Federal Bank

Operator: Ladies and gentlemen, good day and welcome to the Q2 FY27 conference call hosted by The Federal Bank Ltd. As a reminder, all participant lines will be in 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 and then zero on your touchtone phone. I now hand the conference over to Mr. Sovik Roy, Head of Investor Relations, The Federal Bank Ltd. Thank you, and over to you, sir.

Sovik Roy – Head Investor Relations: Thank you, Ryan. Good afternoon, everyone, and welcome to our earnings call. We have announced our results, and I hope all of you have gone through them already. We are pleased to share that the bank has delivered a strong performance this quarter. We have with us today our MD and CEO, Mr. KVS Manian, along with the entire senior leadership team, who will take you through the performance and the key developments during the quarter that went by. With that, I will hand it over to Mr. Manian for his opening remarks. Over to you, sir.

KVS Manian – MD & CEO: Thank you, Sovik. Good afternoon, everyone, and welcome to The Federal Bank Ltd.'s quarterly results call.

Let me begin by briefing you on some changes to our board. Virat Diwanji, who has been our National Head of Consumer Banking, joins our board, and we look forward to his continued leadership. I am also pleased to welcome Rajesh Warrior to the board as an independent director. His strong technology background and experience will be valuable as we continue to strengthen our capabilities in the technology and AI areas. I would also like to place on record our sincere appreciation for Ramanath Mundkur for his valuable contribution and service to the bank over the past 5 years. We thank him for his guidance and association with The Federal Bank Ltd. and wish him the very best.

Coming to the quarter, we have delivered a strong performance underpinned by sustained momentum on the liability side, disciplined growth on the asset side, and continued focus on fees and operating efficiency. A significant milestone this quarter has been our average CASA deposits crossing 1 lakh crores. This reflects the progress we have made in strengthening our liability franchise and improving the quality of our deposit mix. We have also garnered a meaningful share of FCNR-B deposits under the special window, participating at a quantum and economics that we believe are appropriate for us.

On the asset side, we have continued to grow in a calibrated and disciplined manner, with healthy momentum across our chosen segments. Our focus remains on pursuing quality growth while maintaining discipline on risk-adjusted returns, which continues to improve each quarter. As we have articulated in our annual report, sustained momentum and discipline remain central to our approach. The progress we are making on both sides of the balance sheet reflects this commitment.

A stronger liability franchise combined with disciplined asset growth is helping sustain our NIM trajectory, and we remain confident in its underlying resilience. The evolving interest rate cycle should provide an additional supportive factor as we move forward. Beyond margins, we have delivered a strong performance on fee income. Fee income as a proportion of average assets has

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reached an all-time high, with performance broad-based across various fee-generating businesses. At the same time, we have maintained discipline on operating expenses and kept our cost-to-income trajectory under control.

If we look at the guidance we provided about 1.5 years ago, we have, by and large, tracked well against our stated objectives on NIM, ROA, and fee income, with certain parameters actually outperforming the anticipated metrics. Our profitability trajectory and PAT growth reflect the underlying strength of the franchise and the progress we are making toward our strategic objectives. Our reported profitability for the quarter also incorporates the impact of the change in accounting policy related to ESOP expenses. Venkat will later explain the accounting treatment and its implication in more detail on this call.

Looking ahead, we remain constructive about the balance quarters of the financial year. We will continue to pursue growth with discipline, strengthen the quality of our earnings, and remain focused on delivering sustainable value for all our stakeholders. With that, I will hand it over to Venkat to take you through the financial performance and the key numbers in greater detail. Venkat.

Venkat: Thank you, Manian, and good afternoon, everyone. Thank you for joining this call. I will focus on the key financial developments for the second quarter. As usual, before that, a quick overview of the macro environment.

In the last call, we flagged the inflation trajectory, and you would have noticed that headline CPI rose in each of the months of July, August, and September, from 4.45% in July to 4.83% in August and 5.54% in September. It averaged approximately 4.94% for the quarter. The September reading was the highest so far in 2026 under the revised series and the fourth consecutive month above RBI's 4% target. Food inflation remained the main driver; it was 5.52% in July, 5.97% in August, and 7.74% in September. While in August the MPC held the repo rate at 5.25% and retained its neutral stance, on October 7 they unanimously raised the repo rate by 25 basis points to 5.5%. They also changed the stance to calibrated tightening. RBI raised the FY27 growth projection to 7.1% from 6.7%. It also raised the FY27 inflation projection to 5.2% from 5%. The growth base remains strong; real GDP grew at 7.8% in the June quarter, ahead of RBI's estimate of 7%, and the March quarter was revised up to 8.6%.

