

Federal Bank

Federal Bank Limited Q3 FY'26 Earnings Conference Call

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Federal Bank



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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY'26 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 '0' on your touchtone phone.

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 so much. Good evening, everyone and a very Happy New Year to all of you. Thank you for joining us today for our Q3 Earnings Call.

Before we begin, a quick housekeeping note. In the last interaction, we had mentioned that we would try and avoid scheduling earnings calls on Saturdays and we are glad we could keep this promise this quarter. As always, the entire senior team is here on the call with us today. We will begin with the opening remarks from our MD. Then Venkat sir, ED would take you through the quarter, the main numbers actually and after which we will open the floor for further questions. Given the number of participants on the call and the time available, we request everyone to restrict themselves to one question each so that we can accommodate as many participants as possible.

So, with that, I will hand it over to our MD, Manian sir, over to you.

KVS Manian: Thanks, Souvik. Before Venkat walks you through the numbers in detail, I would like to make a few introductory remarks about some of the important events during this quarter.

First, for the Brand refresh, this was one of the 12 strategic themes that we had listed in February last. As you are aware, we took on board Vidya Balan as Brand Ambassador and launched a media campaign Savings ki Vidya, we took the next steps forward in this quarter.

For decades, our customers discovered us by walking into the branch or by speaking to our people, by experiencing our values in person. Today, the first interaction often happens on a six-inch screen. The first judgment is formed not in our offices, but in our pixels. We are evaluated not just on rates or products, but on experience, simplicity, and the quite confidence with which we project in those early moments. That was a rationale for our brand refresh exercise. This is not a rebranding. At its core, this refresh stands on three ideas. Pride in a 90-year legacy while actively shaping the next chapter, retaining the colors of the brand is indicative of that. Openness to evolve how we work, communicate, and collaborate while remaining anchored to what we stand for. Make the new brand look familiar yet fresh, retaining the connect with our existing customers. And ownership, this is not a management's brand or a marketing's brand, it is the bank's brand carried forward by every one of us every day.

At the heart of this refresh is a new visual expression of who we are, the Fortuna Wave. It brings more fluidity and freedom of expression to attract newer audiences. The Fortuna Wave represents three things that define our relationship with all our stakeholders. Authenticity, Prosperity, and Togetherness, what we call APT. These are not aspirational words that describe how we conduct ourselves with our customers, our investors, and our employees every day. The intent behind this refresh is simple and deliberate to enhance recognition, to sharpen differentiation. Importantly, the refresh will go beyond digital identity. Also, with this brand refresh, we have finalized our new brand design and aesthetics. We will gradually roll out that change as well.

Confidence in our direction is also reflected in a significant development during the quarter. In Q3, we received board and shareholder approval through an AGM for the proposed strategic investment by Blackstone. The transaction has also received clearance from the Competition Commission of India. This is a strong validation of our strategy, governance framework, and execution capabilities. Beyond strengthening our capital base, it opens up avenues for unlocking business synergies and expanding access to global institutional expertise, reinforcing our long-term growth trajectory and deepen stakeholder confidence in our bank's future. Against this backdrop, our Q3 performance reflects a steady strengthening of underlying fundamentals, improvement in margins and ROA, reduction in funding costs through improved CASA mix, growth traction on chosen asset segments, and sustained stability in asset quality are actually outcomes of disciplined balance sheet management and consistent execution over multiple quarters. We are beginning to see the benefits of stronger liability franchise and a calibrated shift in our asset mix towards segments that offer superior risk-adjusted returns. Cost discipline and prudent risk management remain central to how we operate and will continue to operate.

While competitive intensity remains elevated, our focus is deliberate consistency over volatility, quality over headline growth. This positions the bank to deliver sustainable performance across cycles.

With that, I will now hand over to Venkat to take you through the numbers of the quarter in more detail. Thank you.

Venkatraman V.:

Thank you Manian and good evening, everyone. Thank you for joining us to discuss our performance for the quarter. I trust you have had a chance to review our investor presentation and disclosure.

Let me begin with a quick view of the macro environment for the quarter:

Inflation remained well-contained with headline CPI moving up 1.33% in December from 0.71% in November, reflecting some bottoming out in food prices and the print came in below market expectations. The key driver was a sharper than anticipated decline in vegetable prices. While core CPI edged up, this was largely driven by higher gold and silver prices. When we exclude these volatile components, underlying core inflation moderated to about 2.4%, indicating that broad-based pricing pressures remained subdued.

On the policy side, liquidity conditions remained supportive following the rate cut in December, which helped anchor interest rate expectations.

In summary, the macro environment during the quarter remained broadly constructive, notwithstanding the ongoing global geopolitical uncertainty. Inflation was low, underlying pressures were muted, and the operating environment remained relatively stable. This provided a supportive setting for us to focus on execution, balance sheet discipline, and prudent growth.

Now, coming to our performance for Q3:

Q3 was a quarter of strengthening fundamentals and measured progress. We delivered INR 1,041.21 crore in net profit, representing 9% sequential growth, driven by sustained margin expansion, disciplined cost management, and continued improvement in asset policy. More importantly, these outcomes are the result of structural shifts in our balance sheet, not short-term action.

