"The Federal Bank Limited

Q3 FY '23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY '23 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 onyour 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, and good evening. Welcome to our earnings call for the third quarter. We are thrilled to report one of our best quarterly results ever. The quarter has been nothing short of outstanding with record-breaking revenue and profit. We saw better NIMs, better asset quality and multi-year highs of RoA and RoE. If you remember this is exactly what I said when I opened the call last quarter and would like to keep staying the same for every quarter here onward.

Our diversified business model and focus on risk management has allowed us to drive growth while maintaining a pristine balance sheet. Our digital transformation initiatives have also played a key role in our success as they have enabled us to reach new customers, improve our efficiency and increase the adoption of our digital products.

And for today, like always, we have our MD, Mr. Shyam Srinivasan, our EDs, Mr. Ashutosh Khajuria and Ms. Shalini Warrier, along with our Group President, Mr. Harsh Dugar, and our CFO and Group President, Mr. Venkatraman Venkateswaran, along with the other senior officials as well.

But before I turn the call over to our MD and CEO, let me inform the house that this is our MD's 50th earnings call. So with that, over to you, Sir.

Shyam Srinivasan: Thank you Souvik. Thank you everybody and firstly this is the first call of calendar '23. So my good wishes and happy 2023 to everybody. Souvik pointed out we had a good quarter. Yes, we were pleased with the outcomes of Q3 on every count. I don't want to call out anyone particular line, but the overall efforts of the bank across quarters, across years has helped shape the bank to this kind of an outcome and we believe this is something that we should seek to sustain or improve in quarters ahead which has been the endeavour at all points in time. I believe this financial year on each passing quarter looks more compelling and improving as the year rolls by.

NII at an all-time high, operating profit at an all-time high, net profit at an all-time high, all suggest that we are on course. I want to go back and talk about what we said, some of you may have been part of a presentation we made in just before COVID in February '20, when we gave out a three-year road map and what we thought we'd exit FY '23 with and I'm pleased that we are ahead of those numbers despite two horrendous years in the middle. And that gives us the confidence that we have a business model that is reflective of the opportunity. More importantly, the language of the bank is consistent with the presentation we put out and even more importantly the team capability to constantly readjust to development and yet deliver or not lose sight of the larger objective is intact and growing.

So, I would say that the quarter that went by, reflected many of those objectives and we are actively carving out what our plans for the period ahead would be. Minimally this will be the new baseline on which we would keep operating. Yes, there have been some tailwinds in terms of margin expansion, because of the timing mismatch between asset re-pricing and deposit re-pricing. Some part of it will have challenges but we are constructing our business plans to reflect those changes that may happen yet deliver on the RoA, RoE expansion plans that we have.

I had mentioned that we would exit FY '23 at about 1.25% RoA. I'm pleased that we've beaten that and the full year number will probably be 1.25 or better and certainly that sets the tone for what we would like the year and years ahead to be. And the promised 10 basis point plus or minus improvement every year is what we will seek out to do. And that's the design of everything we do, business mix, the mix between retail and wholesale and within retail, secured, unsecured, all the new businesses we spoke of whether it's credit cards, microfinance, personal loans, business banking, gold, commercial vehicles. All the elements of those businesses are in place. Each business leader is looking to scale up.

On a smaller basis, they are reflecting 70%, 80% growth. We believe that can scale into even a three-digit number as we go into calendar as we step up into '23 and '24.

So, momentum is quite strong. We are aware of the headwinds and -- there are narrative around India may not see this kind of credit growth on a sustained basis. I believe our machinery is in place to support growth. And we will, of course, pull back where we see some pain, but most importantly, our share gain will continue and the momentum that we have in some of our businesses are structural, and we think the year ahead should reflect all these efforts.

So without going into any specific numbers, but I'm sure in the course of the call, all of you will want to know more about each of those numbers or pass those numbers better. So between me and the entire senior team will response to that. The headline numbers are there for all of you to see a net profit at INR 804 crores is certainly very encouraging and so are the other metrics.

So let me pause here. We will have questions and we'll have the entire senior team who are on the line try and answer and in case there's any data that you need, and we can share, we will share offline. Thank you very much. And operator, you may open it up for questions with everybody.

Moderator: The first questionis from the line of Mahrukh Adajania from Nuvama.

Mahrukh Adajania: Sir, my first question is on margins, so there has been a fair bit of re-pricing of corporate loans as well, right? So, do you think most of the corporate re-pricing is done assuming there's no EBLR hike pending? And what is the outlook for margins? I heard you on TV saying that 335 is what you still maintain for the full year, which could mean that for the fourth quarter also margins will be 3.35%, 3.36%, which actually means a 13, 14 basis points Q-o-Q decline? So, what's your outlook on margins that's my first question and then I have two more questions?

Shyam Srinivasan: Yes. I think, Mahrukh, the margin expansion that we saw this quarter had an effect of the timing. Our full year blended 3.35%, 3.40% is indicative of the fact that Q4 may not see these higher margins. Certainly, it will be higher than that number. So I think the re-pricing that is happening, the cost cuts have happened, but the deposit re-pricing will start showing this year. This quarter, you saw yields expand on the credit side, almost 49 basis points and deposit costs go up about 21 basis points. Some part of the residual increase will happen in Q4 and maybe in early part of Q1. To that extent, the 3.49% may be a little diminished.

Mahrukh Adajania: And outlook for margins in the next year, I mean longer term?

Shyam Srinivasan: Maybe in 3.35% to 3.40%. We are upgrading our guidance from 3.25% to more like mid-3.35% and plus/minus.

Mahrukh Adajania: So long term as well. And sir, just in terms of loan growth outlook for '24 for your bank. And if at all, you had any further sector?

Shyam Srinivasan: Hard to call. There are a lot of moving parts. We've always maintained we will grow much higher than the industry, which we have been. Our outlook at this point in time certainly is in the high teens. We will have to re-calibrate it if things materially slowdown, which I don't see signs of. I think bank demand, bank credit growth opportunities continue our share gain in most areas. So, I think in the high teens is what we're guiding for at this point in time.

