



“Federal Bank Limited
Q3 FY '24 Earnings Conference Call”
January 16, 2024



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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY'24 Earnings Conference Call of the Federal Bank Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Souvik Roy: Thank you so much. Good afternoon, and a warm welcome to our Q3 Earnings Call. I wish you all a very happy new year. I'm sure you've had a chance to delve into our numbers. It's evident they are not just good, they are quite promising. This quarter, we achieved a historic milestone with our first ever 4-digit profit number, reaching an impressive INR1,007 crores.

Our NII, too, has soared to new heights, standing at an all-time high as well. The strategic expansion of our branch network remains robust. We added close to 65 new branches in H1, 30 of which materialized in the last quarter itself. Our commitment to growth asset quality and ROA is paying off at well and it's evident in our strong performance across these metrics. Both ROA and ROE, as you already see, are on a trajectory that aligns with our strategic growth as well.

The listing of our subsidiary, Fedfina, in the last quarter was a standout success and they do mark their best quarter ever. They just gave out their numbers yesterday. While we acknowledge a slightly elevated credit cost this quarter, it's essential to highlight that it has outperformed our earlier guidance. And we are sure that we'll navigate these dynamics quite well.

Pleased to inform all of you that our entire senior management is on this call. And with this, I'll hand it over to our MD to share his insights and perspectives on the quarter which went by. Over to you, sir.

Shyam Srinivasan: Thanks, Souvik. Good afternoon, everybody, and once again, happy 2024 to everybody. The numbers and the highlights that Souvik pointed out, certainly are noteworthy. I am particularly pleased that we did get to that 4-digit number. We have fair amount of years on this job at some stage many years ago, this looked like a dream, and I'm pleased that our bank has consistently worked our way up to get to this point, and this looks like a new base of which we will work to make sure that the periods ahead are only better.

Business momentum for us has been fairly strong along the lines we've been guiding for in the high teens closer to 20%. Some of our newer businesses are on course and traction is strong. Environment continues to be challenging for everybody, no less for anybody. I think there is, there will be -- there is and it's likely to remain for a while in terms of the cost of deposits being high, the traditional stronghold of banks able to grow savings that will in a high interest rate environment continues to be sober.

That said, our retail deposits are strong. We're still in the high 90s in terms of our deposits being retail in nature. Having said that, the overall CASA, in particular, SA growth and in particular, NR SA is seeing a material change from its past period. business-wise, credit quality-wise,

growth-wise, market share-wise, I remain confident that the momentum, the trajectory, the plans that we put in place are working, some better than others.

Credit quality, in particular, like Souvik just pointed out, there was one account which was about INR70-odd crores slipped in this quarter. It's been our highest per account slippage in a long period of time. Thankfully, this quarter, as in Q4, that account will get upgraded because the client had a fire in their factory, and that seems to come through and they have sorted it out. So we are hoping that net account too will get restored. So overall, momentum for business despite a challenging environment still is intact.

I do believe, in Q4, we will repeat the same underlying business growth momentum, and that should keep the structural changes going quite well. That said, Q4, there are some challenges in terms of the impact of what may happen on the AIF and what may happen on account of higher costs for provisions in pension.

Those are things we are working through, but underlying business, granularity of business, business mix, productivity at individual level, our influence of technology, use of AI our structural changes that we are putting in place, the business mix, retail, wholesale, within retail, the kind of business we want on the secured, unsecured, the new age businesses. I'm pleased that, that we haven't taken our eyes off that traction continues.

Through the cycle, there will be ups and downs in terms of interest rate movements. I think we are learning to weather that and still deliver our promised growth on return ratios, principally on ROA and ROE. And I'm quite inclined to believe that the period ahead should reflect all this in the numbers. And then the Federal story will continue quite impressively.

So, with that, as my opening remarks, as always, me and the entire senior team are there. Happy to take questions from any or all of you. Thank you very much.

Moderator: Thank you very much. First question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Hello. Sir, I have three questions. My first question is on deposits. You did mention rising deposit costs, but there is a lot of talk about RBI being worried about loan-to-deposit ratios and having discussions with individual banks. And then in general, November, December was very tight for deposit taking with CD rates also moving up.

So where do you see your LDR and in general deposit growth settling in FY'24 end and FY'25? And what will be the impact on loan growth because of that and on margin? Because it's tighter than what we had expected even in the second quarter. So plus all the talks about RBI.

Shyam Srinivasan: I think, Mahrukh, the question you asked is in terms of how do we expect CD ratios to play out across -- for us, for the banking industry. Clear that the regulators are probably looking at banks moderating their CD ratio, banks like us, which have about early 80s. May be less on a first term there are I think some players are probably at the higher end of the spectrum. That said, I think most of us or the regulators may be comfortable around 80.

So we have to work through that over a period of time. That will be a blight path. I think the issue is not about growth, it's a ratio that is important, and we are not sort of overheating the market. Probably, that's the direction that they are guiding back to. As I can't quite guess what they see at an aggregate level, we only see our numbers.

Cost of deposits certainly is something that all of us are dealing with. We have learned to construct our business models with this as a reality till it changes ROI, right? If the interest rates remain where they are and liquidity is kind of tightish, I do believe we will see this kind of environment prevail for some more time. Our own direction for ourselves is get closer to an 80% CD ratio over the calendar '24, and which means we have to rebalance our mix of business where we amplify where we tone down. It's not just one dimension. It's not just C or D, it's C and D and also the kind of C -- kind of credit, right, risk weights too have been adjusted.