Most of the benefit from the easing cycle has now passed through to our liability book. From here, the margin mix will depend on improvement in assets and the strength of our liability franchise.

Now coming to the performance overview for Q2.

Our net profit for the quarter was 1,386 crore, the highest in the bank's history, up 45.1% YoY and 17.77% QoQ. Earnings per share stood at Rs. 22.26, up 44.34% YoY and 16.25% QoQ. Operating profit was 2,225.37 crore, up 35.35% YoY and 17.29% QoQ. In fact, if you look at our OP, if not for the one-time impact of the income tax refund that we had in Q4 of last year, excluding that, OP also has been the highest ever for the bank at 2,225 crore. Total business crossed 6 lakh crore and gross advances crossed 3 lakh crore. Net interest income was 3,153.4 crore, up 7% QoQ and 26.38% YoY. NIM was 3.32%, down only 1 basis point QoQ and up 26 basis points YoY. Our cost of deposits declined 3 basis points during the quarter and 39 basis points YoY. Last quarter, we said that the pace of decline in deposit cost would moderate, and it has. The cost of deposits fell 3 basis points

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QoQ against 22 basis points in Q1. With the October rate increase, the externally benchmarked part of our loan book will reprice ahead of deposits, which will reprice as they mature. We also expect competition for deposits to intensify once the liquidity situation normalizes.

On the deposit and liability franchise, our total deposits closed at 342,693 crore, up 7% QoQ and 18.6% YoY. Our CASA balances stood at 109,803, up a very impressive 6.44% QoQ and 22.56% YoY. That is approximately 395 basis points faster than the deposit growth. Our CASA ratio improved 103 basis points YoY. Another important milestone was that average CASA crossed 1 lakh crore during the quarter. NRE and NRO deposits together reached 119,055 crore, up 13.25% QoQ and 26.6% YoY. Savings balances grew close to 4% QoQ and 19.6% YoY. Last quarter, we addressed the sequential dip in current accounts and did say traction would resume as the March-quarter seasonality washed out. It has. Demand deposits grew 14.04% QoQ and 33% YoY. CASA itself grew by 6.4% QoQ, and there is no change to our guidance on CASA. The 103-basis-point improvement in the ratio YoY reflects the trend in the growth.

On advances, our gross advances closed at 301,687 crore, up 7.27% QoQ and 21% YoY. We have grown in the chosen segments, and our stated focus remains on the higher-yielding granular assets that improve the risk-adjusted return profile of the book. This granularity also feeds into our core fee line. Gold loans grew 37.13% YoY and 6.67% QoQ. LAP grew 32.21% YoY, and credit cards grew an impressive 28.27% YoY. Commercial banking continues with the strong growth trajectory seen over the years and, in this quarter, also grew 6.99%, almost 7%, QoQ and 25.46% YoY. CVCE grew 21.74%. Corporate and institutional banking grew 17.19% YoY. We continue to engage where pricing and counterparty quality meet our threshold. Business banking grew 12.39% YoY and 7.48% QoQ. We did mention in the last quarter that we would grow this book as the risk-adjusted returns justify it. We are seeing that directional change coming through now. Retail banking grew by 17.92% YoY. The average CD ratio for the quarter was 86.22%, and we continue to operate within the bandwidth we have set for ourselves.

On fee income, our fee income was again 1,167 crore, up 22% QoQ and 31.86% YoY. Total other income at 1,490 crore is the highest in the bank's history. Our fee income to assets is at an all-time high of 1.11%. Last quarter, fee income was seasonally lower against a strong March base; this quarter has seen very strong growth, and it is well distributed, as Manian mentioned. Our cost-to-income ratio improved to 52%, down 196 basis points YoY and 42 basis points QoQ. We will continue to operate in the range of 52% on the CI ratio. As explained in the past as well, the focus will be on ensuring that revenue growth is faster than cost growth. We will be investing in technology, new branch openings, and other initiatives that will position us well for the future.

Manian also mentioned that I would explain the ESOP employee-cost-related change. Until last year, we followed the intrinsic value method for ESOPs granted to non-material risk takers. For material risk takers, it was at fair value. From April 1, 2026, we have standardized this, and this is in line with best practices. We are moving to fair-value accounting for ESOPs across all employees. This change has resulted in an incremental employee cost of 32.7 crore and a consequent PAT impact of 24.5 crore. So, when you are comparing year-on-year movement in employee cost and profitability, please keep this accounting change in mind.

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On asset quality, our GNPA improved to 1.32%, down 20 basis points QoQ and 51 basis points YoY. Our NNPA continues to be best-in-class in the industry at 0.17%. Both GNPA and NNPA are at decadal lows. Our PCR excluding technical write-offs is at 86.78%, and including technical write-offs, the coverage is at 94.4%. Credit cost is at 0.31%, down sequentially by 10 basis points and 19 basis points YoY.

