



Federal Bank Limited
Q2 FY'26 Earnings Conference Call
October 18, 2025



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Moderator: Ladies and gentlemen, good day, and welcome to the Federal Bank Limited Q2 FY '26 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone 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 afternoon, everyone. Thank you so much for joining us on a Saturday. We truly appreciate you taking the time. Today is Dhanteras and with Diwali just around the corner, we wish all of you and your families health, prosperity and a wonderful festive season ahead.

We remember the fact that today is a crowded results day for all of you. So, we actually thought to start a bit early and give you enough time for the other calls. Many of you had actually mentioned in the last call that weekend calls are tough. We do understand that. But unfortunately, given the results calendar this quarter and the number of moving parts, we couldn't shift it around this time.

We did, however, wanted to get all the fireworks out of the way before Diwali. So hopefully, will do it some other day, but not on Saturday. All our senior management members are on the call with me, including our MD, our EDs and the business heads, and they'll be happy to take your questions after the opening comments.

With that, let me hand it over to our MD, Mr. KVS Manian. Over to you sir.

KVS Manian: Thanks, Souvik. Good afternoon, everyone. Thank you for joining us for our Q2 earnings call. I have now spent over a year in this role. I can say with conviction that I feel confident both about where the bank stands today and about our collective ability to steer it steadily towards the goals we have laid out.

The results this quarter reflect the structural improvements we have been working hard to embed in our income and balance sheet profile. Let me take a few minutes to walk you through the four levers that continue to drive this structural change. The first lever, strengthening NIMs through CASA, especially current account.

Our CASA growth this quarter has been very encouraging, both sequentially and year-on-year. Even more importantly, the average CASA balances have risen meaningfully even more than what the EOPs reflect, showing that the growth is not just at the quarter end, but sustained.

Within that, our current account growth has been strong. We have also gained share in our NRI franchise on the savings side, which remains one of our natural moats. Our remittance market share has climbed back from 18.5% to 21%, showing renewed momentum on that front.

On the corporate CA front, our cash management business is an area of progress. With the complete migration of customers to our new platform, FedOne, we are seeing higher engagement

and improved transaction flows. To sum up this lever, our average CASA ratio has improved by over 120 basis points over the past year and over 100 basis points quarter-over-quarter.

Overall deposit growth might look moderate because we have deliberately rationalized wholesale and financial sector deposits. That's a conscious choice to strengthen the quality and not just the quantity of deposits. The basket of CASA and retail term deposits continues to show a healthy growth trend of over 11% year-on-year.

Coming to the second lever, improving NIM through asset mix. As you know, nearly half of our loan book used to be concentrated in low-yield assets, which was corporate and home loans. Over the past few quarters, we have been consciously recalibrating this mix. In the higher-yield segment, our cards portfolio continues to grow strongly, while we remain calibrated in the MFI and personal loan space, which we will consider scaling up once the external environment stabilizes.

Our medium yield book has been a key focus area and its share continues to improve. Businesses like commercial banking and commercial vehicle finance are growing at healthy double-digit rates, and our LAP business and BuB business units are regaining growth momentum. We have also pilot launched our tractor business in the last quarter.

On the retail side, gold loans are expanding at a smart pace of 7% quarter-on-quarter, excluding the Digi-biz segment, which we are running down as per the new gold loan guidelines of Reserve Bank of India. We are gearing up for stronger growth in auto loans and LAP in the coming quarters, which will support our full year guidance. The combined impact of these actions, both on asset and liability side has been tangible, and our NIM performance has exceeded our earlier guidance.

The third lever was building diversified sustainable fee income. In a quarter where treasury income was muted due to market movements, our fee income still grew 13% Q-o-Q, demonstrating the resilience of our core franchise. Our fee to average assets ratio crossed 1% for the first time, a milestone we have been targeting for some time. Initiatives in wealth management, trade and forex revenues are gaining momentum, and we expect them to further strengthen the fee trajectory over the next few quarters.

The final lever, of course, is maintaining strong asset quality and prudent provisioning. After a slightly elevated credit cost in Q1 due to MFI stress, we had earlier guided that our full year credit cost would remain around 55 bps -- this quarter, the credit cost moderated to 50 bps, and we remain confident in holding to our earlier guidance.

We have also taken a management overlay of INR46 crores approximately this quarter on some standard accounts even before reclassification where we have observed stress in connected exposures. This is a proactive precautionary measure. Slippages continue to be under control and the underlying credit quality remains stable.

In summary, we are executing exactly in line with our strategic priorities. The shifts we have made in liability mix, asset composition and fee diversification are visible in our numbers and in the growing consistency of our performance.

