The Federal Bank Limited

Q1 FY'25 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '25 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Souvik Roy: Thank you so much. And ladies and gentlemen, thank you for joining us today. Apologies for the slight delay. We were facing some tech glitches. Pretty sure you have seen our deck. We have delivered quite well this quarter. It's been a quarter of several all-time highs, reflecting our strong operational excellence.

We have achieved the highest ever quarterly net profit of INR1,010 crores and the highest ever operating profit of INR1,501 crores. Additionally, we have recorded our highest ever NII and other income as well. This further underscores our financial strength as well as our strategic execution.

Our Q1 performance sets a robust platform for the financial year ahead as our MD had mentioned in his release to the media. And despite the challenging environment, we have led the market in both credit as well as deposit growth. Our business strategy, focused on diversification across products and segments, continues to yield positive results with nearly all our businesses showing sequential growth of 4% to 5%.

Noteworthy among our achievements this quarter is the significant recovery in deposit growth, driven by our recent expansions and product launches, and we have also successfully reversed the previous challenges in NR growth as well. In summary, Q1 has been a quarter of exceptional operational performance and we are confident that this momentum will sustain through the year.

I have the entire senior team here with me to answer your queries. But before that -- before I hand over the call to them, I would like to make a short comment. This success of our entire franchise is definitely a tribute to the exceptional leadership of our MD and CEO, Mr. Shyam Srinivasan, who for 56 quarters has guided our bank to unprecedented levels of success. His vision and direction has always been instrumental in navigating us through various market conditions and consistently achieving superior results.

With this, I'll hand it over to you, sir, and thank you. Thank you again, sir.

Shyam Srinivasan: Thanks. Thanks, everybody. Thanks for joining in. Thanks, Souvik. Yes, like Souvik pointed out, I think we had a good quarter and I would like to believe operationally it's a very strong quarter, sets the tone for a strong FY '25. You all cover the market and you know it very well. It has been challenging and it is likely to remain in this kind of environment. So through this, Federal Bank's capabilities are now getting well recognized, and both growth in credit and deposits have been strong, almost 5% sequentially, and that sets the tone for a strong financial year. Importantly, market share gains are visible.

The one thing that I did want to call out, which Souvik referred to is on the deposits side through what arguably is a challenging period for everybody. Not only did we grow higher than many, but I think the important driver for us is what we've been struggling with for almost two-plus years is the non-resident domestic money, as in the money they put in India, not through FCNR or NRO, but the NRE-led deposit growth was kind of sort of tapering off and we've seen good pickup on that count, and I think that augurs well. We've reversed the trend. Barring that, our expansion has helped us grow our deposits well.

Credit quality, something that we take great pride in, has been stable for long periods of time, and I believe outlook remains quite robust. There are, at best, some glitches here and there, but nothing that at this point in time we are flagging as any kind of risk. So we are setting the stage for a good FY '25. We've opened well on many accounts, interest income being -- recording the highest and importantly, interest income growth has matched credit growth. Often the question is, is credit growing but not interest income. We believe that the structure and the business mix is influencing that outcome and I suspect that momentum should continue.

There are further opportunities of how we get some of our higher margin businesses growing through periods that are both opportunity is high, but one has to keep a tight vigil on all the businesses that are relatively higher margin. We have never shied away from slowing down if we see any kind of environmental sort of stress building out. At this point in time, we are encouraged by all that we see.

The team is quite excited about the opportunity ahead. I'm also happy that through this period, we have got our successor identified, so the transition should be relatively smooth. The team that helped me build the bank is intact, and they will work with the new leader to take it to another level.

So, let me just open for questions with the summary being, we've begun well this financial year. The underlying indicators, both on the credit and deposit side, look quite encouraging. Momentum is with us, and financial outcomes you have seen.

So let me just pause here and ask the operator to open for questions. As always, the entire senior team is there to take questions and give responses on areas that may require attention. Thank you.

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: Yes, hello. First of all, congratulations, Shyam, on a very successful journey and a very successful stint at Federal Bank. And thank you for the interactions and sharing your expertise with us. So thanks a lot, and we'll miss interacting with you.

Shyam Srinivasan: Thanks, Mahrukh. Thank you so much. Thank you.

Mahrukh Adajania: Yes. And congratulations on this quarter as well. I just had a few questions. Firstly, in terms of the other miscellaneous income, if you could quantify what the PSLC income was and what the revaluation on investment was? So if you could give a breakdown because it's much stronger even than last year, which was 1.6 billion. So a breakdown of the 2.2 billion that is the first question. And then I have two others.

Shyam Srinivasan: Between the investments, revaluation and PSL, the net benefit incremental to last year would have been about INR75 crores to INR80 crores. PSL last year was about INR52 crores; this year, I think, is about INR90 crores. And the investment revaluation net is about INR45 crores to INR50 crores.

Mahrukh Adajania: Yes. Got it. And the other question is on slippage and credit costs, right? You've done very well. Your slippage and even your credit cost is contained within 30 basis points. Of course, you've guided to a strong risk matrix, but even so, it's really much lower than normalized. So where do you think the normalized level settles at and when do you reach it?

Shyam Srinivasan: I don't want to reach a higher number, Mahrukh. Our business has been, I think, underlined by our conservatism, often for which I've been criticized. But I think it pays off when things are not looking good. We believe 30 basis points, 35 basis points credit cost is what we should operate at. And this quarter, if I remember right, 27 basis points.

So we are in that ballpark, and credit quality should hold because we've been quite thoughtful about where we write the credit, how we write the credit. And I mean, we also upfronted our collection capability even more materially. So I think at this level, 27 basis points being what it is, maybe 30-odd basis points -- 30 basis points, plus/minus a few basis points is what we will be fully year FY '25.

