The Federal Bank Limited

Q2 FY'25 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY25 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 assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone 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 and thank you, everyone. Warm welcome to all the participants. We really appreciate you are taking the time to join us today.

As you are aware, there has been a recent transition in leadership with Mr. KVS Manian assuming the role of MD & CEO from Mr. Shyam Srinivasan as of the 23rd of last month. On behalf of the entire bank, we extend a heartfelt welcome to Mr. Manian, and we are confident that under his guidance, we will reach new heights of success.

We have just uploaded the Results and our Presentation on the Exchanges and in case you could not review them prior to this call, please feel free to call me once this call is over. As always, I'm joined by senior management and other members of our leadership team to address any questions you may have.

I will begin by providing an overview of our progress on key broad-based parameters:

Our total business has now reached Rs. 4,99,419 crores with the last Rs. 1,00,000 crore added in just over 4 quarters. This kind of demonstrates a strong foundation for sustained growth. We achieved the highest ever net profit of Rs. 1,057 crores, reflecting a YoY growth of 10.79% alongside a record operating profit of Rs. 1565.36 crores. Our ROA for Q2 stands at 1.28% with an ROE of 13.65%.

In terms of asset quality, we made good strides by bringing down our GNPAs to 2.09% and net NPAs to 0.57%. Our PCR has also reached a 16-quarter high. Additionally, our NII reached its highest ever level at Rs. 2367.23 crore, marking a YoY growth of 15.11%. Our deposit base also saw growth, with total deposits increasing by 15.56% YoY, while total net advances grew by 19.45%, reflecting our strong customer engagement and trust.

CASA also showed solid growth rising by 11.5% YoY, including a 5% growth in Q1 and 4% in Q2. This positions us among the industry's leaders in CASA growth rate, with our CASA ratio increasing by 80 basis points, QoQ.

Now let's move to NR. The inflow in NR accounts has been noteworthy, resulting in a 6.8% growth in NR savings during the first half of FY25 which is a significant turnaround from last year's decline of about a percent and a half. This positive trend spans across our portfolio with an 8.34% YoY increase in NR savings and a 14% YoY growth in FCNR deposits. Our branch banking business remains a strong contributor as always to our granular deposit growth, demonstrating improved accretion despite a challenging deposit environment. Notably, we have achieved this growth without significant concessions on deposit rates, diverging from the broader industry trend of elevated rates. Meanwhile, our wholesale banking business consistently generates stable profits through a diversified revenue base. This strategic breadth mitigates reliance on asset-led revenues alone, strengthening our overall financial resilience.

With this, I will hand it over to our MD & CEO – Mr. KVS Manian. Over to you, sir.

KVS Manian: Thank you, Souvik and good evening everyone. Welcome to this Post-Results Call.

As this is my first call in the current role, I will be leaving the substantive part of the heavy lifting of the Quarter's Results and its analysis to our capable team. However, I would like to share a few thoughts on the transition. It has been a month since I stepped in and close to into this role and about 7 weeks since I joined the bank. I had the opportunity of working with Shyam for 3 weeks during this period, period of 3 weeks of transition, and it was invaluable for a smooth transition. I would like to extend my heartfelt thanks to Shyam for his contributions over his 14 years tenure in the bank. I know Shyam will be logged into this call as an investor now, and thank you again, Shyam.

I must say that the teams here have given me a very warm welcome, and I feel both optimistic and confident about the path ahead. Over the past weeks, I have embarked on what I call listening tours across the country, meeting with senior zonal teams, bright young managers in the firm, and holding open house forums with a very large cross-section of our employees.

These sessions have given me deep insights into the team's aspirations and also the exciting opportunities to work with for the bank. In fact, the energy of our teams has been remarkable, and I must admit that their enthusiasm has rubbed off on me and I feel younger. In addition, I've been conducting deep dive sessions with each business unit and functions to understand our current position and identifying growth opportunities. I have also met with customers and key stakeholders and partners, and I expect to complete this structured outreach program somewhere around mid November to third week of November. These engagements are helping me shape my understanding of the company, businesses and will be foundational to a strategy refresh that we as a team are working on which we will present to our board somewhere in the month of December and this in turn will guide our future discussions with all of you.

On a lighter note, I have also encountered many people eager to set new targets for me. Jokes aside, I understand the external expectations around key metrics that are used to evaluate banks and the aspirations you hold for this bank's future. Of course that's just the beginning identifying the metrics. The key lies in the plan on the how side of it. I am pleased to say that our team is ready to push forward on this journey. We are aware of the broader challenges facing our sector and recognize that the path may not exactly be what we thought of it a year ago. Nevertheless, we remain confident in our direction.

Together, we are constantly thinking about the next level as we all call it, and we have already begun to implement new strategies. For example, we are placing a renewed focus on CASA and deposit growth supported by our newly secured AAA rating on the deposit program. Our goal remains to be the most admired bank, and we are committed to adding momentum to this vision. But of course more on this and details on this in the next meeting we have.