Thank you for your attention. I will now open up the call for questions, which my colleagues and I are happy to take.

Moderator: The first question comes from the line of Akshay Jain from Autonomous.

Akshay Jain: So, my first question is on margins. So, can you talk through the moving parts of the 12 basis points NIM improvement this quarter? Because there was an expectation that this quarter will again be slightly negative. And from 3Q onwards, the margins will start to improve.

And secondly, how should we look at margins going ahead? You mentioned that should we look at -- like you are already close to the 3.1-ish levels, which you reported back in 4Q '25. So, like what should be a sustainable level of margins going ahead? Second -- should I ask my second question or like...

Venkatraman V.: Yes, let me answer your question on margins first. The movement from last quarter, 2.94% to 3.06%. You should also keep in mind that we are one of the few banks where we do T+1 repricing on the repo-linked book. So, a large part of the hit on the 50 bps has been taken in last quarter.

Having said that, the main reason for movement this quarter is our deposit cost was lower by about 19 bps. In addition to that, our cost of borrowing was down by about 3 bps. So together, that's 22 bps on the liability side. Our yield on advances dropped by 14 bps.

And then we gained 1 bps in CRR and another 2-odd bps from optimization of other assets and liabilities. So that's how the movement is from 2.94% to 3.06%, largely driven by lower deposit and borrowing costs because we also dropped our savings rate, if you remember last quarter in June, mid-June.

KVS Manian: And Akshay, going -- of course, our intention is to change our NIM profile over a period of time by continuing to focus on what I call the mid-yielding assets. So, we do expect improvement in NIM going forward as well, of course, subject to further rate cuts and things like that. But yes, our attempt will be to continuously look at improving the NIM profile beyond what we started this exercise.

Akshay Jain: Okay, sir. Got it. Secondly, sir, on the growth. So, growth has been like pretty low this time on around 1.5% Q-o-Q, which is like almost half the system. So how should we see growth going ahead? Like are we comfortable enough to meet the 1.2x nominal GDP target, which you had quoted for this year?

KVS Manian: So Akshay, just some background to growth, which is very important for us to understand. When we started this trying to restructure our asset side, 50% of our asset book was in low-yielding segment, what we call the low-yielding segment. That is corporate and home loans constituted over 50% of our book. They still do very close to that. And that is one.

Second, you also know that one year back, we had 53% of our book in repo-linked assets. So there are -- what we are trying to do is a structural shift over a period of time. And these structural shifts need time and effort over a period of time to correct. If 50% of your book is such that you

do not want a double-digit growth on them and/or you don't want aggressive growth on them, you need to do doubly more on the rest of the 50% to get a particular growth rate. So please keep that in mind.

And if you see, even there, there are segments where we do not want to press the accelerator yet, like, for example, MFI or personal loan areas, which we did not want to press the accelerator. So wherever we have chosen, so the way to look at it is in our chosen areas of growth, we have been able to grow quite handsomely. If you look at our commercial bank, it is growing at late 20s kind of growth rate. Our cards is growing.

Our gold loan, as I mentioned, if you take away the Digi-biz business, that is the wholesale part of that gold business, which has to be run down because of the RBI new guideline. If you take the retail gold, we are growing at close to 7% Q-o-Q on that. So the way we look at it is we need to grow, of course, we need to grow and we need to grow profitably in line with the structural objectives we have to build a sustainable, good quality franchise over a period of time.

And therefore, we continue to remain bullish. I think there are areas like LAP and BuB, which have just about reversed their negative trend over the last quarter to positive territory this quarter, but we do expect these to grow faster in the coming quarters and build momentum through that. So we are quite clear that in our chosen areas of growth, we will grow.

I hope that answers your question.

Akshay Jain: Yes. On asset quality, last quarter was impacted by MFI and partly by business banking. So this quarter, is it safe to assume that all things are back to normal?

KVS Manian: So the MFI, of course, that continuing 50% provision that happens, we provide over 2 quarters, on the unsecured. So that hit has, of course, come this quarter, right? Last quarter's slippages do hit this quarter. And if you look at the slippages, they have dropped. But are they in comfortable zone? I don't think so. So MFI stress, I think, is still in play. It is easing for sure. I mean we have seen the peak already last quarter, not this quarter. And month-on-month, we have seen easing of that. But has it completely come to a territory where we are comfortable? The answer is no. But rest of our asset book actually has stood rock solid on the asset quality side. We have no reasons to be concerned about anything on the asset quality on any other business other than just the MFI-led business.

Akshay Jain: Understood. And lastly the clarification...