Mahrukh Adajania: For yourselves, right?

Shyam Srinivasan: Yes, for the bank.

Mahrukh Adajania: And sir, just on employee expenses, because you have somewhat higher proportion of unionized employees, do you follow the wage agreement? And if so, what is the hike in employee expenses or provisions that you are likely to make till the wage agreement for the PSU sector is finalized?

Shyam Srinivasan: I think we mentioned it. We've increased our wage provisions in Q3 itself. For November and December, we have assumed a particular rate increase, and we've applied that. So that's reflecting that will be the new run rate, too.

Mahrukh Adajania: So, is it possible to quantify? Sorry, if you have, I missed it?

Shyam Srinivasan: We've taken, Mahrukh, what the average has been for many negotiations in the past and taken the higher end of that.

Mahrukh Adajania: So, it's already reflected in the base for two months, and that is what it will continue?

Shyam Srinivasan: In Q3, November and December, we've already taken the higher cost.

Mahrukh Adajania: And sir, I just wanted to squeeze in one last question, that your deposit growth was higher than your loan growth this quarter. And last quarter, that is second quarter, you did a fair bit of borrowings as well. So why are liabilities expanding faster? And the deposit growth that came last quarter, was it refinanced or?

Shyam Srinivasan: No, we didn't have any refinance in Q3.

Mahrukh Adajania: In Q2 borrowings, no? Q2?

Shyam Srinivasan: Q2, we had some refinance and borrowings. Q3 no. Q3 is customer deposits.

Mahrukh Adajania: And why are deposits growing faster than loans. Is there anything to read into, or it's just an outcome?

Shyam Srinivasan: So, like our CD ratio in the 84%, 85% space.

Moderator: The next question is from the line of Mona Khetan from Dolat Capital.

Mona Khetan: Congratulations on a good set of numbers. Sir, firstly, on the margin expansion, you've had 20 bps this quarter. So just wanted to understand how much of this would be driven by the asset re-pricing? And how much could also be driven by higher share of better-yielding assets?

Shyam Srinivasan: See, better-yielding assets, Mona, is a part of the overall portfolio. If you assume commercial vehicle, credit cards, gold, business banking -- sorry, not business banking, commercial vehicles, gold, microfinance, as the better-yielding, that's still a small part of the entire franchise. The credit book of the bank is about INR 170,000 crores. The cumulative of these businesses is INR 5,000 crores, INR 6,000 crores. So even if we are growing at a rapid pace, which they are, they're not able to materially alter the core NIM. But to that extent, it's more dominated by the margin – asset re-pricing, kicking in quite well.

Mona Khetan: And what would be the incremental yields on corporate loans?

Shyam Srinivasan: What will be incremental?

Mona Khetan: The yields on corporate loans on an incremental basis. And just wanted to understand if the pricing has become more rational because this quarter, even a higher share of growth came from corporate booking also.

Shyam Srinivasan: I think corporate, we see it as not just pricing. We certainly are getting better pricing than we did in the past period. Our corporate team has done a remarkable job of passing through rate increase. We saw a 225 basis point rate increase and the pass-through is close to 200 basis points, both in corporate and retail.

But when we look to do good credits as in good corporates, top end of the credit spectrum, we are happy to make sure that the pricing is right, but we're getting more business from them. You saw a material increase in fee income on corporate and processing fee income. That's the indicator of a full relationship pricing we're getting.

Mona Khetan: And would we be able to get the incremental yields on that wholesale part of the book?

Shyam Srinivasan: I think, it's improved about 50 basis point. Harsh, are you there on the line? Maybe you want to add. Incremental pricing, Harsh?

Harsh Dugar: Yes, we have an incremental pricing across the board. And we about 180 and 185 basis points which have seen a full pass-through. And the last repo hike, the full impact of it will be felt in Q4.

Mona Khetan: And just finally, so you have a gold portfolio of about INR 20,000 crores. Out of this, what share would be co-lending which sourced from other NBFCs or fintechs? And is this largely part of the non-agri book?

Shyam Srinivasan: Fintech-led origination is probably about 10% to 12% of this total.

Harsh Dugar: That's right, Shyam, about 11% roughly, 10%, 11%,

Mona Khetan: Of the entire gold portfolio of INR 20,000 cores?

Shyam Srinivasan: Yes.

Mona Khetan: This would be fintech's and NBFCs, right?

Shyam Srinivasan: No, fintech is only one. Now we don't have any NBFC colending.

Mona Khetan: And would it be fair to assume that this is largely the non-agri part of the book of INR 5,000 crores?

Shyam Srinivasan: This is non-agri.

Moderator: The next question is from the line of Pritesh Bumb from DAM Capital Advisors.

Pritesh Bumb: Just had two questions. One is on the gold loan front. We've seen a dip in Q-on-Q in the retail gold front, even the tonnage has dropped. Any change there? Any change in strategy? Why would it have dropped by about 10% quarter-on-quarter?

Shyam Srinivasan: I think in this quarter, there were some readjustments with the fintech partner for originating base on the new digital lending and some changes that need to be put in place, that's happening. So, it will come back in Q4.

Pritesh Bumb: Nothing to read into?

Shyam Srinivasan: Not that we are alert – alive to achieve.

Pritesh Bumb: So why I'm asking is because the gold prices are all-time high. And generally, we tend to see a little bit higher growth in gold loans?

Shyam Srinivasan: There's nothing to read into it. We remain as enthusiastic about this business and still think 25% Y-o-Y growth is possible.

Pritesh Bumb: And second question was on the credit card business. Now we've been organically sourcing this for some quarters now. But the growth seems of course, the growth number seems very good, but the number of card addition and the business seems to be a little bit than as yet. So despite the opportunity in the partnerships which you have with for the CASA side well, so we don't see any big, large growth which is happening on the card side. What is your view on that? How do you see that business now?