On the balance sheet momentum:

As at the quarter end, total business stood at INR 5,53,364.49 crore, growing at 3.71% QoQ and 11.4% YoY. Deposits closed the quarter at INR 2,97,795.82 crore, up 3.07% QoQ and 11.8% YoY. More importantly, CASA balances grew at 6.59% sequentially and 18.86% YoY. And the CASA ratio improved to 32.07%, an increase of 106 basis points QoQ and 191 basis points YoY. This, we believe, is among one of the best in terms of CASA growth in the industry.

This steady retailization of our liabilities is materially improving the durability of our funding profile, and it is now clearly reflected in our margin trajectory. Gross advances closed at INR 2,55,568.67 crore, up a very healthy 4.46% sequentially and 10.94% YoY.

Again, importantly, the emphasis is growth continues to be led by the segments which we have consciously prioritized. Commercial banking grew by 5.35% QoQ and close to 26% YoY, reflecting sustained traction in the mid-market and medium lending. Business banking grew by 3.82% QoQ, which, as you know, showed signs of turning around last quarter but was muted at the beginning of the year. So, this gives us the close to 4% growth in this quarter gives us belief that the momentum will continue in the next quarter and going forward.

Retail banking grew by 2.84% QoQ and 14.76% YoY. Gold loan, which is another one of our medium lending portfolios, grew 12% YoY and 9% QoQ, despite a calibrated downsizing of a portion of the book in line with recent regulatory guidelines.

In addition to BuB, LAP is another portfolio which expanded quite strongly in Q3 at 4.47% QoQ, with growth momentum expected to sustain and improve in the coming quarter. Corporate and institutional banking grew at 8.59% QoQ and 14.46% YOY. The mix of growth remains intentional. We are expanding in segments that deliver superior risk-adjusted returns while maintaining underwriting decisions.

On margins and core income:

Our NII for the quarter was at INR 2,652.73 crores, growing 6.31% QoQ and 9.1% YoY. NIM expanded to 3.18%, up 12 basis points sequentially. This was supported by a reduction in our funding costs, cost of deposits, cost of funds and cost of borrowing, in addition to improvement in yield on investment and the CRR cut impact. The improvement in margins reflects the combined impact of liability mix optimization and asset repricing. As stated earlier, this was the quarter in which we had highest ever NII, highest ever fee income and highest ever OP.

Our fee income stood at INR 896.47 crores, growing at 5.23% QoQ and close to 19% YoY. Fee growth remains well distributed and continues to strengthen the quality of earnings. Our cost to income ratio improved to 53.92%, down 12 basis points sequentially.

During the quarter, we also added six branches, aligned with our calibrated approach to network expansion. On asset quality and risk, our GNPA declined to 1.72%, an improvement of 11 basis points QoQ and NNPA improved to 0.42%, down six basis points QoQ and at an all-time low. Our provision coverage ratio, excluding technically written off, increased to 75.14% and we continue to maintain around the 75% level. Credit cost for the quarter was at 0.47%, improving three basis points QoQ. These trends reflect both portfolio reasoning and sustained focus on recovery and give us confidence in the resilience of our book. And our slippage ratio for the quarter was 0.7%.

As a result of all the above improvements, our ROA increased to 1.15%, up 6 basis points sequentially and ROE improved to 11.68% and an expansion of 67 basis points QoQ. You will notice that despite the 125-bps rate cut from last year December to this year December, our margins have expanded, our ROA is also better than last year December level. EPS for the quarter was at INR 16.79 up 8.89% sequentially.

Also, during the quarter, we increased our stake in our associate company, Ageas Federal Life Insurance, from 26% to 30% through the acquisition of 3.2 per shares at INR 30.45 per share. The transaction was completed November 25 after receiving all necessary approvals from RBI and IRDAI and it strengthens our long-term strategic partnership in the life insurance business.

To conclude:

Q3 reinforces the fact that we are building a more stable margin led and buoyant franchise. Our priorities remain unchanged, strengthening the liability franchise, secondly growing in chosen higher quality lending segments and thirdly maintaining control on cost and asset quality. While competition remains intense, our focus remains on risk-adjusted profitability and consistency of outcome rather than just pure headline growth. The balance sheet that we are building is more granular, more resilient and better positioned across rate cycles.

Thank you and we will now open it up for questions.

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

Mahrukh Adajania: Hello, congratulations. My first question is on your outlook on margins, right? You already expanded margins by 24 bps over the last two quarters. So, where do we see margins from here on, given that the growth in mid and high segments is already very strong. So, I guess it will stabilize from here on. So, what is your outlook on margins for the next 2-3 quarters, assuming no further rate cuts? And even for the longer term, where do you see them stabilize? And my next question is in your fee income on the distribution income. If you could throw some light that was not very strong this quarter. So, those were my questions.

KVS Manian: Hi, Maru. So, just to talk about the NIM expansion, it's a journey. I don't think we are at the end of that journey. And as we keep changing the mix of our liability profile, as our CASA percentage grows and our medium yield assets continue to grow faster than the low yielding asset size, I think we hope to continue this journey for many more quarters to go. Of course, there will be an immediate quarter, you will see the impact of the last rate cut play out. So, we have to keep that in mind in the next quarter. A large part of the last rate cut will play out in the next quarter. Of course, we have to try and mitigate that as we have tried in the last few quarters. We will attempt to do our best. So, but I don't think that journey is anywhere close to the peak of what we want to get. Your second question was...