We are grateful for the support of our board and the trust all of you shareholders place on us as we embark on this journey. I seek your continued patience and support as we work towards an exciting future from here. Thank you and we are now open for questions.

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

Mahrukh Adajania: Basically, I have three questions. My first question is on deposit growth. So, the total deposit growth in the quarter was 1%. How do you plan to accelerate it in third and fourth quarters, given that competition is still high? Your deposit cost hasn't risen much quarter-on-quarter. So, that's of course positive. But from hereon, how do you take it forward? That's my first question on deposit growth.

Shalini Warrier: Mahrukh, this is Shalini here. At this point in time, as you would have noticed, and you split it into two parts, if you look at the CASA growth, we have maintained the momentum that we have had on CASA growth between quarter one and quarter two. We are amongst probably the top three or four in the private sector banks that have announced results on new CASA growth. So, our focus remains on ensuring that we are able to get primary bank status with customers, both existing customers and new to customers, driving greater CASA growth through them. And this is true both for the wholesale banking side of things as well as to the retail side of things. On deposit growth, which is term deposits, and I will call this really the hard-core term deposits. As you rightly pointed out, we have calibrated our cost in such a way that we don't really kind of pay abnormally high rates. We pay CASAs very clearly against a competitor set of banks that we want to peg ourselves against and make sure that we don't take in high value deposits at a cost which is to some extent not sustainable in the long run. So, keeping our cost of deposits in mind, keeping both the requirements of CD ratio and LCR in mind, but with a higher focus on the CASA growth, which is kind of core to the business, we do believe that we should be able to withstand any liquidity concerns that may potentially come up in quarter three and quarter four. We will continue to be competitive on certain tenures. If you look at some of our tenures on the website, you'll see that there are one or two tenures that we always remain competitive on from a rate perspective. And we direct our distribution capability to make sure that we get more new funds from customers in those. So, there is no one single kind of strategy that will work, but it is a combination of CASA and both existing to bank becoming primary bank partners, new to bank more acquisition, keeping ourselves competitive on one or two tenures at the maximum on interest rates and calibrating our growth in that way. We remain confident that we will be able to demonstrate the success of this in the coming quarters, Mahrukh.

Mahrukh Adajania: Okay fine and in terms of fees, there have been sharp movements in quite a few buckets right, so general service charges have gone up a lot, para banking has gone up a lot, any special things you need to call out here, I mean how has the traction been so strong in these buckets?

Shalini Warrier: So, I will try and address that and maybe, you know, Harsh and Venkat may be able to add something. First on the general service charges, as you know from 1st of July, there has been a change in the fact that penal charges are now reflected in this rather than in the penal interest portion of it for primarily impacting or rather working through our business banking, small and medium enterprises and commercial banking. So, probably not a like to like comparison strictly on that note, Mahrukh, but you'll see this for every bank. That's the first point. Para banking is core to our business, very, very clearly something that we're very, very close to and we have been driving higher productivity. You may have recognized that I think it was in May and then in June, we announced two new corporate agency partnerships with Tata AIA and with Bajaj Allianz Life. Two new corporate partners were added to our portfolio of life insurance. That has definitely given us a kind of more distribution capability, more products, and therefore more income. So, we remain committed in ensuring that quarter-on-quarter our core fee income shows an improving trend. There are still many opportunities out there and we will continue to work on those. But these are the two main kind of highlights I would give you, Mahrukh.

Mahrukh Adajania: Okay, and what would be the impact of penal interest on NII this quarter in terms of how many basis points of margin?

Venkatraman V.: It will be close to about 7 bps Mahrukh. What we should understand is the NIM if we are not moved to this new system, our NIM has been moved up from 3.16 to 3.19 whereas the reported NIM is now 3.1 that's the 7 bps which I explained. If you are looking at like for like, our NIMs has improved.

Mahrukh Adajania: And just the last one on LCR, sorry, what is the LCR during the quarter and how do you manage it when guidelines change?

Venkatraman V.: During the quarter, the average LCR was 115. In terms of how do we manage it, there are multiple levers which we need to pull in terms of managing LCR. It's about the tenure of the loan, the profile of the loan, retail versus high value, the mixed change, the callable, non-callable. So, there are several factors which are working on. So, it's multiple levers which we are working on, and including what Shalini said earlier about increasing the CASA and the deposits, which will continue to be an area of thrust. So, a combination of all this is what we are confident of maintaining and improving the LCR level.

KVS Manian: And Mahrukh, you might notice that the average has gone up from 112 to 115 for the quarter, the LCR.

Shalini Warrier: And if I may add one more thing, Mahrukh, the future guidelines, they're still draft guidelines. There's some feedback that has gone back to RBI, through IBA and directly. Some amount of maybe, you know, we do think that the treatment of digitally enabled accounts may need a little bit of review at the RBI level. Not sure what will happen, but happy to look at the potential impact of that. But I think what Venkat said, calibrating the distribution to between callable, non-callable, short tenure, long tenure, many levers are being worked on.