Mahrukh Adajania: Okay. And just last question on the new investment norm. So what has been the impact on net worth? Of course, on revaluation you explained, but on net worth and on investment yield. And is the improvement in investment yield, if any, because of this sustainable?

Shyam Srinivasan: Venkat, do you want to take that, please?

Venkatraman V.: Yes. Let me answer that. On the reserves, it's about INR339 crores net of tax. That's the impact which we have due to the new investment guidelines.

Mahrukh Adajania: And in terms of investment yield?

Venkatraman V.: We haven't quantified that. We are not disclosing that...

Mahrukh Adajania: Because that seems to have gone up, right? The investment income is up quite sharply. Okay.

Venkatraman V.: We can say approximately, like -- we can say around 10 bps increase.

Mahrukh Adajania: Okay. Thank you. Thanks a lot.

Shyam Srinivasan: Welcome.

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

Rikin Shah: Thank you for the opportunity. I had two questions. First one, Shyam sir, you had alluded to in your opening remarks that the interest income has kept pace with the loan growth in this quarter. However, if we look at the yield on advance disclosure, as per the PPT, it has gone down by 5 basis points sequentially. So, if you could just explain what's happening there? That's number one.

And number two. Just wanted to get an update on where are we in terms of the RBI embargo on the co-branded cards. And more importantly, once -- whenever that gets lifted, is there going to be any fundamental change or shift in the strategy of sourcing the cards and personal loans over a medium term?

Shyam Srinivasan: On yield on advances and interest income, you'll not see much variance. I mean, yield on advances is only one element of the interest income number, right? Interest income has a few other elements also playing around in it. So it's not that grossly variant.

Rikin Shah: Advance yield went down. So -- and the high-yielding portfolio has been growing, barring the slowdown in personal loan, credit card. So just wondering, why is the yield on advances going down if the high-yielding portfolio is growing faster?

Venkatraman V.: Yes. Let me just comment here. See, Q4, usually the yield on advances is on the higher side, including higher recoveries. So it's not fair to compare Q4 to Q1. So to that extent, if you exclude some element of that, the 3.16 is where we have landed this quarter.

Rikin Shah: Okay.

Shyam Srinivasan: On the co-branded card, and I think I did mention in an earlier engagement with the media, we are working with RBI. It's not one pass -- one letter, one response. I think it's an active engagement with the regulator. We believe we are in sort of good discussions. Sometime between now and end of Q2 or early Q3, we should have some clearance. Does it change the way we do business? We just want to remind ourselves that co-branded credit cards with fintech partners was to increase reach and distribution. So as we get the approvals again, we'll certainly work with them.

In all instances, the risk is ours, the underwriting criteria is ours, so that should not alter anything. We want reach and distribution, which we were getting through our partnerships, which is now going through whatever the regulatory changes which has to be guided by co-branding guidelines, has to be by technology outsizing guidelines, and IT -- and financial outsourcing guidelines. So there are three guidelines that we'll work through, which is what we are doing. So I think between Q2 and Q3 we should get hopefully a majority of the clearances and then we will be back in business.

Like Shalini explained in an earlier thing, we are actively pushing up organic, which is doing well, but hard to match up the gap that has come up, which we will work through in the quarters ahead. On PL, it is nothing to do with the outsourcing guidelines or co-brand. It just we are being quite thoughtful about how much incremental risk we want to take in PL given all that we see in the environment.

Rikin Shah: Noted, sir. Thank you very much and wishing you the best for future, sir.

Shyam Srinivasan: Thank you.

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

Nitin Aggarwal: Yes. Hi, sir. Congrats on a good quarter. A few questions. Firstly on the cost-income ratio, like while sequentially, of course, there is an improvement but still we are fairly elevated at around 53%. So how do you see this over the medium term and what will be the drivers of potential improvement in this metric?

Shyam Srinivasan: We are targeting 50% over a longer period of time, we would have liked it earlier, but it will require us the income momentum further gathering steam because some of the costs are good costs and we don't want to cut down on that, technology, people, and branch expansion costs. So the income flow through on that may be a little lagged. But we have seen good pickup in deposits, as you saw observed in this quarter. That is a consequence of almost 210 branches we added in about an 18-month period.

So we are mindful of this balancing out that we need to do. So we see improvement of about 100 basis points every quarter -- every one or two quarters. So I think getting to 50% will take -- it's taking longer. We would have liked it to happen earlier, but in the context of having to invest behind these three areas, we can't believe that we can shave that cost off. So I think over the next, you could say four quarters, five quarters, you will start seeing closer to 50%.

Venkat, do you want to add?

Venkatraman V.: Yes, Shyam. Just by way of another data point to add to what Shyam said, Nitin. The spends which the bank has incurred on two of the large elements, good costs, IT and distribution, Q1 over Q1 is almost a 75% increase in cost in just these two lines. It just goes to show that the focus we have on making sure that the spend is in the right area and these are costs which are required to ensure that the ecosystem is in place to sustain the growth rates which we envisage.

Shyam Srinivasan: Nitin, as a boring old hat in the system, I want to comment this slightly fixation on lower cost-to-income is probably a thing that will change in the industry.

Nitin Aggarwal: Okay, sir. And sir, like on slide 15, wherein there are details about the high margin business. So most of the high margin segments are between now INR3,000 crores to INR4,000 crores. So what will be the cost-income ratio in these businesses which all have breakeven? How do you see the like breakeven points for them? So, will this be like a material thing from this cost-income reduction perspective?

