



Federal Bank Limited  
Q1 FY'26 Earnings Conference Call

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**Moderator:** Ladies and gentlemen, good day and welcome to Q1 FY '26 Earnings Conference Call of the Federal Bank Limited.

As a reminder, all participants' 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 this conference call, please signal an operator by pressing '\*', then '0' on your touchtone phone. Please note that this conference is being recorded.

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

**Souvik Roy:** Thank you so much and good evening, everyone. Thank you for joining us, especially on a weekend. I have got quite a few messages over the past couple of days asking if Saturday is going to be the new normal for our Earnings Call. Well, I can assure you it is still undecided and we promise you this wasn't by design.

As always, I am joined by our full Leadership Team led by our MD and CEO along with our Executive Directors and Senior Business Heads.

We will start with some strategic updates from our MD followed by the CFO walking you through the financials and business performance for the quarter. After that, we will of course, as always, open the floor for discussions and questions.

With that, over to you, sir.

**KVS Manian:** Thank you, Souvik. Good evening, everyone. Thank you for joining us this Saturday evening.

Before we dive into the quarterly numbers, let me make some introductory remarks:

While we will present to you a detailed review of our strategy implementation in January 2026, about a year after we first announced it, I thought a quick and a short interim update on the same may be useful. Earlier this February, when we introduced Federal 4.0, it was not just a catchphrase but was a transformation blueprint to reshape the way we operate, compete and grow. We are focused on execution as I hope you will realize as we move ahead in this update.

If I had to oversimplify our strategy, and I mean oversimplify, it really comes down to getting three things right; improving our CASA, especially the current account piece, to address our cost of funds; driving better yield on advances, largely by reshaping the asset mix and increasing granularity and volume of our fee income. In the quarter gone by, there is clear evidence that our execution is in sync with all these three objectives. And we are making good progress on all three fronts in spite of systemic headwinds on a few aspects. There remains, of course, a lot more to do. Later on this call, Venkat will take you through these details when he discusses the quarterly results.

Coming to the execution elements:

We began by refocusing our energies on the most vital part of the Bank, our branches, people and profitability models. The “Free The Branch” initiative is now fully underway. We have already created 70 regional business support centers, which are our BUB and Agri hubs, which are now fully functional, helping free up frontline teams from all activities other than relationship and sourcing aspects. The establishment of regional loan service centers, which will take care of the retail asset related work at branches, is progressing smoothly and should be fully in place in the 2nd quarter.

We continue to focus on what we call CODES, centralized, outsourced, digitized, eliminate, simplify. And several initiatives have already been put in place and more are in the pipeline to operationalize each of these. Our goal here is clear, remove friction from day-to-day work and allow branch teams to focus squarely on customer engagement and business development. This process will continue and gain even more momentum in the next 2-3 quarters. We are in the final stages of finalization of standardized branch formats and manning models in them. For CASA account opening, turnaround times have been improved by realigning staffing models and improvement in processes. However, TATs across products are an important area of focus for the future quarters as well. We are investing in capability building across all levels.

Sales management training is underway for identified managers in partnership with a globally renowned sales training firm. A lower cost sales force structure has already been deployed in select branches and we will enhance the scope of this initiative as we get more comfortable with the outcomes. We have kicked off the process of identifying new branch locations based on data-backed inputs and we have commissioned an external agency to help us assess our network scientifically. We have already begun a process of reviewing our branch locations and performance to evaluate shifting and upgrading branches to improve their catchment and visibility. We are also working with a partner for redesigning our physical branch formats. This may mean slightly lower number of branches this year, but with better foundational work, we can be surer of the way forward and also gather speed later.

We have overhauled our performance scorecards for branches as well as individual officers, RMs, etc., sharpening focus on CASA growth and profitability. A department-level P&L framework going down to the branch-level P&L has been rolled out and is now published frequently based on needs. Now, the teams can see the actual financial impact of their actions. We have also made the Branch Manager role more aspirational with a higher incentive structure, performance-linked metrics, and alignment to business priorities and freeing them from a lot of routine. We want to ensure that the Branch Managers and our Regional and Zonal Heads of all businesses function like mini-CEOs. That is the final goal.

In some sense, we are refueling mid-air, re-engineering the business while we are still delivering the business numbers that we have delivered. Fee income and pricing reforms have kicked off with several important changes. We have revised our fee and charges in line with competition, energized our product partners, and improved our revenue structures. Some of the impact of that is already visible in our fee growth for the last quarter. We have also implemented a new loan pricing and delegation structure. Our RAROC-based pricing models and transfer pricing models

have been fully revamped, giving us sharper insight into segment-level profitability, product-level pricing decisions across the Bank, and customer-level pricing and profitability decisions in the corporate businesses. With this methodology, a more holistic customer-level approach to business with the right balance between wallet share and pricing, and also the right mix between fund-based revenues and fee revenues is enabled.

The Wealth Management and Banca Vertical is now well underway. With experienced hires onboarded, Head of Business, Head of Products, and Sales Head are all in place. Technology enablement is underway. Our partnerships are being renegotiated or restructured to better align outcomes and ensure we build a scalable platform. We have also made strong progress in strengthening our Trade and Forex capabilities. We also now have a Head of Global Transaction Banking who joined us last month. The central teams have been strengthened. A team of RMs across the branch network, now called PRM Business, Priority Relationship Managers (Business), have been identified and trained to give a push to the retail trade and F business as well as current account business.

