



The Federal Bank Limited
Q3 FY'25 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 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 and good morning, everyone. Thank you for joining us on this early call today. We truly appreciate your flexibility in accommodating this one of schedule change and we are hopeful to return to our regular timelines moving forward.

Most of you know, we have scheduled our analyst meet on the 21st of February at Trident BKC, which was announced on the exchanges a while ago. Given the limited seating capacity, we encourage you to register at the earliest. Registration will certainly close by 30th of January and confirmations will follow in early February. At the analyst meet, we will discuss our strategic roadmap in greater details.

But for today, let's focus on the quarter that went by and the progress that we've made. This quarter is particularly noteworthy as it marks the full first quarter under the leadership of our new MD & CEO, Mr. KVS Manian. And joining in today as always is a senior leadership team who are here to address your questions, provide deeper insights into the numbers and key developments.

With that, I am pleased to hand over the call to Mr. Manian over to you, sir.

KVS Manian: Good morning, everyone. Thank you for taking the time to join us today.

This moment is particularly special for me as it marks my first opportunity to address you after completing my initial quarter as the MD & CEO of Federal Bank. I want to begin by expressing my heartfelt gratitude for the warm welcome I have received and for the incredible support from this remarkable team.

The last three months of 2024 have been quite a learning curve—perhaps more accurately, a 'listening' curve. This period has been a journey of exploration, understanding, and, most importantly, listening through a process that I called my 'Listening Tours,' where I travelled extensively across all the zones, meeting with over 2,000 Federals. When I visited each of the nine zones with the sole intention of listening, I gained a deep understanding of how our bank operates. I heard the aspirations, ambitions, and apprehensions, and I also witnessed the fierce pride that the team has as 'Federals.' I have endeavoured to make these exchanges a two-way

street, to exchange ideas, challenge norms, and forge a new way of thinking within the bank—one of being astute, agile, and alert, what I call the triple A culture.

From these interactions, and others, we have formulated a detailed strategic plan, which reflects the collective aspirations of our people. This plan is not just about scaling; it is about scaling with purpose, with responsibility, and with quality. It is about building a future where every aspect of what we do—whether it is the quality of our franchise, our earnings, our people, or our service—is held to the highest standards.

When I presented the strategy to the board, I emphasized our aspiration to gain more relevant scale beyond Kerala. As we look ahead, we need some breakthrough effort to make this happen. Our priorities are clear. This quarter, we made pivotal decisions that I would call a strategic reorientation without disruption. These changes are essential for creating a solid foundation on which we can build Federal to the next level.

While reorientation is never an easy task, I am proud that my team has embraced these adjustments with remarkable clarity and purpose. The transition process to these new changes is smooth, focused, and largely free of disruption. As we recalibrate our strategy, we are firmly grounded in a philosophy of granular growth—growth that strengthens the very foundation of Federal Bank. It is abundantly clear that high-value deposit-driven asset growth is not our path forward. While such growth may appear impressive in the short term, it is inherently risky and unsustainable.

Our reorientation on the liability side of our balance sheet has been a critical pillar of our overall approach. We have implemented several changes aimed at improving the quality of our liability base, and I am pleased to report that we are seeing clear and tangible signs of progress. One of the most significant changes has been shifting our internal focus to Average CASA as a key metric. This shift is both operational and cultural, aligning our internal scorecards with a more meaningful and sustainable measure of performance.

Externally, we have ensured that our reporting reflects this strategic shift as well. Implemented two months ago, the impact is already evident. While our EOP CASA shows a decline—primarily due to a drop in wholesale business current accounts—our average CASA metrics tell a much more compelling story: SA averages grew by 2.5% quarter-on-quarter, CA averages increased by 1%, and overall, Average CASA grew by 2.3% this quarter. This shift to average metrics ensures that we focus on quality, stability, and sustainability in our deposit base rather than short-term, end-of-period fluctuations. Moving beyond EOP metrics, we are freeing up bandwidth for our teams to concentrate on more meaningful activities and aligning our efforts with a strategy that genuinely supports the growth and funding of the balance sheet.