Our ROA improved to 1.32, up 10 basis points in this quarter and 23 basis points YoY. You will recollect that we had given guidance of ROA improvement of 3 to 4 basis points per quarter. We did mention that it would not be on a quarterly basis and would not occur in every sequential quarter, but for the year we had given the guidance. Our ROE improved to 13.57%, up 156 basis points QoQ. Last quarter, we explained that the sequential dip in ROE reflected the share warrant subscription money received ahead of deployment, and we said that it was expected to reverse as the capital was deployed. Our book value has grown to 166.32 rupees, and CRAR stands at a very healthy 16.84%.

In closing, the bank has delivered its highest-ever profit and highest-ever other income. Total business crossed 6 lakh crore, and advances crossed 3 lakh crore. Over the year, profit has grown 45%, margin expanded 25 basis points, cost-to-income improved by 196 basis points, credit cost declined by 20 basis points, and our provision coverage ratio improved by 1,300 basis points. GNPA and NNPA are at decadal lows.

The macro picture ahead carries higher inflation and tighter policy, along with the overhang of El Nino and geopolitics. Competition for deposits will intensify in the future. Our priorities are unchanged: deepen the liability franchise, grow in our chosen segments at the right risk-adjusted return, and hold the line on cost and credit quality. The granular and secured character of this balance sheet is what allows us to be consistent. Thank you all, and we will now open up for questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use their handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. One quick request to everybody before we begin: please limit yourself to one question per participant so that we can allow more people to participate in the discussion. Please bear with me. Yes, please go ahead and open the line.

Operator: We take the first question from the line of Mahrukh Adajania from Tata Capital Partners. Please go ahead.

Mahrukh Adajania – Tata Capital Partners: Hi, congratulations. I had a few questions. My first question is on general asset quality. Given inflation and drought, does that affect any of your segments, especially the high-yield segments? Have you seen any stress in any of these segments so far? That is my first question.

My second question is on your leveraged FCNR deposits. The leverage seems to be lower than that of other banks. Is there any thought process behind it?

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My third question is on the talk about M&A. You have already clarified this on the exchanges, but what I want to understand is why the bank would be keen on acquiring an MFI, given that the cycles may be too short, very volatile, and have very steep and deep bad cycles. I would like to understand your thought process around it.

Management: Your first question related to asset quality: we have not seen any impact on our asset quality from the environment that you were talking about yet. Having said that, we remain watchful and, as you know, we have also been cautious about growing certain segments. If you look at our agri book, we have not pushed the pedal on that. For example, we have not pushed the pedal on our microfinance book. Therefore, we have been cautious about some of those segments, and we continue to watch the outcomes of El Nino, geopolitics, interest rates, inflation, and all of that. For now, we do not see any impact on our portfolio. That is your first question.

The second question related to our leveraged FCNR: we have disclosed it, and I think what we focused on was the right quantum, the right economics, and the right granularity. That exercise was important for us, and I think we did what was appropriate in those contexts.

As for the rest of the questions, I will leave them aside. They do not need an answer because there is nothing to discuss right now, so we will not discuss them. On to the next.

Mahrukh Adajania – Tata Capital Partners: Okay, sir. Thank you very much.

Operator: Thank you. Next one, please.

Operator: We take the next question from the line of Akshay Jain from Autonomous. Please go ahead.

Akshay Jain – Autonomous: Hi, sir. Thank you for the opportunity, and congratulations on a great quarter. My first question is again on FCNR. Given The Federal Bank Ltd.'s strong NRI base, one would have expected it to have a much higher share of FCNR. What is driving this number? If you can, please provide margins excluding the FCNR impact. What are the FCNR funds that have been deployed in loans or bulk deposits that have been repaid, and what is still sitting in liquidity? That is my first question.

Management: As I said, what we wanted to ensure was the right granularity, the right economics, and that what we did was appropriate given our balance sheet size. It is appropriate given our ALM, economics, granularity, deployment opportunities, tenor, and all of that put together. I think we did what was appropriate from our point of view.

The rest of it—what it was deployed into—is a matter of a lot of detail, Akshay. I will leave that aside. If you require a one-on-one discussion, we can do that, but a lot of that is not really value-additive. Ultimately, all of that is reflected in the NIM figure that we have reported. It incorporates all of that.

Akshay Jain – Autonomous: Fine. My second question is on loan growth. If I remove the FCNR leverage, loan growth is now around 18%. How sustainable is this loan growth, and is there any revision in the growth guidance?

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Management: We continue to maintain what we had guided as mid-teens growth. We continue to maintain that guidance, Akshay.