Shyam Srinivasan: It should, but these things, by the nature of what it is, I've said in a few earlier engagements, they are still, size-wise, relatively small compared to our close to INR220,000 crores, right? So for it to have a bearing on the overall dynamic will take a fair bit of doing. But that requires us to be a little more courageous on the level of growth, which I think is not our DNA. We have to be a little more calibrated on it. So on by themselves, these are certainly way more income generating and relatively lower cost as long as collections is well in control and we are putting in collection costs there.

On the blended cost income, will this have a material bearing in the nearest term? Like I said, that's -- the numbers I promised of four to six quarters coming closer to 50 is a consequence of all these things working through. By themselves, they are yet not of such size that they can swing it one way or the other.

Nitin Aggarwal: Right. And the last question is on the rating distribution. As in like the BBB and below, this quarter has come down materially. So it's like a 4%, 5% drop sequentially. So what has really driven this?

Shyam Srinivasan: Souvik, do you want to give?

Harsh Dugar: Yes. Harsh here, am I audible?

Shyam Srinivasan: Yes, Harsh, go ahead.

Harsh Dugar: Yes. So last time there was some issues with corporate required rating with the names captured. As a result of that last quarter, we couldn't get the benefit of rating, which is what was pursued. This is what the steady state would be. Apart from that, we are very clear about in terms of the segment which we are pursuing, and above is the most preferred segment and BBB followed by that. So part was a correction of ratings which were not because there were new guidelines that required a specific name of the banks to be there. So that was the reason why it was a little lower in the last quarter.

Nitin Aggarwal: Okay, sure. Thank you so much and wish you all the best, sir.

Shyam Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Pratik Chheda from Guardian Capital Partners. Please go ahead.

Pratik Chheda: Yes, hi. Thanks for taking my question. Sir, I have a question on the gold loan yields. So if I look at the gold loan yields, it has been coming off past six, seven quarters on a consistent basis, and now it is sort of below 10%. So I just want to understand what is the reason. Is it -- are you lending to higher ticket sizes in gold loans or is there any specific other reason?

And I mean, I understand, obviously, NBFC is a way ahead in terms of yields, but even the -- even if you look at some other banks, mid-size and larger banks, even they are slightly ahead on in terms of gold loan yield. So what is the reason for such a decline in these numbers?

Harsh Dugar: Yes. Harsh here. Three, four reasons. One is the ticket size, which we have as compared to that of an NBFC is almost threefold. And as a result of that, the cost to income is also different, so not technically comparable. Then -- they have a different cost structure, we have a different one, and definitely are -- ticket prices are definitely larger than them. The competition which we get is largely from the PSU bank. That was one.

Second point, which I would like to add that if you recall, a year before, there was almost a price war where everybody was falling over each other because of which significant price cuts have been given. This seems to be getting corrected. Another point which is not covered over here is that the fee. The average fee-to-asset ratio in gold has been steadily rising and it's about 85 basis points, 86 basis points at this point in time.

Apart from that, there are certain benefits in terms of capital requirements, in terms of PSL benefits and other -- and no loss ratios. So has the rates bottomed out? The answer is yes. And we -- actually steadily, I think we're going to move up. What is not shown over here is the increase in the fee income, which is also contributing towards the overall yield on the portfolio.

Pratik Chheda: Sure. So what I'm understanding is the direction, at least, this is bottomed out and the direction is on the upper side going forward.

Harsh Dugar: Absolutely. Yes, it is. Absolutely.

Pratik Chheda: Okay, great. So the second question, so you prescribed one of the reasons, as for the good show on deposit as branch addition. So just wanted to understand in the next, say for the 12 months to 24 months, what is the branch addition plan?

Shyam Srinivasan: We added, like I said, 140 in the last financial year. We are targeting in that zone to 100 or plus depending on how our costs shape up. But we believe what about 100 branches this FY. We will do about 40-odd in the first half and the balance in the second half. That's how the teams are preparing for. And I think that's what will happen. Shalini, would that be right?

Shalini Warrier: Yes, Shyam. So around 40 by the end of September and then the balance somewhere between 60 to 65 in the second half of this financial year. So that's the plan. And in a slightly more longer term, people continue to look at this calibrated. I just want to add that distribution branches are very critical and form a very core component of our distribution strategy. But there are other components of distribution also which we refer to in our deck. Whether it's in the form of relationship managers expansion, whether it's in the form of more effective utilization of our very, very good DC network that we have. So a combination of all that will ensure distribution is expanded. Branches per se, the numbers are as Shyam and I referred to. Okay?

Pratik Chheda: Okay. Perfect. Thank you very much.

Shalini Warrier: Thank you.

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

Param Subramanian: Yes, hi, good evening. Thanks for the opportunity. Firstly, Shyam, congratulations on a fantastic innings at the bank and congratulations on a great quarter as well. So, my first question is on the deposit growth again. Now, I think -- so if we look at your deposit growth, you're tracking at

20%. Even quarter-on-quarter, it's very strong. The system is tracking at something like 11%. So you're growing at double that pace.

So what are the -- what's driving this outperformance on deposit growth? I think in your initial commentary, you spoke about NR flows. The data you've given in the presentation, it's only showing 1% quarter-on-quarter on NR. So if you could expand on that. And between that and the new branches contributing, what's driving this outperformance? Yes, that's my first question.

Shyam Srinivasan: Thanks. Thanks, Param, for all the nice words. I'll give you one line and then Shalini, she explained it beautifully in the Board, so she'll give it to you. Firstly, on the NR, you mentioned 1%, but remember, we were de-growing for two quarters, so the comeback is quite strong. We reversed the negative growth, so that is the positive. But Shalini will give you more texture around how scorecards have been altered, how products -- Shalini, maybe you can comment on that.