Our retail assets team has been restructured to have separate heads for unsecured and secured businesses. Both are now headed by new talent that we acquired last quarter. Also within the secured business, separate verticals have been created for LAP and Home Loan, Auto, as well as branch distribution of secured assets to bring sharper focus. A Retail Credit Head would be soon joining our team under the Chief Credit Officer. In the corporate Bank business, we have created a separate vertical focusing on the B-FIG segment, which will also help us enhance our focus on capital markets and correspondent Banking. This allows the rest of the corporate Bank to focus more sharply on growing the mid-market corporate segment. Foundational work has been already done for Tractor Finance, EMI-based business loans and Agri-based SME loans. These products will be rolled out in the coming quarters.

Tech is of course the backbone of Federal 4.0. Our corporate and commercial credit underwriting automation has just gone live. On the customer side, FedOne, our unified interface for corporates, has gone live with a new collection and payment solution, thereby completing the Phase-1 of rollout and will undergo monthly upgrades with a few feature additions from here on. Online trade is our next big project within this unified interface. FedMobile app has seen over 15 new features rolled out this quarter. A GenAI-powered chatbot as an internal co-pilot for our employees is in alpha testing. It has been trained on our internal knowledge base. And this is just the first step in embedding AI into both customer and employee journeys.

At the infrastructure level, we are engaging a partner to undertake a full review of our IT architecture and create a roadmap for the future, ensuring our digital and technology backbone is future proof. We have strengthened the technology team with three key new hires just below the CTO level. We have placed customer experience at the center of all this transformation. Our CRM platform revamp has already delivered over 15 key enhancements. We have kicked off a deep dive study to improve adoption and usage of the platform, ensuring we are not just building tools, but driving value through better account management, lead management, and organizing

our cross-sell processes better. There is a lot more work to be done in this area to leverage the investment we have already made in this platform.

This year, we have taken a bolder step in brand building. The Savings Ki Vidya campaign featuring Vidya Balan is now live. It is not just a celebrity endorsement. It is about repositioning the Bank in the minds of retail savers. This is an integrated transformation with over 50 large and 100 small projects under execution designed to make Federal Bank faster, simpler, more profitable, and more agile. Federal 4.0 is not just a plan anymore. We are transforming where it matters, and we remain focused on doing it at speed. But this is surely a multi-quarter journey. This journey will come with some air pockets at times, but we remain resolute in our execution.

My team fully shares my excitement as we take this journey forward. Thank you for walking this journey with us. Now, let me hand it over to Venkat for a more detailed walkthrough of the quarter in particular that went by. Incidentally, he recently got elevated to the Board as Executive Director. Welcome, Venkat and all yours. Thank you.

**Venkatraman V:**

Thank you, Manian, and good evening to all of you. Thank you for joining us to discuss our Q1 FY '26 Financial Results. I hope you have had a chance to go through our Investor Presentation and Detailed Disclosures. As always, we will use this forum to go through the key developments and then take questions.

Let me begin by providing some macro context:

The 1st Quarter of the year is typically soft for the Banking industry. The seasonal factors, particularly around collections, disbursements, asset segments like MFI, Agri, and CV. This year was no different. And as you know, Reserve Bank of India cuts a repo rate by a cumulative 100 basis points since February, including a 50-bps cut in June. This was done with the intent to spur growth and improve liquidity. Inflation is under control and rural consumption is showing signs of revival. Credit growth in Q1 is seasonally muted across the Banking system.

Corporate loan demand continues to remain selective with many large borrowers opting for bond market and other alternate sources of funding. At the same time, unsecured retail portfolios, especially microfinance and cards, remain under scrutiny, and the industry has seen a calibrated pullback in new originations in certain subsegments. On the liability side, deposit repricing has commenced in a small way, and we will see a lagged impact of the rate cut on deposits. From our perspective, we believe the medium-term environment remains conducive for Banks with disciplined credit filters and a diversified lending engine.

Now, coming to the metrics of the Bank's performance:

We delivered a strong operational performance in Q1 and by the way, we are now the 6th largest private sector Bank by total business. Gross advances grew by 9.15% year-on-year and 3% sequentially. On the back of our strategy to grow medium-yield businesses, the growth was led

by commercial Banking, which grew by 5.5% Q-o-Q and 30.28% Y-o-Y, credit cards, which grew 8% Q-o-Q, CVCE, which grew 5% Q-o-Q.

With the recent circular on gold, the gold loan business grew quite strongly in June, and we will see the full impact of that playing through from this quarter onwards. As mentioned by Manian, the retail restructuring is almost complete, and this will aid in stronger retail growth in H2. Also, with the festive season around the corner, we expect growth to gain further momentum. We are in line to grow at 1.2x nominal GDP.

On the deposit side, growth was 8.03% Y-o-Y and 1.34% Q-o-Q, with retail TD seeing strong traction and steady CASA growth. In fact, our average CASA growth was 3% this quarter. Our CASA ratio stands at 30.35, which is an improvement of 108 bps year-on-year and 12 bps quarter-on-quarter and average deposit growth was 6% Q-o-Q. Our net interest income for the quarter stood at Rs. 2,337 crore, growing at 2%. Now, this 2% growth, we must note that Y-o-Y, last year their rates were 100 bps higher, whereas we have got 100 bps rate cut in fact in this Q1.

The NIM for the quarter was 2.94%. As you are aware, we follow a T+1 repricing for the stock, and a large part of the 100-bps rate cut is already reflected. We had some offsets including lower savings rate, which full impact will be seen in Q2. We did quite well to manage the impact of the NIM drop and end at 2.94%. We expect NIMs to bottom out in Q2, subject to no further rate cuts, and improve in H2 as cost of funds falls. Total non-interest income, which was mentioned earlier, was the highest ever for the Bank at Rs 1,113 crores. Core fee income grew by a healthy 20% year-on-year and other income by 22% year-on-year.