Mahrukh Adajania: So, you usually have a T+1 repricing except for new loans, right? So, part of the repricing would have played out this quarter or no?

KVS Manian: Yes. For a month it would have played out. The rest of the two months, it wouldn't have played out. So, one third of that impact would have played out this quarter. Two thirds of that impact will play out in the next quarter. Yes.

Mahrukh Adajania: Okay, thank you.

KVS Manian: On the distribution side, we do have a seasonal seasonality every year. Our distribution income is usually better in the second quarter than in the third quarter. Usually. Having said that, there was also GST impact in the last quarter because the commissions were impacted by the change in GST structure. And last, also the product mix. When the markets are buoyant, customers tend to choose ULIP products and there the commission percentages are lower. So, it is partly reflective of that. In terms of volume, our traction continues to remain good.

Mahrukh Adajania: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Akshay Jain from Autonomous. Please go ahead.

Akshay Jain: Hi, sir. This is Akshay. So, my question is on asset quality. So, how do we look at asset quality for MFI segment going ahead? So, if I reverse calculate your MFI credit costs, they come out to

around 10%-11%. So, how should we expect this number to move incrementally? And on other segments, they are performing very well. The credit costs you have disclosed to be around 29 basis points. So, assuming you build moderation in MFI credit costs, how should this blended credit cost number move? So, should we expect it to be much lower than your 50-plus basis point guidance? Or are we expecting some deterioration in other segments? So, that's my first question. And secondly, on the loan mix, so while you continue to state that you will be focusing on the mid-yield segments, any quantitative number on how the mix should settle down maybe in 3-4-5 years? How much will be your high yielding book, mid-yielding book, and low yielding book? Anything on that?

KVS Manian:

So, let me take the second one. I will ask Venkat to answer the credit cost question. But I will take the second one. The way I look at it is this is again a journey. It's too early to put a stable number to that. Our attempt is to keep working towards growing the mid-yield book faster than the high-yield book. And remember one thing that we have still not changed the composition of the high-yield and very high-yield portion because that is the microfinance. While cards have, you can see good growth in cards, other high-yield segments we have not pushed the accelerator on, whether it is personal loans or MFI, because we have been waiting for pushing the accelerator on that to get more comfort on the potential credit costs of that. So, I think this journey is, we are too early in the journey to tell you how it will look 3-5 years later. I think the attempt is to keep working towards changing this mix favorably. How much it will reach, where it will reach, too early to say. But clearly our attempt is to improve yields on the asset side by changing this mix.

Venkatraman V.:

On the credit cost, see at the beginning of the year and in Q1 also we said the full year guidance we gave 55 bps to 60 bps. And right now, for 9 months we are already at 55 bps. So, we should end the year somewhere between 55 and 50, say 52-53 bps for the full year. For the quarter the credit cost was 47 bps, of course lower than last quarter. So, we will continue to see the credit cost getting better in Q4 as well.

Akshay Jain:

My question is like once MFI book settles down.

Venkatraman V.:

On the MFI like you said, if you have seen the trajectory of slippages, it is coming down every quarter and the credit cost is also coming down. We are seeing it come down and we expect even Q4 to be lower than what we have seen in Q3. So, we should see the improvement being reflected in the MFI as well. Now have we seen a full recovery in MFI? We do not think so. We are still cautious in terms of growing the MFI business and it is being grown selectively. So, we will watch for one more quarter before we decide how much to press the pedal on MFI.

KVS Manian:

And just to add to that, in the medium term we should also remember that as we build the medium yield asset, the credit cost on those will be higher than the low yield asset. For example, corporate credit costs are close to zero. So, as of now, we are not yet giving significantly different guidance compared to where we are today. We will evaluate that guidance as we go forward.

Akshay Jain: Understood, sir. So, just one more question on how is your MSME asset quality progressing and any impact you are seeing from US tariffs, or you are hearing anecdotally from the industry?

KVS Manian: No, like Venkat mentioned earlier, if you see what we call the BuB segment, the lower end of SME, we have actually begun to grow that in this quarter with comfort on the credit side. Actually, our credit costs are well in control and the portfolio is absolutely, I mean, we have not seen any deterioration at all. And in the commercial banking, which is the higher end of SME, again, our portfolio quality remains robust. We are not seeing any stress in that portfolio. Actually, both these segments, this quarter costs are lower than, credit costs are lower than what they were last quarter.

Akshay Jain: Understood, sir. Thank you.