Shalini Warrier: Yes. Thanks, Shyam. Thanks for the kind words on the deposit growth, something that we've been working on. As I said at the Board earlier internally as well as I tell my team very often, there is no one single silver bullet that works for deposits. And over the last probably three or four quarters, in particular, we've been very, very focused on making sure that the franchise has a whole kind of calibrates ourselves towards deposit growth. So in that direction, a few initiatives that have been taken -- that have taken place and we're bearing the good benefits of that.

One, we are still -- the distribution is largely branch-led. In addition to the new branches that we spoke about, our existing branches are obviously a treasure trove for catchment area banking, and therefore, we've done some calibration on their scorecard, which recognizes the role that they play on deposits and how we can make sure that we get more deposits through them. This is both new to bank customers, which has been specifically kind of highlighted in the scorecard, and deepening of our existing relationships.

We've done a range of changes that we needed to do from a process standpoint. In particular, non-resident was something of concern for us, so we streamlined a large part of the account opening process on the NR front, both for non-resident NRE accounts and NRO accounts, both now are very heavily digitally oriented, subject to large KYC requirements has helped us from a process standpoint.

Digital, a large part of our customer base is very dependent on using digital. In particular, our non-resident customers are heavily dependent on digital technology. We've calibrated and introduced a range of capabilities through WhatsApp, through FedMobile, etc., to cater to them. And the new products, we launched Stellar, which is a very unique savings bank product. We launched that in February of this year. We added -- for the current accounts, we added soundboxes as a capability. So many, many initiatives. But like I said, if you put it across product, process, digital scorecards, all of that coming together has truly helped us.

We do believe that this trajectory will continue. The teams are well-geared to do that. And it's also evident in the fact that we're gaining market share on deposits. So, we'll continue that. Every quarter, you'll see some product innovation or the other, as well as some process changes and some digital capabilities being launched.

Param Subramanian: Thanks, Shalini. That was really helpful. So it could be fair to say that this sort of 18% to 20% deposit growth is something that you think is sustainable, right?

Shalini Warrier: Yes. That's what we're working towards. We're gaining market share. Literally every fortnight, we look at it like a very -- with a microscope as to where we've gained market share, but that's the expectation, yes.

Param Subramanian: Perfect, perfect. Thanks for that. My second question is on asset quality to Shyam. Shyam, we've actually heard quite a few banks and even the NBFCs call out credit cost pressures in unsecured retail, in credit cards, in personal loans. So I know we have a small portfolio, but it's been growing very fast for us. So if you could shed some light on how the asset quality is showing up in our own portfolio? Yes, that's it from me.

Shyam Srinivasan: No, I think overall, the mix of slippages in a quarter, in retail, if you see for almost six, seven quarters, been in the INR210 crores to INR240 crores per quarter, despite a good denominator growth. So it's only a sustained outcome. Now, within that INR240 crores, you could see some plus/minus, some home loan reduction, but increase in credit card slippages. But I don't see it going out of hand and turning the tide.

So in the ballpark, in the vicinity of about INR240 crores, which is roughly about 55% to 60% of our overall slippages. Our book slippage is about 0.8% this quarter. Normally, we are well below 1%. So I think in that 0.8%-odd, we may see about 60% coming in from retail. Of that, the mix could be plus/minus, depending on how our home loan, lab, credit cards, personal loan is. But at this juncture, it doesn't look anything substantial.

Param Subramanian: Great, great. Thanks a lot, Shyam. All the best. Thank you so much.

Shyam Srinivasan: Thank you. Thank you, Param.

Moderator: Thank you. The next question is from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Yes, hi. Good evening and congratulations, Shyam, for a very long and satisfying career. Thanks for all your wisdom and insights shared. I have a few questions, sir. First on, I mean, the previous participant also asked on the deposit growth, which -- so you have been industry-leading so far on both Y-o-Y and Q-o-Q basis on the deposit growth. At the same time, your cost of deposit has also seemed to have declined, right, Q-o-Q.

Now, in the previous quarter, you know, SBI and maybe some other large private banks, they had raised their TD rates, minor upwards. With your expectations of continued healthy deposit growth, would you believe that your -- you need not tinker with your rate and your cost of deposit is broadly flattened at your end.

Shyam Srinivasan: Thanks, Jai. Thanks for the nice words. See, I think it's very hard to say that it will be -- we can't tweak with rates because these are super dynamic. We have made general criteria that we don't want to grow credit too far ahead of deposits. So fund before you lend is one. Two, we want to respect our LCR and CD ratio criteria. If that means we need to price some buckets more attractively to get deposits, we will. So what we are trying to stay away from going into, large-category bulk deposits or purchase deposits, but go after client deposits.

Thankfully, in the quarter that went by and even in the previous, we've been able to deliver on that. I think that capability will continue into Q2 and Q3. We are also actively retiring some of our high-cost borrowings and replacing with relatively attractive for the customer, but lower cost for us, a blended rate. So, we are able to manage the cost of deposits but yet keep the momentum going.

Jai Mundhra: Right. And sir, if you can call out your LCR -- average LCR for the quarter? And in your view, what kind of changes could there be in the LCR framework if RBI were to strengthen it, maybe in terms of run-off rates or it could be something else?

Shyam Srinivasan: I'll give you the sort of basic logic on LCR, right? If we are getting good quality, attractive client, sticky money, it's a big plus. So we are going after that quite intensely. Second, as a consequence, if you have a lesser short-term borrowings, it helps again. Third, if it's -- the borrowing is not from a financial services institution, it's even better. So there are many constituents of this LCR and our teams track it up to me, on a daily basis we watch it, and take very instant corrective actions should things start looking out of range.