Operating expenses were flat sequentially, and our cost-to-income ratio is 54.89%. We will continue to focus on operating leverage, especially through digital origination and process optimization. On asset quality, gross slippages for the quarter stood at Rs. 658.19 crore, with MFI/Agri being a large part of it. Gross NPA was 1.91%, and net NPA 0.48%, broadly stable. PCR stands at a healthy 74.41%, and credit cost for the quarter was 65 bps. Excluding the MFI/Agri impact, our credit costs are well in line with historical trend, and in fact flat as compared to the last few quarters, including last year's same period. Having seen the trend of the slippages in the month of May, June, July, and the downward trajectory, we are confident that we will maintain our full year credit cost guidance around 55 bps.

It is important to reiterate that outside of MFI/Agri, and slight uptake in business Banking, slippages were either stable or improved. Our CET1 stands at 14.69%, and overall capital adequacy is at 16.03%. ROA for the quarter was at 1%, and ROE at 10.3%. Disbursement momentum should improve post-monsoon, especially in retail and MSME. Combination of a better macro backdrop, declining cost of funds, and recovery in unsecured lending should support margin and bottomline normalization. The external environment is improving, albeit there are some geopolitical and tariff-related uncertainties. Inflation is moderating and early signs of consumption revival are visible. However, competition remains intense, especially on pricing, and we will be guided by risk-adjusted profitability.

We see strong opportunities in secured MSME, business Banking, gold-backed lending, and the other medium-yielding segments like LAP and CVCE, as highlighted by Manian on the progress made on the 12 themes. We continue to invest in distribution, digital, and data to scale the franchise efficiently. Our focus will remain on sustainable growth, risk discipline, and improving productivity across the board.

Thank you and I will now open the floor for questions.

**Moderator:**

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

**Mahrukh Adajania:**

So, one question on MFI that quite a few lenders recognized MFI stress in 3rd and 4th quarters, and of course it continues to some extent even in the 1st quarter. So, for us, it bunched up only in the 1st quarter, is it? And there would be accelerated or aging provisions on the slippages this quarter and the next few quarters as well, right because the write-offs are not materially different from 4th quarter overall in general? So, that is my first question. And then in general, there appears to be a stress in the very retail segments like unsecured, business Banking, and of course the MFI stress may peak in one or two quarters wherein CVs, business Banking, we hear a lot of lenders talking about new stress build-ups. So, how do you view the environment and do you see credit costs remaining high in the 2nd quarter and then moderating or how do we view it? So, that is my first question. And then my next question is on margins. Of course, you have repriced faster. So, that explains the margin decline, but you also got benefit on cost of funds. But how much do they fall in the 2nd quarter before stabilizing? The quantum should be much lower or how do we view that?

**KVS Manian:**

So, Mahrukh, multiple questions. So, yes, it is correct that our MFI stress had begun to show up a little bit on the 4th quarter, but yes, significantly showed up in this quarter. And as I mentioned, we saw the peak of our slippages in May and in June and July, we have seen drop in slippages in MFI. And of course, you know that since last year, December quarter, we take an accelerated provision on our unsecured loans. So, that policy continues. So, therefore, this at best lingers for a quarter more, this effect lingers for a quarter more at best, not more than that, because we take 100% provision by that time. So, that is point #1. And second, I will ask Harsh to add something on the business part of that. The second question you asked was the NIM impact. Like you rightly pointed out, because we repriced faster because of our T+1 policy. But interestingly, as you said, our cost of funds have also dropped significantly over this period of time and we have been able to defend some of our NIM pressure. And since we have repriced faster, we don't expect our further NIM pressure to be more than 5-10 basis point range in the next quarter. I hope that answers your question and on MFI, Harsh wants to add some color.

**Harsh Dugar:**

Yes, on MFI, you are right. We did a peak in May, as Manian mentioned, and we have seen June to be better than May and July to be better than June. So, we do see slippages kind of coming off. Also, other indicators such as the SMA book and collection efficiency seems to be improving from what it was. So, we do feel that we should see improvements going forward from here.

- KVS Manian:** Mahrukh, I would add one more thing just to clarify. But for the MFI/Agri piece, our slippages have remained in the same range that they have been all through the last year. In fact, in some products, they are better or equal or very marginally higher. But nothing alarming, nothing out of the way, no significant change in asset quality other than MFI/Agri segment.
- Mahrukh Adajania:** And business Banking is also good?
- KVS Manian:** It is also within the same range as it was in the first. See, business Banking, of course, had a very good quarter last Q4. But if you look at seasonality in that and Q1 of last year, it is ballpark in the same range, very marginal uptick, yes.
- Mahrukh Adajania:** Thank you.
- KVS Manian:** Thank you.
- Moderator:** Thank you. Next question is from Rikin Shah from IIFL Capital Service. Please go ahead.
- Rikin Shah:** Hi, good evening, and thank you for the opportunity. Just three quick questions. The first one, we spoke briefly about business Banking and MFI, but would you be able to supplement it with some more color and data, so specifically on business Banking, I wanted to understand what proportion of the book is secured versus unsecured? How much of that is backed by any government guarantee schemes? And how the slippages have kind of moved Y-o-Y. 4Q, you did mention it was very strong. And even on MFI, if you could talk a bit more about X bucket collection efficiency in April, May, June, and how that has moved in July that will help us to understand how the forward flows are and how much of improvement we can expect in the 2nd Quarter. So, that is my first question? Maybe I will ask the other two questions after this.
- KVS Manian:** So, Rikin, on business Banking, almost very large part of that book is secured book. It is not unsecured book. Almost entirely, it is a secured book. And there is very little of CGTSME and those kinds of products we have done. Largely, it is pure lending, secured lending. That is the nature of that business. That hope clarifies your doubt on that. On MFI, of course, we don't disclose the roll forward and those kind of like, but let me clarify to you again, that we saw the peak of this in May and both in the month of June and in July, we have seen a secular fall in slippages even in our MFI book. And we are hoping that the trend is there to stay. And also our SMA book, which is a precursor to slippage, is also lower than as we exit the quarter is lower than previous quarter. So, I would say that clearly on this part, as things stand now, we think the worst is behind us. Of course, provisioning comes with some lag, so it may moderate down, but with a lag of a quarter, but slippages have at least shown a trend onwards.
- Rikin Shah:** Got it. The second one was more like a clarificatory. The credit cost guidance has actually been up to 55 basis points. I think we used to earlier guide below 50 basis points. So, is that a correct understanding?