KVS Manian: And the credit cost, excluding MFI has actually slightly declined. In fact, our credit cost, excluding MFI has slightly declined, if at all.

Akshay Jain: Yes. Understood. Just last one clarification. So there is an exchange notification on capital raise. So is it just an enabling resolution? Or is there something more to read into it?

KVS Manian: Since we have given a notice for a Board meeting on 24th, let's respect the Board's authority to make decisions and then talk to you on that. So we will just now leave it at that.

- Akshay Jain:** Is it enabling or like it's not an enabling one, is it?
- KVS Manian:** Let's wait for the 24th, please.
- Moderator:** Next question comes from the line of Mahrukh Adajania with Nuvama.
- Mahrukh Adajania:** My first question is on margins. So we've already done a good job on margins. They've come out better than expected or even better than guidance. How do you -- do you expect them to improve further in the second half? And then in terms of the CASA ratio, right? So once balance sheet growth picks up, you've consolidated in the segments, which were low yielding and grown in mid-yield to high yield.
- But once overall balance sheet -- once that consolidation through, and I believe it should have been through last quarter. But once that is through and when overall balance sheet or loan growth picks up, how will CASA behave? I mean, just now the growth is also low. So overall deposit growth is low, that is also helping the CASA ratio. So that's my first question.
- KVS Manian:** So on NIM, Mahrukh, of course, as you know, our deposits reprice over a 12- to 14-month period, and we are 6 months into that. And therefore, there is, of course, deposit repricing that will continue to play through the next 6 months. And of course, assuming our CASA trajectory continues, our desire will be to grow the margin from more than here, of course. And hopefully, our execution keeps track with -- keeps in sync with our desire. So that's about the NIM.
- And on your CASA, you're absolutely right. We are very much aware that as growth picks up, our CASA momentum has to be even better to maintain the ratio. We fully understand that and that we have to build in our execution template to make sure that we deliver on that. Having said that, these are also times when overall industry CASA and deposit growth has been mute. One is also hoping that tide will turn a bit also on that and deposit growth will, in general, pick up, that will also give us some tailwind to do better. So a mix of tailwind and better efforts.
- There are many other initiatives we have in the pipeline to drive our CASA trajectory forward. I mean there are hundred more things to do, and we will definitely keep that in mind while executing going forward. But it's a good point you raised. Yes, we have to keep that momentum stronger.
- Mahrukh Adajania:** Okay. But from -- so 3.06% is the current NIM, what is the normalized level of NIM, say, over the next 1 to 2 years? I mean, would it be 3.3x? Or what is the normalized level...
- KVS Manian:** All I can say is upward. All I can say, Mahrukh, is that it is definitely upward. Let's not -- I don't want to limit myself with any number that I tell you. So let's say it is upwards, and we will continue to -- see, Mahrukh, the reason I'm also hesitant to tell you are there are many moving parts in this game, right? One, like I said, we are trying to restructure liabilities. We are trying to restructure assets. So it's a mixture of things that is happening. Then there are external factors like rate cuts, further rate cuts that can happen.

So, I think there are many moving parts. Let's -- the way I look at it is we have to remain agile, keep executing and doing our best and let the outcomes play out. So -- but clearly, we would like to see NIMs higher than this, obviously.

Mahrukh Adajania: Sure. And in terms of asset quality, the MFI stress has peaked, but it's still there. And hopefully, in the second half or by fourth quarter, it will decline much more. So in that context, at least for the next 2 to 3 quarters, can we see a sharp reduction in credit cost? I know you had guided to 50 bps or 45 to 50 bps as the normalized range. But next half, will we see a substantial reduction as MFI recovers? Or it will be 50 only?

Venkatraman V.: No, Mahrukh, let me correct you first. We have never guided 45 or 50 bps. Last call also, we said our full year guidance is 55 bps. Last quarter was 65 bps. This quarter is 50 bps. For the 2 quarters put together, we are at 58. We'll still maintain our full year guidance of 55 bps. Obviously, endeavor would be to try and come below that. But at this stage, I'm not giving a guidance different from what we have stated earlier.

Mahrukh Adajania: Okay. So even with the MFI recovery, it will be around about here only.

KVS Manian: Let's see how it plays a part.

Venkatraman V.: Yes, we have two more quarters, so yes.

KVS Manian: See, like I told you, Mahrukh, that I am not yet in the comfortable zone on MFI. So I do not know how that plays. So let's -- after we get a comfort on that side, we can consider on revising our guidance. But just now, I don't have that level of comfort on the MFI side to give you a revised guidance.