So what it may result in margins, which may see challenges. I think we have to construct the P&L differently from just looking at NIM as a sole driver. Growth should be intact. NIMs may not be the highest, but I think you have to figure out your other income, have you look at efficiency and ensure that the credit quality is intact to make sure the return ratios are intact. So banks like us, which have been guiding to 1.35% to 1.4% ROA, thankfully, we are almost there. Now how do we sustain that and keep improving on it? So I don't think there is one silver bullet to say I will do this and sort this out. I do believe that we, at least, for ourselves, are quite clear.

We don't want to get spooked by NIM by itself. We want to make sure that we are on course delivering our ROA on trajectory ultimately, ROA, ROE are good drivers to determine strength, health, and consistency of our franchise I'm reasonably confident on both those counts, we are on course to delivering what we had set out to do, most recently when we raised capital. We had talked about being closer to 1.4% ROA at end of '24. We seem to be on course for that.

Mahrukh Adajania: Got it. But that would mean that deposit rates would rise from here, correct?

Shyam Srinivasan: Deposit rates rising from here, hopefully, Mahrukh will not be material increase. It seems more or less in that space. Yes, some buckets, some tenors, you could see increase, but I think blender rates going up may start moderating.

Mahrukh Adajania: Oh, because the CD ratio for the system is quite tight, no?

Shyam Srinivasan: Mahrukh, I've been wrong before. I'm this calm because I think these are moving parts. We are still a 1.3% player, a 10%, 7%, 8% market share player can change course. If SBI or HDFC and/or both choose to play market differently, that can be -- the narrative can change. But I think we are fluid enough to readjust quickly.

Mahrukh Adajania: Got it. Got it, sir. And my second question is, you did mention that you're working out on your wages and your AIF, but your employee expenses did go up around 10% Q-o-Q. So have you factored in anything of the wage agreement either on pension or provision or that will be separate over and above this?

- Shyam Srinivasan:** No, no, we have. If you remember, at the last call, we had standard planning for 15% from November '22, but it looks like it may be 17%. So we have done a catch-up. So we don't want to be lagging on that count.
- Mahrukh Adajania:** Okay. So this is for both wages and pension, right?
- Shyam Srinivasan:** Some elements of pension impact will come through in the quarters ahead. That is something that we will evaluate as the quarter plays out between Q4 and early part of next financial year. We don't know when the agreement this signed. So those are elements that are indeterminate at this point in time. What we've done is the wage increase part we have factored.
- Mahrukh Adajania:** Got it. And in terms of AIF?
- Shyam Srinivasan:** AIF, there is a representation from the banking system to the regulators. I think today's news flow suggests that they may look at it differently for banks. So I can't quite comment at this point in time.
- Mahrukh Adajania:** Okay. But any exposure you would like to give out?
- Shyam Srinivasan:** No. We do have an exposure. I don't know -- it depends on what the filters and what the carve-outs are, the impact will vary.
- Mahrukh Adajania:** Okay sir, I'll come back for my third question then. Thank you.
- Shyam Srinivasan:** Welcome.
- Moderator:** Thank you. Our next question is from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead.
- Suraj Das:** Hi thanks for the opportunity and congratulations on a good set of numbers. Just one question, sir, in terms of NIMs. So if I see your yield on advances, that has been pretty stable on a Q-o-Q basis over the past 2, 3 quarters. However, at the same time, I think incrementally, your focus has always been on the higher-yielding segment. So despite your incremental focus on the higher yielding segments, your overall yield on advances is not going up. So just wanted to check what is -- I mean, what could be the rationale -- are you becoming more risk averse on your existing book on the core book? Or I mean, is it the deviation that is changing the whole game? Or I mean what could be your reading into that?
- Shyam Srinivasan:** No. I think it's very clear. See the fact is higher yielding is relative, right, relative to our other books, these are higher yielding. Certainly, these are not in the teens. The rate of interest charge is not in the high teens. So to that extent, higher yield, but higher than our other book. So I don't believe this will be a single driver. Please look at us in direction of growth. And as we keep building this book, when the markets open up and interest rate opportunities come for us, we will be able to get a higher momentum on that. So I would not look at this thing just because we are doing those businesses automatically, the business momentum shifts and NIIs starts tapping up because that would mean define gravity.

You cannot play price out of the market with our risk appetite. We are not inclined to grow by flexing our risks. One of our -- thankfully our strength across long periods of time, both our credit costs have been intact as also our portfolio has been pretty high quality. So even as we start doing businesses with like credit cards, personal loans, microfinance, commercial vehicles, which are relatively higher yield, we are not growing that by flexing or dropping our credit standards. To that extent, even in those segments, we are picking the better customers.

Certainly, there will be a pricing pressure. And we believe that in that segment, we are getting better pricing than doing businesses which are lower in price. So will yield pickup materially over time? Yes, it will, but not instantly as the share of these businesses go up. We also believe as cost of funds come down, which I think is not very far from now, we will see that benefit coming through.

Yes, there are some things that we have to redo in terms of fixed rate and floating. We're working through that. So are we thinking about what FY'25 will look like? Yes, the teams are working on many plans. And our desire for us is to ensure that the NIMs composition may vary, but the NIM number that we are currently at is protected, preserved without much violation.

Suraj Das: Right. Okay. Sure, sir, understood. Thanks.

Shyam Srinivasan: Thank you.