- Venkatraman V:** Not really, Rikin. Last time, we guided 50-60 bps. So, right now, the guidance is around midway on that.
- KVS Manian:** We used to guide that lower figure last year, Rikin. This year, last time itself, we had said 50-60 as the guidance.
- Rikin Shah:** Got it. And sir, last question is for Manian sir. Sir, historically, the one comforting factor for the Bank has always been a very stellar and stable kind of outcomes on asset quality. For a much lower share of unsecured loans, we have started seeing stress, 3Q, we took accelerated provisions. Again, this quarter, this is happening and margins given the starting point for Federal Bank itself was low and then you have this cyclical downturn. How do we really think about the ROAs, right? Because you had guided in the analyst earlier that we aspire to improve our ROAs meaningfully. Is this now pushed back given how the macro environment is or would you want to revisit your ROA growth trajectory or guidance? Those are all my questions.
- KVS Manian:** So, Rikin, if you see even this quarter performance and if you were to take the net interest on average assets and fee on average assets, our fee on average assets has also grown. In fact, if you technically look at it, we have been able to defend the ROA, but for the MFI provision that we have taken, we would have defended our ROA at the same level as last quarter, but for the MFI provision. So, I remain optimistic. The structure change as you can also see in our presentation of the mid-yielding assets is consistently happening. You have even this quarter seen improvement in mid-yielding asset proportion compared to last quarter and Venkat mentioned that we are more optimistic about some of the products like gold, for example, the real change in regulation happened in June. So, the growth you see in this quarter is effectively a month growth which will give us more growth in the coming quarters. And retail assets like Venkat mentioned, we have restructured the business, we are more hopeful that things are now in place to push for growth, so mid-yielding assets is part of the strategy. So, I continue to say that our ROA is defined by improvement in CASA, which you can see evidence of in the quarter 1 results, improvement in fees, which again you can see the evidence in the 1st quarter results and change in mix on assets, which again you can see the evidence of that in the results. So, all those three that we guided improvement in ROA based on, all those three parameters are playing out clearly. Yes, the asset quality, like we again clarified, but for the MFI, the asset quality on rest of the book has remained absolutely at the same level that it was till last year.
- Rikin Shah:** Got it, sir. Thank you very much.
- Moderator:** Thank you. Next question is from the line of Piran Engineer from CLSA India. Please go ahead.
- Piran Engineer:** Yes, hi team. Thanks for taking my question and congrats on the quarter. Just a couple of questions. Firstly, on fee income now, we have done a good job on fee income over the last 3-4 quarters since you joined. Is this more a case of low hanging fruit being plucked and now fees will grow in line with balance sheet or can fees continue to sustainably grow for a long period faster than the balance sheet? And if so, then what are the drivers, of course?

- KVS Manian:** So, Piran, we would like to believe that, of course, this is there to stay and not just because we hope for it. I just mentioned that our wealth vertical is just about falling in place. We will have to grow our Wealth business, which will add to fees. I also mentioned that we now have a team in place on the transaction Banking side and therefore we are expecting our trade and Forex fees to grow from here. Our current Bank assurance growth has been very good. Even in this quarter, if you see the para-Banking fees have grown very very handsomely. So, I think we are still scratching the surface, and our cards business continues to grow, which will add to fees. So, I think there are enough levers for us to sustain the fee growth at a good momentum, much faster than the growth in balance sheet for some many more quarters to come. I am hoping, yes.
- Piran Engineer:** Fair enough. Secondly, just on growth, two questions are both related to growth. One is, I think I heard as mentioned that growth will be 1.2x of nominal GDP. Did I hear that? Is that only for FY '26? Because we used to usually grow at 18%-20%, then we did this recalibration?
- KVS Manian:** Piran, we have been always saying 1.2 to 1.5, 1.4, 1.5 times, but that also depends on the environment. If the environment is of a low growth environment, then the faster growth becomes tougher and that is why we guide towards the lower end of that band.
- Piran Engineer:** But this is only for FY '26, right?
- Venkatraman V:** Yes, Piran and see 18%-20%, you should know the context at that time, economy, let us say, growing at 7 and inflation was 7 and then you apply the 1.2-1.4x, you will still get to that 18%-20%. So, it is a context to that growth and that is why we stick to nominal GDP and a multiplier.
- Piran Engineer:** Understood. And also on growth and business Banking, we have slowed down quite a bit. Is this more of a pricing related tweak? It is just very competitive.
- KVS Manian:** No, Piran, what we are doing in business Banking is, of course, generally the environment is, you have heard many calls where people are warning against SME credit while I mentioned that our book is not seeing particularly higher stress than in the past, but it is important for us to be cautious. So, we have made some internal rejigs on our credit buying decisions and we have been slightly more cautious while growing that while on the commercial Bank side, we have continued to grow faster and because we have felt more confident of the market as well as our book on that and it is the upper end of the SME. So, we are pushing the upper end of SME growth faster than the lower end, but we have also created a new team there. There is a new leader there. There is a set of new RMs that we have created dedicated to that business. So, some of that is playing out, but I am sure that in quarters to come, we will pick up some growth in that segment as well.
- Piran Engineer:** Got it. That was all that I had. Just one thing since Souvik mentioned it about this Saturday thing, I hope this is just a one-off. You will get much more clients on the call when you do it on weekdays and literally every Bank has started doing it on Saturday, which is just very surprising and when it clashes, imagine if you all clash with an ICICI or Kotak, people will obviously give more importance. I am just being very honest here.