Akshay Jain – Autonomous: Understood. Lastly, on inorganic growth, I understand that you will not be able to comment on any specific deal, but what is the philosophy when you refer to any inorganic acquisition? Given the hard work you have put in strengthening asset quality over the years, would you be comfortable entering segments such as MFI or similar segments?

Management: From our point of view, I think I have stated this earlier regarding the inorganic philosophy we want to follow. First, we are quite clear that whatever we do, we must see it as accretive, and we are very disciplined about that. There are instances where we have given up opportunities where we found them not accretive enough, and some of them are known. Therefore, the first principle is that it should be accretive.

We remain focused on areas where we think we can acquire newer capabilities or scale. That remains the second area. Of course, our preference is core, and over a period of time, the universal banking franchise will also determine the opportunities we evaluate and take forward.

I have earlier said that we also believe a string-of-pearls strategy is probably better than a big-bang strategy. These are some of the guiding philosophies we will follow as and when we look at an opportunity and close it.

Akshay Jain – Autonomous: Understood, sir. Thank you. Those were my questions.

Operator: Thank you. We take the next question from the line of Kunal Shah from Citi Group. Please go ahead.

Kunal Shah – Citi Group: Hi. Firstly, on Opex, even if I adjust for the overall ESOP, Opex appears to be quite high, both the overhead cost and the employee cost. I understand that we added almost 75 branches. Would this largely be infrastructure-related spending that is leading to this kind of rise in Opex?

Management: Kunal, first of all, you have to see it in the context of cost-to-income and our past guidance on that. We have always maintained that you should not build in advantages on cost-to-income. Therefore, first of all, it is in line with our guidance, the cost-to-income guidance that we have given.

Second, this of course includes the additional branches and people we have added. As you know, we have added a new sales channel, we are investing in technology, and there are several lines of expense that we are incurring. Of course, there has also been some actuarial impact, so it is a combination of things. But I would say that it remains within the overall guidance that we issued.

Kunal Shah – Citi Group: The question was more in terms of the ROA lever, looking at Opex. We have seen this moving toward 2.3, and more than 2.3, on average assets. Would these investments continue, and would we see limited levers on the Opex side toward ROA, or perhaps a negative lever to ROA?

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Management: Not negative, but Kunal, you would recall that in all our calls over the last several quarters, we have maintained that you should not build in benefits from cost into ROA. That guidance remains unchanged for now. At that time, we had indicated that for a couple of years we would like to invest for a sustainable future, and that guidance continues.

Kunal Shah – Citi Group: Sure. My second question is on the fee side. Does this include the fee on the leveraged book, which is leading to the higher fee income, or is this more business as usual? Should we continue to see traction, because fee income was something where we were expecting a buildup? Is there any one-off in the fee income, or is it all structural?

Management: If you have seen the document and the disclosures we have given you, almost every line of the fee income—every line—

Kunal Shah – Citi Group: Processing fees and other service charges, if there is any component within that.

Management: Yes, there is some component of the FCNR there, but if it were that significant to call out, we would have called it out.

Kunal Shah – Citi Group: Okay, understood. Is there any reason to book this treasury income of 238 crore even when yields have hardened overall? There is significant support from the other income of 238 crore. Have any gains been booked from the existing investment portfolio?

Management: It is a combination again of some investments that we encashed during the quarter. In treasury, I would say we had a good quarter. I do not know whether to call it a one-off, but we clearly gained from IPOs, we gained from one particular investment, and there was also an SR that was encashed during the quarter, which contributed to it.

More importantly, when you are looking at the numbers, please remember that you are looking at them from a very low base in the last 2 quarters. The last 2 quarters were highly suppressed because of Nuv and other issues, and therefore, to some extent, it is also retracing back to normal, which is contributing to this. If you go back to earlier quarters, our treasury income was not as low as it was in the last 2 quarters. It is a combination, I would say. To some extent, it was a good treasury quarter. Whether we can assume that the same will repeat: yes, it may not repeat.

Kunal Shah – Citi Group: Okay, thank you. Thanks, and all the best.

Management: Thank you.

Operator: Thank you. We take the next question from the line of Nitin Agarwal from Motilal Oswal Financial Services Limited. Please go ahead.

Nitin Agarwal – Motilal Oswal Financial Services Limited: Hi, good evening, and thank you for the opportunity.

Management: Hi, Nitin.

Nitin Agarwal – Motilal Oswal Financial Services Limited: Congratulations on a good quarter. I have a couple of questions. One is on lending yields. While our focus has been to grow the mix of

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high-yielding assets, given how repricing has been playing out, lending yields have been coming down bit by bit every quarter. Not counting any rate-hike-related gains from here, can we say that lending yields have now bottomed? How do you expect margins to play out over the coming quarters?