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

Rikin Shah: Good evening, sir. Thanks for the opportunity. I had four quick questions. So, the first one is on the growth. So, on the growth, you are clearly restructuring the mix towards mid-yielding segment, which partly is reflecting in your margin performance as well. So, when does this restructuring largely gets done? You reach your target mix and we can expect the bank to grow in line or maybe faster than the system. So, that is number one. Second, if I look at the reported margins, they are up 12 basis points sequentially, but the lending spreads are broadly flat. So, if you could just provide some walkthrough of where this reported NIM improvement is coming from. Third is on CASA. So, this is again second quarter of good CASA traction. Last quarter, we saw SA momentum was good. It sustained this time. And this quarter, even CA has picked up. So, just wanted to check on CA specifically, any period and chunky balances that may get potentially reversed or, this is real organic improvement in CA as well that we saw in the quarter. And fourth and the last one, just wanted to get a sense on when do we expect the first tranche of fund infusion from Blackstone coming in? Would it be in 4QFY'26 or maybe 1QFY'27? Thank you.

KVS Manian: Thanks, Rikin. Rikin, this quarter, our asset growth is 4.5%, close to 4.5%. And so, I do not know when you say that, will it recover to industry levels? I do not know which industry level you are talking about. So, I do not have an answer to that. I am assuming you are measuring momentum by the last quarter.

Rikin Shah: Fair enough. So, you are saying that momentum should broadly sustain going ahead as well?

KVS Manian: I will qualify it partly. As you have seen, all our chosen segment, our run rates are quite good. And this quarter, of course, we got very good growth on corporate as well. So, maybe the 8% kind of quarterly growth on corporate may not sustain. But even if you drop that lower, our run rates will be fairly healthy. So, that is on the asset growth. On the NIM, I will ask Venkat to take it. But before that, on CASA, first of all, there are no chunky stuff there. It is all reasonably granular. But I will just requalify it by saying that there are usually, of course, bump ups that happen in the quarter and due to the nature of the business. But we should, that is why we

disclose our averages through the quarter. And if you see the average growth, growth in averages also are quite healthy. So, therefore, if you remain focused on the averages that we report, it will tell you that it is reasonably secular. CASA growth, of course, there is no one silver bullet we have used. It is a factor of multiple things, including better productivity from branches, newer products. It is a combination of various things and this journey, of course, continues. We can do more and we will continue to focus on that. On the Blackstone, of course, we are awaiting final regulatory approvals on that. So, we are hoping that this quarter, it will get, in the last quarter, it will get done. That is our expectation. We will keep you posted with the actual development on that. NIM walkthrough, again, NIM, my broad comment will be, NIM again is no one single silver bullet. It is a combination of multiple things that improve our NIM. We work on granularity on multiple things to make sure our NIM improves. But I will ask Venkat to take the details on that.

Venkatraman V.:

Yes, I think in terms of NIM, like Manian said, several factors have moved. On the downside, yield on advances has gone down by 9 bps, but on the upside, we have had several factors. One is cost of deposits is lower, our cost of borrowings has gone down. CRR cut, to some extent, has come. Better yield on investments as compared to last quarter and our average own fund. A combination of these 5-6 factors helps us in terms of getting to 3.18. So, several things, and we have to continue to work on all of them.

Rikin Shah:

Got it. Perfect. Thank you, Manian and Venkat, sir.

Moderator:

Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer:

Hi team. Congratulations on the quarter and thanks for keeping your promise of not keeping it on a weekend. Just firstly, getting back on the NIM question, how much of your TD repricing is left?

KVS Manian:

As we had earlier indicated, from the cycle started, we think it is about 14 months on an average. 14 months it takes to fully reprice the term deposits and that means we have about 4 or 5 months to go.

Piran Engineer:

Two more quarters.

KVS Manian:

One and a half more quarter.

Piran Engineer:

Yes. Okay. That answers my question. Secondly, just in this quarter also the yield decline of 10-12 bps QoQ. Now, 2-3 bps would have come because you have immediately passed on the repo rate cut. But what led to the other 8-9 bps of decline?

Venkatraman V.:

The total decline is only 8 bps, no? Or rather 9 bps.

Piran Engineer:

So, yield on advances, 886.

Venkatraman V.: On NIM basis, it is only 9 bps. Drop in yield on advance.

Piran Engineer: I mean, I am going by your reported numbers, 886 going to 874. Now, out of that, ballpark 2-3 bps would be due to the repo rate cut.

KVS Manian: Piran, but the incremental business also happens at lower rate. As the rates drop, incremental business, for example, MCLR repricing would have happened on other assets, non-repo asset. New business would come at lower rate because markets do price in drop-in rate. New corporate business would have come at lower rate. So, all that also happens. So, yes, the yields do go down overall. But of course, our costs also go down.

Piran Engineer: So, then this NIM improvement this quarter, going back to Rikin's question, is essentially balance sheet management, where we must have reduced liquidity on the balance sheet, more loans on the balance sheet and that is why we see this 12 bps benefit. Is my understanding correct?

KVS Manian: So, when you say balance sheet management, CASA improvement, CASA percentage improvement has an impact on cost of funds. Cost of deposits go down. So, it is a mix of both. Borrowing cost is not balance sheet management. Borrowing cost reduction is actual cost reduction. So, it is a mix. So, like I said, this is not one silver bullet, which is solving it for us. We have to work on multiple parameters to improve NIM and we will continue to do that.

Piran Engineer: Understood. Okay. And just lastly, in terms of your mortgages and your auto loan books, those have been fairly stable for the last 4-5 quarters now. So, just wanted to get a sense of when we will start seeing these segments pick up.