Moderator: Thank you. Our next question is from the line of Madhuchanda Dey from MC Pro. Please go ahead.

Madhuchanda Dey: Hi. I have two questions. You explained the reason for the higher corporate slippage. But anything that you want to call out on the retail slippage, which is also sequentially a tad higher?

Shyam Srinivasan: Madhu, it's only a tad higher, right? If you look at three quarters, it will be 190, 200, 204, 194, 213. So it's not materially off. Second is, the denominator is growing quite handsomely. So really, there is nothing unique to call out or add to. I don't know, Ashutosh, Shalini, if you want to pipe in, you may also want to.

Shalini Warriar: As Shyam mentioned, the denominator is also growing quite handsomely on the retail side. So the small shift that you see is natural as part of the business growth that we've had, nothing to call out specifically on retail slippages, Madhu.

Madhuchanda Dey: I have a slightly long-term question which is more for the banking sector and also definitely relevant for your bank. As we see now that this deposit growth and deposit cost problem is getting more structural. I mean banks are really competing with the capital markets to get that saving and there is a definite struggle out there.

Should this continue, banks will either have to compromise a bit on the margin or if they are not willing to compromise on the margins, it will result in higher credit costs, and in any case, this scenario points to higher cost-to-income ratio as banks are growing for branch expansion, etcetera, etcetera, to garner that deposit, which means structurally, there is going to be a pressure

on ROA. Do you think this scenario could play out? And in that case, where do you see your ROA settling maybe in two years down the line?

Shyam Srinivasan: Madhu, thank you. That's a good question. And I just want to reflect back on a few quarters back where I had pointed out. It is almost impossible to believe the 2%, 1.8% kind of ROAs will sustain forever even for the best in class. That's not my job to guess, but that's for them to defend. I do believe for banks like us getting to 1.4%, 1.5% is a good milestone. And from there, we have to fight our way up.

But the reasons are that with the capability sets increasing materially in banks like ours, the arbitrage opportunity of somebody cleaning away the share is not going to happen. Structurally, even in the West or more advanced markets if there are any that you can call that, margins tend to be lower.

ROAs around this kind of number is where the best-in-class are, which means efficiently, which means other income, which means credit standards have to be sacrosanct, which is a model we've followed for long. We've been faulted for it, but we've followed for long. We have not been a very high margin bank. But our ROA from 0.7% to 1.4% has come in five financial years. I think we are at a place where we can defend it quite nicely. For the capital, we have 1.4%, 1.5% ROA makes us, I think, a good solid franchise.

Madhuchanda Dey: So that is like 1.5% is now the aspirational ROA that you're working?

Shyam Srinivasan: We will work towards it over the next 12, 18 months.

Madhuchanda Dey: Thank you and all the best in this journey.

Shyam Srinivasan: Thank you.

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

Nitin Aggarwal: Hi. Good afternoon, everyone. Sir, three questions. First is, again, taking forward from the CD ratio that you talked about will want to moderate to 80. So will this have implications on loan growth? Or do you think Federal Bank has the ability to raise as much deposits and still sustain 18%, 19% loan growth?

Shyam Srinivasan: Nitin, I think the ability to grow deposits, we've demonstrated for long periods of time, even though they are toughest of times we've been growing even as we did in the Q3. And the cost of that deposit is something that we have to be thoughtful about and decide where we want to draw the line. At this juncture, we haven't altered our 18% kind of credit and deposit growth capability and plan, and I do think we will be able to hold that.

Nitin Aggarwal: Right. And related to it, I was looking to Slide 23, wherein we talked about the growth through partnership. So across most other unsecured segments, we are growing very well, both in number of accounts and balances, but since franchise account opening run rate is nearly flat over past

many quarters, while the account balance has almost doubled Y-o-Y. So what is limiting us to step up the account opening run rate here?

Shyam Srinivasan: I think it's the effect of learning. We started this partnership-led new account opening about 2, 2.5 years back. We have learned a lot in terms of -- so that we can cut wastage between us and our partners. We were at some stage doing maybe 13,000, 14,000 accounts a day on the savings side. We've brought it down to 4,000, 5,000. And the good news is we are able to sort of filter out either waste or fraudulent efforts or whatever other combination.

I'm happy that our ability to sort of narrow down and get the right base is improving with each passing month. And balance growth is a function of also vintage on the book. And as we keep getting the better quality and seasoning them, this should continue.

Nitin Aggarwal: Okay. And sir, if you can also comment on the core earnings strategy there. Any changes in underwriting that you have made while working along with fintechs given all the ongoing noise around the unsecured loans?

Shyam Srinivasan: I think our co-lending is still starting off. I don't know, Shalini, Harsh, do you want to point out? There's nothing much to call out in my view, but Shalini, Harsh?

Shalini Warriar: Yes. So Nitin, on co-lending per se, honestly, nothing much. We've done some work on the microfinance side, which Harsh can speak to. But on the others, we are reviewing what the partnerships available are from a co-lending perspective and getting the technology operational aspects kind of worked on.

The other part of, I think, what your question was is when we do underwriting -- when we do fintech-led partnerships for credit card, personal loans, are there any differences from an underwriting perspective? To clarify completely the underwriting criteria are entirely as laid down by the bank in accordance with the bank's risk appetite and completely governed by the bank.

We have not done anything on the risk appetite side, change how we work with partners, Nitin. Harsh, I don't know whether you want to add on something on co-lending.