Management: Yes, you can say that. If you see last quarter, the lending yield had an FCNR-B impact. If you adjust for that, it was more or less constant or slightly higher compared to the previous quarter. We have already seen the bottom of that cycle last quarter, I would say. This quarter is more about the FCNR impact. But I would say that last quarter we saw the bottom of that cycle.

Nitin Agarwal – Motilal Oswal Financial Services Limited: On the margins, we have essentially held them flat this quarter. How should one look at margins over the coming quarters?

Management: Broadly, Nitin, for the year we gave broad guidance of a 5-6-basis-point improvement per quarter. We had said that it would not be linear and would vary from quarter to quarter, but on average we should achieve that. We are still striving to achieve that number.

Nitin Agarwal – Motilal Oswal Financial Services Limited: My second question is just a data point on the LCR ratio. Can you share that number?

Management: The average LCR ratio was—what was it? 119.8, approximately 120.

Nitin Agarwal – Motilal Oswal Financial Services Limited: So it has improved by approximately 3 percentage points this quarter. Am I right?

Management: Yes, that is right. Our desired band is 110-120, and we intend to continue operating within that kind of band. I do not see 117 to 119 as an improvement; it is just that we are operating in that band. Sometimes it is 117, sometimes 120, or 115. It could be anywhere between 110 and 120. That is our targeted band within which we want to operate.

Nitin Agarwal – Motilal Oswal Financial Services Limited: Understood. Thank you very much, and I wish you all the best.

Management: Thank you.

Operator: Thank you. We take the next question from the line of Pradhan Engineer from CITIC Securities International. Please go ahead.

Pradhan Engineer – CITIC Securities International: Hi, team. Congratulations on the quarter.

Management: Hi, Pradhan.

Pradhan Engineer – CITIC Securities International: As a clarification, is there any one-off Opex from raising USD bonds for the FCNR transaction?

Management: We have not raised bonds. There are some loan-processing transactions that are built in. Yes, they are built in.

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Pradhan Engineer – CITIC Securities International: Understood. Could you help me understand the NIM situation in totality? If you had not raised FCNR, our NIMs would have been at least 8-10 basis points higher. Is that a fair conclusion? So, they are flat because you raised FCNR, and excluding that they would have been that much higher?

Management: Pradhan, that is a slippery slope of calculation. All I can say is that it would of course have been higher. How much higher depends on the assumptions you make. If this FCNR-B scheme had not come, it does not mean that no FCNR-B would have come in the normal course of business. All those are very complicated calculations to make.

All I would say is that, yes, has FCNR-B impacted NIM? Of course it has impacted NIM, especially the lending side. The leverage side has impacted NIM. But how much is a matter of the assumptions you make.

Operator: Thank you. We take the next question from the line of Jay Prakash Mundra. Please go ahead.

Jay Prakash Mundra: Hi, sir. I have a few questions. First, on gold loans, we have yield at around 10.4%. If you can specify the usual average tenure of this product, because I believe the rates are fixed here, how quickly or how easily would it be for you to change the rate in a rising-rate cycle? Or do you believe that because it is a short-tenure product, it may not have any issue from the NIM-accretion perspective?

Management: If you look at the overall structure of our book, it is fairly healthy. Thirty-three percent of our book is fixed, 45% is repo-linked, and the rest is MCLR-linked. We now have a good mix of floating and fixed book in our balance sheet. Gold loans are typically a 1-year product. Therefore, we do not see any issue, and I think this overall mix is a fairly good mix for us to work with NIM over cycles.

Jay Prakash Mundra: I am saying that the yields on gold loans are higher than the blended yield. When the yields on other floating-rate products go up in line with the repo rate, do you think this product can also see a similar upward movement in yield, or might it not because it is a fixed-rate product?

Management: It is a fixed loan, but something matures every month. Therefore, the maturity will be repriced at higher levels. It is largely a 1-year maturity product. We have a little bit of long-term loans; otherwise, it is a 1-year maturity product. Every day, some new loan matures, which will obviously be priced at higher interest rates if interest rates go up.

Jay Prakash Mundra: That is the precise question. When interest rates go up, do you see scope to increase the price on gold loans?

Management: Of course. Why would we not?

Jay Prakash Mundra: The only issue is that there is a lot of competition from PSU banks, which charge less than 9%. That is the background to the question.

Management: They were always charging less than us.

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Jay Prakash Mundra: Secondly, on Opex, apart from the 32 crores related to the ESOP provisioning change, how should we look at staff costs incrementally? Did the 32 crores pertain only to this quarter, or was it backdated? Is this the new normal for staff costs, or how should we think about it?