Moderator: Thank you. Our next question is from Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: So, the first question is on the divergence between the loan growth and the deposit growth. So, how should we look at it going forward this quarter? It has widened a bit. So, overall, would it be fair to assume that we might slow down a bit on the loan growth side, calibrate with respect to some of the high return focus areas? Or maybe we are confident of pulling back the deposit growth?

Harsh Dugar: Hi, this is Harsh here. Two things. One is obviously pushing the deposit growth rather than putting down the loan growth. Loan growth, you will continue to pursue wherever we see growth opportunity without impacting asset quality. So, that will be our focus here. That hasn't changed much, and we remain confident of continuing with what we had earlier guided for. The focus will be more on increasing our deposit mobilization, CASA as well as total deposits.

KVS Manian: Like Shalini clarified earlier, CASA has grown in the last two quarters reasonably healthily. And we will continue that, and we will put some more focus on the term deposit side to reduce the gap and wedge to get deposit growth.

Kunal Shah: And secondly, with respect to Fed Bank financial services and the investment norms. So, what would be our thoughts in terms of conducting that business because most of the lending can be done at the bank's end as well and given being a group entity. Any early thoughts or maybe any discussions out there on this?

KVS Manian: I think it's too early. Just now it's in a draft stage that RBI, it's a draft circular and RBI sort commence till 20th November. So, we intend to make our representation as most of the industry participants were impacted by this. Let's see how it pans out. Depending on how it finally takes shape and form, we will decide our course of action. Just now, too early to comment on that.

Kunal Shah: Sure, and just last one with respect to asset quality, so quite a robust one with respect to the slippage run rate being low credit cost is continuing at the lower level. Any segments wherein we are seeing any kind of a stress on the low base, we are still growing our MFI pool, some of the high yielding products, but would we look at the recalibration of the proportion of the high yielding given the operating environment currently?

Harsh Dugar: If you notice, the growth in the high margin products has always been cautious, including in the MFI piece. While I must say that in the MFI, we do see a heightened slippage, but to us we have been kind of protected because the states we operate in, more than two thirds of our portfolio are the southern states. So, to that extent we have selected geographies which have been quite favourable. Secondly, quite a few steps taken in terms of how we go ahead in terms of some of the suggestions made by MFIN for something which we had implemented quite some time back. And that is the reason why, while the slippages in the MFI sector have increased, it is well below levels which we see in the industry, significantly below.

Venkatraman V.: And Kunal, just to add to what Harsh said, you would have seen that our total slippage ratio is even below what we had in the quarter and the year before. It's around 0.73% of assets, which goes to show that the asset quality continues to be 15 and credit cost is well within the 29, 30 bps and for the full year guidance, we are not making any change to it.

Moderator: Thank you. The next question comes from Param Subramanian from Nomura. Please go ahead.

Param Subramanian: Firstly, again, question on asset quality. So, in the MFI portfolio, are we seeing any of the FLDGs being invoked, and how do we account for it? And also, if you can speak about the asset quality in the credit cards portfolio that we have?

Harsh Dugar: Yes, again, the first point you said FLDG in MFI. No, it's not. Our GNPA numbers are what our actual numbers are, what we have reported. There's nothing, there's no impact of that on account of any FLDGs, because we don't have that, it's not permitted, and we don't have that either. So, GNPA numbers which I was talking about, which has marginally increased for us also, is at the gross level itself.

Shalini Warrier: If I can add, Param, to CC and PL. First of all, I think all of us recognize the fact that both credit cards and personal loans are a fairly small percentage of our overall portfolio, extremely secured and we have been secured for a very long time and we have pivoted towards unsecured only recently. Having said that, within that ambit, yes, we have seen a slight uptick in our slippage rates for both credit cards and personal loans, both the organic one and the ones that we do through some of our partners. It's not material enough to call out because in the overall scheme of things, it's still a very small percentage of the overall portfolio. We have been also benefited by the fact that we have had better than expected slippages on our home loans, car loans, and vehicle loans. Having said that, given the fact that we have always had a cautious approach to these assets, we have calibrated it. As an example, I can tell you that sometime in May or June, we introduced a new scorecard for our entire personal loan booking, and the new scorecard is much more discriminating and differentiating, and therefore it slowed down some of our disbursements, but we believe that's a good thing to do in PL. Credit cards, we continue to remain confident that our portfolio is under control. We do believe there are still growth opportunities over there because it's a product that you can easily control much more effectively through effective line management. Summary of it is yes, slight uptick, too small in the overall scheme of things. We do believe we have effective control in place. As an example, we continually do interventions on PL through, as an example, the recent scorecard that we have done, credit line management. So, that's what I would say, Param, for CC and PL. In all cases, there are no FLDGs. There are no FLDGs or any other kind of criteria.