Harsh Dugar: We have covered it, Shalini, just one point. We have obviously started co-lending as Shalini also has mentioned. The credit standards and stipulations of filters remain just the same. We are at this point of time experimenting to see how scale works over here. We started with microfinance for two reasons. One, we can cover deeper geographies. And secondly, the manpower cost in the co-lending part is something which we can leverage on both sides, with NBFC having low-cost structures over here, we can leverage on that. That's how we are looking at doing it. And at certain scale and size, we will decide whether to deepen or how we will take it forward.

Nitin Aggarwal: Right. Thanks. And sir, last question is on the management succession. Given the recent communication from the RBI, so how do you plan to approach like shortlisting two more names? Will it be open to external candidates, will you be hiring an external search firm? And because the time that we have is still limited versus the planned succession that happened at some of the other large private banks. So how do you look at that?

- Shyam Srinivasan:** Yes. I think the Board has already commissioned a search process. I think our exchange announcement also sort of reflects the regulatory letter. So there's a very effective and active search process using top quality search firm is on. And we believe in the next two to three months between our internal candidates and an external option, the Board will choose the most preferred list and send it to RBI.
- Nitin Aggarwal:** Okay. Sir, thank you. I wish you all the best.
- Shyam Srinivasan:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Pritesh Bumb from DAM Capital Advisors. Please go ahead.
- Pritesh Bumb:** Hi, sir. Good evening. Sir, one question from my side is on the risk weight side. You touched upon it, but when I look at the credit risk, which has gone up this quarter, how much will be from the changes from RBI? And how much would be from the regular business growth which we are having in the unsecured. And if you can quantify what changes...
- Shyam Srinivasan:** I think blended comes to, if I remember right, what, 35-odd basis points, largely driven by the change in the regulatory standards reflected in the business we are writing. Damodaran or Venkat, do you want to add? Venkat?
- Venkatraman V:** Can you hear me?
- Shyam Srinivasan:** Yes, Venkat.
- Venkatraman V:** Yes. So credit risk moment has seen an increase -- has been around INR10,000 crores, of which nearly 75%, INR7,200-odd crores is driven by the regulatory change. That's in the absolute value terms.
- Shyam Srinivasan:** I think it's in the Slide #20.
- Pritesh Bumb:** Sure. So that will be predominantly because we have a slightly higher NBFC book, right? So that's because -- unsecured is relatively low.
- Venkatraman V:** And NBFC both put together. That's the normal [16th] regulation.
- Pritesh Bumb:** Got it. Okay. And second question was in terms of other income. What will be our breakup from these trading gains? I believe you will have about INR80 crores, INR90 crores from Fedfina proceeds?
- Shyam Srinivasan:** Yes.
- Pritesh Bumb:** Okay. Fair enough. Thanks so much.
- Moderator:** Thank you. Our next question is from the line of Gaurav Dilip Kochar from Mirae Asset. Please go ahead.

- Gaurav Kochar:** Yes, hi. Good evening, team. Sir, a couple of questions on...
- Moderator:** Sorry to interrupt, sir. May we request you to use your handset, sir? You're not audible, sir.
- Gaurav Kochar:** Is it better?
- Moderator:** Yes, sir.
- Shyam Srinivasan:** Yes, it is.
- Gaurav Kochar:** Yes, sure. Thanks. Good evening, everyone. Just on the provisions, Slide #16, I think there is -- can you explain the INR112 crores reversal on standard asset provision that you have taken. And also, there is INR62 crores provision for other purpose. So just wanted to understand these two-line items.
- Shyam Srinivasan:** Venkat, do you want to go?
- Venkatraman V:** Yes, Shyam. So you're referring to the standard asset provision reversal, right, Gaurav?
- Gaurav Kochar:** Yes, INR112 crores reversal, first, what is that? And second, there is INR62 crores provided for other purpose. So is it the AIF provision that is lying over there, INR62 crores? Or what is that INR62 crores?
- Management:** No, that INR62 crores is not related to AIF. Like Shyam said, the AIF impact will take it based on what comes through in Q4. That's a different one. Gaurav, I will share the details with you separately. I don't want to take the time of others on this.
- On the INR112 crores, we have reviewed the restructuring provisions which we had [RF1] since all of them have now started repayments and all that. We had assumed a certain percentage of slippage in that, and they have actually turned out to be much lower. So base is that, but there's been some reversals which we have done, but that pertain only to RF1.
- Gaurav Kochar:** Okay. So now, cumulatively, what would be the provisions that we are carrying on restructured book?
- Management:** Around 20-odd percent.
- Gaurav Kochar:** Okay. 20%. Got it. And second question is on the wage revision. So we would have done some backlog provisioning, as Shyam sir also pointed out too. Can you quantify what was the one-time hit in this quarter?
- Shyam Srinivasan:** INR50-plus crores, I think.
- Gaurav Kochar:** Sorry, INR50 crores?
- Shyam Srinivasan:** Yes, I think it's higher than 50, right Venkat? It is a catch up of the past periods, for the last two years or 18 months?
- Venkatraman V:** Yes. 18 months, yes. That's the catch-up.