Shyam Srinivasan: So we remain excited by this business. Within organic and our partnership-led we've probably crossed INR 1,000 crores of outstanding. And this will continue to grow. Yes, the base is very small. We think we can scale this up, but I wouldn't venture to say that this INR 1,000 crores will become INR 10,000 crores in a hurry. It has to go through its paces. So yes, it's growing nicely. We are putting in a lot of energy behind it, further restructuring, creating new capabilities. And this business within organic and fintech partnerships should scale up to about a meaningful number in the next two financial years versus the base.

But like I keep pointing out, on our grand total, it is still the only percentage of the whole gold business. We are not growing this exclusively nor are we making any giant acquisitions in this. So, it's more an organic strengthening of this business, which will grow well, a big opportunity, INR 1,000 crores and growing quite well. Fee income is doing well. You must have seen that these businesses have added to, if you look at our other income, these have added materially on the income line. And thankfully, no credit issues.

Pritesh Bumb: And last question was on credit substitutes though the number is small, but we've seen a strong growth. Is the pricing their better because commentary generally was still that the pricing on the bond market side has not yet improved on overall basis. So, anything you find in there as attractive opportunity?

Shyam Srinivasan: Usually these are used as a way to consummate a relationship. Sometimes, see, it could be pricing, sometimes it'll be the client convenience. Between credit lending and credit substitutes, we find the most optimum mix. So, it's not the Number one choice, but it may end up being an opportunity to complete the relationship. So, I won't read much into it other than it tends to be choppy.

Harsh Dugar: May I add, Shyam?

Shyam Srinivasan: Yes, go ahead, Harsh, please.

Harsh Dugar: Yes, credit substitutes include three basis components. One is commercial paper NCD, it also includes PTC transactions which are in the nature of credit substitute investments, and hence classified over there. We do it wherever we see the pricing is rich, number one. Number two, quite a few of PTC transactions also qualify as priority sector lending as well. So this is one of the primary reasons. The base is small. But there has been a shift towards credit substitutes, partly because the regulator has also been asking the larger corporates to borrow from the debt capital market. So we have planned with intent being in both sides of the market. On the borrowing side to the loans as well as the credit substitutes.

Moderator: The next question is from the line of Renish from ICICI.

Renish: Congrats on a great set of numbers. So, just two questions, one on the new businesses, specifically on the PL side. So, if you can throw some light in terms of the monthly disbursement run rate, what kind of yields we are getting would be helpful, sir?

Shyam Srinivasan: Shalini, you want to go?

Shalini Warrier: Hi, Renish. On the personal loan side, so very long term, as you know, we've been only focusing on existing to bank customers and doing a fairly digitally oriented proposition for them. Over the last couple of months, we've now expanded that. We've started a digital process for new-to-bank customers. We're still in a closed user group and we'll shortly expand that to a larger market in terms of new-to-bank customers.

And we have also started a couple of propositions with fintech partners. You see that in the deck, there is a proposition with Paisabazaar, and there's another proposition with epiFi that's going live from a personal loan standpoint. So, the plan is between CC and PL the whole unsecured higher-margin products that we have, we will be scaling it up in the coming days.

As Shyam mentioned earlier when he was responding to the question on credit card and to a large extent that also mirrors the answer for personal loans. It's not like even on a low base, yes, we will improve and we will increase our share, but it's not something that's going to make a material shift over the next couple of years. Having said that cross-sell to existing customers, cross-sell through fintech partners, expanding to new-to-bank customers through a digital platform will remain the cornerstones of the plan and strategy, Renish.

Renish: Yes. So Shalini, I mean if I was -- ask on this specific partnership on the Paisabazaar and epiFi. So have you already started disbursing, I mean, of course in -- like you mentioned that you already disbursed 3,000 loans.

Shalini Warrier: Yes.

Renish: So, these loans are specifically to epiFi and Paisabazaar both together, right?

Shalini Warrier: Yes, so they're both combined together for various reasons. Obviously, we don't show the split, but they are propositions to the -- so in the case of Paisabazaar, as you know, they have a credit scoring methodology through which they get customers to come in and look at credit scores. So, they're cross-selling to those customers on it. To epiFi, the cross-sell it to the customers who have been on-boarded as epiFi savings bank customers over the last 12 to 18 months. And therefore, we're cross-selling to them, part of the deepening strategy for them. So different propositions. The Paisabazaar relationship gets us more new-to-bank customers, Renish. The epiFi relationship gets us more deepening of the cross-sell and deepening of the relationships with cross-sell with epiFi customers.

Renish: And would you mind to share the average ticket size?

Shalini Warrier: Sorry, I didn't get that.

Renish: The average ticket size per loan disbursement?

Shalini Warrier: The average ticket size, you can work it backwards then if I give you that, but the average ticket size is about INR 1,50,000.

Renish: Shyam, so my next question is to you, in terms of clarification, when we say this 10 basis point improvement in RoA. So, what's the base of your assuming? So Q3 RoA of 1.3% is the base or 1.25%…

Shyam Srinivasan: Blended ROA of this year will be about 1.25%, full year blended.

Renish: And from there onwards, 10 basis point every year is what we have taken?

Shyam Srinivasan: Interest rate this year will be 10 basis -- I mean I won't say every year. Right now, outlook is for FY '24. I'm not committing beyond that.

Moderator: The next question is from the line of Madhuchanda Dey from MC Pro.

Madhuchanda Dey: So, yes, congratulations on a great quarter. I have two questions. One is, you mentioned quite a few times about winning market share. So, if you could just throw some more color on who all are losing market share to you? Or which are the focus where you're winning market share?

Shyam Srinivasan: I don't know who is losing. I know we are gaining. One of the recent reports that have come out, has taken a five-year CAGR of private sector bank credit growth and places us in the top three in that, consistently growing share. And it's evident in our numbers, right? We probably are the only bank that has doubled our credit book in the last five years. So evidently, credit is growing.