Mahrukh Adajania: Okay. Got it. And just last question. I know the Board will decide and then you will communicate on the capital raise. But theoretically speaking, since you are consolidating on areas you don't want to grow and even if growth picks up, it can be self-funded through internal accruals because your margins are improving.

Why would you need capital at all? Are you seeing -- are you seeking to expand in any capital consuming business because most of the other lending businesses should be self-funding. So that was the broader question.

KVS Manian: Mahrukh, let me first correct you. that we don't want to grow is an incorrect statement. Like I told you, we have intention to grow in our chosen areas of assets -- on the asset side, which are profitable to grow so...

Mahrukh Adajania: That's what I meant, not the low yield -- not the low yield, yes.

KVS Manian: Yes. So -- but Mahrukh, mid-yielding segment also requires higher RWAs. So therefore, we will come back after the Board meeting and talk about update on the capital part of it. So let us leave that discussion out for today's call.

Moderator: Next question comes from the line of Sumeet Kariwala with Morgan Stanley.

- Sumeet Kariwala:** Congratulations on a great quarter. Some -- if I can get some initial estimates on the impact on the new -- from the new guidelines, ECL and the guidance that RBI is going to put out on operational and credit risk revised standardized approach, some initial estimates cut that you might want to share?
- KVS Manian:** Venkat?
- Venkatraman V.:** See, on the ECL, Sumeet, of course, the draft guidelines is out now, which we are examining. But based on the earlier submission, we have given an indication that it will not be a substantial impact to us. It will be low less than 0.2% on the capital. This was the estimate as per the March pro forma submission. But we need to study in terms of what it will be, but we don't expect any significant impact due to the ECL transition.
- Sumeet Kariwala:** And the benefit from operational risk and credit risk guidelines? The standard -- Basel III revised standardized approach, what could be the release? Any sense on that?
- Venkatraman V.:** We will have some benefit, but too early for us to give out a number on that or an estimate, Sumeet, but we are -- we will have -- obviously, there will be benefits coming out of that. I don't want to put a number at this stage.
- Sumeet Kariwala:** Okay. And the overlay provisioning, that's with respect to which segment?
- Venkatraman V.:** This is actually Retail segment, Retail.
- Sumeet Kariwala:** Retail segment. Can you give me -- can you give us some color on MFI portfolio in terms of SMA or collection efficiency, how it has behaved in September versus June?
- KVS Manian:** Harsh, do you want to take that?
- Harsh Dugar:** Yes. Sumeet, Harsh here. So, as we have observed the slippages has been coming down after peaking in May month-on-month from June, July, August, September with each month being lower than the previous month. That's one part.
- Secondly, we have seen some reversal in terms of moving to a lower bucket from the higher bucket. That's the second part. There has been a higher collections also in this area. So, these three things do look positive at this point in time, Sumeet.
- And total book actually BC-driven book is less than 1.7% of our total book, and we have not been growing almost flattish. The BC book at about INR3,300 crores BC driven book, that's JLG loans. And there's a small portion is SHG loan, which we have not seen any major concerns over there. So, this is broadly what it is.
- So, we do see signs of trending downwards, but there's external stress because the number of borrowers -- the person can borrow from and the quantum he can borrow has been capped. So, there is an external pressure for him to repay. And as you know, the overall outstanding in the MFI sector has come down significantly.

So that has also come out from the system, which is causing a bit of stress. So that's the reason why we are saying that we would like to be a little cautious in terms of pressing the pedal or commenting on the asset quality going forward. But at this point of time, it's trending downward.

Moderator:

Next question comes from the line of Rikin Shah with IIFL Capital.

Rikin Shah:

Sir, the first one is on margins. It seems like across the sector, the deposit repricing has been better than banks own expectations. Even you had indicated potential mid-single-digit NIM contraction last quarter in this one.

So, what has changed in your own assessment? What has surprised positively on deposit repricing? That's number one. And I have a couple of other questions as well. I'll ask them a bit after that.

KVS Manian:

Rikin, it is not only about pricing. Pricing is, of course, we were quite agile on pricing side. But it also -- as I had mentioned in my -- this thing, the CASA ratio, 1% improvement in a quarter also makes a big difference, right, to the cost of funds. And therefore, it's a mix of volume and rate actions. And like I also mentioned that we cut our wholesale deposits and went more retail.

On the wholesale side, whatever we did, we did on short term. So, there are several rate actions we took, which has basically dropped our cost of funds. Like I said, while we gave a guidance last quarter -- after the last quarter, through the quarter, of course, we keep -- we remain agile and do stuff, which we look at as opportunities in the market.