We Federals are now better aligned with a philosophy that prioritizes long-term value creation over short-term optics. While our total deposits have marginally dropped from ₹266,563 crore to ₹264,829 crore, it's important to unpack the context behind this reduction. Much of this change is attributable to the strategic changes that I just spoke about. However, if you look

deeper into the numbers, there are many points that become discernible. Firstly, the end-of-period CASA decline, particularly in CA accounts, accounts for nearly ₹1,100 crore of the reduction. Additionally, wholesale term deposits—specifically those above ₹3 crore—have decreased from ₹37,821 crore to ₹33,848 crore, representing a drop of nearly ₹4,000 crore. The concentration from our top 20 depositors has decreased by 33%, aligning with our broader goal of reducing risk by diversifying our deposit base. Deposits from LCR unfriendly sectors such as the financial sector, have dropped significantly from ₹18,912 crore to ₹13,593 crore, a reduction of over ₹5,000 crore. Furthermore, wholesale deposits plus CDs and IB term deposits have fallen from 19.5% of our total deposit base to 18.2%, reflecting a drop of approximately ₹4,000 crore. This is another step toward de-risking our deposit base and aligning with our quality-first strategy.

On liquidity and deposit-related metrics from this quarter, which reflect our deliberate focus on building a more stable and sustainable liability base. Our LCR has seen a remarkable improvement. Last quarter, our LCR stood at 111%, and this quarter, it has increased to 133%. On the asset side, we have taken significant and forward-looking measures this quarter as part of our broader reorientation strategy. We are navigating these times with measured prudence and strategic foresight, adopting a deliberate and calculated approach. This is not the moment to accelerate growth in unsecured lending; instead, we are waiting for the credit cost environment to stabilize before expanding in this segment. While increasing high-yield unsecured loans like MFI and personal loans is not an immediate option, we are tweaking other variables to enhance yields and optimize our portfolio's performance. Our approach to low-yield assets, such as home loans, reflects this strategy, with the segment growing 9% year-on-year and achieving 80% penetration for savings accounts with home loan customers. However, rate competitiveness remains a challenge. Our auto loan portfolio grew 25% year-on-year, despite a slower growth last quarter due to a strategic pivot from a floating rate model to a fixed rate model. In one quarter, we transitioned to 80% fixed-rate disbursements, causing short-term volume and revenue impacts but positioning us for medium-term NIM improvement. Yields in this segment have already shown a small uptick. Our medium and high-yield businesses have grown faster than the book average. Commercial Banking grew 5.65% quarter-on-quarter and 24.5% year-on-year, reflecting healthy momentum. Business Banking grew 13% year-on-year, with record disbursements in December. Gold Loans increased over 30% year-on-year, though new RBI guidelines may slightly impact growth in the near future. LAP grew 20% year-on-year, with marginal improvements in pricing. The microfinance portfolio remains an area of cautious navigation, focusing on managing risks for long-term sustainability. Our credit card business is growing rapidly, both in organic card sourcing and ENR, albeit on a small base. In our Corporate and Institutional Banking portfolio, we have taken deliberate steps to ensure a prudent and balanced approach, particularly in our exposure to sensitive sectors such as NBFCs and power.

By actively managing these exposures, we are reinforcing the strength and stability of our loan book. We are revamping our RAROC framework, ensuring that profitability and risk-adjusted returns remain central to our decision making. We have also made a strategic decision to refrain from engaging in DA business, as it does not align with our broader goals of building a

sustainable and high-quality franchise. Despite these shifts, I am pleased to report that we have been able to maintain our NIMs even though the cost of deposits has increased marginally. This reflects the success of our proactive margin management efforts, which are already yielding results. Some of the measures we've implemented to improve NIMs will take time to reflect fully, but they are designed to deliver a positive impact over the medium term. To sum up, our asset-side strategy is underpinned by balance, discipline, and a long-term view. We are methodically aligning our portfolio to ensure higher yields, responsible growth, and a focus on quality. Each of these measures—from optimizing low-yield products to pivoting business models and enhancing pricing—brings us closer to a more profitable, sustainable, and well-rounded franchise. While some transitions may create short-term headwinds, they are deliberate choices that will deliver significant benefits in the medium to long term.

Our confidence in the resilience and potential of our asset book remains strong, and we are well-positioned to capture opportunities in the quarters to come. One of the key changes we've made is in our approach to NPA provisioning for retail unsecured loans. We recognized the need to adopt a more robust provisioning framework—one that more closely reflects the reality of potential credit risks in terms of both quantum and timing. This shift is not just a technical adjustment; it's a strategic step to ensure that our foundations are solid as and when we scale this portfolio. By aligning our provisioning norms with industry best practices, we are creating a framework that supports sustainable growth while bringing our operating teams closer to the realities of risk management. With this change, while our year-to-date annualized credit cost has increased to 41 basis points, our guidance for the year continues to be 40 to 45 basis points.