Param Subramanian: Perfect. Shalini, thanks. That's really helpful. If I heard correctly, so our asset quality in MFI is tracking better than the industry and we expect that to continue. That is how we are looking at it.

Harsh Dugar: It's significantly better, just to give you some insight. Against the industry approval rate of 45%, our approval rates are 33%. So, we have been quite conservative right from throughout, whether it's multiple lenders, overall indebtedness, or we do not lend at all to delinquent customers. And we have a single loan to every single customer, so there's no top-up loan. So, those things have actually helped us out in terms of maintaining asset quality.

Param Subramanian: Okay, that's really helpful. My second question is on the credit card embargo. So, where are we in that process currently?

Shalini Warrier: Param, I will take that question. So, you are aware of the fact that our co-brand credit cards through Fintech partners, RBI has come back and said that we should pause issuance. Since then, we have been working internally, obviously, also with our partners and with RBI to make sure that we are completely, the framework is completely compliant in all respects. While we do believe we were quite compliant, there were areas that RBI had requested us to review. We have done that entire review, but we are taking it in steps. The first thing we want to do is we have one model which is the model we have with an entity called Scapia which runs on a third-party service provider M2P. That we believe is closest to the model that RBI had in mind and this is based on conversations we have had with RBI. We're very close to crossing the T's, dotting the I's on every aspect of what RBI has requested us to look at. In the imminent couple of weeks, we should be able to approach RBI with the confirmation that we have done all that is required to be done on this model. And post that really, it will be for RBI to review and come back, but our conversations with RBI have indicated that we are on the right path. Couple of other models that we have, in particular the OneCard FPL may take a little longer because there are some more changes that we need to do to the configuration to ensure that it is completely in line with RBI's directions to us. That may take a little longer. I'm not able to tell you the timeline because we're still working through some elements. But we do believe that the model that we have should be the first one that I said should be in RBI's hands very shortly. Thereafter, Param, I will have to really wait for RBI to come back. But the conversations and discussions with RBI so far have been quite productive.

Param Subramanian: Perfect Shalini, really helpful. If I can just please in one question. So, on the NR deposit, like over the last 2 years, we have been seeing softer growth for you as well as at an industry level. Now, going ahead, when you expect global rates say to come down maybe faster than in India, do you think this sort of number picks up going ahead say and give support to your deposit growth going ahead. How do you look at it based on your experience?

Shalini Warrier: Param, in fact, it's something that was always troubling me personally as well as a lot of the people. A couple of years we have been seeing a lot of slowdown as you rightly said in NR, primarily driven by the opportunities they've had for overseas investments, other consumption requirements in the Middle East and other things. But as Souvik said in his introductory remarks, happy to note that our remittance volumes have gone up and our NR particularly non-resident savings bank accounts has gone up quarter-on-quarter. Come out of many things, one, we have increased the pace at which, and the number of accounts that we open in the Middle East. We have deployed a few more capabilities like online account opening, including with attestation processes that are more robust. We have increased the number of relationship managers we have. So, in fact, I looked at some data recently and we have seen at least a 15 to 20% uptake in the number of accounts opened itself. So, we have also looked at opportunities outside the GCC Kerala corridor because we have now branches in other geographies in the north of India where there is a non-resident population. That we have re-designated branches as NR branches, we have increased our feet on street, etc. That's giving us something which reduces to some extent our dependence on the GCC Kerala corridor. So, that's a second.

The third intervention we have done is our existing customers, we have revamped some of our products. For example, we have a fairly good product called NRE Eve, which we launched last year and that has started picking up good momentum. So, several actions and we're seeing the Mojo's coming back, as I say, in NR savings. We do believe, in fact, just as we speak, we have looked at some data on market share on normal NR savings accounts, NRE accounts, which is both savings and term. Our market share has actually been going up quarter-on-quarter, month-on-month. So, yes, Param, a long answer to a short question, but I think the part that we don't participate in is FCNR. We are very conscious of our strategy on FCNR. We don't kind of pay high rates and take FCNRs. We don't believe that's the right thing. That's a more opportunistic thing. Our focus has always been how well can we do our NRE savings account and NRE term deposits.

The last point that I would like to add is when there is a declining rupee much as I think that's not an appropriate, that overall, there may be other implications of it but the NR customer tends to react positively to a weak rupee and increases his remittances to India. So, to some extent that may be a topical or a tactical advantage, but we take advantage of that also.

Moderator: Thank you. The next question comes from M. B. Mahesh from Kotak Securities. Please go ahead.

M. B. Mahesh: Manian sir, just one question for you. Given that you have now seen the bank, one area where you kind of constantly found it difficult for Federal has been on the margin side. If you look at mostly large private sector banks and even regional banks, margins are much higher as compared to what Federal has delivered. Some initial thoughts on how are you seeing this part of the P&L that gives?