- Gaurav Kochar:** Okay. So going forward, so INR693 crores is what you reported, so INR693 crores minus INR50-odd crores would be the run rate going forward?
- Shyam Srinivasan:** Slightly higher because...
- Venkatraman V:** Some elements of that which pertains to the quarter also, Gaurav. Last quarter was INR626 crores, if I am not mistaken.
- Gaurav Kochar:** Correct.
- Shyam Srinivasan:** I think we should have INR650 crores.
- Management:** Will have impact for that quarter as well.
- Shyam Srinivasan:** INR650-ish crores.
- Gaurav Kochar:** Got it. And another question on recovery. So there is one account I have, I guess you have the ADAG Group exposure, which has been in the news for resolution. So is that account resolved in this quarter or that resolution will be in fourth quarter?
- Shyam Srinivasan:** It's not in any number as of now. We hope it is in the fourth quarter.
- Gaurav Kochar:** Okay. Okay. But what is the total exposure you have to that group?
- Shyam Srinivasan:** The NBFC part about INR100 crores. The other account is about INR180 crores.
- Gaurav Kochar:** Okay. Put together, INR280 crores.
- Shyam Srinivasan:** Yes, in that zone. But they come with different structures.
- Gaurav Kochar:** Sure. Understood. And just lastly, just to clarify, the Tier 1 that you mentioned does not include the 9-month profit?
- Shyam Srinivasan:** No.
- Management:** No, that's not added. If we add 75%, assuming 25% payoff, Gaurav, the total CRAR would be over 16%, 16.15%, 16.2%.
- Gaurav Kochar:** Perfect, sir. Thank you. Those were my questions.
- Moderator:** Thank you. Our next question is from the line of Param Subramanian from Nomura. Please go ahead.
- Param Subramanian:** Yes, hi. Thanks for the opportunity and congratulations on the quarter. My first question is on the unsecured piece. Shyam and team – hello...
- Moderator:** May I request you to use your handset sir.
- Param Subramanian:** Yes, I guess. Is this better?

- Shyam Srinivasan:** Yes, please go ahead.
- Param Subramanian:** My first question, Shyam, was on the unsecured. So after this RBI increase in risk weight. Has there been any rethink in our thought process when we're talking about scaling up the unsecured fees from, say, about 5% to say 10% of the book over the next 2, 3 years because that was something that we'd highlighted earlier. And also, there are some media reports saying that we are scaling down some partnerships in, say, credit cards. Is that just a one-off case or are we sticking to our guns as far as unsecured is concerned? That's my first question.
- Shyam Srinivasan:** Param, I think two things there are, the media has probably greater intelligence than what we actually have on this matter. As they've correlated two events and made a story. The line-cut was specific to a particular program where we believe it was higher than the normal utilization. So the line is like a normal line intervention in any unsecured program.
- At this juncture, given the size and shape of our unsecured and the growth and the early indicators, we haven't revised anything on the directional cap -- but if we were to get to 8% and things were not moving on, we could reuse it.
- But at this point in time, nothing is changed, our growth continues to -- but we haven't dropped any filters. In fact, we are only tightening it to reflect the times, but our growth rate of 40%, 50% on the low base contributes.
- Param Subramanian:** Perfect. That's clear, Shyam. My other question was on the margins, again, picking up on a previous question, now the unsecured has now scaled up to like 4.5%, 5% of the loan book. And this business is like ideally, it should be more than double the margin of your existing book, right? So -- why is it not exactly reflecting in a margin uptick? Or when does it actually start reflecting in our headline margin numbers?
- Shyam Srinivasan:** See, I think the -- I mean, I know I'm not going to be popular in saying this. Unsecured doesn't equal to very high extraordinarily high margins. Higher than our normal run rate because the revolve rate in base is about 30%, the EMI is about 30%. If you're growing INR100, only INR30 is evolving. And another 30 is EMI, the balance is zero revolves -- it's a transaction account.
- So I would enter not to extrapolate all growth equal to all high equal to all high margins. Therefore, the overall should happen. As the book gathers size and stabilizes, I think this will start reflecting a higher yield -- but I think it's another year, 1.5 years away from us. scale point of view.
- Param Subramanian:** Perfect. One question on your core fees, you saw a decline in the loan processing fee this quarter. So is there anything to read into that.
- Shyam Srinivasan:** Actually, it's showing slight decline, Param, but please look at the quarter 2 -- quarter 1 and quarter 3, it's more like quarter 1. Quarter 2 has exaggerated because we had 2 variables corporate bank transactions, which gave us higher fees. Otherwise, it's normalizing around INR150 crores.
- Param Subramanian:** Perfect. Very helpful. Thank you a lot, Shyam. All the best to you and your team.