You would have noticed that we have taken this accelerated provision even while the overall quality of the book has remained stable. There has been a slight increase in fresh slippages rising from 428 Crores to 486 Crores compared to last quarter. This quarter, we have written off ₹496 crore, effectively reducing our net advances. This move is part of our broader effort to maintain a clean and focused balance sheet, ensuring that we operate with a higher degree of transparency and efficiency. These steps represent a significant reorientation of our asset-side strategy. While there has been an immediate impact on profitability due to the provisioning changes, we are confident that this proactive approach will yield long-term benefits. Even more importantly, we have managed to execute all these changes without compromising on our employee connect and engagement.

Our teams remain motivated and aligned with the bank's vision, which is a critical factor in our continued success. I also want to highlight that we have successfully protected our P&L while implementing these measures. The one-time impact of the reorientation on our Profit Before Tax is ₹292 crores. Had it not been for this provision we would have ended the quarter with record profits. What we are effectively doing is keeping the plane flying while refuelling it mid-air. While this might sound risky, let me assure you that it is anything but. We have a clear roadmap ahead, and every decision we make is deliberate, strategic, and aligned with our long-term objectives.

As I conclude, let me leave you with a thought inspired by my time spent in Kerala as well as something I recently read about what Steve Jobs said: 'Fishermen repair their nets before they set sail.' When the sea is too rough to sail, the smart ones don't wait—they get to work. They mend their nets, sharpen their tools, and prepare for the moment the storm breaks. Even in moments of stillness, there is progress. It's not about waiting passively; it's about preparing actively. Every measure we've implemented this quarter is part of our preparation. We are building a stronger foundation, sharpening our processes, and positioning ourselves to sail faster and farther when the winds permit. Because even in stillness, there is growth, and in preparation, there is strength. Thank you. Thank you so much. We are 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: Hi, good morning and congratulations on the new strategy. I had a few questions. Firstly, is the reorientation of deposits and loans complete or will there be some more consolidation even in the current quarter? Or putting it in other words, would it be fair to say that the deposit and loan growth would have been higher if there was no reorientation in the quarter? So, that's my first question and my second question is on margins. So, some of the unprofitable growth has been given up and NII has also grown 3% through Q-Q, which is good. But the reason why NII growth is higher than asset growth is because of average balance is being higher or is there some cost which will pick up in the next quarter? Would there be some quarter end mobilization of deposits which should reflect in the next quarter?

And the last one, if you could explain what exactly was written off because your credit costs excluding the 292 crores is a very small number, 0.5 billion. So, there's no impact of the big write-off on credit costs. So, were these all 100% provided accounts or how do we view it? These are my questions.

KVS Manian: I mean some part of it, I will ask CFO to take, but the reorientation part, Mahrukh reorientation is never complete, I think it's a process. We cannot expect it to be over in a month, but like I said, we will balance growth and reorientation all the time, like we have done this quarter, maybe the first quarter where we gave up growth in favour of the reorientation, but we will strike a balance as we go forward. And that process is a reasonably medium-term process I would say. Other questions would Venkat want to take?

Venkatraman V.: I think the other question, Mahrukh you had was on the credit cost, like you've seen the credit cost for YTD is 41 bps. But for this, like you said, the credit cost would have been quite a small percentage. Having said that with this catch up, we do expect even for the full year to remain in the 40 to 45 bps range for the full year credit cost. On the right offs, the right offs are all basically fully provided accounts. So, there is nothing, no impact on the financials. These are fully provided accounts. And this is in line with the board approved frameworks.

Mahrukh Adajania: And margins?

KVS Manian: So, margins you are right. The NIM improvement was the average advances where average liability and advances is what influenced the NIM.

Venkatraman V.: And there is no other one or for any other. No one else. It is likely to impact this going forward. This is a pure operating performance.

Moderator: Thank you. Our next question is from Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Good morning. And congratulations on a steady quarter. In your opening remarks, you mentioned about auto loans, you have changed from floating to fixed. I believe there could be some other products, also maybe gold and maybe business banking, maybe some other products, where you can sort of, if you want to, you can change this. Any update on, you know, this floating to fixed thing, is this completed bank level or there will be some other portfolio where you wanted to do this.