Who we are losing to, I can't quite comment. But I can suggest that in our expansion and distribution, all our product clients growing at 18%, 19%. Credit indicates that if the system growth is 17% and some are reporting 12%, 13%, evidently those banks that are at 12%, 13% are losing and we are gaining at 19-odd percent.

And it's broad-based, and we believe that will sustain. So, I can't say who is losing, but I can say that we are gaining, and we should keep that increase that distance.

Madhuchanda Dey: Yes. My second question is on the 10 bps expansion in ROA, which is a near-term outlook for FY '24. If you could give us some color on the ROA expansion tree in terms of what you expect to come from PPOP, from low credit cost, I mean, all these other components, I mean, rough color on the same?

Shyam Srinivasan: See, it's a mix. I've always maintained that it's never one silver bullet. It's steady, regular all rounds. The mix of the business, continued improvement in credit standards and our efficiencies going in, our digital capabilities are getting better. And there will all be some opportunities on the treasury and investment side, a combination of it all working in favor of the bank.

We don't want to take our eyes off any one line. A little, 2, 3, 4 basis points in each area, Madhu. So, no silver bullets.

Moderator: The next question is from the line of Kaushik Poddar from KB Capital Markets.

Kaushik Poddar: Shyam, as usual, you have been able to tick all the boxes. So, my next question is a little complicated, if you may, let me put it. In the sense that, see, right now, we are quoting at a price to book of between 1.2%, 1.3% FY '24, '25, right? And the top-most bank, which is HDFC Bank, is probably quoting at 2.1%, 2.2%.

What do you have in mind so that the price to book value goes up to that level? Is it possible? And are you thinking anything in that line? Because ultimately, the shareholders are looking at something like that, the price to book value going up. It has already gone up. In the last two, three years, it has already gone up. So, are you thinking in something in these terms?

And secondly, you have reached a capital adequacy ratio around 13% or something. So, you need to raise capital, I guess, next year. So, can we expect some marquee name as to whom you may place your shares? Over to you.

Shyam Srinivasan: Thanks. I will take the second part of your question first. I think at this point in time, the CAR without flowing back FY '23 profit is in the 13 point something. When we put that in by end of April, we should be back to 14-odd. Our own internal figure point is somewhere in the 13. So, we will consider, but we don't have any firm timeline. Certainly, in calendar '23, there may be an opportunity and a requirement if we continue to see good growth prospects, which we think we are seeing good growth prospects.

So, we will wait. Whether we get a marquee name or a bunch of good names or a combination, we'll have to see. We haven't initiated anything on that count. Certainly, we will be looking out. If there are marquee names interested. I'd be happy to have a conversation. But right now, there's nothing on that count. On the earlier part of your question, what are we doing to get the shareholder return?

I mean I can only promise, as I have promised every quarter and hopefully delivered on most of them, to make the best for the bank to ensure that our performance levels are continuously improving. We don't take our eyes of that. Unfortunately, stock price is not entirely in our control. I know it's a bad statement for an MD to say. But I would be candid, we can only do that much. We can only perform and communicate.

Results are many moving parts. That said, it's evident that our performance is getting rewarded in the more recent years. We think it's only a matter of time before we get discovered fully.

So, I would say we are not taking our eyes off the performance. And the commitments we gave and the commitment we give are being honored. We'll keep dialing that up. Like I said, the language of the bank at all levels, the mission and the passion is unhindered. And I believe that our best is sort of yet to come.

Beyond that, I can't comment, Kaushik. I'd be happy if you guys have investors influence the outcome and make sure that the stock gets the deserved pricing.

Moderator: The next question is from the line of Rakesh Kumar from Systematix Shares.

Rakesh Kumar: So, the first question is basically pertaining to the NR deposit number, which is looking a little soft and there is a market share volatility as well with respect to previous quarter number. So, any comments you would like to offer on this issue?

Shyam Srinivasan: I don't think anything unique. I mentioned in the last quarter also, our deposits, I mean remittance share is constantly moving up. Remittance coming into India, we are getting a larger share. But it's translating into deposits, there has been a market change.

People have either used for various other elements of completing their credit payments or investing in something or going into the market. To that extent, there has been a deposit behavior change of conversion from remittances to deposits. That's something we have keep a tight watch. So as a bank, we've been able to gain share in resident savings. So, we'll keep an eye on those things. I don't know if we can read much into it other than the fact that the remittances share has increased. What you are seeing in the deck is a point in time, typically at the end of Q2 its lower, and it comes back in Q3. So, we will see how that number goes. But I wouldn't read much into it.

Rakesh Kumar: Sir, can you, sir, this SAR deposit composition industry-wide, do you see that there is a compression because there are various reasons apart from the cannibalization issue of the TD rates, and there are other issues also, household savings numbers have kind of come down, especially towards deposit.

And we also have seen some impact there. So, any thought that we have put in terms of guidance, if you can help us that maybe one year down the line where we would be in terms of SAR deposit composition?

Shyam Srinivasan: You may have seen it and observed it across the industry, right? When the interest rates are higher, the difference between saving rate and term rates being very material, there's a migration towards term. Second, when there is a chase and award for deposits, people are attracting it to higher price term and trying to get customers in.

But as business velocity increases and momentum of money supply increases, you will start seeing SAR getting generated. Usually, credit generates more deposits. So, I do believe, and hopefully nothing going wrong in India and 3, 4 quarters from now, situation should change.

I'm not a camp that believes that CASA for anybody will keep endlessly increasing unless you are materially increasing your savings rate, which therefore is equal to term rate. So, I think it's better to lock in money longer than to keep savings which can be in and out.

So, it's a point in time, but we have to watch out. I don't think it's the end of the road for CASA. SAR will be impacted as it has been impacted for the entire industry. And I think that will cure itself as the economy starts lubricating better.

Moderator: The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Firstly, sir, how is this cost to income going to shape up going ahead now that the rising interest rate scenario, what should we factor in, in terms of how this line item will be going ahead?