We are in -- we have a threshold in the bank in the 105 to 120 kind of band is where we want to be. We are right now operating in that band and we have to keep sort of constantly calibrating, like I said in an earlier instance, LCR/CD ratio and the eagerness to grow credit too far ahead of deposit, we have to rein in. So broadly with this criteria and the LCR band between 105 and 120, we are operating.

Jai Mundhra: Great. Okay. And sir, there was a question on non-stop opex, I think you mentioned sometimes, but I just want to check the growth has been like 30% Y-o-Y. Partly, we have been growing high-yielding, high-touch retail segments. So is this -- is there any one-off or how should one look at the non-staff opex growth for the next maybe one-year, two-year types?

Shyam Srinivasan: Venkat, do you want to comment?

Venkatraman V.: Yes, Shyam. Yes. I think there is no one-off in the non-stop opex, which you see in this quarter. And to your question about how do we see this going forward, it would be in the similar lines and on the teams which we've mentioned earlier in terms of investment in distribution, technology, and control systems, whether it's audit systems or compliance systems, a combination of all this.

And we don't see the rest of the cost would all be directly variable to the business growth. So, largely, if you see the cost pertaining to distribution and tech would be ahead of other spends in terms of percentage. But most of the other way, expense would be variable to business growth and in line with the current -- around the same levels of cost-income ratio.

Jai Mundhra: Sure. And lastly, sir, what would be your total -- I think you used to give the total employee number. I think that is not given this quarter. What is the staff count? And if you were to bifurcate to IBA-linked and maybe CTC model, a broad number?

Shyam Srinivasan: Total headcount is about -- somewhere in the vicinity of middle 15,000. 15,500 and change. We are largely IBA-linked, Jai. We don't -- a maximum of about 1,500 people, 10% is not in the IBA.

Jai Mundhra: Right. Okay. Sure, sir. And lastly, sir, if you could answer, I mean, this is a bit intriguing question that you have appointed your successor, a worthy successor, but he had resigned much earlier before taking his job and getting an RBI approval -- final RBI approval. So if you would like to comment here to the extent possible. Thank you.

Shyam Srinivasan: Two -- three things. Three things here. First, I did not appoint my successor, my Board and RBI did. And we certainly welcome and he is a high-quality professional, as you mentioned. I think you're asking the question, he resigned there and he got the appointment later. It's probably the question. I don't even know if they are linked, Jai. I think he resigned, maybe did not want to hold any job while he's in discussion with another opportunity. I can't quite comment. But other than that, I really have nothing to offer other than say that I've known him for long and he's a high-quality professional. And I'm sure the bank will greatly benefit by his presence here.

Jai Mundhra: Thank you and all the very best, sir.

Shyam Srinivasan: Thank you. Thank you, Jai.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: Yes. Hi, sir. Hi. Thanks a lot for the opportunity, sir. So, sir, firstly, like, on the network side, so like, if we exclude the profit for this quarter and the accretion that we have done, INR339 crores, there is some more addition to reserves is there. So what is the reason behind that, sir? I couldn't get it completely. So I am deducting the profit and INR339 crores that we have accreted to the AFS reserve. So what is the residual number could be?

Shyam Srinivasan: Venkat, Mani?

Venkatraman V.: Well, it's only the INR339 crores and profit, there's nothing else material which is coming.

Rakesh Kumar: Okay.

Venkatraman V.: And share premium.

Shyam Srinivasan: And share premium will be there. That's in the normal premium.

Rakesh Kumar: Share premium will anyway come into the total reserves. Anyway, okay, I will discuss it offline, sir, maybe. Sir, this total miscellaneous income, sir, as you explained, sir, we have PSLC gain. But this number is quite volatile. Like, the full year in FY '24, we had INR635 crores. In this quarter, we have INR227 crores. So how do we, like, see this number? And out of this INR2,700 crores total written-off pool that we have as on March '24 approximately, what is the recovery number that is sitting in here, sir, from the return of pool out of INR227 crores?

Venkatraman V.: That's about -- approximately INR30 crores sits on return of pool.

Rakesh Kumar: And INR90 crores from this PSLC, sir?

Venkatraman V.: Yes. 90 PSLC and approximately around 50 from the revaluation.

Rakesh Kumar: And the remaining, sir?

Venkatraman V.: Last year also we had. There's a dividend from our AFLIC, which is our...

Shyam Srinivasan: Life insurance partner.

Venkatraman V.: Yes, insurance -- associate company.

Rakesh Kumar: So remaining dividend, sir, like excluding dividend, how do we see this number, sir? Like the PSLC gain and recovery on return of pool for the remaining three quarters?

Venkatraman V.: Like we said earlier, every year in Q1 you would see the PSLC upon coming and dividends coming in. So incremental, what you should see is around that INR50 crores-odd number on reval and INR40 crores, which we got from the additional PSLC. And as we grow, the PSLC income will also continue to grow, we'll be able to get more income from it. And recovery from return-offs is again something, these are all small accounts and we continue to recover from it. There is no big chunky number in this quarter's recovery from written-off.

Rakesh Kumar: Got it. Okay, sir. Okay. Thanks a lot, sir. Thank you.

Moderator: Thank you. The next question is from the line of Krishnan ASV from HDFC Securities. Please go ahead.