KVS Manian: Right now, on the home loan, particularly home loan, as you can see, we have stepped up the pace on our LAP book. As you can see, the growth rate in the LAP is reasonably healthy this quarter. On the home loan side, we are not finding the risk rewards attractive just now. We feel that the pricing is below the optimal levels that we require. And therefore, as you can see, we have not grown that aggressively. We, of course, continue to serve our existing customer needs, but we are not going out and acquiring aggressively at those kinds of rates. These are long term commitments. This is a very long term product. And structurally, you can lock the balance sheet on poor rate economics for a long time. And therefore, we are cautious. When we get comfortable, so I don't have an answer as to when we will change that one. We will continue to focus on areas where we think the risk rewards are good. Auto, hopefully we can, we are working towards, we have made some structural changes internally to make auto work. Auto, we hopefully get back sooner. On the home loan, I will wait and see how the situation evolves, the competitive intensity evolves, and how the pricing in the market evolves to see whether we can press the accelerator on that. But the way Piran I see is we have opportunity to grow the other assets. As you can see, many of them are growing in their 20s. And we will continue to focus on that to build the balance sheet.

Piran Engineer: Got it. And just lastly, quickly, branch openings have slowed down a lot this year. Why is that?

KVS Manian: As you know, earlier we have addressed this issue, we have been working on multiple things on the branch side, like the free the branch initiative that we have been doing. So, we are kind of reimaging the branch operating model. And we wanted to focus on settling that before we push the accelerator on branch openings. We also wanted to, we were working on the brand, brand refresh, branch formats, reformatting our actual physical layouts of the branches, branding. We are also, we have also gone through evaluation of our branch network, in terms of their efficiency of the network, whether we need to relocate some branches, whether we need to review some branch sizes. So, various things are in, were in the pipeline. So, we wanted to get a better handle on all that before trying to push the accelerator on the branch numbers. You will see better branch traction in the Quarter 4 already.

Piran Engineer: Got it. Okay. Yes, that's it from my end. Thank you and all the best.

KVS Manian: Thank you.

Moderator: Thank you. The next question is from the line of Abhishek M from HSBC. Please go ahead.

Abhishek M: Hi, good evening and congratulations for the quarter. So, a couple of questions. So, the first question is on OPEX. I just wanted to check that, now since you are anyway going to grow mid-yielding, etc., which is more granular business, what would be the run rate of Opex? Would it grow at this 4-5% QoQ range and that means annualized high teens maybe, or does that taper off at some point of time?

Venkatraman V.: Abhishek, hi, this is Venkat. On the cost, as we had indicated earlier, the cost-to-income ratio, if you had seen, it's to do with both, you know, management of cost and the income traction. So, this quarter it's down because we have had strong income momentum. But our guidance, we have said that over the 2-3-year period, it will be range one in the 53 to 55, because we will be reinvesting the saves in distribution technology and all the other initiatives. So, but at the same time, our endeavor is to ensure that we try and get to a positive job so that the alignment of cost is in line with the income growth.

KVS Manian: Abhishek, we had said earlier that this is a tightrope walk we will do. We will build income and we have always stated that. So, our guidance has been that don't build in benefits out of that. If we get that, it's a bonus, but we will remain very focused on making sure that we are efficient. But just now we don't want you to, our guidance is don't build efficiencies out of that in the short term. We will see in the medium term.

Abhishek M: Yes exactly. Because if you are in a build out phase, you will need to make those.

KVS Manian: Yes.

Abhishek M: Okay. The other one is on, two or three segments of your loan mix. One, I wanted to check, gold loans, are you seeing any kind of yield pressure or pressure to raise LTV, etc. And, or is, the market largely rational at this point of time as well?

KVS Manian: I will ask Harsh to take that.

Harsh Dugar: Hi, Harsh here. The pressure on yield on gold loans in general would be there because of the falling interest rates as some of the PSU Bank's offering rate, but the gold loan book has grown substantially. We have actually maintained our yields on a gold loan book. The challenges on LTV has actually not happened because our LTV has actually come off. If you look at from last quarter to this quarter, the LTV has actually dropped. And this is not just for us, industry-wide phenomena because of the increase in the gold loan prices. So, we are not going to push growth to, by targeting only LTV. So, this is where it is. So, at this point in time, I would say that the yields are being maintained and managed. I don't see growth has been reasonably good for us. And LTV pressures are not there at this point in time.

KVS Manian: In fact, the gold loan growth rate of 9% is in spite of the, what Venkat mentioned in his thing, running down of our wholesale lending kind of a book we had, which is not allowed under the new regulation. So, if you gross for that, it's another 2%- 2.5% higher.

Harsh Dugar: Actually, it's almost 90% YoY. And if I look at the beginning of the financial, it's actually 20%.

Abhishek M: Okay. And most of it would be price-driven, right? Not really tonnage-driven.

Harsh Dugar: Meaning the growth?

Abhishek M: The growth. So, basically...

KVS Manian: Our tonnage has not gone up this quarter.

Venkatraman V.: And on LTV, we are at 54. We have enough and more headroom available if we had to do that.