KVS Manian: Yes, Mahesh. Yes, like I said, of course, I am aware of this as a parameter. But there are several levers, right? I think to improve net interest margins, there are several levers on the asset side and liability side. And I think we will deploy a mix of these strategies. Like I said, detailed strategy discussion we will have maybe then in quarter. But I'm quite clear even improving CASA mix is an effort in that direction, right? So, I think there are multiple levers. We will make sure that we are using all the levers, and I am fully aware that this needs to get better. So, of course the first thing everybody thinks of is doing the high-yield unsecured loans but given the environment we have to be cautious about that. So, we have to use a mix of levers not necessarily only high yield assets as a strategy to get better. But let's talk more about it in quarters to come.

M. B. Mahesh: Perfect. Just one additional question. At the leadership level, is there a need for further strengthening or you think that you are quite comfortable with what you have today?

KVS Manian: There will be areas of talent gap and in areas that we want to focus in the future. I am in the process of assessing that. And we may add people in specific areas where talent is necessary. On a broad basis, at the senior level, I don't think there is significant infusion required of any magnitude.

M. B. Mahesh: Question to Harsh or Shalini over there. While you answer the question on MFI, at this point of time, sitting in the SMA book that we could potentially be surprised in next quarter or the overall book of the portfolio, including the SMA book looks fairly comfortable across the bank right now?

Harsh Dugar: If you look at the SMA book as well apart from the slippages which we have seen, there is definitely a mild uptick but definitely far lower like I have guided in the industry, we are far-far lower. Recently, like I said we are not in a place like Jharkhand, Bihar, are insignificant those states. Two-thirds or our portfolio resides in the Southern geography and our credit filters not now, but all along has been a little conservative and which is what is helping us. We do see this MFI issue hopefully kind of things sorted or getting stabilizing in the next 2 quarters. Hopefully, I don't see in this period any significant uptick in the subsequent quarters on this, Mahesh.

M. B. Mahesh: So, just to clarify, in your assessment, the current run rate of slippages should fold?

Harsh Dugar: Yes. There'll be a marginal uptick, but nothing more than that. Definitely nothing more than that.

Moderator: Thank you. The next question comes from Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Hi team, from the quarter, just had one question on gold loans. What percentage of your book comes through Fintech partners and how are you thinking about RBI circular last month on irregular gold loan practices? Are we making any operational or process changes in that regard? So, just some qualitative and maybe quantitative commentary would be good.

Harsh Dugar: The share of our partners share is largely organic, about 90% would be organic for us. So, that's not a challenge. That's number one. So, while there are certain guidelines which have been issued, both in terms of how we view our partnerships, but it's not something which will be disruptive for us. Coming to the RBI letter to all the banks on this one, every bank has to kind of confirm and get back to RBI on all these points which they have highlighted, confirming whether it's on renewals and all those things. We do not see any issue in terms of not being able to comply with. The good part in that industry has to align to that part and this will ensure a level playing field and that places banks and other players who are kind of doing this and have been doing this in a better position to leverage on this. So, there is something with the review which we are doing at this point in time and as directed by RBI, I have to do this by end of quarter.

Shalini Warrier: Just to clarify, the fintech gold is honestly extremely low in our overalls. Yes, it's sub 10% as Harsh said. So, for us, a very large percentage of it is actually originated by our branches.

Piran Engineer: Okay, fair enough. But just even then, given that let's say it's only, it's fine, but the credit appraisals and valuations when the fintech guy goes to the borrower's house, the fintech does the valuation of the gold and therefore this person is a doorstep.

Harsh Dugar: We are not doing doorstep.

Piran Engineer: We are not doing doorstep. If the fintech model is not doorstep.

Harsh Dugar: No, it's no longer door step. No, it's not.

Piran Engineer: No, my question really was, what is the fintech model if it's not a doorstep delivery model?

Harsh Dugar: Sourcing a distribution model that is as valuation is done in front of the customer at the branch itself.

Moderator: Thank you. The next question comes from Rikin Shah from IIFL. Please go ahead.

Rikin Shah: Manian sir, wishing you the best for your tenure ahead. We look forward to you outlining the strategy next quarter. Just a few basic questions. The first one, if you look at the wholesale banking self-funding level, is there a further scope of optimizing it from current 33% level? And if we do the peer benchmarking, is there a possibility to improve that? That's number one. Number two wanted to clarify that yield on advances have further decelerated sequentially. Is it only due to the change in the penal charge regulation or anything more than that? Thirdly, it is pertaining to the one-off gain from the sale of stake in ECPL. If you could quantify the gain coming from that, that's all from my end.

Harsh Dugar: This is Harsh here. I will take the point. The first one about being self-funding, you are at 32%-33% of self-funding right now, and there's definitely scope for more. And if you would see that in the last 8 or 9 or 10 quarters, we have been trending upwards. So, we are confident that there's enough and more scope left to move that much further and more so, given the focus on deposit mobilization. On your second point, the NIM has actually increased and not decreased as what we went ahead and guided for.