- KVS Manian:** Try and not follow the path. Let's see. Yes, it's better on a weekly basis. Noted your feedback. We will.
- Piran Engineer:** Yes, thank you and wish you all the best.
- Moderator:** Thank you. Next question is from the line of Anand Dama from Emkay Global. Please go ahead.
- Anand Dama:** Yes, sir. Thank you for the opportunity and congratulations for the strong operating performance. My question is on the stress again, like you said that microfinance, we have seen a stress in this quarter. If you can quantify what the stress is in microfinance and I believe our portfolio is towards Kerala rather than Karnataka or state where there were ordinances related impacts. So, what basically led to this kind of higher stress in microfinance? That is my first question. Second, is that CVCE book that also seems to be now freezing out and so business Banking, can there be some surprises over there in terms of asset quality that you see going forward?
- KVS Manian:** So, Anand, right?
- Anand Dama:** Yes.
- KVS Manian:** Anand, on MFI, our portfolio is not Kerala. Our portfolio is actually across the country over multiple states, but 20% odd is in Karnataka. So, that is where the big pain is coming. And our slippery numbers are there in our deck in MFI/Agri. We call it Agri/MFI. So, it is there in the deck for you to get. On CVCE and business Banking, as I mentioned, yes, we have seen marginally higher stress than in the past. But I would say it is not yet something that is alarming. On the CV and CE, we are largely not on the very retail end of that business. We are in the medium to large size strategic customers and retail premium customers, if you might want to call them. So, we are not at the lowest end in the LCV and the lower end of the business. So, while we have seen marginal deterioration, it is not yet alarming us. Of course, if the data tells us something else, we will change our mind. But right now, it does not give us any reason to change our mind on wanting to continue to grow the CVCE. Business Banking, I mentioned to you again, very marginal change, broadly in line with what we have seen in Q1 of last year and Q1 of this year is similar. That of course, in Business Banking, we have more Kerala focused book, about 30% of the book is Kerala. But like I said, that is not showing any abnormal signs to us just now. Again, we have been cautious. We have not grown that book very fast and we have taken some protective measures over the last 2-3 quarters on that book. And we have done some tinkering with our underwriting as well there to make sure that we have, because there are too many people calling out stress in that sector and we don't want to wade into the storm. So, we have been cautious, though our portfolio per se has not exhibited any alarming tendencies.
- Anand Dama:** And do you plan to build some buffer on the provision front? Because you may never know the stress on your portfolio, incrementally, obviously you can?

- KVS Manian:** Anand, it is a secured book. It is not an unsecured book. So, we are not yet thinking in terms of that.
- Anand Dama:** Sir, secondly, cost implications of your transformation process, how that would look like in FY '26 in terms of overall OPEX? Because you talked about branch transformation, you talked about people, changes that you are doing and stuff. So, if you can just talk about that in terms of what kind of OPEX that we should build in for FY '26 and FY '27?
- KVS Manian:** So, Anand, we have always guided that do not assume any benefits out of cost to income and they will remain in the same range that they have been. As you can see, even this quarter, while we have taken all those initiatives, we have created the 70 RBSCs. We are also trying to optimize. The fact that we have created 70 retail business centers does not mean we have added people from outside. We have also optimized internally, re-transferred people from one role to other and created. When I said we have created 70 business PRMs, it is not an addition to our manpower, it is more realignment of our manpower. So, we are trying to optimize whatever we can and we are trying to get efficiencies that we can get. However, as per our past guidance, I continue to say that since we will be in the investment mode and all these talents that we have added will of course add cost to us and therefore we have to continue to optimize this. So, we do not want to guide for any benefits arising out of, so we will remain in the mid-50s range that we have always guided.
- Anand Dama:** Thank you.
- Moderator:** Thank you. Next question is from the line of Madhuchanda Dey from Money Control. Please go ahead.
- Manduchanda Dey:** Hi, good evening. I have a couple of questions. The first is, you sounded quite confident on the MFI asset quality not deteriorating from hereon and you also said that there is a marginal down take in NIMs that are expected in Q2. So, is it correct to assume that 1% is kind of the bottom of ROA for us?
- KVS Manian:** Yes, I think we are close to the bottom of the ROA side. Like I mentioned to you, had it not been for the extra MFI provision that we took this quarter, we would have defended our ROA at 1.24 itself almost. So, of course, who knows, we are assuming no rate cuts happen from here. Yes, we would say NIM 5-10 basis points downside possible, but hopefully we will defend that through fees and other means and ROAs will sustain from here and upwards.
- Madhuchanda Dey:** My second question is on the asset quality. You sounded quite confident on broad array of asset classes. So, is there any pocket of worry incrementally from here on?
- KVS Manian:** So, Madhu, as we mentioned, if we go back to the data and strip it off the MFI situation, MFI/Agri, if I take that segment out and look at the rest of the book, we have currently no reason to assume that there is any stress building up in our book. Our current SMA position even as of July, not only June, but July as well is not indicative of any stress that is building up in our book

as of now. So, is there a marginal deterioration in BUB, CVCE? Yes, there is. But like I said, there is a marginal deterioration, but that is not yet, I would say alarming or anything like that to us. Unless this data changes, yes, we remain confident of our asset quality, yes.