For example, if you look at the average CASA growth is 6% Q-o-Q, which is much more than we would have estimated in the beginning of the quarter. So -- and that makes a big difference to cost, right? So therefore, there are mixed actions. And I would say, partly good execution, partly markets, partly secular trends, yes.

Rikin Shah:

Got it, sir. And that nicely rolls into my second question. Clearly, the average CASA balances have picked up in the recent quarters. And you had laid out in your strategy a few quarters ago what you aspire to do in the medium term.

And in your opening remarks, you did mention that NRI and remittance market share has improved. Any other levers beyond that, that have started working in terms of government balances, etcetera, that has already started to yield results, if you could elaborate on that?

KVS Manian:

Yes. Government also is doing -- government business is also doing better. In fact, some of the CA uptick has been driven also by that. So, we have multiple initiatives like that, which are -- some have started playing out, some are yet to play out. For example, Fed-one is we have launched essentially our payment side, right? We have yet to launch our collection side products on the corporate side.

I think as we do many of these initiatives, there are multiple initiatives in the pipeline. As we start building our wealth proposition, which we are -- we have not yet gone live with that. As we build our wealth proposition, we will gain share on that. So there are many -- there are other

product variants we have launched, which we will focus on. So therefore, there are many things in the pipeline.

And we -- answering partly to the earlier Mahrukh's question as well, we have to keep executing to get CA trajectory going all the time and the CASA trajectory going all the time. And we do have initiatives in the pipeline, which will continue to drive this.

Rikin Shah: Got it. And the second last question is on asset quality. The agri slippages have been high in the last couple of quarters. What explains that? And more specifically, write-offs are very high in this quarter, driving your credit cost, while the slippages have come off. So which segments you've written off more aggressively in the quarter? Or has there been any change in the write-off policy?

KVS Manian: So two things, Rikin, our agri -- what we show as agri MFI, that is the MFI piece I was talking about, the elevated slippages were only arising out of MFI, as we said. And as we said, that is easing. Has it eased enough? No. But is it easing? And are we seeing a definitely downward trend? Yes. So that's what the asset quality is about. And...

Venkatraman V.: And on the -- your point about there's been no change, Rikin, on any write-off policy on -- so it's been the same. We have a kind of policy in place. We are consistently following that. And so there is no...

KVS Manian: No extraordinary change. There's nothing extraordinary we have done to change the write-offs and things like that. So Rikin, again, you must remember that as the unsecured stress started showing 1 year back, right? So, some of those write-offs are happening out of that portfolio. And therefore, that is consistent with the other things we have been telling you. So nothing unusual or extraordinary that is to be noted.

Rikin Shah: Noted, sir. And the last question is the capital raise. I'm guessing you may choose to not answer that again. But is it fair to say that given your earlier articulation of building new line of businesses on the wealth management side or investment management side, so the potential capital allocation is not only for the organic growth, but also seeding some businesses. Just trying to understand what could be the potential capital allocation plans here?

KVS Manian: So Rikin, let me put it this way. Let the Board make a decision. And after the decision, all these factors will be considered while making a decision and the rationale of that decision. I promise you that as soon as the Board makes that decision, we'll come in front of all of you and explain our rationale whatever -- whichever way we decide on that.

Moderator: Next question comes from the line of Nitin Aggarwal with Motilal Oswal Financial Services Limited.

Nitin Aggarwal: Congrats on a very good result. Sir, I have a couple of questions. One is around the ECL impact, again, wherein you mentioned that the impact is going to be quite small or manageable. So do you think that this will come in the way of the targeted ROA improvement because we have laid out a target to be somewhere in the middle of top three and the next three in terms of ROA and

a number that we look at. So, will this -- covering up this provisioning gap, will this come in the way of us achieving that target over the next 2 years?

KVS Manian:

So let me put it this way, Nitin. Of course, one-time impact, whatever happens that Venkat did give some guidance on. But that -- anyway, that is onetime. We do not expect on a running basis, the ECL methodology to land up giving you significantly higher kind of credit cost. We do not expect our fundamental credit costs to change, right, just because the methodology of accounting them changes, our fundamental credit cost should not change.

So -- but this is early stages, like Venkat said, we are analyzing that. But in principle, if I were to respond without getting into the details and the mechanics of the numbers, methodology -- new methodology should not typically result in a higher credit cost just because of some mathematics, right? Truly, we should lose more money for our credit cost to go up.

Nitin Aggarwal:

Right, sir. And sir, the other is on the Yes Bank stake sale, if you can like help us know like how much is the gain and how will it be reflected that in P&L or balance sheet? How is that accounting done?