- Shyam Srinivasan:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Rikin Shah from IIFL. Please go ahead.
- Rikin Shah:** Thanks for the opportunity, had couple of questions. First one, in this quarter, there has seen a meaningful difference between the gross and the net loans probably attributable to IBPC. So just wanted to understand the thought process of doing more IBPC in the quarter? And secondly, in the earlier remarks, you mentioned that you'd want to get closer to 80% CD ratio, in this calendar year itself versus 83%.
- But in the same breath we are holding our loan growth guidance of 18%, 18%-19% or whatever that would be around that. How do you bring down the CD ratio? Would you be meaningfully accelerating on the deposit growth from the current levels because that is what that would imply? Thanks.
- Shyam Srinivasan:** You're right. We are hoping to make sure that happens. Don't hold us if say 18% become 17% on credits and 19% on deposits, that is also a formulation we are happy to live with. The mix in the 17% was varied. How do we get higher -- relatively higher yield businesses. That's how we will ensure that we get closer to the 80%. Sorry, the first part of your question I missed. I mean can't quite think of it.
- Rikin Shah:** The IBPC. So in this quarter, there seems there was around INR4,500 crores of IBPC done. So just wanted to understand the thought process behind doing this. This seems to be a larger number than the usual run rate.
- Shyam Srinivasan:** Harsh, do you want to point -- you want to talk about that?
- Harsh Dugar:** I do think on the IBPC side, we are looking at IBPC not just from a point of asset management, but from a resource mobilization point of view. We saw opportunities of raising funding at a reasonably attractive cost through the IBPC assets, which we which what they are leveraged on.
- Secondly, between the various categories of PSL, we will look at doing swaps on IBPC, which helps us in nimble accretion. Without diluting any credit standards or anything. It's more like a treasury management and a fund-raising opportunity. And also leveraging on the PSL book. The two areas.
- Rikin Shah:** Got it. Perfect. That answers both the questions. Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Manav Mehta from Axis Securities. Please go ahead.
- Manav Mehta:** Congratulations, sir, for your wonderful quarter. Sir, I wanted to ask you that what is the new innovative product line that the bank is aiming for...
- Shyam Srinivasan:** You're very feeble my friend.
- Moderator:** Mr. Mehta, could you please use your handset?

Manav Mehta: Hello, can you hear me, now?

Shyam Srinivasan: It's still feeble, but please go ahead. We will strain ourselves to listen.

Manav Mehta: Hello, could you hear me?

Shyam Srinivasan: Yes.

Moderator: Yes sir. Now it is better.

Manav Mehta: Sir, I wanted to ask you that the bank is always aiming for some innovative products in the field of fintech or credit cards. So what is the current innovation that the bank is aiming for keeping in mind that the bank has tie-up with start-ups with OneCard, Scapia and other brands like that?

Shyam Srinivasan: Give us 2 weeks and you will see it in the media.

Manav Mehta: All right. And sir, could you give us a brief about what it will be about?

Shyam Srinivasan: It will be in area ease of payment for clients and yes, it will be quite cutting edge.

Manav Mehta: All right looking forward.

Shyam Srinivasan: Thank you.

Moderator: Thank you. Our next question is from the line of Kunal Shah from Citi Group. Please go ahead.

Kunal Shah: Yes, hi. Thanks for taking the question. Yes. So firstly, Shyam after long, we are seeing that the cost of deposits are almost like 30, 40 bps premium, we are at 7.5% Otherwise, we have been neck-to-neck with some of the leading banks earlier. But still in terms of the traction, maybe if you can highlight how the traction has been?

And would there be need to further increase it given the intensity from other banks as well to go beyond 7.5% as you want to maintain like still 18%, 20% kind of a deposit growth?

Shyam Srinivasan: Like I mentioned earlier in the call, Kunal, in certain buckets, certain tenors based on our outlook on rates, we will be competitive. Over the last 18 months, we've been on term, quite competitive and benchmarked against the better banks. We're certainly not competing with the small finance or some of those banks which pay disproportionately higher.

But amongst the leading banks in the country with benchmark. In one of the buckets, we try to be more attractive so that we can -- based on our liquidity profile, we try to get in those bases. That will continue.

Kunal Shah: Okay. No, but the only thing was maybe earlier, given that we are now at 7.5, even in this bucket of 1 to 3 odd years maybe generally, we used to be...

Shyam Srinivasan: One or two tenors we will be -- like a 15-month back at a 500-day bucket, we will be quite compelling and in the better paying so that we get share and our view on interest rate and our book build will reflect that.

- Kunal Shah:** Okay, sure. And secondly, with respect to the NBFC exposure post their entire increase in the risk weights, how much have we been able to pass it on in terms of the higher lending rates? So how much we would have asked for the NBFC. And finally, what has been the effective increase post the risk weight increase in lending rate to NBFC's?
- Shyam Srinivasan:** Harsh you want to come in?
- Harsh Dugar:** Yes, I'll go ahead. Two things, one is on the stock, the other is on the flow. On the flow, in general, in the industry, we are seeing an uptick of anywhere between 30-35 basis points to 40-45 basis points, depending on the breakeven bracket, where the costs have gone up for NBFC. This obviously is the non-PSL, non-housing category.
- Even on the existing side, we have managed to reprice some of our existing book. Obviously, there have been pushbacks, but that's also being done. So the fresh origination is clearly about 30-35 basis points higher, and depending on the rating also, it could be even going up to higher 30 basis points.
- Kunal Shah:** Okay. Because the question was given that we also have like 11-odd percent, but still maybe in terms of the yield, it is not yet reflected. So I just wanted would there be like maybe it would come with a lag or something. How should we look at it?
- Management:** Yes, like I mentioned, for the new, exactly like what I mentioned, it typically will apply for the new origination, new dispersal, number one. Secondly, please also note that this does not apply for HFC. It does not apply the PSL category.
- So a significant portion of our NBFC lending actually qualifies for PSL and is done keeping PSL in mind. So our increasing risk over there has been there, but it wouldn't be there. But it's been largely also being managed because of the PSL or housing finance company as well, within the NBFC category.
- Kunal Shah:** Okay. Sure. Thanks. That helps. Yes. Thank you.
- Shyam Srinivasan:** One more, one or two more, and then we can wind up, please.
- Moderator:** Thank you, sir. Our next question is from the line of M B Mahesh from Kotak Securities. Please go ahead.
- M B Mahesh:** Yes, hi. Just in continuation to Kunal's question, also the changes that you have done, you would have done on the personal loan side as well, on the unsecured portfolio. What kind of interest rate changes have you been doing there?
- Shyam Srinivasan:** Shalini, do you want to comment?
- Shalini Warriar:** Yes. Hi, Mahesh. So effective December after due advance notice, we've done it. The existing stock, we can't do anything. It's a fixed rate book that we have. But the flow has on personal loans. It's graded by CIBIL score. It varies according to the risk profile of the customer. But broadly speaking, about anywhere between 75 to 125 basis points increases have been passed on effective December, Mahesh, on the personal loan book.