**Madhuchanda Dey:** And one last small question, will it be possible to quantify what percentage of our loan book or borrowers have exposure to the US market?

**KVS Manian:** That is a tough one. Difficult to say that. Madhu, I know where you are getting there, but the way I look at the tariff situation is first, it may not be the last word yet. There will be more developments on this, I am sure government will get into some negotiation, do something to defend the situation. So, we may not yet have the last word on it. But once it is there, then I would say this is some monitorable for us. But difficult to say what the impact of this will be, difficult to say. Frankly, we have never looked at our portfolio from this lens and analyzed it in that manner.

**Madhuchanda Dey:** Thanks a lot and all the best.

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

**Kunal Shah:** Hi. Thanks for taking the question. So, firstly, if you can highlight in terms of, have you aligned the KRAs of the employees you indicated that now you are freeing the capacity at the branch and focusing on more business development, customer engagement, be it para Banking plus CASA. So, how have the KRAs of the employees changed? And eventually, in terms of the priorities, fair to assume that maybe CA and fee income are the initial priorities and would we be tweaking KRAs 6 months, 12 months down the line? Because now maybe, you are well aware of how it is working and what are the low hanging fruits?

**KVS Manian:** Yes, Kunal, all branch scorecards have been changed. All employees and sales profiles have a scorecard which reflect our Bank's priority and that has been rolled out across the Bank for all profiles. So, that has been implemented and is in place and scores are declared every month for every profile. So, that is all in place. Yes, CA and fee, but asset mix too, if you look at our data that we have shown you, asset mix is showing steadily improvement towards the medium yield. Even in this quarter, we have made 50-60 basis points improvement in the mid-yield. And as I told you, the retail products as we get traction, gold as we get traction will all add to this bucket. And therefore, all three, as I said, oversimplified strategy of CASA, getting CA right, getting fee right and getting asset mix right. All three absolutely built into the scorecards of people and the way we are evaluating them. It is very much.

**Kunal Shah:** Got it. So, the weightages would have gone up for these three in particular?

**KVS Manian:** Yes, absolutely, branches, for example, the CASA weightage for branches has gone up dramatically more than it used to be.

**Kunal Shah:** If you can quantify?

- KVS Manian:** Let me put it this way. More than half the weightage is for liability products.
- Kunal Shah:** Great. And earlier, it would have been more tilted towards assets?
- KVS Manian:** Well, that is in the past, Kunal. For now, it is more than 50. Let us stick to that.
- Kunal Shah:** Got it. And two more questions. Firstly, fair to say the increase in Agri is purely on MFI or MFI is there in retail as well?
- KVS Manian:** There is no MFI anywhere other than what we classify as Agri/MFI.
- Kunal Shah:** So, then, what is leading to the increase in the retail slippage is when we look at it, also, it has gone up a bit in the 1st quarter. Is it more of seasonality or maybe some?
- KVS Manian:** Yes. Is it more seasonality, Kunal, even if you compare it with last year, we have seen the trend. In the 1st quarter, it is generally slightly higher. But in fact, we are already seeing SMA is lower, July itself, the slippages are lower. So, it is more. I won't say there is a trend of any big deterioration there yet.
- Kunal Shah:** Got it. And lastly, on EBLR, so EBLR is now coming off, you indicated in terms of how you are transitioning maybe from floating to fixed trading few of the portfolios. Are we largely done or still there is a scope to get the EBLR further down from here on?
- KVS Manian:** Yes. There is scope to get it further down. As you would have noticed, we were 51% odd, close to 51% sometime back. That is down to 48 now. And there is scope to further reduce this. And as we build, for example, the car loan business, gold loan business are all fixed. So, card is fixed. Commercial vehicle is fixed. So, some of the areas which are growing fast are fixed. So, there is definitely more scope to get it down from 48.
- Venkatraman V:** Also, moved nicely from around 25%-26% levels to now 33%.
- KVS Manian:** Yes. The fixed book has moved up from 26%-33%, right. So, this is clear. See, some of these priorities we said clearly our execution is keeping pace with some of those priorities that we have fixed on all these parameters. So, I think 48 is still there is upside on that.
- Kunal Shah:** Got it. Thanks a lot and all the best.
- Moderator:** Thank you. Next question is from the line of M B Mahesh from Kodak Securities. Please go ahead.
- M B Mahesh:** Hi, three questions from my side. One is, can you walk us through as to why would NIM only decline by 5 basis points the next quarter? And within this, if you could spell out in this quarter, what was the contribution of interest de-recognition on account of some of the higher yielding segments slipping in the current quarter?