Krishnan ASV: Yes. Hi. I hope I'm audible. First and foremost, hearty congrats to Shyam, and the team you have built up over the last many years. The true test is how you leave the organization from the time how you found it. I think you're leaving it in much, much better shape. I think all credit to you as you don't get due credit, you don't even seek it, but I thought that was relevant. You'll be missed.

I just had one query. I mean, in the last three, four years, and probably even earlier than that, you've been very particularly focused on making sure risk is the first thing that you tend to address. There is now a tendency that your yields are sometimes probably the lowest in the system. I'm not talking about the yields that you report, but I'm saying in general, when you look at asset classes, we tend to find that Federal Bank is amongst these lowest-priced banks, right.

So you get of course the creamiest asset, but it comes at the cost of you probably underpricing yourself. Is there a good risk you are leaving on the table sometimes? I mean, could you just throw some light around how you want to triangulate, revisiting the portfolio versus not taking the unacceptable risk?

Shyam Srinivasan: Thanks, Krishnan. I think we've tried very hard to ensure that balance between risk and growth, and we want both as in low risk and high growth. But it's always the tough act. In each business, we have very tight criteria for how much we want to take. But the idea of our growth and I hope it's vindicated and validated across time, we want to be a banker and not a lender. So if I give a AAA or AA or an A, a very attractive credit pricing, then we ask for more business from that customer.

As a consequence, if we see our corporate banking, commercial banking, other income is growing quite smartly. Our PSL, which was we were deficit 2.5-3 years back is now a revenue-generating opportunity is only because we have gotten those assets which are helping us -- our PSL go up and therefore we are able to sell and make.

Harsh explained the gold loan philosophy of how price right on the interest rate. But 80-odd percent -- INR80 crores, INR85 crores is fee income. So I think we are trying to keep that balance. So I want to believe that lagged credit costs on our book applied on our margin, we are not widely off from better banks. You know the industry better, but somebody has a NIM of 3.75 and a credit cost of 75 on a sustained basis.

In our case, 3.20 NIM and 30 basis point credit costs, we are not like wildly off. That we are not recognized for it is a quirk that I have never been able to explain, but I think the reckoning has come. We will get recognized and probably rewarded too. But we've held quite tight on that and I think we shouldn't go away from that is our belief, Krishnan.

Krishnan ASV: Understood. That's helpful. I mean, if I have room for one more question maybe. You did mention something about NRE deposits in your opening remarks. I don't know if this was addressed subsequently, I might have lost it. But just wanted to understand what helped you claw back your way into the NRE deposits this quarter. Why do you believe that's sustainable now?

Shyam Srinivasan: Yes. I think maybe, Param from Nomura asked that question and Shalini explained, but I'll try to add some value. First is we didn't lose share of NRE as much as NR deposits were coming down into India. It's not like we were gaining share, but the quantum was coming down. What has changed and improved in the quarter that went by and even in the first month of this quarter is encouraging is that to some extent, money has started flowing in probably because one, our own tweaking of our scorecard of our people, encouraging them to go much more into deposits than any other product. Second, these are all sort of our guessing but borne out by some data.

The period that -- this started post-COVID, right, towards the back end of '22, '21 and early '22 is when this two-year period of people, NRIs bringing in less money was visible or whatever was coming in remittances were not coming into deposits because people were paying off loans, setting up small businesses, doing whatever that money goes into for various other instruments. We are now thinking that era is over. Their loan payoff is typically two years into that. They've probably sorted that out. So, money -- the remittance is coming into deposits also. Remittances were not shying away. Remittance was not converting into deposits. I think that's the biggest change that has happened in the last 100-odd days.

Krishnan ASV: And that's largely the system tailwind rather than the Federal Bank having had to do something, right?

Shyam Srinivasan: No, no, no. Federal Bank's strength has been great ownership and relationship and percentage of clients who bank with us. So what Federal Bank is benefiting by that is aiding the money, client behavior shifting from only into paying off loans and spending into deposits, and we are benefiting from that.

Krishnan ASV: Perfect. Very helpful. Thanks a lot. And -- Yes, sorry, Shalini, I think...

Shalini Warrier: No, I think Shyam supplemently addressed it, Krishnan. So it's not just the kind of -- only the environment changing, but a lot of interventions from our side have also helped.

Krishnan ASV: Okay. It's very helpful, Shalini and Shyam. Thanks a lot. Wish you all the very best Shyam personal -- in your personal capacity and obviously to Federal Bank as a franchise.

Shyam Srinivasan: Thanks, guys. Thank you.

Shalini Warrier: Thank you.

Moderator: Thank you. The next question is from the line of Prakhar Agarwal from Elara Capital. Please go ahead.

Prakhar Agarwal: Yes, hi. Thanks for the opportunity. Just a couple of questions and sorry if I'm being repeated. Why -- what would explain the cost of deposit decline on a sequential basis? We probably have around 6 basis points of reduction. What would rather explain this?

Shyam Srinivasan: Venkat, do you want to go?

Venkatraman V.: Yes, Shyam. Sorry, can you just repeat? I was just talking to...

Shyam Srinivasan: Yes. I was saying there was a 6 basis points of decline in cost of deposit on a sequential basis. What would explain that?

Venkatraman V.: Just one second. To a large extent, in our case, the interest payable is once a year in March, in Q4, which you saw in last quarter. So if you exclude that, that's the reason why you see the difference in this quarter. That's the main reason.

Prakhar Agarwal: Okay. And in conjunction to that, last time Shalini mentioned that margins probably for the full year, maybe 2 basis points to 3 basis points higher than where we closed for FY '24. Do we maintain that stance or probably given what we have seen in Q1 and probably some -- what is our stance on that strategically?