KVS Manian: Yeah, you are right. There are other products where this is possible. In fact, what I did not mention is even in our small business segment, BUB segment, we have moved almost 20 or percent of the portfolio to fixed rate. So, this is a process after like, like I answered in the first question as well. This is a process. We can't do everything overnight, but we are quite clear that there is opportunity to do more of this. And you know that auto, auto finance, most of the industry is on fixed rate, right? So, it was a low hanging fruit to change. And like I said, what is remarkable is probably this month we will do 100 percent of our business in fixed rate from 100 percent variable three months back. So, I think these are all processes which will take transition time, but you are right. There is opportunity to do more in more areas and we are working towards that.?

Jai Mundhra: So, while you reorient the portfolio and the loan portfolio and at the same time, of course, there are few products related, not otherwise able to grow all out. Your sense on the overall loan growth, would it be when so far we were, a growth leader, if we want to look at across most of the banks, how would this status change, would it be okay growing similar to system level or maybe a certain percentage points over system level, while you keep doing this reorientation?

KVS Manian: Our intention is to get back to a growth which is, I would say a broad number of one and a half times the system growth is what we will typically tend to target. Yes, that remains our target. The reorientation will take us there at the point in time. Yes, like I said, we are preparing for doing better. In my concluding remarks, I did say that we are preparing ourselves for better growth. So, growth, of course, is an important imperative for us. We are not going to forego growth for the sake of this. And gaining market share is an important matrix we want to keep for ourselves.

Jai Mundhra: Sorry sir, so you said 1.5 times of the banking system growth.

KVS Manian: Yes yes.

- Jai Mundhra:** And lastly, that on deposits. So, of course, there is a huge competition on deposits. One way to, of course, increase the deposits or maybe CASA is to offer a staggered pay out or staggered offering, which, you know, some of the banks do, they do, and they do it very well. Any thoughts on, you know, how do you want to improve the CASA and maybe the granular deposits. That will be very helpful.
- KVS Manian:** So, I look at it this way. The easy way out is to go and work on the price and get CASA and deposits. I would say that I know the bank now for the last four months, I have reasonable confidence in the bank's franchise and its distribution. I think there is potential to leverage the distribution. So, I think we have to do the hard work part of it better and get more out of our network and distribution. And I think we have the brand and the franchise to do that. So, my initial reaction to your comment is we will not take the easy way out. We may have to work harder, but we will try to get it more granular and qualitatively superior way. I hope that answers your question.
- Jai Mundhra:** Yes, sir. Thank you. I think in your opening remarks, you mentioned that there are few low hanging schools. I believe they would be there across most of the line item. I think we have talked about the growth, but if you can also touch upon maybe the OPEX and maybe the other income line items, that will be the last question. As to what kind of a qualitative change that we can see on the OPEX.
- Souvik Roy:** Jai, given the paucity of time and as this is related to our strategy, better we discuss it on our strategy day. I am sure you will be there.
- Jai Mundhra:** Sure. No problem. Thank you.
- Moderator:** Thank you. The next question comes from the line of Nitin Agarwal from Motilal Oswal Financial Services Limited. Please go ahead.
- Nitin Agarwal:** Hi, everyone. Good morning. We appreciate the steps that we are taking to deliver better results and improvement of profitability over the years. A few questions I have like one is around the slippages. So, if I look at retail slippages overall have been holding very stable. And so, how is the mix trending between secured and unsecured? Any color around MFI segment if you can provide and what is really like driving this? The stability in the slippages and retail therefore
- KVS Manian:** I will ask Harsh to answer this question.
- Harsh Dugar:** Hi Nitin, this is Harsh here. On MFI, there is definitely a high level of stress compared to what it has been across, mirroring what the sector has been facing. Comparatively, we have a better asset quality is still holding on. If I look at Q1, Q2, Q3 has definitely been higher. But if I dissect Q3 into October, November, December, we have seen two-three things emerging. The on-time collection has marginally improved in December. And there has been some movement in buckets from SMA2 to SMA1, which is a healthy sign. Is the stress there answer is yes, higher than ever, but better than industry. And it seems, but it's too early for me to comment and say that it seems

to be at the bottoming out kind of a phase. You could see some pain in Q4, but nothing substantial. And then it should start improving in the field which we get from the sector also.

KVS Manian: And I would say unsecured, these sensitive advances are still a small percentage of our balance is below 5%. And therefore, while there is stress on that, we have tapered our QoQ growth on these sensitive segments. If you have noticed our MFI segment is flat and personal loan is actually negative.