Management: The 32 crores is the one-time impact of the change in accounting policy. It is a one-time impact of 32 crores.

Just to go back to your earlier question, you said that others were charging lower rates. There were also many people in the market charging higher rates than us on gold loans.

Jay Prakash Mundra: Understood, sir. On staff costs, 32 crores is one-time, and the rest of the base is reasonably the new revised base. Is that the right way to look at it?

Management: It is a combination of 2 or 3 things. First, we are adding people, and that is adding to costs. We are adding branches and people, and therefore it is adding to costs. Second, there is an actuarial impact, and that keeps fluctuating somewhat. As interest rates rise, some of that will be written back in the next few quarters. Therefore, retirement costs will fluctuate somewhat with the market.

Jay Prakash Mundra: My last question is on the bancassurance fee. We had around 390 crores of bancassurance fee last year. What would be your rough-cut estimate of the impact of the revised draft regulation, and how do you intend to offset that? Thank you.

Management: It is too early to answer that question right now because we have many options, such as changing the mix of products we sell. Volumes can go up, and therefore we have to see what the impact is. Is there an impact? Of course there is an impact. But how much it will be is something we will understand better as we go along.

We must also remember that this is only a draft guideline, and we do not know what the final outcome will be. Having said that, over the next quarter or so, we will be in a better position to estimate this more accurately.

Jay Prakash Mundra: If I may ask one last question on ECL, I think last quarter you mentioned that the impact was less than 2% of net worth. I believe there is no change in that. However, because yields have hardened by 40 basis points, does that affect the ECL transition impact at all? Or was the less-than-2% number only for loan loss, with the ECL impact from HTM hardening being a separate impact?

Management: Yes. We were talking about the ECL credit-loss impact, and that does not change because of this.

Jay Prakash Mundra: Understood. Thank you, and all the very best, sir. Thank you.

Management: Thank you.

Operator: Thank you. In the interest of time and fairness to others, we request participants to restrict themselves to one question per participant and rejoin the question queue. We take the next question from the line of MB Mahesh from Kotak Securities. Please go ahead.

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MB Mahesh – Kotak Securities: I will ask one question. On gold loans, quarter-on-quarter, LTV has moved up from what used to be around the mid-50s to the early 60s in about a quarter. Can you clarify what happened during the quarter? Additionally, on the yield question, we have also seen an improvement in lending yields for the past couple of quarters in this portfolio. Have you taken rate actions on the portfolio that we will probably see reflected over the next couple of quarters? Are these 2 assumptions correct?

Management: Mahesh, yes, 55 has moved to about 60 or early 61. Some movement has happened there, but having said that, we have also grown tonnage in the last quarter and in this quarter. It is a mix of things. Yes, we have taken rate actions, and we are trying to achieve better yields on the portfolio.

MB Mahesh – Kotak Securities: To clarify, if you were to increase rates by, say, 100 basis points, do you see sensitivity in the customer base? Is the pushback more at the field-staff level rather than at the customer level? What is your sense?

Management: We play the fine-balancing game between what NBFCs do and what PSU banks do. Somebody asked this question earlier as well, and we play in the middle band. Our rates are better than those of NBFCs, but they are also better than those of the lowest-cost providers. This is a fine game to play, but we are able to do that. Marginally, we keep pushing rates up somewhat to improve our rates there. There is no perfect answer to your question. Harsh, do you want to add something?

Management {? Harsh ?}: I will add one more thing. We are also focusing a lot on income-generating loans, which typically yield more and also give us a high yield in that segment. That is another conscious shift. Earlier, we were doing agri-linked gold loans. Now, micro-based gold loans are also included under income-generating loans, which typically have a higher yield.

Management: This is a product we just launched in Q2.

MB Mahesh – Kotak Securities: Sorry, I did not get that. Did you say income-generation gold loans?

Management: Income-generating gold loans. In this context, the customer segment and the product purpose mean that the purpose of the loan is productive and intended to generate income. This is the new classification for which RBI introduced certain provisions in the new gold loan policy. We launched a product around that in the last quarter, and it gives a slightly higher yield.

MB Mahesh – Kotak Securities: Okay, sir. Thank you.

Management: Thank you.

Operator: Thank you. We take the next question from the line of Gaurav Jani from PL Capital. Please go ahead.

Gaurav Jani – PL Capital: Thank you, sir, and congratulations. I have 2 quick questions. The first is, this quarter has been quite—

Management: Hello? Hello? We lost you.

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Operator: Sir, we have lost the participant's line. We will move on to the next question, which is from the line of Param Subramanyam from Investec. Please go ahead.