Venkatraman V.: Yes, I think like what Shyam mentioned at the beginning, margin, at this stage, we expect it to be around the same levels, at least for the next couple of quarters. And then since entire deposit pricing is very dynamic, we will review it post that. So at this stage, we expect the margins, NIMs to be around similar levels as we saw in Q1.

Prakhar Agarwal: Got it. And just one last data-keeping question. There seems to be some reclassification in the gross advances across various buckets on wholesale. Could you explain what is the changes and what is the rationale around the same? So prior period number has also been restated to some extent.

Venkatraman V.: I didn't get your question, sorry. Sorry, I didn't get your question.

Prakhar Agarwal: So when I look at your gross advances and the composition of that, there seems to be some reclassification in the prior period quarters as well. What explains that and which are the segments that we've changed, so across various segments we have changed?

Venkatraman V.: Let me check and we come back to separately on that. I don't have the numbers in front of me now. Yes.

Prakhar Agarwal: Sure. Thank you, I'll wait.

Venkatraman V.: I don't recollect any major reason for the reclassification, but I'll check and come back.

Prakhar Agarwal: Sure, sure. That helps. Thank you so much. That's it from my side.

Venkatraman V.: Thank you.

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

MB Mahesh: Hey. Hi, Shyam. Thanks a lot for what you have delivered at Federal. Love the interactions that we've had in the last 15 years. A few very basic questions from my side. Just wanted to understand, what was the LCR that you've reported for the end of this quarter?

Shyam Srinivasan: I don't know if we have reported a number, but I guided that it's in the 105 to 120 bracket, which is our guideline. If I recall right, it's about 111 or 112.

MB Mahesh: Okay. Sir, just checking on this deposit -- on the balance sheet for the quarter, there has been improvement in the deposit book as well as the borrowing book, which was a bit more than what was the need for the -- what the balance sheet was showing. Just trying to understand what you have done here. Because borrowings is up from INR18,000 crores to about INR22,000 crores, and the deposit book has also gone up. Any reason for the increase in borrowings from your end?

Shyam Srinivasan: Lakshman, are you there? Or Venkat?

Lakshmanan V: We have had -- Yes, so we've had some refinance happening. Beyond that, our liability, some amount of our activity goes into the investment activities for the treasury book as well, and some products around that. So the refinance plus this, it would answered a part of what you're asking.

MB Mahesh: Okay. Sorry, the second question was to -- was a continuation of the previous one. I think what you've done is that you've reclassified the agri book, as well as the gold loan portfolio within retail and on the agri side. But if you look at the gross NPL line, which is in slide 34, that NPA number continues to remain the same at INR930 crores, whereas against that if you look at the agri book, which is in slide nine, which is about INR7,684 crores, the NPL ratios in the agri book looks to be fairly high. Are we all looking at the right set of numbers here?

Shyam Srinivasan: Souvik, you can reconcile that and share it with them.

Venkatraman V.: Yes, we'll come back to that.

Souvik Roy: Sure, I'll do that. Mahesh, I'll share it with you. It's not really reclassified, what we have done is we have just taken out gold as a separate entity, I'll have a separate chat with you.

MB Mahesh: You have taken it out on one side, whereas on the other side, when you look at the gross NPL book line and the slippages line, we don't know whether the two talks to each other, that's the only thing.

Souvik Roy: Understood, Mahesh. Understood. There is a rationale behind there. I'll come back to you.

MB Mahesh: Okay, perfect. Last question, sir. Have you reached a point where you've started -- you've had to invoke FLDGs on your, let's say, MFI partners or things on the ground continues to remain fairly okay? Just wanted to check on that...

Shyam Srinivasan: As of now, everything looks okay, Mahesh.

MB Mahesh: Okay, sir. Perfect. Done. Thanks a lot for this.

Shyam Srinivasan: Thank you. You and Krishnan, I think are the longest in this conversation brigade we have had for 15 years.

MB Mahesh: Is it good or bad, sir?

Shyam Srinivasan: Time will tell. I think you and I have served in the same company. Krishnan has had four.

MB Mahesh: Yes. We shall cheers for that.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Hi, Shyam. No questions this time. Just thanks a lot for being at it. And I can certainly say that in that mid-cap range of banks, our bank is one of the best in terms of technology and various tie-ups and various improvements that we have done over 10 years. So just a thanks -- thanks. Big thanks.

Shyam Srinivasan: Thanks, Pranav. I know one person would have been happy with us was the big boss of your organization.

Pranav Tendulkar: Yes sir, definitely, definitely. Thank you, sir.

Moderator: Thank you. The next question is from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: Yes. Hi sir, thank you for the opportunity, and really thanks for you being there. Sir, my question is basically, you had such a long career in Federal Bank. There were a lot of ups and downs that you would have seen. Now that the new MD is going to come, basically what would be the ask from the new MD? Any unfinished business that you believe should be taken up on a finality basis, particularly on asset side, liability side, people? Don't know anything basically to be done on the technology front because I think there we have done a lot.

Then the another part is also basically the co-lending arrangement. I think you certainly led this co-lending, co-sourcing kind of arrangements very well on the liability and the asset side. But somewhere it seems like, they're not too happy with these kind of arrangements? And I think being it gold loan sourcing business or on cards something or the other has cropped up. So maybe a better engagement with RBI. So any ask or basically answering that you will want that you have to take it up on time.

Shyam Srinivasan: Anand, I think that's like a very difficult to answer because I think the -- these are journeys, right? There's always something and something more to do. I'm sure when Manian said this, comes in here he'll find through his pair of eyes many opportunities and things that can be dialed up. But I think all I would say is the core of the franchise is super intact and the team is like, quite excited. There will be lots of things, right? How do we expand margins? Which other new geographies we can scale up?