KVS Manian:

Just to tell you, Yes Bank was taken into our AFS in the balance sheet when the revised accounting norms were announced. And that has gone -- that is what they call the designated equity. And it went into the reserves, the profit on sale of that. Actually, in the year, it was negative. As of March, it was restated at a particular price, and there was a small loss, which went directly into the reserves.

Nitin Aggarwal:

Reserves directly. Okay. Okay. Sure, sir. And sir, the last question is on the credit card, wherein we have made a very strong progress. It is also helping us improve the fee intensity. But if you can talk about where we are in the profitability journey in this segment? And how is the sourcing mix now between internal and external customers?

KVS Manian:

Yes, I'll ask Virat to address that.

Virat Sunil Diwanji:

Yes. So strategically, we are moving into acquisition by our own team. So our organic card number is growing. And at the same time, we have what we call tightened or revised our policies on the -- to the fintech, the cards that we were sourcing. So these 2 steps on one side, the organic sourcing is helping us to get better customers.

And most of them, the bulk of it, almost 90% of the customers are our existing customers. So from that point of view, it improves the stickiness of the customers with the bank. So all in all, and we will focus on how do we grow our organic card acquisition as a business going forward.

Nitin Aggarwal:

Right. And in terms of product profitability, where are we on the ROA journey in the segment?

KVS Manian:

So Nitin, the way we look at it is there are 2 parts to this, organic and inorganic. Our organic strategy is to, of course, is all upside ours, all downside in the beginning ours, right? All acquisition cost goes into us. Of course, as long as we keep our acquisition internal, we can control that, but all the upside is ours. When we work with fintech partners, we share some

upside, right? So it is a mixed strategy we follow. A mix between the organic and fintech will give us a balanced strategy of building ROA.

So I would say we are not yet in big profit zone. We are in the middling mild loss, mild profit kind of zone just now. I think scale is important to build profits in this business. But I think these are early days from an ROA perspective.

Virat Sunil Diwanji: And moreover, we have recently embarked on this growing our organic card. So as the card age grows up, our spend will go up. And as the spend will go up, eventually, it will translate to the profitability. But early days, I would say.

Moderator: Next question comes from the line of Kunal Shah with Citigroup.

Kunal Shah: Firstly, given that maybe going slow on the low-yielding asset is weighing some way on the overall loan growth, if you can just highlight in terms of the proportion up to which we expect the overall low-yielding advances to come down from the current levels of more than 50-odd percent, say, over the medium term? And maybe how long could it weigh on the overall loan growth compared to our guidance of 1.2x, 1.3x of the GDP multiplier maybe average, which we are indicating?

KVS Manian: So Kunal, let me play the contrarian on that with you. Why do you call low-yield assets growth weighing down? I think it weighs up on the profitability front. So, in any case, so I think like I said, I think it's a balance. We have to -- we need to grow the balance sheet, but yet we have to grow profitability. Our intention is to change the structure of our earnings, and that's the goal.

And corporate, for example, if the corporate credit growth comes back, nothing stops us. And if our liability profile continues to improve, there's nothing that stops us from pressing the accelerator on the corporate side, right? So, I think it is a question of the cycle. In a cycle where corporate credit cycle is not very favorable and you try to grow, it can only come at extremely low yields and ROE destructive manner.

Yes. So -- and we don't want to play the price game, right? And by the way, if you go back to our history, there have been times when we have grown our asset at 20% and still our ROAs have not grown. So if you trace back our own history, that has been the case.

So, I think finally, we have to do things in a logical growth-oriented manner. Even in corporate, we are saying mid-corporates, we want to grow. It is harder work than doing a large INR2,000 crores transaction with a large corporate. You have to do 10 corporates at INR200 crores. But that's the way to go, and that's the way we will go.

And therefore, I just want to clarify that it is not that we are against growth, right? I told you that in chosen segments, we want to grow. And those are aggressive growth numbers. Those are not small. If you look at credit card, it is in 30s.

If you look at the commercial bank, it is in late 20s. Gold is, as I told you, 7% Q-o-Q, if I take the Digi-biz aside. So it's not an issue about having a mindset to grow. We want to grow, and we will press the accelerator where we see the opportunity to grow profitably.

Kunal Shah: Got it. Perfect. And secondly, on fee income side, so the ramp-up has been quite strong. We are already seeing it upwards of 1-odd percent. So I think a lot many levers kicking in. If we look at forex that's contributing, distribution fee has gone up quite significantly on a quarter-on-quarter as well as year-on-year.

So where do we see and how quickly can we see the overall fee to assets ramping up? Maybe you have indicated in terms of the medium-term guidance, which you have, okay, across the board. But is it coming too quickly than the expectations the initiatives have already started to yield and we might reach sooner and that could be the support to the ROE?

