more towards one which will give us a higher yield. For example, in wholesale banking, we clearly see a shift from our share of commercial banking increase in SIB corporate banking. Similarly in commercial vehicle, we see a shift more increasing share towards used commercial vehicles. In corporate banking, we're looking at increasing the share of supply chain businesses. In corporate banking, again, we're looking at leaving out those very finely priced assets with the reciprocity. So this is a combination of those things, which will help us in terms of pushing up the yield in general, apart from focusing on the high yield businesses.

Shalini Warrier: So just to add to that, again, as Harsh and Venkat has alluded on the retail side also. If you look at kind of home loans and prices into parts like just regular home loans and loans against properties, we've expanded our presence in the loan against property market, where the margins tend to be a little better. Within the auto loan segment, we are gradually increasing our entry into the new car segment within business banking, for example, we're granularizing our portfolio because of the lower end, you can get slightly better pricing. So there's no silver bullet for it as I think we've all, I think, many, many actions taken, and you will see the kind of the improvements on the yield coming out of all these multitude of actions.

Jai Mundhra: Right. And if you can highlight the loan mix by benchmark, I mean by MCLR, EBLR, fixed rate and beyond that.

Venkatraman V.: It's mentioned it's 51% is EBLR, 51 point something, 11% is MCLR and 27% is fixed. And the rest of them is Forex linked, staff loans and base rates.

Jai Mundhra: Sir, my second question is on the deposits. So if I see the NR deposit has grown only by 8%, whereas the overall domestic deposits has gone up slightly higher, and the overall deposit growth is 18%. I remember that there was not too much difference on the NR TD and domestic TD quarter back. Wanted to check, is there any significant difference between blended NR TD and domestic TD? And what is the reason that NR deposit is growing at a little bit slower pace or much slower pace?

Shyam Srinivasan: Yes. Deposit rates are the same across whether it's domestic INR. I think we've been mentioning for a few calls now. Post-COVID the nature of how NR remittances and behaviour of remittances converting into deposit has material change. Remittances have gone up, and our share has kept pace. But the remittances are not translating to deposits, either -- not either, our hypothesis as follows. It's getting -- it's being used for paying off debt -- that's why credit quality is improving substantially even in Kerala, one, setting up new businesses because many of them are probably returning and setting up some shop here and for consumption like family wedding, marriage, schools, college, whatever.

And the last is the non-Middle East Kerala remittances probably have not moved much, and it's probably getting into FCNR. And we are not a big FCNR player because rates don't necessarily work in favour. Rupee deposits coming in. Rupee remittances coming in are continuing to be vibrant. We are seeing a larger share of it. But unfortunately, they are not translating into deposits directly. Indirectly, it was because it creates commercial activity and it comes back as deposit.

Directly, it doesn't go into deposits. Which is why 4, 5 years back, as we started dialling up our outside of this norm business and those are tracking quite well.

Jai Mundhra: Understood. That is helpful. Sorry, I have 2 more questions. One is the opex, I think earlier you mentioned that ex of this INR200 crores of staff cost, which is one-off, the growth should be 5% only. But when you sort of qualified that by saying that the usual business as usual costs will still be there. So if you can help us understand what's -- how should one look at the opex growth for maybe 1, 2 years that will be helpful.

Shyam Srinivasan: Venkat, do you want to go.

Venkatraman V.: I didn't get the last part of the question. Could you just...

Shyam Srinivasan: How should we look at our opex increase in the year ahead -- years ahead?

Venkatraman V.: Two years -- so again, it's dependent on our strategy, on investment in branches, that is one main part. For FY'25, the current outlook is we will probably look at, like Shyam said, another 100 branches to be added. The technology it's IT expense as a percentage of opex, we are now close to around 6.7%. And that's an area where we'll continue to invest, and we would like that to be closer to around 8% of opex. So in the next FY'25 and even FY'26 early part, the current outlook with investments in these two will continue at pace at the same rate at which we have been doing.

On staff costs, if you exclude the one-off, like I said, there will be -- I would put another 5% increase on a year-on-year basis. And the other fixed cost would be around capex, max 5% increase. But the variable costs related to businesses would continue to be in line with business growth. As long as it's positive jobs, we'll continue to invest. So overall cost, the controllable cost, staff cost would be about 5% more than the current Q4 exit run rate.

Jai Mundhra: Sure. And last question, sir, if you could highlight -- is there any impact on the capital because of the new investment guidelines, which were implemented with respect from GPL first regarding HPM and ESS reclassification? Thank you.

Shyam Srinivasan: No, nothing at all.

Venkatraman V.: Nothing.

Jai Mundhra: No. Accretion, no impact...

Shyam Srinivasan: Nothing material. Nothing significant.

Jai Mundhra: Thank you.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Co.

Saket Kapoor: Namaskar team and thank you for the opportunity. Firstly, about the treasury part under the segment revenue. To what extent that is in the profitability if you could give some understanding on the same?

Venkatraman V.: Yes. Last quarter, we had the Fedfina listing gain. So that is not repeated in this quarter. That's the main difference.

Saket Kapoor: Okay. And sir, in your opening remarks and also during the call, sir, Shyam sir, you mentioned about we are looking for a 25% growth in the NII, the net interest income for FY'25, '24-'25.

Shyam Srinivasan: Fee income, not NII. Fee income.

Saket Kapoor: Fee income.