Harsh Dugar: Actually, the QoQ growth on MFI is hardly 1%. And cumulatively, between our unsecured portfolio of cards, MFI and personal loan is just about 5% of our total advances.

Venkatraman V.: And just to add Nitin, the slippage percentage annualized progress is still well below the 1% which we have been guiding over the last many years. It's still around 0.83% of the advances.

Nitin Agarwal: Right. And so, that actually was my second question as to how are we looking at the unsecured loan segment as a part of our strategy to drive ease? Because all along, Federal has always the intent has been to drive the unsecured business because the mix is very low. And now with the decline in P.L. and the ongoing pressures in MFI, what is our strategy there to grow the unsecured business over the next few quarters?

KVS Manian: Nitin, I partly answered that question. As I said that in the short term, just now, I don't think we are going to press the pedal on these segments because it will be like wading into the storm. So, we are not planning to do that. Having said that in the medium term, will we marginally increase this portfolio we will work towards increasing. But philosophically, one thing I would like to just put on the table is I don't particularly like a dumbbell kind of strategy where you at one end you have very high yielding assets and on other end you have very low yielding assets. And the average doesn't make any sense. So, like you noticed, we have stepped up volumes in the medium yield segment which is more core to the bank. And therefore, I don't want to be on this trajectory of saying that let's build unsecured to some percent to get our yield. In the short term or yield management will focus also on the mid yield relatively risk-free segments rather than focus on the high yield high risk segment in this environment.

Shalini Warriar: So, I can just add to that to just take off from where Manian left it. Clearly, on the unsecured reach inside credit cards continues to be a focus for the bank because we do believe it's a payment instrument cum a credit instrument and is well positioned given the demographics of the country. So, we've been growing our credit card business and with adequate emphasis on distribution, product enhancement, etc. So, while personal loans have shown a decline, credit card has been noticed, has actually shown an improvement quarter on quarter albeit on a small base.

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

MB Mahesh: Hi. I mean, there's this question on these 290 crores of provisions that you have made. If you could just tell us, how did you come to this number? What are the conditions under which it will be utilized??

KVS Manian: Yeah. So, Mahesh, this is basically what we have done is we have benchmarked our provisioning practices to the best in class in the industry and from whatever we know and therefore and what these do essentially, Mahesh is they prepone the debit rather than change the debit. These debits would have happened losses over a period they would have happened. The idea is to recognize them in a timely manner and get them provided in a timely manner because you know many of these decisions we take to grow or not grow are determined by how the profit and loss looks at this point in time and like I said in my introductory remarks, our managers also need to be aligned to the risks that come from the business and it is better to reflect those risks in a timely manner to ensure that the team acts at an appropriate time. So, I would say these are essentially timing differences in some ways and not incremental. These costs would have anyway hit us in due course. We have just taken them ahead. Just a lead lag.

MB Mahesh: The question is in the sense that we are not seeing like the front-line points don't kind of make provisions on the from the standard book outside of what is available outside of what contingent buffer that there was created during COVID. So, when you say that I have done this in line with some of the best in the industry, how do you kind of make that comment?

KVS Manian: Mahesh, these are not provisions again standard access. These are provisions against NPAs. That is why you can see our GNPA's has not gone up and our NNPA has gone down and PCR has gone up. So, these are provisions against NPAs. That is why I said that these costs would have come in any case in due course, we have just advanced them. We were following prudential IRAC norms, but we have improved the norms of provisioning. That is the basic difference

MB Mahesh: So, the second question is that if you look at your early buckets, are there any kinds of stress in the balance sheet building up there? See, the reason of asking this question is that given that this provision has come in this quarter, the worry is that in the next couple of quarters, we are not kind of put in a bit of surprise or with the highest slippages coming in from some of the unsecured portfolios, where there is a little bit of heightened to risk at this point of time.?

KVS Manian: Mahesh, the unsecured portfolio risk as Harsh explained earlier, we can't say it is not there, it is of course there. It is and that is reflected in the current quarter as well, but I do not see significant dramatic change or surprises coming out of that. I think it will be business as usual and of course, the unsecured like Harsh said, one more quarter of pain is there, it will be maybe marginally higher, maybe marginally lower we do not know how it pans out, but we do not expect surprises, on the asset quality.

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

Param Subramanian: Hi, congratulations on the quarter and thanks for taking my question. Firstly, again on the provisioning rate, so on this 292 or you called it accelerated, but if you could break it up, between how much was for the back group or how much is for the structurally higher PCR, because we are holding on to this 40 to 45 basis point of credit cost guidance rate, if we are going to be conservative in terms of provision going ahead also, how confident are we of retaining that credit cost guidance.