KVS Manian: Absolutely. I mean that is our intention. I had always -- even 2, 3 quarters back, we talked about this saying that trade forex, trade and forex, wealth and cards being key drivers of this, apart from, of course, growth in many other areas that you have seen where it has continued to grow.

And I think the runway is still completely open on wealth, for example, while in para banking, in insurance distribution, we have already started showing traction. I think the core wealth business is yet to go live technically. So therefore, there is runway ahead. On forex, while we have seen progress, we have seen progress on the corporate side.

We have not yet seen progress on the retail side. On trade, we are -- we still have a runway to grow that going forward. So I think there are enough levers yet to pull for us to improve this trajectory, and we'll continue to do that.

Kunal Shah: Sure. Got it. And last time, you had indicated a host of initiatives, which you had taken structurally. Any new initiatives maybe after being there, maybe any incremental initiatives, which maybe you think that maybe you have thought about it over the last 2 months and which is getting implemented now?

KVS Manian: Kunal, we already told you that we have 50-odd projects, large projects, which we are running as what we call the project breakthrough. Yes, of course, maybe after the December quarter, we'll come with -- I had given a kind of a small update in the early-stage update in the last quarter.

But we will come back to you in the -- with the December results and give you a more comprehensive update. There are initiatives always in the pipeline. And of course, we have to keep doing what we have to do, but we will come back with a full update. There are many initiatives that are, of course, in the pipeline.

Moderator: Next question comes from the line of M.B. Mahesh with Kotak Securities.

M.B. Mahesh: Questions on margins again. When you look at the yield on advances decline of about roughly about 20% and cost deposits on 20%, how do you explain margin expansion here?

KVS Manian: Venkat?

Venkatraman V.: Mahesh, what you are looking from that, don't derive the number from that. You'll have to look at it from a NIM perspective. From a NIM perspective, the deposit and borrowing cost, clearly,

we have a 22 bps save there, whereas the yield on advances has dropped only 14 bps. So, you get a clear 6 bps out there.

And in addition to that, there is 1 bps from CRR, which I told earlier. And we also did -- we continue to do optimization of our balance sheet in terms of other assets and other liabilities. We have got about a couple of bps from that. That is an ongoing exercise. We will see how -- there are still some more assets, which we feel we can get returns out from or dispose and all that. So that is work in progress. So that's how the...

M.B. Mahesh: And just to clarify...

Venkatraman V.: Sorry.

M.B. Mahesh: Just to clarify, there's no one-off in the interest income?

Management: No, no.

Venkatraman V.: Absolutely no one off.

M.B. Mahesh: Second question, sir, we missed the direction of margins this quarter. So just trying to clarify here, if everything were to remain as what it is today in terms of interest rates, does margin go up or go down or it remains flat next quarter or in the next 2 quarters? How does it move from here onwards?

KVS Manian: Mahesh, it does go up, obviously, for the simple reason that like we always tell you that our deposits reprice over 12 to 14 months, deposit side, the term deposit side reprices over 12 to 14 months. So we are in the middle of that cycle. So there is going to be repricing of our deposits for another 2 quarters, if not slightly more than that and benefit will flow. Of course, asset pricing will...

Venkatraman V.: This is assuming no rate cut, like you said, assuming the...

KVS Manian: Rate cut is a separate after you clarified. You were asking your question all remains same.

M.B. Mahesh: One last clarification. In your mind, do you think that the bank requires additional capital to do the current level of business? Or it is -- or do you have a capital adequacy ratio in mind that suggests that this is on the lower side?

KVS Manian: Mahesh, again, I will leave the question at that -- answer at that saying that let 24th Board meeting happen. Let us make that decision. The Board will meet and discuss all issues. Whatever is the outcome, let's then come back and explain, give you the update rationale, all of that we will talk about. Give us those few days to come back to you on that.

Moderator: Next question comes from the line of Piran Engineer with CLSA.

Piran Engineer: Congrats on the quarter and happy Diwali. Just on the standard asset provision, once again, the management overlay thing, what exactly was that? And on what portfolio size did we take that INR48 crores?

Venkatraman V.: It's INR46 crores, Piran, the management overlay. It's a proactive decision, which we have taken on standard assets which have not been reclassified where we are seeing some stress on connected accounts. So as a proactive measure, we have taken the INR46 crore management overlay.

Piran Engineer: So large part of that in the...

Venkatraman V.: And largely in retail, yes.

Piran Engineer: So it's like the same borrower has another loan, which is, say, Stage 2. That's what you mean by stress and that...