Abhishek M: Sure, perfect. The personal loan book, like MFI, you indicated that you are still looking at the environment and where the credit costs will settle. Is it the same in the personal loan book or are you seeing any kind of comfort there and you could start growing? I know you indicated that you are still watching, but what is that metric or indication that would make you start growing that book?

KVS Manian: So, compared to MFI, we are more comfortable in the personal loan space. And I would say we are in baby steps in terms. We did the highest personal loan disbursement in the last 12 months, in the last month, actually in the month of December. So, we are trying to build that. But slowly, baby steps, I would say, yes. But we have more comfort in that space than the MFI space just now. But we are just now focused that product on our existing customers alone. We haven't gone out to acquire customers on that product, which is something that we are evaluating. We will see the economics of that must justify. We are looking at the options there.

Abhishek M: And in terms of book growth, when does that start contributing, at least incrementally?

KVS Manian: The personal loans? See, just now it is a small book. So, even if it grows at a reasonable pace, I think it will take time for it to really make a dent on the overall scenario. It's a very small book, as you can see this 3,600 crores book. So, let's start building it, then we will see the impact arising out of that.

Abhishek M: Got it. Thanks. I will get back in the queue for more questions. Thank you.

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

Nitin Aggarwal: Hi. Thanks for the opportunity. And good evening, everyone. So, I have two questions. One is on the yield and the rating distribution of the corporate exposure. How are you looking at that, if you look at the slide 21? And so the mix of A-rated corporate has gone down in this quarter by nearly 500 basis point. And so I understand, like, of course, the bank is working on improving the yield. But how are you looking at this equation? Any desired number that you would like to reach? Any color around this?

Harsh Dugar: We had very consciously said that we would not be focusing large part on the low yielding one. And in corporate banking, the AAA means that the maximum price extraction from the bank. So, we have consciously let go of certain large assets, which has made a difference. In terms of asset quality, I can assure you that we are not going down the risk spectrum to build a book. We will be more granular, we will be more mid corporate, we will be deeper geography, but not diluting the credit standard. It's just not focusing so much on the AAA names, because reciprocity doesn't come from there, neither does the yield coming from there. And two things which I would like to further stress, how we strengthen are rating. We ensure that they're either very securely asset backed, or there's proper cash flow tracking over there.

Nitin Aggarwal: Right. And so just like on this, see, at the same time, we have also reported a pretty strong growth sequentially. So, while we have let go of this asset, but still we have reported a 6% growth. So, does that mean that the growth otherwise was running in double digits in corporates this time?

KVS Manian: Nitin, you have to see it in the context of the last one year, we have also grown this book slow right over a period of time. So, the restructuring of this book had impacted the growth of this book for the last 3-4 quarters, actually, it had not grown very fast. So, and we had started focusing on mid corporate. But obviously, it takes time for mid corporates to build. And I think now we are able to see the progression towards that. Yes, of course, but some opportunistically some assets have happened in corporate which has also, which were decent yield and therefore we have also done that. So, like I mentioned earlier, don't go by the 8% you see in this quarter in that as a steady state run-rate of growth for that segment of business.

Nitin Aggarwal: Right, sir. But is like the unwinding more or less over? Or you expect more unwinding to happen?

KVS Manian: No, unwinding is over. We have to now build. Over in the sense, see, like I said, all these are processes, long term loans sitting there, you can't easily unwind. So, it's always a process. But by and large, I would say, yes.

Harsh Dugar: So, corporate level, as we keep in mind, is also very short term in many cases, and very opportunistic. So, if we do see opportunities at any point of time, we will do that part. So, we look at from our balance sheet perspective, our risk-adjusted return on capital (RAROC), our risk return point of view and reciprocity. So, this is something which you are doing as a conscious call.

Nitin Aggarwal: Okay. And the other area that I wanted to check upon is the margins. Like last two quarters, we have reported a 24-basis point odd NIM expansion. So, do you think that margin will be a bigger driver in ROA expansion, as you alluded that it would like even going forward, the margins will continue to expand. So, will this turn out to be a bigger driver in our overall blocks and like on which margin expansion or ROA expansion is going to be based?

KVS Manian: No, NIM is obviously one of an important driver for ROA expansion. There is no question about that. Having said that, yes, can fees also add to that? Of course, there are other things that will add on to that. And margin also is both an asset side game and a liability side game. So, I would say all three, liability side mix, asset side mix, and fee improvement, all three need to drive our ROA trajectory.

Venkatraman V.: Having said that, I just want to caution you that for the coming quarter Q4, our endeavor will be to maintain NIMs around the current level, given the fact that we still have the impact of the last rate cut to be passed, the two-month impact

Nitin Aggarwal: Right, got it. Thanks so much. Those are my questions.

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

Kunal Shah: Thanks for the question. So, on fee income side, maybe at the discussion earlier, you alluded to the overall distribution income. But if we look at it, maybe the overall fee income growth or fee income to assets, where do we expect it to settle over next 12- to 18-odd months once all the factors play out? Because it still seems to be settling closer to 1-odd percent even in this quarter, and that's been largely flat.