Shyam Srinivasan: We had mentioned that we will try and improve that by 100 basis points each year. Happily, we have delivered this year. We're at about 48 and change. Our target is to push it closer to 48 or 47.5 in the next financial year. And that's what we'll be focusing on.

And it's a bunch of things, both as you know, the cost to income is both cost and income, it's not one or the other, efficiency and better mix of business and income growth, on both counts work is going on. We've demonstrated it at this point in time, and we believe that it will continue.

Saket Kapoor: And, sir, we have factored in this higher cost of deposits going ahead. That is the figure.

Shyam Srinivasan: When we're moderating our NIM guidance, to some extent it factors in the potential higher cost of deposits in periods ahead.

Saket Kapoor: I didn't get you, sir. Come again.

Shyam Srinivasan: In the NIM guidance, which we had some moderation from the high of 349, it factors in the increased cost of deposits in the period ahead.

Saket Kapoor: Sir, as you mentioned, that there is a strong demand for credit, and majority of the banks are continuously focusing on the retail segment. So, if you could give us some more general details where is this demand arising from? And what are the factors that have led to it and the strength of this going ahead, the demand in credit that we are witnessing for the last few quarters?

Shyam Srinivasan: So as a bank, those of you who have been following us for long, we've always said we will be reasonably equally weighted retail wholesale. Within wholesale, the different businesses, within retail the various businesses. We are not suggesting that one business alone will carry us.

That is not our mantra. And it serves the bank well, both through bad periods and good. And no difference for the future ahead. I think there are opportunities for all our businesses. Particularly our share being low, there's opportunity for us in all our businesses. Some more than the other is where we would say.

To that extent, Mr. Kapoor, I think the opportunity for us is not in any one business. And I think all our businesses have an opportunity to scale up and we are pushing that hard. Did I miss some part of your question? Is that what you said? Or is there something else you want?

Saket Kapoor: Sir, I'm trying to look at the factors which have led to the bankers like you putting up putting or having comfort in the statement that there's a strong credit demand. So just wanted to understand the feel-good factors that the banking system had today that is leading to this huge credit demand and the sustainability of the same going ahead. What are the factors that are contributing to it?

Shyam Srinivasan: I got it. I think the big one that shifted the needle in the last, let's say, three, four quarters has been the fact that, A, there was pent up, B, the other cost of money was high and therefore people shifted to the more formal banking system.

So, these are drivers of banks' credit. Banks had more appetite. Everybody had capitalized well, credit quality had improved. So, banks were willing to lend and there was an opportunity.

Now as that moderates, as we go into FY '24 and beyond, those banks have continued to be well-positioned. We'll have a larger chance of getting the share. Those who have increased their distribution in all the businesses will get a larger share. Those who have increased their product offerings and are hungrier for credit growth will pick up share. And it's we think the formalization of India is giving rise to more credit opportunities.

I know these are not headline statements. GST collections are going up, that many more people are filing GST. That many more data is available, that much more digital footprint is available, that much more preapprove capabilities are coming into banks. The use of bureaus, the use of credit score cards, the use of third-party digital data, are all enabling.

Saket Kapoor: And if I look at the line item for this, still small point. When you look at you're -- the line item in the treasury part, on a Q-on-Q basis there is a decline. So, what explains this decline in both the revenue part booking as well as on the bottom line under the segment results?

Shyam Srinivasan: Harsh, do you want to give the response?

Harsh Dugar: Yes. I think what you are seeing is there is a onetime impact of RBI circular, which came in December. This is more about a clarification on securitization receipts. So, prior to 2018 also, they have included all the securitization receipts to follow the norm, which is applicable post 2018.

That means you have to consider, as if you are invested in securitization receipts wherein the underlying is your own asset, you have to treat as if that asset was continuing as a loan and accordingly, provision should be made. So as a result of that, we have made the provision for the remaining entire balance of SR.

So now our net securitization receipt balance is zero, nil. So, whatever is the outstanding, the same amount of provision is also standing. That has created an impact of additional INR 46, crores, INR 47 crores. So that is showing in your treasury line because it comes above the line, not below the line. So it comes -- it gets netted off against the profit on sale of investments, schedule 14.

Saket Kapoor: Sir, yes, sir. And also want to point out one factor now the investors are also receiving e-mails post the number. So that's a good exercise. I think it was started by the bank maybe for this quarter. And I congratulate the team for sending us the key highlights over the registered e-mail. So that is a good point of acknowledgment from the IR team, sir.

Shyam Srinivasan: We'll make sure that it gets better. See, Mr. Kapoor, you mentioned that in the AGM and we have taken note of that.

Saket Kapoor: Sir, thank you, sir, for remembering me and highlighting that fact, sir. And that is again a point also on the artificial intelligence, sir. How is AI going to help us in detecting the NPA or the stress in the system or the early detection, what steps the bank is taking and how are you ahead of the curve in this aspect in depreciation of this case and the NPA?

Shyam Srinivasan: As a bank adoption of technology, using contemporary practices has been our very keen focus also, you will observe. So for every part of the bank, whether it's origination, underwriting, collections, credit, deposit structure, we use technology and no different from a point of early detection.

Our collections and credit monitoring teams have invested materially in technology that reads ahead of the cycle in terms of various parameters. They have, I think, coined about 112 or 113 indicators, which are early indicators, which enable them to look at an account long before it has any potential stress developing.

And then the intervention starts very early. They are building models and using technology to enable that. AI as all of us know, is only a means to an end. It's not an end in itself. So, the teams are working on that.

Saket Kapoor: And what portion of our loan book is on floating rate, sir that gets factored in with every change in the repo rate?

Shyam Srinivasan: Yes. The external benchmark is about 50% of the book, 50 points.

Saket Kapoor: And that is because of the gold portion also, I think a significant part of the loan book? Or is it lower to the industry average?

Shyam Srinivasan: I wouldn't know about the industry average, but in our advances, EBM is about 50.4%.