Credit card book, as Shyam mentioned in response to an earlier question, the revolver rates are a very small percentage. And you know revolver rates are already at a high interest rate. So we haven't really touched that.

But the EMI is again calibrated by CIBIL score, all of which went into effect in December. The impact will probably come in this quarter because we only had one month's impact. And it's a small book even now, Mahesh.

M B Mahesh: And just one additional question is if your partnerships slowed down growth by any chance, would there be an impact on the fee income line that you have today?

Shyam Srinivasan: Partnerships on the liability side are slowing down, not on the credit side. And liability side, less fee, more balance built.

M B Mahesh: Okay. And just one final question then...

Shyam Srinivasan: Apologies, it's not slowing down. It's filtering out because slowdown suggests that there's a problem. It's a lesson or a learning using analytics.

Shalini Warriar: Yes. So just to add to what Shyam is saying on the liability side, based on the history that we've had now for about 18 months, we've been able to understand what's the profile of the customer, what's the kind of usage on debit cards that we see, what's the kind of usage on UPI that we see, and what kind of balance buildup we have. That's coupled with the fact that MOB, you know, savings account book grows on MOB as has helped us.

So yes, we've calibrated through the though population for a savings account perspective. But Mahesh, no, we're not likely to see any impact on the fee income side, yes.

M B Mahesh: Shyam, just one last question. If you speak to your branch managers or the regional managers and you ask them why has deposits not grown of your customers. What is the usual response that you get today? Because you can keep increasing interest rates and everyone keeps increasing interest rates, but if deposit itself is a problem, how do you mobilize that?

Shyam Srinivasan: I think Shalini and others will give you an even more nuanced answer. The share of deposit per customer that the branch is getting, they are trying to maximize that in a very competitive environment. It's just love and affection and relationship, alone won't work. That gives you some edge. So some pricing benefit or something because now the customer is faced with opportunities from a range of banks and small finance and whatever the other players who are trying to lure with 8% and 9%, right?

So, to that extent, the branch manager or the branch staff need some ammunition beyond just relationships. So we try to provide that. And we demand of them, get a higher wallet share per customer. And we track to see that, that is happening. Will we win as a case? No. Do we win more cases? Yes.

M.B. Mahesh: Okay. Done. Thanks.

Shalini Warriar: So just to add to that, a quick one, Mahesh, I think the way to look at it has been located as term deposits difference to CASA. In term deposits, honestly, it ends up being a price issue more than anything else. Any amount of relationship management can compensate for small differences, but not likely to compensate for material differences when it comes to it. From a savings account perspective, there is, obviously, the stock market, are the competing kind of investment opportunities have grown materially in the last 12 to 18 months.

So that, coupled with the whole digital technology and the ease of investing, the ease of moving money around has meant people are optimizing their cash management. This is happening for small corporates; this is happening for individuals. So I think we need to look at each of these differently no easy answers, but we're working through that.

M.B. Mahesh: Sure ma'am. Done. Thanks a lot.

Moderator: Thank you. Our next question is from the line of Saurabh from JPMorgan. Please go ahead.

Saurabh: Just two questions. So one is what -- on the opex side, -- how much do you think you can pull back from this 2.3-odd percent that you're running at today? Can you get back to the 2%? Or should we assume that it should stabilize at a higher level? And the second is just on the NRE deposits. So I understand your market share is intact. But broadly, what will explain this lower growth? Is it just higher yields outside? Or is there anything else which is impacting?

Shyam Srinivasan: I'll give you mind, Shalini and Venkat also add in each of these points. On the opex part, the nature of the spend is changing. We are, in some sense, quite pleased with the some of the spend because technology costs, which has sub-6, is now 6.5%, 6.6% of our cost, operating cost. So to that extent, this number is getting some efficiency that is building up is getting repivoted into these costs, which probably is a good cost given where we are with the cycle. And I don't believe you will see much come off because there are certain regulatory costs of compliance, cost of technology for compliance is increasing quite materially, right?

For example, if you book more accounts, the weak KYC costs are also -- it's done by employees of the bank, right? So these are all purely the cost creep in. Will it all disappear? No. But are we trying to accommodate that cost by using technology, which means the technology cost is going up? Yes. On other parts I'm slightly blanked out. Shalini, that was the second part of the question.

Shalini Warriar: NRE deposits. Shyam NRE deposits.

Shyam Srinivasan: You want to go? I'll comment later.

Shalini Warriar: I think to some extent, what I said to Mahesh earlier, the NR customers are obviously having a lot of choices. One is I think you alluded to it, the fact that investment opportunities in their country of residents have become a lot more attractive. There are lots more opportunities. And the interest rate arbitrage has kind of narrowed down, particularly on U.S. dollar deposits. If you look at some of the banks in the Middle East, bring U.S. dollar deposits, which are probably equivalent to what we're paying.