Venkatraman V.: Like you said, Rikin, it is only because of the penal interest. And the last point was on the Equirus equity share approximately around Rs. 9 crores realized in Q2.

Moderator: We will move on to the next question. The next question comes from Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: So, first question on deposits. So, is there any specific reason why deposit growth, especially TD growth was flattish versus earlier trend and also seen in conjunction with the higher loan growth?

Shalini Warrier: So, thanks. I covered some of it when Mahrukh asked, but I will just repeat some key aspects of it. To your question, Jai, if you split it into two parts, so far as the core CASA is concerned, you would have seen that Q-on-Q growth has been pretty good. In fact, cross market players who have announced the results amongst various private sector banks, we rank somewhere quite good on a Q-on-Q growth. A part of it has been driven by the fact that we have been focusing a lot more right now to make sure we have core transaction banking to our corporate banking customers, core primary bank to our retail banking customers, as well as driving more productivity through our branches to get more accounts and get more accounts funded with a larger amount. We have also added a couple of new products in the previous quarter, the benefits of which we're getting in this quarter, like the NRE Eve product that I spoke about, the Stellar that I spoke about. NR savings has also shown an improvement. So, if I split it, CASA is definitely something that we have improved, and we will continue to improve. Term deposits, we have never been a player who is kind of looked at price as a weapon to get more funds. If you see our cost of deposits, we have kept it quite moderate and controlled over the quarters and the data is there on the investor pack. Yes, there are one or two tenures where we remain competitive. We try and drive more productivity and more funds into those tenures because ultimately term deposit is a pricing play. So, we want to make sure that we calibrate it and really do it from a customer retention and acquisition perspective. Do we need to do more? Absolutely, I'm sure we all agree that we need to do more. I would like to make sure that we focus more and more on getting a good growth on CASA, both current and savings accounts, both resident and non-resident. Term deposits will continue to be tactical interventions that we do based on rates. So, yes, especially the higher end purchased kind of deposits, it's honestly tactical. If we believe there is a need, we can always do that. But we will do it more on an opportunistic basis.

Jai Mundhra: In line with that, the CD ratio, the LDR, is now, in the way we calculated, is now above 85%. So, incrementally, should one look at it that now the CD ratio has peaked and incrementally the loan growth and deposit should grow more or less hand in hand?

Shalini Warrier: Yes, that has been our strategy and that has been the plan. The gap we will ensure is narrowed or eliminated completely. But as Harsh mentioned in response to Kunal or one of the earlier questions, the intention is not to necessarily slow down our loan growth. We do believe there are opportunities, good quality opportunities. So, it's a question of making sure that these two keep pace with each other, Jai.

Jai Mundhra: On last clarification, you said that we are maintaining our guidance on growth. Just to clarify, the guidance was 20% or 18% to 20%? Just wanted to know.

Venkatraman V.: It is around 18%, Jai.

Moderator: Thank you. The next question comes from Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal: We are excited to have you lead the bank to drive the next phase of growth and profitability expansion. And best wishes for the future. I have two questions. Like one is, if I look at the margins, again, the two banks that you have worked with are either two extremes when you compare amongst the top private banks. So, while there has been a very strong growth in high margin lending products over the years, but that has not reflected in lending yields over the last one year. So, what is the actual gap between the yields on these products combined versus the overall portfolio yield? That is question one. And second is on the MFI segment, wherein we have reported strong growth even on a sequential basis. Like most players that we are looking at have reported a sharp decline, even during 1H and more so in the second quarter. So, are we not looking to slow down here and what proportion of MFI book is via co-lending partners?

Harsh Dugar: Yes, I take the second question first. If you look at the MFI also, if you look at YoY if it's YoY, it's about 76% and if you look at QoQ is actually 8%. There has been a definitely slowdown in terms of growth in what we have seen in this last quarter much as that given the budget internal targets which we look at, we are not pushing for that and revising that internally given the external situation. Having said that, these high percentages look high not because their growth is so significant, but because the base is also not very large. So, that is the other reason why it is there. And the second point on MFI was on partners, we are doing it through a BC model, which is what is working for us.

Nitin Agarwal: So, yes, I also wanted to check as to what proportion is of our co-lending partners and therefore any greater risk that is developing on us.

Harsh Dugar: Co-lending we just started. So, it is a very small share compared to our entire book on JLG and SHG. It's a very small percentage. And in one case, our co-lending partner is also a BC partner. There is alignment of the way we look at the great filters, the ethos.

Nitin Agarwal: Okay, got it. And the other question on the gap between the yields on the high margin lending book overall and the rest of the book?