Moderator: The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: Congratulations on a great set of numbers, sir. First, sir, you mentioned EBLR is 50%, 50.4%. If you can provide the detail for other MCLR and base rate and maybe the fixed rate book.

Shyam Srinivasan: Yes, the fixed rate is about 24.8% or 25% and MCLR is 14.5%. And the rest is all FX, base rate, staff and others.

Jay Mundra: So, sir, considering 50% is EBLR. And maybe we are nearing the peaking, clearing the peak of interest rate cycle, barring maybe one hike?

Going into '24, how comfortable you would be with kind of a stable NIMs or maybe marginal, improving NIMs outlook? Because as you said that the cost of deposit rise may surpass the yield increase in fourth quarter. Then ideally that should be the case for the entire year '24 or there is some different thinking there?

Shyam Srinivasan: I think we have moderated our NIM to in the 3.35%, right? That factors all that in.

Jay Mundra: So sorry, so I thought 3.35% to 3.40% is for this year and the same is for the '24?

Shyam Srinivasan: Yes, which is what you're also saying, right? FY '24, around these numbers. And everything is factored in, mix of the business, the credit quality, the pricing on both assets and deposits, the incremental credit flow in the quality of the book, offset because of higher slippages or lower slippages, all that influences the NIM.

Jai Mundhra: Right. Okay. Secondly, sir, on security receipts. So, you have taken probably a prudential step because you have taken the entire SR as if they were, let us say, doubtful three, and hence you have provided 100%. But if I were to calculate let's say, the normalized cost which would have been there if you would have just followed RBI circular. And so, in that sense, what out of this INR 47 crores or INR 47 crores, INR 48 crores, how much was, let's say, mandated provisioning? And how much was prudential provisioning just to understand that aspect?

Shyam Srinivasan: Yes, the entire provisioning was as per RBI's 5th December circular. So, it's not a judgment or prudential element hasn't come in. So whatever RBI has prescribed, said, it has to be provided 100%. So that's what we have done.

Jai Mundhra: Okay. So, correct me if my understanding is wrong because RBI had said that you have to -- I think Ashutosh sir also mentioned that you have to treat SR as if they are on your books or loans, right. So as per IRAC, which is followed in loan growth. So, most of your SRs were D3 category, right? Is that what you're saying?

Ashutosh Khajuria: Actually, we have not taken any SR. I mean, no loans under with underlying NPAs and all that. None of the SRs have been taken in the past four, five years. So naturally, they would be moving to this 100% requirement. And rather than doing it, valuing these securities and accordingly arriving at the valuation through third party, which is advised by ARCs, which was the practice earlier, you still have for those NPAs some securities. I mean some realisability is there in all. But now because the aging has happened, one shot, everything has been provided, 100%.

Jai Mundhra: Right. So the entire portfolio was prior to 2018, right? That is what you have said.

Harsh Dugar: Yes, all prior to 2018.

Jai Mundhra: Absolutely. Sure. Great. And last thing, sir, Shyam, you mentioned that your wage provisions, you have been making basis the earlier settlements. But if you can provide a number that you are estimating to start with? And what is that number in rupees crores so that just to get an understanding what could be the steady state provisioning and maybe the staff cost number?

Shyam Srinivasan: Roughly INR 20 crores a quarter to month we are providing extra.

Jai Mundhra: And if I were to strip this INR 40 crores from this quarter, the rest should be BAU and then you add three months of this wage provision. Is that the way to look at it?

Shyam Srinivasan: No, it's not November, December. It's effective November 1.

Jai Mundhra: Right. So, from next quarter, maybe additional INR 20 crores because for one additional month?

Shyam Srinivasan: No, additional INR 20 crores per month.

Jai Mundhra: Right, so that is what I said.

Shyam Srinivasan: What you're saying is correct, INR 40 crores plus another INR 20 crores, yes, INR 40 crores for two months and INR 20 crores per month.

Jai Mundhra: Right. And there is no other, let's say, any other one-off or maybe supernormal kind of wage that is there?

Shyam Srinivasan: No, I think in the past bipartite and all, I think the increase has been somewhere between 10% to 15%, 13%. We have got conservatively and taken the highest of that. So 15% we have straight away started from the day bipartite has become due. So from 1st November, 2022, it's due. So, from that date itself, we have started providing 15%.

Management: And in part would remain on how the yields move. If yields fall relatively, then you will have to then look at the pension benefits based on the discount rate and all the things. So that is something which is beyond anybody's control. As it comes, then we will be facing it.

Moderator: The next question is from the line of Krishnan ASV from HDFC Securities.

Krishnan ASV: Just a very quick question on the fee income traction that we have been seeing. And it's been fairly consistent, so that's nice to see. So, Shyam, your thoughts on how much of this is a tailwind of where we are at the macro, the fact that the high-quality large corporates are allowing you a certain environment where the pricing power is relatively free because every other bank is also beginning to see this versus how much of this is purely this capability given the fact that share of wallet has gone up and hence. I mean, is there any way to split hairs on this at all?

Shyam Srinivasan: No, I can only confirm that it is not opportunistic or arbitrage, it is structural. If you by any chance see Slide 29, you will see quarter-on-quarter sequentially loan processing, exchange commission, brokerage and other fee income going very steadily, reflecting the underlying business growth. In many quarters back, we said credit growth, 2% more fee income growth, and that's holding out quite well.

Krishnan ASV: Just the other thing around asset yield as well, given that you have been building towards the high-quality portfolio for a fairly very long period of time. But it was not reflecting in asset yields because it was a very crowded trade. Even now it seems that way, but at least the pricing power seems to have come back with more and more banks exercising it. Is that just a function of where we are in the repo rate cycle? Do you think that comes off at any point, I mean, at any phase at all?

Shyam Srinivasan: It is to some extent, yes, it's where we are in the cycle, but I also think having seen this for as long as I have, at any point in time somebody has discretion problems in the industry. So somebody ends up being crazy. So it's not something that you can always say. But yes, broadly, the power is now not entirely to some maniacal behavior. There is some order that is list out.