KVS Manian: So, like we said, this whole provision, is on existing NPA accounts, it is not on standard book at all, so that is one clarity I am reiterating. And second, we are clear that in spite of changing the norms on the 292 crore has a catch-up effect as well as the current effect, our guidance that we will be between 0.4 to 0.5 continues to hold good, we are reasonably confident of that.

Param Subramanian: Secondly, Manian, this, you know, in the slide 6 of the presentation, we shown the risk adjusted NIMs, so it is down over the last two quarters. Of course, this quarter, you have been affected by the accelerated provision as well. Going ahead, if we are looking at an environment where rates will get cut and we have also added some risk on the book, right, unsecured and say that all this 5 percent of the overall book, so we have suggested margin is despite that. So, how we planning to manage overall margins and ROA going ahead, you know, in that context that, you know, rates might come down, maybe the cost of this is going up.

KVS Manian: So, Param, this is a dynamic thing, I mean, we will have to watch quarter by quarter, we do not know when the rate drop happens. Rate drop obviously has an impact on the book, we have a significant book which is floating rate. So, I would say that I would not commit myself on the front foot, I will watch the ball and play.

Venkatraman V.: And also to add to what Manian said, Param, two, three things which he said earlier, the NIM was influenced both by liability and the asset. So, all the work which we are doing on the average CASA growing and all that will continue to help us offset some of the, you know, if the rate drops, if the rate cut happens. Secondly, the pivot towards the mid segment, medium risk business where we are saying uptick in margins, even though it's a bit small now, but I am sure all of this will add up and help us try and maintain the NIMs around the current levels.

Param Subramanian: One last question, if I may, how we thinking about capital going ahead? So, we are at 13.8% Tier 1. So, anything on that?

KVS Manian: No thinking just now. As you know, we have not taken the current year's profit and the rate of dividends, of course, into the capital adequacy calculation as of now. And that will add something to the 13.8 number. So, just now, I would not guide on anything on capital.

Moderator: Thank you. The next question comes from Kunal Shah from CITI group. Please go ahead

Kunal Shah: Yeah, thanks for taking the question. First on cost, so you indicated we have been taking measures in terms of at least reducing the wholesale, improving the LCR. But the impact is still there in terms of the cost of deposits that's when we look at it slightly, maybe that's going up. So, just want to get the sense in terms of why that benefit is not reflected in terms of the cost. And second, you mentioned the LCR when I was looking, the LCR disclosure that seems like LCR is still 118. You indicated the LCR at 133. So, was that like NSFR which you are referring to?

KVS Manian: So, Kunal, just to clarify, the LCR bit first, 118 is the average for the quarter and 133 is the exit LCR. 111 was the exit LCR last time. So, that's 111 to 133, I mentioned 118 is the average LCR

to the quarter. So, that is one. On the cost of funds, Kunal, of course, these things are playing out. It is a in two months, we cannot change the cost of funds quickly. Directionally these efforts will show results. I am sure over medium term because all these changes, some of these have played out during the quarter till the end of the month. So, I think the impact may not show now, but we are confident that over a period of time it will show. And second is of course, the CASA mix has to change. Of course, as you see, we have maintained our casa mix through the quarter, as we as we drive towards improving that mix is when real cost of funds benefit comes. I also wanted to just clarify here since you asked, this is just a trigger that you asked, but it addresses many other questions raised. The NIM game is as much a liability game as an asset game. And we are very conscious of that. And NIM game is not only about choosing the right asset portfolio, it is also about choosing the right liability portfolio. And we are extremely conscious of that. And whatever we do, we will take that into account. For example, one of the liability mix issue is around current accounts. Our proportion is lower. So, there are things we need to do to change that. These are not quick fixes that can be made. Having said that, over a medium term, we will correct some of these to get those benefits.

Kunal Shah: Also, CA we saw the decline which is again creating some pressure on cost of deposits. So, is it more to do with maybe as we indicated some declining more than three crores plus when you look at it in terms of the concentration and anything with current and what initiatives we would be taking to manage the current account deposits?

KVS Manian: So, just to clarify, the current account EOP is showing negative, but average in current account has grown during the quarter by 1.5, 1.6 percent. So average is what determines our cost of funds and not the EOP numbers, so that I just wanted to clarify that as a fact. Having said that, we will talk more about the strategy on current account in our 21st meeting, but it is clearly one of the areas which is important to get our cost of funds down.