KVS Manian: Not the same. Same borrower is very clear.

Venkatraman V.: The same borrower will be classified.

KVS Manian: Connected borrower, connected borrower.

Piran Engineer: What do you mean by connected?

KVS Manian: We will take you that offline and there are...

Venkatraman V.: There are technical terms involved.

Piran Engineer: Okay. Okay. Fair enough. Fair enough. And then secondly, getting back to this NIM thing because...

KVS Manian: Promoter and a company of the promoter, private limited company of the promoter are connected, just as an example. So just as an example. There are scenarios there that we don't want to take you through the whole thing on a call like this.

Piran Engineer: No, no, fair enough. Now I get it. If it's -- so one is corporate and one is the person, fair enough.

KVS Manian: That's one of the -- one scenario, one of the scenarios, yes.

Piran Engineer: Got it. Got it. And also just on this NIM thing, is there some benefit in terms of day count accounting that has accrued this quarter? Usually, in certain quarters, there is a hit and then some quarters, there's a benefit. Just want to make sure that this is an absolutely clean number.

Venkatraman V.: This quarter, nothing Piran, nothing.

KVS Manian: BAU in normal course.

Piran Engineer: BAU in normal course. Okay. Perfect. Perfect. That was it.

Management: Moderator, one more -- yes, one more question and probably, we can wrap it up.

Moderator: So, the last question comes from the line of Param Subramanian with Investec.

Param Subramanian: A couple of data keeping questions first. What is your LCR for this quarter? And what is your CET1, including...

KVS Manian: 129.

Param Subramanian: 129, okay. And what is the CET1 including profits as of this quarter?

Venkatraman V.: It is 15.71%. It's given on an annual basis, but yes.

Param Subramanian: 15.71% includes CET1, right?

Venkatraman V.: Yes, that includes CET1, so that's CRAR. 15.71% is a CRAR includes CET1.

Management: Without profit.

KVS Manian: The profit we do only at the end of the year, now that we do only in Q4. We don't do that calculation through the year.

Venkatraman V.: At this stage, we haven't taken -- we haven't done that profit.

Param Subramanian: Okay. Fair enough. Okay. And lastly, again, this question has been asked in various forms, but I'll just again. But how to think about the bank more from a medium-term perspective in the sense that, see, we are still in the midst of a rate cutting cycle. Fully appreciate that you're solving for top line growth and ROA delivery clearly.

But since we are possibly still looking at further rate cuts ahead, at what point do you start thinking that balance sheet optimization as a lever is largely done, and we will start looking at growth as a driver of profitability going ahead.

If you could give some sense on that, that -- I know this has been asked, but how we are thinking that at what point we are comfortable with mix and we want to start growing? Because clearly, as has been asked in a few questions, you're also looking at October 24, possibly raising capital.

KVS Manian: Param, all I will tell you is that growth in profits and growth in assets needs the right balance, right? One without the other doesn't -- either is not possible or does not make sense. So we remain very careful about how to balance these 2. We understand that there are times when we have to drive profitability through asset growth and there are times when we have to correct the profitability not necessarily through asset growth.

So we will -- all I can tell you is our strategy is not a thing that we will just hold tight whatever the situation of the market. We will remain agile. We will remain thinking about what is the right strategy to do in what environment, and we will act according to that. And I do not want to predecide what we will do, when we will watch. We will react to the situation. We will adapt and react to the situation.

Param Subramanian: Absolutely, Manian. I fully appreciate that. It's just that your leverage is coming down. So it has an ROE impact for you. So that is why just following up on this, that something that you are considering as well, right?

- KVS Manian:** Yes, yes. Of course, all parts of the equation, we will take into account. We need to take into account all parts of the equation. We understand that. But like I said, we will do what we think is sustainable and right thing to do for medium, long-term benefit of the bank and the shareholders of the bank. We remain very conscious of that.
- Param Subramanian:** Congratulations on the quarter and Happy Diwali to the whole team.
- Souvik Roy:** Thank you. And moderator with that, we'll probably close the call. Thanks, everyone, for joining us on Dhanteras afternoon, 350-plus participants today explains a lot. Thanks a bit. And before we close, one quick thing. Do look at the Slide number 5 in our presentation. It captures in a quick snapshot that what we are truly focused on right now and which is execution. As always, if there's anything that's left out, we are always a call away. We can discuss offline as well.
- Thank you again for your time and have a great festive day ahead. Happy Diwali.
- KVS Manian:** Happy Diwali. Thank you for joining us.
- Moderator:** Thank you. On behalf of Federal Bank Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.