Moderator: The next question is from the line of Prakhar Agarwal from Elara Capital.

Prakhar Agarwal: Just couple of questions. One is on MSME. So how do you see the competition level moving in there? Are you able to pass on the rate hikes efficiently in that? Or probably the competition is pulling that back? And a related question to that is, since you are on a fixed rate book as well, have you been able to pass through the entire rate hike at a system level to these guys or probably you that also is lagging the transmission?

Shyam Srinivasan: That was by the nature of fixed rate, it cannot be you cannot pass through right away, right, it has to only maturity you will.

Prakhar Agarwal No, on a fresh disbursement…

Shyam Srinivasan: On fresh, yes. MSME, I think the general theory we hold, yes, there are little more pricing opportunities. But even there, the better customers are getting both opportunities and are demanding. And if you want the better credits, there's a price trade. And we try to use that trade opportunity by getting in other businesses of the client. And we've seen meaningful progress there, both, Harsh, both businesses have seen a good traction on other income. And so as business banking.

Prakhar Agarwal Sir, just second -- that is on the second part of clarification. On the fixed rate book, the part that I meant was for fresh disbursements have the loan yields risen by the similar amount that the system has gone up or it's slower?

Shyam Srinivasan: Shalini, Harsh, on the...

Harsh Dugar: Yes. See, on the fixed rate loan, it's not that fixed rate loans have gone up by 2.25% across the board. So obviously it has been passed on, but not necessarily the same intent, same spread, so.

Shyam Srinivasan: Even auto loans have not gone up by 200 basis points.

Harsh Dugar: Yes, exactly.

Prakhar Agarwal: And what would be the level of pass-through, if at all you could quantify that number. I know it's a broad number, but?

Shyam Srinivasan: 80 to 100 basis points.

Prakhar Agarwal: Okay, that's 225 or 200 basis is what they've asked.

Shyam Srinivasan: Shalini, would that be right, Shalini, on the auto loan?

Shalini Warrier: Yes, Shyam, that would be about right, yes.

Prakhar Agarwal: Got it. And just last bit on your expansion. So, you probably highlighted that you will probably plan to add around 65 branches for the financial year. How are we looking at our branch network over period of next two, three years? So, we have been fairly stagnant over last five years. So just from that sense, going forward, how are you looking at that?

Shyam Srinivasan: In the April, May call, '22, we had said we'll add between 50 and 75 in FY '23 and similar numbers two years from there or a little more. 250 branches is what we said we'll add over a 3-year period. As I speak to you, I think we have crossed 60 this financial year and well on course to make it maybe 75 branches this financial year. And roughly between 80 to 90 branches each year over the next two years.

So roughly 250 branches. Yes, the size of the branch changes, the role of the branch is more sales and service oriented. But I don't see branch alone. We are putting in a lot of mobile capability as in not digital mobile as in physical mobile as in bus branches. We are the only bank that has got two buses plying in Madurai and Lucknow as branches. We've got our DBUs and of course various mobile-related solutions.

Moderator: The next question is from the line of M.B. Mahesh from Kotak Securities.

M.B. Mahesh: Congratulations on great results. Just a couple of questions. First one on the again, this question was asked but again asking this again. If you were to look at your cost of funds moving between now and the next few quarters, keeping things as where they are, where does it peak out? And correspondingly, on the loan side, a similar trend as well?

Shyam Srinivasan: Harsh, yes, you want to go?

Harsh Dugar: Sorry, please come again, Mahesh.

M.B. Mahesh: Harsh, the question is simple. See, today, if you look at the cost of funds and you look at the rate of change that you're seeing out there between now and the next couple of quarters, how does it move? Like it's gone up from 4.4% to 4.6%. Where does it peak out? And at what pace does it change?

Harsh Dugar: See, where will it peak out would depend on where the RBI stops raising the policy rates. It would be a function of that. But I think this 20 to 25 basis points hike per quarter till the rates are moving up in next at least a couple of quarters is possibility. So it may move up.

M.B. Mahesh: Interest rate is unchanged and that's what I'm keep that unchanged, you would say that it's how does it move?

Harsh Dugar: Yes, about 20 basis points per quarter it should happen.

M.B. Mahesh: And on the asset side, how much is pending now?

Harsh Dugar: Asset side, I think, should grow with another it should be higher than in the fourth quarter, my expectation is that it would be higher. So, if it is 20 basis points increase on the deposit pricing, on the yield side we should have anything between 25 to 30.

M.B. Mahesh: The second question to Shalini ma'am. Ma'am, just the progress on the Federal Bank subsidiary. How has it gone? What has been progressed in terms of efficiency that you've been able to extract so far? Thank you.

Shalini Warrier: Mahesh, are you referring to the insurance subsidiary or the…

Shyam Srinivasan: No, he is talking about FedServ Shalini.

Shalini Warrier: FedServ, sorry. I think Venkat will comment on that one, I'm sure, in addition to what I will say. So Venkat has to say a few words. I think clearly, we're seeing a huge amount of energy or potential that has come out of it. A lot of the activities that we have normally been done in the branch are now being done in a more effective manner. The number of employees has crossed, if I'm not mistaken is in the 700 range right now.

We've also migrated a lot of the activities like the call center into it, both inbound and outbound, collections activities. And we are in the process of migrating a few more activities that we do in the branch to it. So clearly, we're seeing the benefits of it. Probably you won't see the direct benefit on the cost-income ratio, that's because there are so many things that are moving in the cost information.

But the best way to look at this, Mahesh, is what we would have been the cost if we had to do some of these activities as we've been growing in the bank. So, if we see that in terms of the benefit, clearly you can see that is giving us benefits. Venkat, I think you're closer to it now, and you should probably add to what I said.