Kunal Shah: And just one comment you indicated that the reorientation would also create some kind of a shortterm headwinds. So, any areas wherein we could see for the pressure or maybe this would again be with respect to slightly lower growth and increasing the coverage because there could be more headwinds in some other operating metrics.

KVS Manian: So, of course, you have seen some kind of asset growth side, you have seen the headwinds already, right. So, that is what I meant by that. Of course, there headwinds in the sense as we choose each area and try to transition any transfer, any transition from one approach to another approach does go through some friction, right. So, there are multiple initiatives and some initiatives will work, some will not work, some will take some time to mature, some will take less time to mature. Like I told you, the auto transition has worked almost with very little headwind, right. But I can't say that everything we do will have no headwind. So, I am just being I would say cautious on that and we have to be practical about what works, what doesn't work. Everything we do, we will never have 100% success rate on everything we do, right. We need a reasonable success percentage.

Venkatraman V.: This is largely in line also with our philosophy of fund before lending. So, we want to make sure we get the deposit story strong, and in line with that, we'll grow the advances.

Kunal Shah: Okay, got it. Thanks, and all the best.

Moderator: Thank you. The next question comes from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead

Suraj Das: Sir, two questions. One, I think in the initial remarks, you mentioned some headwinds on the gold loan growth going ahead. So, if you can maybe elaborate on that. The second one is on the CV and CE book. So, basically, if I see the disbursement growth this quarter, it has been pretty good. I mean, on a QoQ basis, it's roughly 20–25 odd percent. So, what kind of growth are you seeing, and how do you see this growth going ahead? And also, I think you mentioned that you are now changing this group from floating to fixed. So, what could be the blended rate on the CV and CE book if you can highlight? Is it low single digits, mid-single digits, or higher?

KVS Manian: I'll ask Harsh to take these questions.

Harsh Dugar: Hi, Suraj. On the gold piece, as you are aware, the RBI letter of 30th September has been sent across to all banks and NBFCs, and there are quite a few changes in terms of processes and practices that were being done, which has definitely caused a little bit of a disruption in the industry as a whole. Banks and NBFCs have reached out to RBI in terms of how to soften this and take it forward. We are also in discussion with them. So, there's nothing too different from that part. There have been challenges in terms of some NBFCs having issues regarding LTV, on AGRI classification, and on the renewal of gold loans. These continue to be industry-level phenomena. We are reasonably confident in terms of compliance with all these changes. There will be a requirement for customer reorientation because of these changes. Plus, RBI is also looking into it and will come back shortly on how this can be smoothed out. So, this is something industry wide. We may see one or two quarters of disruption before things stabilize and growth comes back. Coming to commercial vehicles, the growth has been good. It's on a smaller base, and we continue to look at growing this significantly more. The growth rates may taper off, as in we may not see a 39% YoY kind of growth. It may gradually come down as the base increases, but it will still be significantly higher than the industry. A couple of things have been done. It's a pan-India rollout. We are now going into tier-two and tier-three cities also. Additionally, some new products have been added, and the customer base is being expanded. We continue that our entire commercial vehicle book is on a fixed rate only. The one which Manian had mentioned about earlier was on auto loans, where we have moved retail auto loans from floating to fixed. Commercial vehicles obviously remain fixed.

Suraj Das: Sure, and on the gold loan piece, in terms of these regulatory things, are we compliant at the moment, or are there still some changes to make?

Harsh Dugar: No, we are compliant, and whatever we are doing is in complete discussion with the Reserve Bank.