KVS Manian: So, Kunal, I don't think we are, I will say that again, like in some other cases, I don't think we are looking at settling, wherever we are is not the place we are settling at. Clearly, there are levers that we have. We will, this quarter, we launch our wealth in the market, and that's a business that we will grow over the next few years. Our trade and forex has upside possible, which I don't think we have yet got the trajectory that we want to. So, there is potential to grow that. Our card business continues to grow well, that would add to fee income going forward. So, these are things that are still to play out. So, I think we are far from saying that we are settled at a 1% level. We want to see upside on that, and we will drive upward trajectory in that.

Nitin Aggarwal: Okay. And this would be visible over like maybe 4 to 6 odd quarters. So, maybe this wealth management and card business and all, that should be driven over a period?

KVS Manian: Yes. As you can see, even in the last two quarters, we have seen some trajectory, right? It has moved up to 1% from the 90-92 basis points that it used to be. So, there is traction. So, you see it, I mean, hopefully you will keep it on a continuous basis. You will not necessarily have to wait for 4 to 6 quarters.

Nitin Aggarwal: Sure. Got it.

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

Param Subramaniam: Hi. Good evening, team. Congrats on the quarter. A few questions. Firstly, on LCR, what is the LCR as of this quarter? And what is the impact for us from the RBI change in regulations from April, positive, negative?

KVS Manian: So, our quarter-end LCR was about 114%.

Param Subramaniam: I meant average for the quarter.

KVS Manian: Average was about 123. We expect about 5% to 6% impact out of the new regulation from RBI, approximately.

Param Subramaniam: This is a negative impact?

KVS Manian: Yes.

Param Subramaniam: Okay. Fair enough. And so then what does that mean for your growth? So, broadly, we talk about 1.2x to 1.5x nominal GDP growth, right? So, is there any change to that after taking into account both these things? Firstly, you know you'll have capital next year. There is the diagram of this LCR norm as well. So, how to think about the growth trajectory?

Venkatraman V.: Param, it's also a function of opportunity and the external environment. Having said that, we will continue to remain focused on medium yielding segment growth. And as you saw last quarter, 4.5% advances. So, assuming all things equal, we will try and be around the same levels. So, high teens is what we are working towards.

Param Subramaniam: High teens loan growth.

Venkatraman V.: Around 16.

Param Subramaniam: 16 for next year is what you are talking about. Okay. So, that part is clear. And on this corporate loan growth bit, so I think you mentioned, so there is, I mean, there is a growth sequentially. So, what is, I mean, and we can see it in the RBI data as well. Is this just substitution of bond market

primarily or is there some CAPEX related lending here? Could you give some color on this corporate lending?

Venkatraman V.: Mix of it. Basically, a part has also come, Param, from the fact that the bond markets had priced it higher and the bank lending had come out in line. So, that was one part of it. So, that's what you are saying is right. There's also been an increase in requirements of both working capital. If you look at the data also, the paid offtake from the corporate sector has also increased. That has also led to it. A little bit of CAPEX, I won't say substantial, but a little bit has come from there as well. So, all the three has actually contributed.

Param Subramaniam: Thank you, Venkat. Thank you, Harsh. Just one last question. Again, this has been asked before, but if you would just explain the margin walk, right? So, I mean, in that slide nine, the top left chart that you are showing, it's showing yield on loans and cost of funds are down broadly the same. I mean, there is a CRR positive, we can see, 4-5 basis point, which we are aware, but I mean, there's a 12 basis point improvement, right? So, how exactly do we?

Management: I will take this offline, after the call, Param.

Param Subramaniam: Okay. Fair enough. Thank you all. Congrats on the quarter again.

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

Jay Mundra: Hi, sir. Congratulations on the quarter. Sir, you spelled out on NIMs and loan growth trajectory. If you can share your aspirational ROA over the next two years, sir, that will be much helpful.

KVS Manian: Jay, in our February document, we had shown some, we have given you a guidance on what, how to look at our ROA over the next 2-3 years, right? I don't think that changes. I think we are just now in the execution mode on the same strategic plan. And that continues to be your guidance on what we think are ROAs will be.

Jay Mundra: Sure, sir. And lastly, sir, if you have the quantifiable number from RBI trade relief measures, RBI had given this window of dispensation for exporters. If they want, they can take moratorium. Do you have any quantum of such requests where people would have taken?

KVS Manian: Very, very negligible. Insignificant. Negligible.

Jay Mundra: Okay, sure. And sir, if you can quantify the labor, new labor code impact, have you done any higher provision on gratuity, etc.?

KVS Manian: Yes, stated in the results.

Venkatraman V.: Results, point number eight captures the quantum, Jay, and we have disclosed it. It's part of the disclosure.

Jay Mundra: Okay, sure.

KVS Manian: It's a very small amount. It's not material amount, but it is disclosed. They are provided for. And this is done for now, right?

Jay Mundra: I mean, you did not do for the, I mean, this is one time when it is done also, right? There is no recurring impact?

KVS Manian: This is the direct impact relating to our employees. Now, people we work with, they may have an impact on our contractors and suppliers and partners. They will have this impact and that can have a knock-on impact on us over a period of time that those are not quantifiable.