V. Venkateswaran: Yes, Shalini, yes, thanks. Mahesh, we have a fairly ambitious plan to scale up what activities can be done by the operation subsidiary. Currently, as we speak, close to 900 headcounts split between two locations. There is clear visibility of adding at least another equal number to support all the bank's activities, which are permissible as per the RBI's approval. And there are some additional activities as well, which we will now start performing from the operational subsidiary.

And we are looking at more than cost saves, yes, there will be. But what we are looking at is creating operational centers of excellence where the process will be reengineered and use of -- earlier there was a question about AI and all that, to the extent possible where processes can be automated using some of the new-age technologies, we will do that. So that through that route, we bring in the efficiencies which will be eventually reflected in the bank's numbers. So to sum up, very ambitious plans to scale it up. We have grown from almost 600 to 900 in a year. And probably the pace at which it will grow will be further speeding in the next 12 to 18 months.

Shyam Srinivasan: Maybe we can bring it to a close, Souvik. if there are more questions, we can take it offline. Souvik?

Souvik Roy: We can close it, sir. No problem. There are few more questions, but we can close it as of now. I think, yes, we can.

Shalini Warrier: Yes, how many are pending in the line? I mean if they have signed up and waiting, it's not fair to cut them out.

Souvik Roy: So, there are close to seven, sir.

Shyam Srinivasan: Is there any burning questions?

Souvik Roy: We can take, sir. So we have Manish Shukla next on the line, and few again joined for the second time, I think, in the queue.

Shyam Srinivasan: We'll take five minutes more.

Souvik Roy: Sure.

Moderator: Sir, so should we take the next question?

Shyam Srinivasan: Yes. Take the next two question, please.

Moderator: The next question is from the line of Manish Shukla from Axis Capital.

Manish Shukla: I'm saying that while individually credit card and PL may not be a large part of the portfolio, the high-yielding segment that you've added, collectively, how large do you think they will become, let's say, around the load?

Shyam Srinivasan: If you recall, Manish, a few years ago, I said by FY '23 end around this March, these three businesses, commercial vehicles, credit cards and micro finance, these three businesses will be about INR 6,000 crores to INR 7,000 crores. And we think that will double in the next two years or a little more than double.

Manish Shukla: And in terms of the credit underwriting, the only reason I ask this question is that we'll probably see the margin-related benefit or yield-related benefit being front-ended, whereas typically credit cost come and hit us with a lag. You've seen this script play out elsewhere in the system?

Shyam Srinivasan: Not in settlement, Manish, that I will say with some degree of confidence and arrogance. We have not allowed that to happen.

Manish Shukla: Sure. So you remain confident that they did not jeopardize the ROA trajectory.

Shyam Srinivasan: No, by now it would be INR 5,000 crores, INR 10,000 crores. We are extremely adamantly focused on that.

Manish Shukla: All right. The last question, Shyam, is that for better part of last 10 years, the risk-weighted asset density for the bank has been hovering around 60%, which is lower than some of your larger private sector bank peers. Going forward, you think you will still be in this ballpark trajectory or are there plans to push it higher?

Shyam Srinivasan: Sorry, repeat, come again.

Manish Shukla: The risk weighted asset density, the risk weights to total assets for the bank has been hovering around 60%, between 58% to 62%, whereas most of the larger private sector banks, peers would be 65%, 70% plus, and that explains the yield and margin difference, obviously. Any plans of pushing it higher or you will ballpark be in the same vicinity?

Shyam Srinivasan: See, the outcome of the business model, Manish, it's not so much as that's the number which is, the businesses that we are pursuing and the mix of the business will reflect in that. There will be some movements, and that reflect in the ROA. That's how we've brought it up from unfortunately, it went down to 0.76%, and we brought it up to 1.25%, and credibly and consistently, we'll keep pushing that up, and that's our commitment.

Any other question, operator? Is there anybody? One last question.

Souvik Roy: There is one more, sir.

Moderator: The next question is from the line of Gaurav Jani from Prabhudas Lilladher.

Gaurav Jani: Congratulations. Firstly, just wanted to theoretically understand. Say, for example, RBI raises the repo by 250 basis points. Is it safe to assume that the entire 250 basis points would be passed through in terms of overall use?

Shyam Srinivasan: Over a passage of time, yes. May not be penny to penny, but largely, yes.

Management: I think for repo-linked rate accounts, yes. But for others, it could be some part of it or, I mean, maybe entire depends on which segment we are into.

Gaurav Jani: Understood. Just wanted to theoretically understand as to how much is the rate?

Harsh Dugar: On the retail loan side, we have been able to do it nearly 200 basis points out of 225. And the last hike has happened only in December, 35 basis points. So out of 190 hike, we could move to somewhere around 200 basis points on the retail side. A similar number was there even for corporate CIB, somewhere closer to 182 -- 181, 182 basis points or so. So, I think -- and there is another segment where it was just 155, 160. So, it depends on what type of competitive intensity is there in the market.

Gaurav Jani: Understood. Just last question, sir, sorry to harp on it a bit more. But the cost of funds have sort of beaten estimates. So how should we look at it in terms of the fact that this quarter we saw a fair bit of increase in the wholesale deposits, but it seems that the cost of funds were pretty much managed well.

Shyam Srinivasan: So, despite increase in wholesale deposits, the percentage of wholesale deposits to total deposits still is very small. So even if that segment has seen some sharp hike in rates of interest, it's not impacting the whole stock to that extent. Granularity is the retail nature of deposits, which gives us an edge.

Moderator: Ladies and gentlemen, we will take that as a last question. I now hand the conference over to Mr. Souvik Roy for closing comments.

Souvik Roy: Thanks, Faizan. So, in closing, I want to thank you all for joining us today. We are committed to delivering value, and we will continue to focus on our growth and strategies. As always, the management team and I are available to answer any questions that we may have skipped today. We appreciate your continued support, and look forward to updating you all on our progress in the future. Thank you all, and have a great year ahead. Thank you.

Shyam Srinivasan: Thank you, everybody.

Shalini Warrier: Thanks, everybody. See you. Bye-bye. Thank you.

Shyam Srinivasan: Thank you.

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