- Moderator:** Sure, sir. The next question comes from the line of Abhishek from HSBC. Please go ahead
- Abhishek:** Hi, good morning, and thanks for taking my question. These 40 to 45 basis points credit costs that you mentioned—this is the estimate for FY25, or is this a BAU kind of level that you think you could maintain for a slightly longer time frame?
- Venkatraman V.:** Hi, Abhishek. For the full-year guidance, it's 40 to 45 bps. But going forward as well, we do expect the credit cost to be in the 40-bps range.
- Abhishek:** Because I would think that, you know, going forward, there would be some more normalization. But you think you can maintain the 40 bps, and that won't inch up next year?
- Venkatraman V.:** It also depends on how we grow, which part of the business grows, and how much is the growth in the unsecured. So, there are a lot of factors which come into play. But based on current visibility, we expect it to be around the 40 bps range going forward as well—40 to 45 bps as a range
- Abhishek:** Understood. And one question on growth, especially deposit growth. So, I understand that you want to choose better-quality deposits. But it's a slightly more difficult thing to do than being choosy on loans, I would think. And, you know, your deposit growth is still not ahead of the system, despite the size not being really large. We see two or three really large banks still growing their deposits much faster than system deposit growth and gaining market share. So, how choosy can you really be? Because this limits your overall loan growth going forward. So, what's the thought process there? Do you see yourself at the 15%, 18%, 16% deposit growth mark, or does that requires you to take deposits which you don't want to take?
- KVS Manian:** Abhishek, we will talk more about this on our 21st meeting. Having said that, there is a level of confidence we have in our franchise and our network. I think there is potential to leverage the network to deliver more. There are steps that we are taking, and we will talk about some of them in our 21st strategy discussions. But, yeah, I understand where you come from. Like I said, it's the easy way out to incrementally raise deposits at 7% and lend at 8% on the corporate book. On the other side, there can be growth, but there can't be NIM, and there can't be profitability. So, I think we have to be deliberate. We have to make the right choices. And given our current state, we do believe that we should make the right choices and build a more sustainable franchise rather than look for short-term benefits.
- Abhishek:** Sure, okay. We can probably discuss this further offline. Thanks.
- Moderator:** Thank you. We take the last question from the line of Gaurav Jani from Prabhudas Lilladher. Please go ahead.
- Gaurav:** Thank you for taking my question. Just firstly, on this recalibration or reorientation—do you actually envisage an improvement in margins after this entire exercise is done? Over the last

seven or eight quarters, we have been in the 3.1% to 3.2% levels. Structurally, do you see that margins are improving after this exercise?

KVS Manian: Gaurav, as you've heard me through the call, obviously, the measures we are taking are to work towards an improvement in net interest margin. But you also know that going ahead, we might have a drop in repo rates and things like that. So, like I said, we'll have to play. Of course, we are playing for improving NIMs. Having said that, the NIM is dependent on several factors, and we'll have to see how it goes. But obviously, the objective is to improve NIMs

Gaurav: Secondly, sir, on the fixed versus floating—just to harp a bit more on that. We're already at about a 30% fixed number, which is in line with the larger banks. So, because of this recalibration, do you see that mix going up further, or is it just an internal rebalancing that will happen, and the mix will remain at 30%?

KVS Manian: Yeah. So, as you've seen in our investor deck where we give this MCLR and the loan book by interest rate split, we believe there is scope to increase the fixed rate book in some of these products which we talked about earlier. In a declining interest rate scenario, that might actually be a better strategy. But even structurally, on the balance sheet, I would say that we would generally prefer a slightly higher proportion of fixed-rate books. Don't forget that banks essentially borrow fixed rate on the liability side. There is no floating rate borrowing on the borrowing side. So, fundamentally, fixed-rate assets are a better ALM match for balance sheets of banks, and that's what we keep in mind.

Gaurav: Lastly, on the credit cost bit. So, barring Q3, which is the reported numbers, the previous seven to eight quarters saw provisions of about, say, 20–25 bps, adjusted for the aggressive growth that Federal would have seen, right? So, my question is, what is actually leading to a higher credit cost guidance?

KVS Manian: Gaurav, like we said earlier, the credit cost is over a period, not an additional credit cost we are taking. We are bringing forward the debits on credit cost. This credit cost would have hit us under our earlier norms as well, but with a lag. So, it is more of a lead-lag effect. Therefore, fundamentally, over a period of time, it does not change our credit cost guidance because, over time, it would have resulted in the same credit cost.

Gaurav: No, my sense was that this probably would have only impacted a few quarters, right? I mean, this may not sustain.

KVS Manian: These debits depend on the performance of the portfolio and the composition of the portfolio as we go forward. That guidance we gave you—that we are not, just now, proposing to grow our unsecured side so much—therefore, we are not expecting that to change in the next few quarters. As and when we change the proportion, we will come back to you with a revised guidance.

Moderator: Thank you. Ladies and gentlemen, that concludes the question-and-answer session. I now hand the conference over to Mr. Souvik Roy for his closing comments.

Souvik Roy: Thank you, and thanks, everybody, for joining us today and for your thoughtful questions and feedback. With that, I think we wish you a great day ahead. Thank you once again, and we look forward to connecting with you on our analyst day, which is scheduled for the 21st of February. Take care and see you all then.

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