- KVS Manian:** Impact of high interest de-recognition. Let me take the NIM part first. We have a residual, see 50 bps that came in June has had a one-month impact, right? So, we need to yet get 2 months' impact on 50 basis, which is roughly 33 basis points. If 48% of our book is there, say 33% will be 15 or 16. And we are saying that we will defend 7 or 8 basis points and therefore, we are saying something around between 5 and 10 will be the impact. So, that is the answer to your NIM question. On the income de-recognition.
- Venkatraman V:** 4-5 bps, Mahesh has been the impact due to the URI.
- M B Mahesh:** Sir, the second question, it has been on the fee income line, this contribution of recovery from written off continues to remain fairly high. Any outlook on that? And this general processing fees contribution also continues to remain high? Any color on these two line items?
- KVS Manian:** So, the general processing fee will remain high. In fact, we think as the disbursements go up and gold and all these businesses disbursements go up, it can become even more robust. And general charges are also as I mentioned in my introductory remarks, we have also revamped our fee structures on many of our products, liability products, and that has also resulted in some of the change that you see in the fee side. We have also renegotiated some of our partner fee structures, and that has also resulted. So, some of those are sustainable increases in fee structure. So, there is no onetime stuff on the general fee that you see there.
- Venkatraman V:** Second question, recovery from written-off assets, Mahesh, in this quarter has been relatively lower than last quarter. Last quarter, obviously, Q4, you will see a very large uptake every year. That has been lower. But in Q1, like every year, we have the reval of the unlisted investments. So, we get the benefit of that in the other income in Q1.
- M B Mahesh:** And this will decline as we go forward? Is that a safe assumption to make?
- KVS Manian:** No, recovery will continue. So, I don't think that will decline substantially. That should remain or get better actually as we get towards the last quarter again next year. Usually, seasonal wise, or maybe effort wise, it tends to be better in the last couple of quarters.
- Venkatraman V:** Next quarter, we should also get benefit of some PSLC.
- KVS Manian:** Yes, so some or other positive will come.
- M B Mahesh:** Perfect. Done. Thank you.
- Moderator:** Thank you. Next question is from line of Param Subramanian from Investec India. Please go ahead.
- Param Subramanian:** Hi. Good evening. Thanks for taking my question. Firstly, sir, if you could call out the slippage in MFI and Agri separately for this quarter and last quarter?

**KVS Manian:** We normally don't give that split, Param. The large part of the Agri part is the MFI.

**Venkatraman V:** Large part of the slippage that you see there is MFI.

**Param Subramanian:** Can I equate it with say the write-off number broadly because?

**KVS Manian:** What write-off?

**Param Subramanian:** Write-off has also been high for the last couple of quarters, so roughly, will it be equal to the write-off that?

**KVS Manian:** No, it has no connection at all.

**Param Subramanian:** And, sir, the recovery, NPL recovery number is also softer than what we have seen over the last 3-4 quarters, so which is why your net slippage is also looking high in this quarter. So, anything to call out over there?

**Venkatraman V:** Param, usually Q4 is highest.

**KVS Manian:** So, Param, please don't compare Q1 with Q4. If you do that, it will always look like that. Every year, the way to look at it is Q1, what it was last year and compare that. And if you look at that, it is more or less at the same position. It is not very different.

**Param Subramanian:** There is no change in our recognition of recoveries or any such thing?

**KVS Manian:** No, nothing.

**Param Subramanian:** And one last question. So, on your loan processing fees, it is down Y-o-Y by 11% in the fee breakup. So, what exactly is happening there?

**KVS Manian:** So, there is largely some. The products which give us more fees when on disbursement, like gold, were lower in this quarter. Like I told you that the gold loan, actually, whatever growth you see is actually only a June phenomenon after RBI clarity happened on the gold business. So, some of those businesses which give higher processing fee were lower in this quarter. And we are hoping that some of that will recover. In spite of that, our overall fee performance was fairly strong, actually.

**Management:** Param, are you with us? Hello?

**Param Subramanian:** Sorry, I was on mute. Yes, thanks a lot. All the best.

**KVS Manian:** Thank you.

**Moderator:** Thank you. Next question is from the line of Sumit Kariwala from Morgan Stanley. Please go ahead.



- Sumit Kariwala:** Hi, good evening, team. Couple of questions. So, what is the decline in savings deposit cost on a quarter-on-quarter basis?
- KVS Manian:** Let me put it this way. We cut our savings deposit rates twice. Second was in only June. We cut it in June 15th. On June 15th, by 25 bps, we cut it to 250 from 275. And that has not seen the impact in the full quarter, it has seen only a 15-day impact. That benefit will come entirely next year if that is what you are looking at. Sumit, are you with us?
- Moderator:** Thank you. Sir, the line for the participant dropped. We move on to the next questioner. Next question is from the line of Harsh Modi. Please go ahead.
- Harsh Modi:** Great. Thanks for this. I would also request if it is possible not to do a briefing on Saturday. That would be a huge help.
- Harsh Modi:** Coming to the questions. On the mid-yield, what I am trying to understand is where is the risk of higher credit issues coming in with higher yield because it is difficult to see a scenario where credit spreads have gone up, but credit risk has not gone up. So, for example, if I want to understand the nature of collateral, let us say for SME and the business loans, are these still the real estate kind of hard collateral or have you moved to collaterals where probably the loss-given default is higher while they are still secured, but probably the loss-given default may be higher? So, could you explain a bit, what are the potential risks that come with higher credit spread? And I have a follow-up question on that?
- KVS Manian:** Harsh, I have been talking about the higher asset yields by change in mix and not necessarily by saying that we will go for higher yield assets with higher risk. So, I just want to put on record that we are all on the same page on that. Having said that, on the lower end of business Banking in the SME side, when we say they are secured, we don't mean other security, we mean property security. At the higher end of SME that we spoke about in the commercial Bank, it tends to be not fully 100% secured kind of transactions as well. But at the lower end, it is largely, when we say secured, we mean property secured.
- Venkatraman V:** Retail and commercial.
- KVS Manian:** Retail and commercial, both kinds of security is available. I hope that clarifies your question.
- Harsh Modi:** Right. So, has the loss-given default of these securities, let us say over the last 6 months, too early to see any defaults, but if you think about the assessment of loss-given default for loans given in the last 6 months, are they same as, let us say, those of loss-given default assessment, let us say, 2 years ago?
- KVS Manian:** Harsh, we obviously use a historical model to determine what to do going forward. Based on our underwriting, we keep reviewing our data and keep updating the loss-given default as the defaults keep occurring and losses keep occurring. Having said that, please remember that usually in properties, both things work. While the risk may play out, the fact is also that property