Param Subramanyam – Investec: Hi, good evening. Thank you for taking my question, and congratulations on the quarter. I wanted to clarify regarding Opex, specifically other Opex in the quarter. Do we have to look at it in conjunction with the higher fee income? Is that what you were trying to say? Are the 2 linked? Is it a processing fee and grossing up that is happening there, perhaps relating to channel expenses?

Management: Not materially, but there can be some costs on the borrowing side and some fees on the lending side in the FCNR transaction. But it is not material.

Management: It is not very material.

Param Subramanyam – Investec: Not material. Understood. That is all from my side. Thank you for the opportunity and for answering my questions.

Management: Thank you.

Operator: Thank you. We take the next question from the line of Ravi Purohit from Security Investment Management Private Limited. Please go ahead.

Ravi Purohit – Security Investment Management Private Limited: Congratulations on a good set of numbers. A couple of years ago, I think we had outlined our strategy to add to the financial-services side, including wealth, and also to tap the NRI segment. We had mentioned that we had significant exposure to NRIs on the deposit side, but not as much on the product side.

There have been discussions and rumours about Jana, and the 2 things do not seem to go hand in hand. I was wondering whether our thoughts on monetizing or utilizing the very strong NRI franchise remain a focus area, or if you could share some more insights there.

My second question is on the initiatives we have taken on the CASA side, which seems to have performed significantly better over the last year. Could you share some thoughts on both these areas?

Management: We remain steadfast in our view that our NR franchise needs to be covered holistically, and one of the items there was building our wealth business. We remain committed to doing that.

Coming to initiatives on the CASA side, there is no single silver bullet. There are multiple things that we have done to get CASA right. We have now got it right for the last 6-8 quarters or so, and we will continue. There are still new initiatives taking place. It is not my intention to discuss all the initiatives on this call, as I am assuming that would lead to a very long discussion.

Ravi Purohit – Security Investment Management Private Limited: Under your leadership at Kotak, I think the ING Vysya merger happened. It was a painful merger for a few years, so I am sure investors are somewhat wary about the Jana Finance news that has been circulating. I am sure you will have the best interests of shareholders in mind, but these mergers have been very tough for investors.

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Management: Thank you for your advice. We will take note of it. Thank you.

Ravi Purohit – Security Investment Management Private Limited: Thank you.

Operator: Thank you. We take the next question from the line of Gaurav Jani from PL Capital. Please go ahead.

Gaurav Jani – PL Capital: Am I audible?

Management: Yes.

Gaurav Jani – PL Capital: I have 2 questions. First, this quarter we have seen fairly strong growth in our higher-yielding segments, including unsecured loans and business banking. Is it fair to assume that next quarter, given the impact of the repo hike, our margins would probably see a very positive movement?

Second, could you talk about whether this growth in these segments is sustainable? I mean, is the momentum sustainable?

I also have one housekeeping question on staff costs and other Opex. Could you call out the change due to interest-rate movements? That is all. Thank you.

Management: Your first question was on the asset side. We have always called out mid-yielding segments as a category of assets that we want to grow, and we had said that we had been successful in some areas while we were still trying to improve in others.

A few quarters ago, LAP was not showing the traction that we wanted, but it has shown good growth over the last 2-3 quarters. Similarly, we have built traction in personal loans over the last couple of quarters. When we came here last quarter, we talked about BUB as a segment in which we wanted to build traction going forward, and you are seeing that now.

Each of these is an initiative that we have introduced over various quarters, and we are executing those initiatives in the right earnest and ensuring that we see the outcomes. That is what is happening.

Regarding margins, I have already given guidance that we will stick to the guidance we set: an improvement of 5-6 basis points, not necessarily linear, but an average improvement of that nature is what we are striving for. On growth guidance, I also gave specific guidance of mid-teens growth, so we will stick to that.

On staff costs, other than the {? 33 crore ?} related to the bonus and the ESOP accounting change, interest-rate fluctuations do cause a difference in retirement costs. However, that is something we take in our stride, and we do not usually call it out as a variation. It is too complicated to keep calling it out.

Gaurav Jani – PL Capital: Is there any one-off in other Opex because of interest-rate fluctuations?

Management: Nothing material. Nothing material.

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Gaurav Jani – PL Capital: Okay. Thank you. That is all from my side.

Management: Thank you, Gaurav.

Operator: Thank you. We take the next question from the line of Madhuchanda Dey from McPro. Please go ahead.

Madhuchanda Dey – McPro: Congratulations on a good quarter once again. My question is very simple. Could you share your thoughts on the roadmap to an ROA of approximately 1.5%, especially given that your asset quality is very strong, there is not much headroom, and you mentioned that you do not want to cut back on costs because those are necessary investments? The onus is essentially on the interest margin and, to some extent, the fee side. Given this scenario, what timeline do you see for reaching that target?