KVS Manian: So, Nitin, it is, of course, like I said earlier, a high yield book is one way to increase margins, which of course, given the environment, we want to do it, but do it in a calibrated manner. We will continue to our ambition to grow that because we are relative to the industry much lesser on the unsecured loans. So, there is an opportunity. But having said that, unsecured loan is also BL and microfinance. So, we can increase our BL without increasing necessarily the same pay for microfinance. Or in car loans, it is also a mix of new car and used car loans. So, there are several levers to improve yield on the asset side and liability side. I understand, so for example I would say mix of old car financing or used car financing, we have to increase that will give us an uptick in the yield. Mix of LAP and home loan. So, there are multiple levers. I understand that we need to get better at the NIM level and as I said as we go forward, we will strategize suitably to make sure that we show an uptick on NIM.

Venkatraman V.: And at the same time, we want to also ensure that our asset quality continues to be pristine and credit costs are well within how this operated. It all comes together.

KVS Manian: So, finally, it's about risk return equations. We will suitably strategize as we go forward. And as I also mentioned, NIM expansion is also about the right liability strategy, right? So, we will do a combination of all that and we are aware that we need to work on this.

Moderator: Thank you. The next question comes from Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: So, just like I have two questions. So, firstly, the amortization on the premium on the investment. So, has there been a change because of the investment guideline or that bank is now taking incremental exposure in the shorter duration GSEC or lower coupon sir?

Lakshmanan V: So, the amortization has happened as per the guidance. So, nothing different than what is supposed to be done over there. As regards our overall investment book, it is happening in pace with the overall growth in NDTL. We are not doing anything significantly different on the banking book than what we would do otherwise. Everything else on the SLR side is otherwise short-term trading calls. Duration wise, no serious change that we have only taken in the last about 3 months.

Rakesh Kumar: So, why there is so much change in the amortization of premium on a year-on-year basis? So, like it has come down from Rs. 865 crores to Rs. 480 crores.

Manikandan M: This should be because of the discount amortization what we are doing.

KVS Manian: So, what I suggest is Lakshmanan, can you take this offline and explain that to Rakesh?

V. Lakshmanan: Sorry I couldn't hear the question. So, you are talking about the reduction in the discount amortization, right?

Rakesh Kumar: Correct sir. So, why there is a change in the investment guideline by the RBI or we have changed our strategy per se.

V. Lakshmanan: Our amortization guidelines haven't changed. It is as existing, but entirely driven by the change in the investment guidelines as applicable from the 2nd of April.

Rakesh Kumar: And just one question coming again back to what Nitin asked. If we look at the high yielding papers, high yielding credit and low yielding credit contribution on from the loan composition and to the NII, there's a stark change that is there from June to pertaining to the NII contribution, Interest Income Contribution coming to the September. And if you look at, there is a risk-based increase also, but the credit yield has fallen. So, just wanted to know that what has happened to the relatively lower yielding credit. So, is there such a soft fall that on an overall basis, there's a yield decline?

KVS Manian: Rakesh, as we clarified, there is no overall decline in yield on the asset side. The difference is fully explained by the penal reclassification. So, I haven't got your concern.

Shalini Warrier: So, Rakesh, just to clarify, are you referring to page 16?

KVS Manian: That is representation issue. Yes, just explain that.

Rakesh Kumar: I'm referring to the same thing. So, like, if I look at the interest income contribution is 34%. And if I look at the June quarter, the contribution is 28%.

Harsh Dugar: See, basically, this includes what we have given over here is the net interest income. Earlier used to be gross, net is the right measure for doing it.

KVS Manian: So, it is a representation difference. Earlier, we used to give the gross interest yield on the asset in this chart. Now we are giving the NIM. Obviously NIM contribution is more. So, there is no big change in terms of the strategy or complexion or yield.

Moderator: Thank you. The next question comes from Gaurav Jani from Prabhudas Lilladhar**Error! Bookmark not defined.**. Please go ahead.

Gaurav Jani: Just one question from my end to Manian sir. So, while you did touch upon margins being work in progress, what are your thoughts on OPEX, right? That has also been a drag. And just an extension to that is, how are we looking at OPEX in the second half and in FY26, thanks.

KVS Manian: So, yes, so like I said, OPEX levels what they are is I do understand that it is if you benchmark into the best in class, it is not measuring up. I am aware of that. But having said that, like I said, I don't have a strategy as on date. But yes, OPEX is also a measure of what we do with the topline rather than only the expenses. So, we have to work on a mix of improving the denominator income as well as work on the cost side. My guess is there will be more work initially required on the income side than the cost side but having said that I am still in my assessment stage, we will come back in a more concrete manner in the next quarter.

Venkatraman V.: Just one other point, just Gaurav looking at quarter-on-quarter movement of the total cost side to a large extent it is driven by the actual valuation that the yields have fallen. So, that has contributed some increase in staff cost.

Gaurav Jani: If you can just please comment on how would OPEX look like in the second half, given the fact that probably we are looking at a shift in the festive season, right, in Q3. So, would OPEX go up in Q3 and then in Q4, because it would better go up, or how should we look at it?