But at least for eight, 10 years, the Board and we've been saying, we want to be the most admired bank. And that is a hard journey. On every count, we want to be good. On governance, on credit quality, on employee engagement and client service, NPS ratios. So I think it's going to be one sort of, hopefully, a good journey. But this is far from over. A lot can be done, a lot will be done. But margin expansion would be one big agenda item and I would think seeking greater market recognition also will be another one for him.

Moderator: Thank you very much. The next question is from the line of Saket Kapoor. Please go ahead.

Saket Kapoor: Yes. Namaskar, Shyam, sir, and thank you for this opportunity. Sir, with the end of the first quarter, so what should be our NII growth trajectory for the current year? And what should be the number for slippage and recovery as a percentage of book or an absolute number if you could give us some understanding?

Shyam Srinivasan: Sir, I think the answer to that is, we are guiding for overall credit costs to be around 30 basis points, 35 basis points, right? So everything is subsumed in that. Interest income, I also said, will match credit growth. So those are the two metrics we are working on. And as a result of it, the momentum on profitability and ROA should keep flowing through.

Saket Kapoor: In terms of exit for the year, what should be the numbers that we should keep in mind in terms of NII and ROA?

Shyam Srinivasan: No, ROA we've been saying we are at about 1.27%, we believe we'll get to around 1.30%, 1.35%. And that automatically means improvement in the run rate on interest income also.

Saket Kapoor: Right, sir. Sir, on the employee cost, I think, so Q4 we had a higher provisioning of the early prior period also. So this number of 7 -- the current quarter number of employee cost of INR738 crores is the one which we should analyzed?

Shyam Srinivasan: Venkat, would that be right?

Venkatraman V.: Yes, that's correct. Just some minor non-IBA stuff, is there any changes that would come in. But largely, yes, that would be the staff cost.

Saket Kapoor: Okay. And in terms of the repricing of deposit, you did alluded to the fact of 20% deposit growth that we are working with. So in terms of the repricing of the deposit, what percentage of the total deposit are being repriced to and what are going to come for repricing for the current year in percentage terms or in absolute number?

Shyam Srinivasan: I think that will come in our annual report very soon. You'll just see that by vintage the book maturity. In the next week, you will see. In the next two weeks, you'll see that in our reporting.

Saket Kapoor: Okay. And lastly, a question to you, Shyam, sir, with closing remarks. We know you being a banker for an elongated period and what should we take into account going ahead? Because as an illustrative career, people will always be pursuing their ambition. So there are regulatory norms and things which do not allow you to be I think so a part of this organization going ahead. Please correct me in my words and if the choice of words are wrong.

So going ahead, can we look at Mr. Shyam as a banker with another institution giving his valuable insight and guiding another set of institution to another milestone going ahead? Or are you on the verge of hanging your boots once the 22nd September comes in?

Shyam Srinivasan: Certainly, calendar '24 I have no other than working in Federal Bank and signing off. In '25, we'll figure out. But I'll continue hopefully with the regulators permitting to be associated with the bank in some fashion or the other. Otherwise, I don't have any executive role responsibility aspirations.

Saket Kapoor: With other institutions also, sir? You are not aspiring to lead any other institution?

Shyam Srinivasan: This is my biggest baby in life. So this is my job. This is my bank.

Saket Kapoor: Okay. Right, sir. So all the best to you, sir, and best wishes from investing community, shareholders at large. And sir, last point on the other income, if you could give the -- we have provided the granular details. So, on a consistent basis, what should this number can be? Because we have highlighted this to be the highest other income number wherein I think so the major component has been the reversal in recovery from the return of assets at the highest at INR227 crores. So, on the other parameters like loan processing, card, parabanking, and other ones, what should be this number that should be consistent going ahead depending upon the nature of the...

Shyam Srinivasan: We're working to taking it to 1% of our assets. Currently, it's 0.8%, 0.9%. We're working to take it to closer to 1% of assets.

Saket Kapoor: Right, sir. Thank you once again, sir, and all the best. Thank you, sir.

Shyam Srinivasan: Thank you. Thank you so much. Souvik, if there are no other questions we can bring this...

Souvik Roy: Sure, sir. We'll probably wrap it up.

Venkatraman V.: Souvik, just before we close, can I just take a couple of minutes?

Souvik Roy: Please, sir. Please.

Venkatraman V.: Thank you. Shyam, on behalf of everyone in the bank and the investing community, I take this opportunity to thank you from the bottom of our hearts for the transformational journey, which you have led this bank from 2010 till now. Though we have these calls with the investing and analyst community on a quarterly basis, it's only fair when we step back and look at what the bank was in 2010 and where we are today. It wouldn't have been possible without your leadership. So big thanks from all of us and we wish you all the very best in your future endeavours. Thank you.

Shyam Srinivasan: Thanks, Venkat, you're very kind. But to our entire friends in the investor community, I've said this and now I can say it with even greater courage and conviction, don't look further. This is the best bank you will ever see. And I genuinely mean it. Every time I've said, you see what you see is the truth in this bank. And I'm sure you will all accept the fact that at least if nothing else, our balance is playing out quite well. So thank you very much. And for those of you who have been with us throughout, thank you so much. Thank you.

Venkatraman V.: Thank you all. Bye.

Moderator: Thank you.

Shyam Srinivasan: Thanks, everybody.

Souvik Roy: Thank you so much.

Harsh Dugar: Thank you, sir.

Shalini Warrier: Thank you. Thank you, Shyam. Thank you, everybody else. Bye.

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