So that plus the opportunity for investment in stock market real estate, etcetera, has gone up. So again, this is a little bit of a structural shift that is happening in the savings piece. We've identified the fact that if you are on FCNR, for example, we've gained market share, but it's obviously at a certain rate. So whatever resident opportunities are there, the NR seem to have even more opportunities. That's really what's happening out there on the savings side.

Shyam Srinivasan:

But I think the underlying point, Saurabh is that structurally the non-resident behaviour post-COVID has changed. And we've said this in earlier calls, I'm reemphasizing. Remittance part is okay. We are holding out quite well. In fact, we're gaining share. The behaviour of that converting to deposits has changed. Some of them Shalini explained. And we are sort of flexibly fluidly readjusting to gather that and gain share. It's not like we are losing somebody else's gain. It's just that the structure has changed.

Venkatraman V:

I just want to add points to the cost question Saurabh. The other way of looking at it is how do we make the cost which we are incurring, and these are costs which we believe is right investment. How do you make it more productive. For example, we are investing in new branches. We have opened 65 branches in the nine months. Last year, we added 75 branches. And we believe adding branches in the right locations is to our advantage, given we need to get deposits and various other reasons.

We are taking steps to ensure that we get the breakeven for these branches faster than what we used to see in the past. For example, one data point is last year after 75 branches we opened, 41 of them have already touched breakeven in less than one year, which is a significant productivity enhancement. Similarly, on the staff -- opex staff, opex staff cost line.

How do we invest in tools which will make some of the regular operational processes more automated technology-driven and then the existing people are able to absorb additional work which comes through so that we don't have to add more people as we grow in the future. So the combination of all this will continue. We will invest in branches; we will invest in technology. It's a question of how do we make sure it pays us well in the coming years.

Saurabh:

Okay. Thank you, sir.

Moderator:

Thank you. Our last question for today is from the line of Pranav from Rare. Please go ahead.

Pranav:

First, sir, what is RBI exactly alluding saying that we should improve, like banking should improve cost to -- sorry, credit to deposit ratio and what is the mechanism that it can do it by?

Shyam Srinivasan:

I think they are not saying improve, they are saying unimproved as in reduce your CD ratio. I think they are indicating the credit markets are probably overheated or certain segments are growing at much higher speed than they would like it. So I think they're asking banks to apply caution in some fashion and readjust their business models. I don't think it's a generic statement. I think they're working bank to bank to my knowledge, and their guidance could vary by bank to bank.

It's getting interpreted as everybody should reduce the CD ratio. I don't know if that's a universal truth. I would think they are guiding banks to bank based on each bank's asset liability profile,

credit profile, mix of credit and probably credit quality. So that's my interpretation. I can't speak with authority, but I sense that's how they are viewing.

Pranav: Right. Sir, last question from my side. Out of the total customers that we have active customers, how much is the percentage penetration from personal loans and how you view growth in existing customer in personal loans vis-à-vis, say, microfinance growth in a little bit a newer category of loans in terms of risk-adjusted, deterred or over a cycle?

Shyam Srinivasan: Personal loans, Shalini will comment, but all our personal loan growth is pre-approved on our - - pre-approved or pre-qualified on our base. Only when we do partner-led personal loans, it pre-approve, pre-qualify on their base. We don't do new to category, fresh, unverified DSA sourced personal loans. Shalini, is that right?

Shalini Warriar: Yes, Shyam. So as just to kind of elaborate what Shyam said. In all our partnerships, we work with the partners to do a pre-qualification of their base to meet our risk criteria and basis which the offer is made to the customer, they ask us to take the offer and goes through the underwriting process. Our entire organic book has also grown on the back of pre-approved offers to our existing customers using score cards and a range of metrics that are there, including a lot of CIBIL and other related stuff. So we don't do open market, if I can just frame it that way. We don't do open market sourcing for personal loans or credit cards Pranav.

Pranav: Right. So won't it be less risky to say triple this book rather than say double the microfinance book is it a new category?

Shyam Srinivasan: I think it's not a either or...

Shalini Warriar: I don't think either...Sorry, Shyam, go ahead.

Shyam Srinivasan: Hang on, you said it. Please go ahead.

Shalini Warriar: No, no. I think both of us were going to say the same thing. Pranav It's not an either or an or each of these have -- meet a certain customer need, have a certain risk profile, have a certain distribution mechanism. So we've got to make sure that and that's in the kind of the foundation on which we've built up book, right? It's more diversified by geography. It's diversified by product type; it's diversified by kind of security. So we will do personal loans, we will do microfinance, Pranav.

Pranav: Okay, okay. Thanks a lot. Thanks a lot.

Shyam Srinivasan: I think we thought, we should call it because I have another meeting to enter, please?

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

Souvik Roy: Thank you so much, and we all appreciate your time and attention. I'm sure our results reflect the kind of dedication our management has towards sustaining this positive momentum. And thank you for all your questions, and I'm sure we look forward to more personal engagements

going ahead. And it's result season, so I'm sure you going to have a long evening ahead. Thank you again for joining and for staying with us.

Shyam Srinivasan: Souvik, on a lighter note, some of them must be dialled into two calls, I'm told HDFC call has started.

Souvik Roy: Quite possible, sir. So, before we sign off, wish you all a very Happy New Year again. Thank you.

Shyam Srinivasan: Thank you very much.

Shalini Warriar: Thanks everybody, bye.

Harsh Dugar: Thank you everyone.

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