values also in most places inch upwards and not downwards. So, usually the property valuations are higher and of course, we have our own rating models and relatively higher-rated customer, we may take a less LTV ratio at lower levels, whereas if the customer is rated low, we take a more conservative view on LTV. So, these are things that play out. But we have no reason just now to assume that what we are underwriting now is any higher risk at all than what we have done in the past.

**Harsh Modi:** Right. Now, thanks for that. I am sorry to double-click on that. But let us say the LTVs that you talked about for either property or let us say something like a gold loan, which is pure LTV business, like how has the LTVs of gold loans, let us say in the last 3 months versus a year ago, and also the LTV at origination or some of the mortgage or business-related loans with property as collateral, have you changed the LTVs, increased the LTV, which allows you to probably make higher yield?

**KVS Manian:** No, not for making higher yield. Actually, it is the other way, Harsh. Many cases, we, for example, LAP business, the question is whether we take our LTVs based on market value or fire sale value, right, forced sale value. Obviously, the best of customers will never give you their business. If you put, you may think you are safer by doing a LTV based on a fire sale value, but no good customer will come in. So, it leads to adverse selection. So, what do you think is good credit actually turns to be bad credit? So, we are not doing anything. Let me say, our objective is to get right pricing for the risk we take rather than take higher risk and therefore get higher pricing. That is not what we want to do.

**Harsh Modi:** Fair point. Exactly. So, sorry, the last question then, maybe you are not doing it, but it seems a lot of your competition is also focusing on the similar, and I absolutely love the phrase mid-yield segment, a lot of your competition, smaller Banks, larger NBFCs are getting into that space. So, is the competition forcing some sort of dilution of credit standards is what I am trying to get to?

**KVS Manian:** No, there is competition, no doubt, but that doesn't force our credit standards to be low. It is a big market. It is a large market. I think the share that we want, we are getting at our rate versus security. Virat, do you want to take that?

**Management:** Look, in that kind of situation, we would rather, what do you call, give a rate discount, but not, what do you call, bring down our security level. So, that is the approach that we have taken.

**KVS Manian:** If we have to choose between the two, we will choose lower rate than lower security.

**Harsh Modi:** Got it. Great. Thank you so much. Those are my questions.

**KVS Manian:** Thanks, Harsh. Operator, we can probably just take one final question and then close it.

**Moderator:** Sure, sir. Participants, we will take one last question from the line of Sameer Bhise from Dymon Asia. Please go ahead.

- Sameer Bhise:** Yes, hi. Thanks for the opportunity. Sir, just wanted to understand from a near to medium-term profitability perspective, one is that some of the high-yielding categories, mainly, say, the MFI, business Banking, CV, the degree of risk has gone up. So, you would probably be cautious there. So, what is going to do the growth heavy lifting when we say that we will grow at 1.2-1.3 times nominal GDP, and at the same time help margins? So, that is one. And secondly, generally, even large Banks have also been saying that credit costs could normalize upward. So, would it be fair to say that bulk of the profitability or ROI benefits, say, come more in FY '27 second half in terms of tangible measurable outcomes? And this is more like building blocks kind of a year. Yes, those are my two questions?
- KVS Manian:** Sameer, FY '27 second half is too long for us to start talking about. I think we remain focused on, let us say, the next half year. And I will repeat one thing. Some of the gains that we are talking about from NIM and therefore profitability will come on the liability side as well. And that part can come without risk. Second, there are still opportunities for us as a relatively small market shareholder in many of the products to continue. LAP, for example, we have just scratched the surface. We don't have almost have a LAP book. When many other Banks are looking at, they are looking at growth from a large book, we are looking from a small book and therefore, it is possible to grow that business. It is possible for us to, gold is, like I said, I am very optimistic about growing gold, which is a reasonable yield book, highly capital efficient, very low NPA, highly profit accretive business for us, fee and interest accretive for us. So, there are enough opportunities for us to grow our book to get to that 1.2x the metric that Venkat gave you. I think we still have opportunities within our sphere of operation to do that.
- Sameer Bhise:** Sure. This is helpful. And finally, generally, given the environment is sluggish, you still remain confident on asset quality?
- KVS Manian:** We are always cautious. So, we will remain cautious. Like I said, bar MFI, there is no reason for us to be alarmed about anything as yet. If data changes, we will change our mind. But as of now, I have no reason to feel diffident about it. I am, let me put it that way. I am not diffident about it. We will always be cautious. I will keep watching.
- Sameer Bhise:** Great, sir. Thank you. This is super helpful and all the best. Thanks a lot.
- KVS Manian:** Thanks, everyone. Thank you so much for taking time out on a Saturday and attending our call.
- Souvik Roy:** Yes, we will try and see if we can stick to Friday evening next time onwards. Thank you so much. Thank you.
- KVS Manian:** Thank you.
- Moderator:** Thank you very much. On behalf of the Federal Bank Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.