Venkatraman V.: Overall, H2 will be around similar levels as H1, because we do believe that while some of the income lines will play out. On the cost side, if you have seen past events, typically Q4 is the one where we see some uptake, but at the same time, there's also a big uptake on the Q4 income as well. So, we don't see a major shift in the cost-income ratio in between the two halves. And also our distribution strategy remains the same.

Moderator: Thank you. The question is from Yash Dantewadia from Dante Equity Capital. Please go ahead.

Yash Dantewadia: So, I would want to know the percentage of secured and unsecured. And when I say secured, I don't mean vehicle loans and those sorts of loans. I mean mortgages and LAP loans. What is the exact breakup of unsecured and secured today in our loan book?

Harsh Dugar: Unsecured retail is about 4.6% of total advances, Yash.

Yash Dantewadia: And going forward, where are we focusing on? What segment are we focusing our advances on based on the current environment for the quarter three and quarter four based on the festive season, etc. Like segment are we going to focus on? And this question also goes to Manian sir in terms of the segment he wants to focus on going forward, very specialised in or whatever. We do understand where the advance growth is going to come from this segment and how margin accretive that segment going to be?

KVS Manian: So, like I said, I am in the process of assessing how we should grow, and I do recognise there have been questions around NIM, there have been questions around yield and cost to income. All three will play a role in terms of how we decide the mix going forward. It is something that we will deliberate upon internally and come back. Having said that, the fact remains that as on today, the unsecured mix is low and like I said there could be many other unsecured lines other than what we have seen already which could give us better yield than this but may not give the same yield as an MFI kind of product. We need to carefully evaluate our mix. I think there are enough options in the middle without going to the extremes where we can work on improvement of yield and NIM. But like I said, a more detailed strategy on this we will talk next quarter.

Shalini Warrier: I think just to emphasize the point made earlier; yield has also been impacted this quarter by the penal charge reclassification. We will have to remember that.

Yash Dantewadia: Ma'am, any sort of ROE guidance for this financial year, ROE and ROA. Can you reiterate if you have already given it?

Venkatraman V.: ROA and ROE, again Yash, in line with what we have decided at the beginning of the year, we are at 1.8 and we should be around similar level and if the interest, it also depends on when the rate cut happens. If that happens later in the year, probably we will be going about another 1.4, but based on current outlook, we will be around similar levels, 1.28 to 1.29. And ROE again, 13.5, around that level.

Moderator: Thank you. The last question is from Ishan Shrimali from Tara Capital. Please go ahead.

Ishan Shrimali: Sir, with the current interest rate environment, like how does the management foresee like NIM evolving over Q3 and Q4? Like is there a target for maintaining or expanding margin in high yield segments like gold loans, personal loans? And just to follow up on that, is there any specific product or loan segments which can boost the NIM?

KVS Manian: You already talked about some products there as options. Like I said just now, we will evaluate our mix and see what can give us the right risk return trade-offs. We need to improve our NIMs with the right control on credit cost and I think like I said there are several options in between. Just to take an example, you can do HCV or LCV and there can be a NIM and yield difference, right? So, there are multiple options across products. You can do business loans and personal loan mix. You can change in favour of business loan and improve NIM. So, there are multiple levers that are available to us as management. And we intend to make use of all of those going forward. Like I said, what exactly we will do. We will think about it and come back to you next quarter.

Moderator: Thank you. Next question from Saket Kapoor. Please go ahead.

Saket Kapoor: My question is to the opening remark made by you, Venkat Sir, when you said that the path may not be the same. So, what were you alluding to it, if you could just give a brief understanding and also to the NCD issuance that we are going ahead with of Rs. 1500 crore if you could show some light on the nature of this?

KVS Manian: What I meant by saying that the path may not be similar if the environment has not worsened let's say on the unsecured side, right, then we have done. Like Harsh mentioned slightly earlier in this call that we are going behind our budget now because the environment is not necessarily conducive to... Shalini also mentioned that we tightened our personal loan norms over the last quarter. So, obviously when we started the year or when we made the budgets for the year, the environment was something... We have seen deterioration in the environment. So, that's what I meant by. In fact, if you see even in the secured side, there are products like CV where it is as good as it's been in the beginning of the year. So, there are several changes in the environment that are happening, and we need to be conscious of that. So, that's what I meant by the path may not be the same to get there. So, yes, we do want to get higher NIMS, we do want to improve our unsecured mix. All of that is true. But the way we get there or the speed at which we get there differently given the environment. That's what I meant. On the bond issue, we are looking at doing an infrastructure bond to fund the infrastructure assets that are there in our books today. And one more avenue for raising funds and we will go out to the market and raise. Many banks have already done it. So, it's the first time for us, the infrastructure bond, but it's an instrument many banks have already used.

Saket Kapoor: Thank you for this opportunity and other remaining questions on corporate loan book growth and all I will contact Souvik sir for the same.

Shalini Warrier: Thank you to everybody on the call. Happy Diwali.

KVS Manian: Thank you very much for joining us.

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