Jay Mundra: Sure. Thank you very much and all the very best.

KVS Manian: Thank you.

Moderator: Thank you. The next question is from the line of Gaurav Jani from Prabhudhas Lilladher. Please go ahead.

Gaurav Jani: Thank you, sir, and congrats on a good quarter. Just touching upon the margins again, right? Seems to me that, largely the improvement is from balance sheet management, right? We have reduced the proportion of liabilities overall. LDRs have gone up, borrowings have come down. I think that's the main contributor apart from the CRR cut. Now, my question is, sir, how sustainable is this? CFO, sir, did mention about margins probably being steady in the next quarter. How would we achieve that? I mean, purely from the loan mix? Because there will surely be a normalization in terms of liability growth, right, in the next quarter. So, yes, that's my first question.

KVS Manian: Yes. I mean, I thought we already answered that, that we continue to work on the liability mix, asset mix, all of that and therefore all that will be NIM accretive that's our effort. But yes, the repo rate cut will play out fully in the next quarter. So, there will be a negative impact of that. We will have to look at how we can mitigate that.

Gaurav Jani: So, secondly, sir, on the TD rate cuts, so the first tranche of repo rate cuts that happened was followed by system wide TD rate cuts. So, what is your sense on further TD rate cuts? Is that possible?

KVS Manian: Yes and no. So, there are, in fact, after the last rate cut, the drops in rates, of course, savings rate did not drop at all. Term deposit rate, very moderate cuts have happened, not as much as the repo rate cut, but lower cuts have happened, but not fully reflective of the repo rate cut. But increasingly, as you know, the market after the last rate cut, actually the bond markets have hardened, rates have hardened. So, the opportunity to cut rates was lower post the last rate cut. And that's true for the entire sector.

Venkatraman V.: And also, as I said earlier, we also want to focus on growth and keep the momentum on growth going. And to achieve that, we have to ensure that the deposit growth keeps pace. So, it may not be wise to cut the rates at this point.

Gaurav Jani: Thanks. Just if I may squeeze one more. Sir, on the provisions side, we have been buffering up the standard asset provisioning. So, it will help if you could just run us through as to what are you thinking or how are you planning in terms of ECL? We have been shoring up standard asset provisions. So, does it mean that we would continue to see credit costs of about 50 basis points moving towards the ECL? Or then, because of improvement in asset quality, we will see credit costs coming off?

Venkatraman V.: Credit costs, like we said earlier, guidance will be around that 55-60 bps. We are still waiting for the final guidelines from RBI. Based on the draft, we have worked out the impact. We will have to see how that plays out. And there are certain concessions which the industry has asked. If that comes through, the impact will be quite minimal. And for which we have in the past indicated what this quantum will be.

Gaurav Jani: But as of today, we are in line with ECL or we are a bit short?

Venkatraman V.: Little bit short.

Gaurav Jani: Understood. Perfect. Thanks a lot.

KVS Manian: When you say short, you mean from credit cost perspective?

Gaurav Jani: That is right.

KVS Manian: So, fundamentally, we do not think ECL changes the credit cost dramatically. Over a period of time, it should align with credit costs. We cannot have an accounting mechanism which does not reflect the actual credit cost. So, we do not believe that ECL mechanism, there may be a one time impact.

Venkatraman V.: But even for that transition period which RBI is giving, they said they will do it over a few years. So, you would not see any material bump up on this.

Gaurav Jani: Understood, sir. That's it from me. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today, which is from the line of Siji Philip from Renaissance Investment Managers. Please go ahead.

Siji Philip: Hi. Good evening. Congrats on a good set of numbers. Sir, on the fee income front, so we have gradually improved to 1%. But how much further improvement do we foresee over the next couple of years? Like just a broad range will be helpful.

KVS Manian: I do not have specific guidance on that. I mean, but having said that, our effort, I just mentioned that there are levers that we have not yet used. Wealth, cards, trade and forex, all of that has to still play out. We are trying to get those things done. So, upward trajectory, we would hope to get how much, time will tell.

Siji Philip: Okay. Thank you. And sir, on the unsecured portion of the book, has most of the stress gone out? How do we see the growth on that front? Are we going to push growth in unsecured?

KVS Manian: We have already been pushing growth on the organic card side. Organic cards, our own cards, we are already growing it reasonably fast. In the last two quarters, we have seen our book grow reasonably fast on that. On the Fintech partnership cards, we are still cautious on that. We are not growing that fast enough. PL, I would say we are making baby steps, as I mentioned earlier. On microfinance, we are still cautious. So, that is the current status.

Siji Philip: So, we will be happy with, as you said earlier, a high-teen growth of around 16% in the next year.

Venkatraman V.: Overall growth.

Siji Philip: Okay. Great. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Souvik Roy for closing comments.

Souvik Roy: Thanks, Rituja, and thank you, everybody, for your time and for the timely connect. And if in case you need further clarifications, you can reach out to us. Happy to connect after the call. Thank you so much and have a great weekend.

Management: Thank you so much!

Moderator: Thank you. Ladies and gentlemen, on behalf of Federal Bank, that concludes this conference. Thank you for joining us and you may now disconnect your lines.