Shyam Srinivasan: Yes.

Saket Kapoor: Okay. And what would be the NII trajectory likely, the growth in the...?

Shyam Srinivasan: This year, we grew 15, our credit grew 20. We would like to be better on both counts, but we just have to work through this cost of funds challenge. But yes, in that zone.

Saket Kapoor: Okay. We are very likely to remain in this trajectory, what we have performed for this financial year.

Shyam Srinivasan: Improve slightly.

Saket Kapoor: We will improve slightly. Sir, on the cost-to-income ratio, where should we stabilize? This quarter was, I think, an aberration.

Shyam Srinivasan: No. This quarter is an aberration. We were looking to be -- last year was 49 and change. We were looking to be in that 49 or better, but some of these costs have come and impacted us. So I think FY'25 should be back to about 50-odd percent and then improving from there.

Saket Kapoor: Okay. And two small points. Firstly, on the dividend payout part, sir. I think we have done the fundraising exercise also earlier. So I think that we are very well capitalized. What have been the factors on which we have decided the payout to be lower than 10% of the EPS for this financial year, sir? And then one closing remark from, Shyam sir.

Shyam Srinivasan: No, we are looking to preserve capital as we grow. We think we should be able to strike a sort of a sensible balance between plowback and also reward shareholders. So the Board in its wisdom has taken the decision to recommend a 60% dividend.

Saket Kapoor: Because, sir, as you mentioned, rewarding your investors and shareholders, if you take the trajectory of the market cap change over the period, I think it has been subdued in comparison to the other listed banking space. So that was a very small and -- that was a very brief understanding on how well will you see the market cap or the type of net to book value that should -- the stock trend going ahead. These are few of the parameters which investors also look in terms of the payout ratios also.

And lastly, sir, Shyam sir, your term come to -- and as you alluded earlier, also 5 months. And we have seen that in many of the bank, the people -- the personnel have tried their hand at other small banks. So can we look forward for your role and some other small banking entities, who are also scouting for experienced people like you or veterans like you, and we can see you in other -- in other entity altogether? Or is it curtain down for your career in the terms of being the MD, what's the thought process if you would like to share? And any message to us, sir.

Shyam Srinivasan: Thank you, Kapoor-saab. We'll talk on September 24, 2024, till that time I am in the seat, and I'm enjoying the seat.

Saket Kapoor: Okay, sir. Thank you. For shareholder value creation idea, sir, I think so please dwell on the metrics. I think, sir, our banking -- our bank is lacking on that behalf -- on that account. That's our feedback.

Shyam Srinivasan: Thank you, sir. Thank you.

Venkatraman V.: Souvik we are just left with a couple of minutes before...

Souvik Roy: So Sagar, I think one more question and then we can wrap it up.

Moderator: Sure. So the next question is from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh: Congratulations on good result. Just 1 question. Just a comment, if I missed it, on the non-staff expenses, it was up from INR850 crores to INR950 crores, I don't know if you made a comment on it. That's it from my side.

Shyam Srinivasan: We didn't comment on it, but I think Venkat alluded to the overall investment in technology and branch expansion as primary drivers of expansion of cost.

M.B. Mahesh: But Shyam, sir, is that, that high because during...

Venkatraman V.: Mahesh, typically, in Q4, we normally see an uptick in the other opex. So it's in line with what we have seen. It will normalize in the first 2 quarters and then again, pick up because there were some one-offs with -- not one-offs, some IT spends, which normally happen, whether it's in EULA renewal or some infrastructure purchase, which gets charged off that usually happens. It's a timing of the renewal as well which happens. So it's -- Q4 is usually the quarter where you see a higher IT spend.

Moderator: Ladies and gentlemen, we would take that as our last question for today. I would now like to hand the conference over to Mr. Souvik Roy for closing comments.

Souvik Roy: Thanks, Sagar, and thanks everyone for taking time and joining us on the call today. I hope we have been able to address all your questions, if not most. And if any questions remain unanswered, please feel free to reach out to our IR team. We'd be more than happy to take those questions on a one-on-one basis and offer further clarification. Going ahead, we definitely continue to drive risk calibrated profitable growth, and our focus will definitely remain on market share growth as well.

Shyam Srinivasan: Souvik 1 second. Good evening, everybody. Thank you. I just wanted to point out that our stalwart in the bank, Ashutosh Khajuria after almost 13 years in various capacities, is retiring as of business close this evening. He'll be associated in the bank in some advisory role, but his formal term end as of today. So join me in congratulating and thanking Ashutosh for an exemplar support and performance in the bank.

Ashutosh Khajuria: Thank you.

Souvik Roy: Thank you. Ashutosh, sir. Thank you for all these many years of amazing service to the bank and everybody. Thank you so much. And with that, Ladies and gentlemen, we'll sign off for today. Please feel...

Shyam Srinivasan: I also wanted to add one more thing. Our senior colleague, who heads HR here, is moving to another bank as an MD and it's a proud moment for Federal Bank. So I have to complement our colleague Ajith Kumar for that.

Souvik Roy: Yes, sir. So thanks Ajith sir as well. Ajith sir, if you're on the call, thank you. Thanks again, sir.

Shalini Warrier: Thanks everybody. Bye. Bye, everybody.

Souvik Roy: And see you all after even probably a better next quarter. Thank you. Bye-bye.

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