Management: Madhu, if you go back and look at our ROAs 4 quarters ago, they were close to 1%. Today, we are at approximately 1.33%. Liability-mix actions, asset-mix actions, and fee-growth initiatives have resulted in that. Execution on those fronts continues.

Madhuchanda Dey – McPro: Would you like to give any timeline for reaching that target?

Management: We have given guidance in the past that the ROA improvement we want to strive for is 3-4 basis points per quarter. That is the broad guidance we gave earlier, and we continue to adhere to it. Again, this may not be linear every quarter, but on average we will get there. This quarter, we were at 10 basis points.

Madhuchanda Dey – McPro: Understood. Thank you.

Operator: Thank you. We take the next question from the line of Jayant Kharote from Axis Capital. Please go ahead.

Jayant Kharote – Axis Capital: Thank you for the opportunity. My first question is on your thought process regarding risk-adjusted margins. When we started this transformation, you focused on mid-yielding books, and that provided investors with comfort regarding the trajectory of credit costs as well. This is in the context of the rumours around MFI. I want to understand whether your thought process is still anchored around margins or whether it has expanded to risk-adjusted margins.

Management: We have always reported our risk-adjusted margins. We have always been focused on risk-adjusted margins. Every quarter over the last 4-6 quarters, we have seen improvement in our risk-adjusted margins.

Jayant Kharote – Axis Capital: So, philosophically, you remain anchored to risk-adjusted margins incrementally as well?

Management: I do not know how to answer that. I have shown you that this has happened over the last 6 quarters. The proof of the pudding is in the action.

Jayant Kharote – Axis Capital: That context relates to whether you are willing to add more risk for more yield. That is what the question was about, not what you have been reporting for the past 6

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quarters.

Management: We have always said that we are focused on mid-yielding assets. Do mid-yielding assets add some risk? Yes, they do add some risk. Do they provide improved yield? Yes, they provide improved yield. The question is whether the net of the 2 works or not. Mid-yielding assets have been our focus.

Jayant Kharote – Axis Capital: That was the point of the question. We are all comfortable with mid-yielding assets. The question was about high-yielding assets, where we are doing very good work in credit cards.

Management: Why are you asking me a hypothetical question? I am just telling you what we have done.

Jayant Kharote – Axis Capital: I was just trying to understand the comfort level. Let us move on. My second question is on Opex. While you have guided on cost-to-income in the past, Kunal was also referring to cost-to-assets. This is a meaningful increase, especially when asset growth has accelerated this quarter.

Even if we assume that we are holding the line on core PPOP ROA, the QoQ movement seems barely 2-3 basis points, especially when credit costs are below normal. That operating jaw does not seem to have played out this quarter. Am I misreading it if we remove treasury income and look at the core operating jaw?

Management: We have always been saying that this is a tightrope walk. We are working toward improving income and therefore being able to invest more through higher Opex. That remains our strategy. We are very conscious of the costs we incur and the income improvement we can achieve.

As we guided, we had said that we were operating at approximately 54% on cost-to-income and that we would continue to operate around that level, with a few basis points here or there. Please assume that we will operate at around that kind of cost-to-income for the time being.

Jayant Kharote – Axis Capital: Understood. My last question is on other Opex. Is there any upfronting at all for branch expansion in other Opex, excluding employee costs?

Management: No. Branch costs cannot be upfronted. No, nothing of that kind.

Jayant Kharote – Axis Capital: Thank you, sir, and all the best.

Management: Thank you.

Operator: Thank you. We take the next question from the line of Jeet from Pinpoint Asset Management. Please go ahead.

Jeet – Pinpoint Asset Management: Hi, sir. Thank you for taking my question, and congratulations on a great quarter. My question is—

Management: On? Hello, sorry, we lost you. Jeet, are you there?

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Operator: Jeet, hello, are you there?

Management: It looks like we lost him.

Operator: Sir, we have lost the line of Jeet.

Management: Let us wait for a couple of seconds for him to rejoin, just in case he does.

Operator: Sure.

Management: Hello. Let us bring him back later.

Operator: Sir, Jeet has left the call.

Management: Right. Okay. Next one.

Operator: No, that was the last question.

Management: Okay, great. We are on time. Thank you, Jayant, for all the help. Thank you, everyone, for joining us. Happy festival time to all of you, and thank you very much for your interest in the company. Thank you.

Operator: Thank you. If you have any further questions, please feel free to reach out to us offline. We will be more than happy to assist. We wish you and your families a very happy Diwali. Have a wonderful weekend ahead. Thank you.

Management: Thank you.

Operator: Thank you. On behalf of The Federal Bank Ltd., that concludes this conference call. Thank you for joining us, and you may now disconnect your line.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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