"The Federal Bank Limited Q4 FY '23 Earnings Conference Call"

May 05, 2023

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Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY23 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Souvik Roy – Head, Investor Relations. Thank you, and over to you, sir.

Souvik Roy: Thank you, Ryan, and good evening everyone. On behalf of the Federal Bank, I welcome you all to our Q4 Earning Conference Call. I hope you all had the opportunity to go through the Investor Deck, which is available on the exchanges and also on our website.

The last year's performance has ensured that we are on strong footing and ready to leap forward to the next level of our growth journey.

Coming to the quarter that went by, happy to share that we are on track and in line with the guidance that we have given in the previous quarters.

A quick snapshot of Q4:

We have recorded the highest ever quarterly net profit. We have seen broad-based asset growth. Our asset quality remains stable. The progress made on our strategic priorities is noteworthy, and also, I am glad to mention that we have seen the best recovery numbers ever, and all of this has resulted in robust improvements in our key return ratios, which are at multi-quarter high.

I have the entire top management here on the call with me, and without much ado, I would request our MD to take it over from here. Over to you, sir.

Shyam Srinivasan: Thanks, Souvik. Good evening everybody. Like Souvik pointed out, we are encouraged with the performance of Q4 and the Financial Year that went by. Nothing is ever a straight line. There are good stuff, and there are areas that we need to work and improve upon, and certainly that is the focus of the Bank.

Those of you who had the chance to attend our session in late February or gone through our deck, we had talked about the things that have gone well, the things that are on focus of the Bank, and how do we continuously focus on improving our return outcomes.

Happy that what we had mentioned in February '23 as the likely exit rate in March '23, we have come in better on that, and we did mention that in the following period, which is FY '24 and FY '25, we are looking to improve on this performance. I am encouraged that the 1.28 full year the last exit rate of about 1.45 ROA, we are on course to improving and ensuring that the full year ROA for FY '24 is along guided line.

Not to miss the point, I did get a few calls after the results, and there were some concerns expressed around has the NIM plattered out? Why has it fallen as much as it did? And we can try and talk about it, and I will address that and mention both the yield on advances, how did it grow, and the cost of deposits, how did it grow, and therefore, is the deposit pricing increase fully in the book or are there residual?

I think there is some residual, but a large part of it is repriced. Different banks may have different deposit profile and different timing. We believe for The Federal Bank, Q4 saw the brunt of it, and therefore we did see the cost of deposits go up by about 55 basis points where the yield on advances went up about 36 odd basis points. That's the difference that we saw which did have an impact on the margin sequentially.

We exited last financial year at 320. We exited this financial year at 331, and the average for the year was 331 NIMs, which is along the expected or guided lines, and I believe with the focus on the businesses that we are giving more fillip to and the mix of business and the repricing opportunities, I have been talking about NIMs for FY '24 being in the region of about 330 to 335 and the ROA of the business being around 1.3 to 1.35, both of which are very much within our batting range, and we think we have the both the capability and the machinery to make sure that happens.

And importantly, for long periods of time, our credit quality has been I would say exemplar, and this in a credit costs have been in Q4 particularly flashing at about 19 basis points, but full year credit costs about 40 basis points is in the range that we have been guiding forward between 40 and 50 basis point. Thankfully, it's at the lower end of the range.

So, this combination of fairly balanced credit quality, the cost of credit being best in class, the NIMs being because we write better quality business, NIMs are not going to be flat, you know, instead of being exaggeratedly high, but the risk adjusted margin being around this number 3 is what we are working on, working towards, and improvement in fee income, the improvement in efficiency are all helping us grow our return ratios quite significantly.

So, in fact, I thought I just begin the call by just talking about an area that most people sort of queued in or asked us. I didn't want to go around the bend and not talk about it. So, I just thought I would just upfront this point around our business model, which I think is important for everybody to understand. We don't take exaggerated risk.

Within our risk framework, we ensure that the business makes this appropriate or within retail and wholesale, we have said 55-45. Within retail, we have given accent now in the more recent past to businesses like credit card, personal loan, commercial vehicles, and microfinance. And on the corporate side, between corporate and commercial banking, we are seeing good progress. And if you have seen our numbers, you notice the fee income from our corporate relationships have been growing at about, you know, quite significantly, 35 odd percent kind of growth rate. So, we are able to get the client relationship, and at a client level, we are getting a larger share of the client wallet.

Another area that often is asked about is the nature of your business has been the strength of The Federal Bank has been a good deposit franchise and a retail deposit franchise. Happy even through FY '23, which is arguably one of the toughest years for deposit attrition, we saw reasonable growth. There were areas that in a term we had to make sure that we are not outpriced, but we are comparatively priced, and we saw retail term growing about 14% and the overall deposit growing about 17%.

We have also continuously checked to see how our market share is in terms of domestic savings and NR savings. Our share of NR deposits has increased from about 6.5% to 6.8% across the country. Our share of domestic overall savings has been hovering between 0.94% to 0.97% or sometimes around 1%. So, we are without paying a much higher rate continuing to hold share.

Our next focus is gaining share in domestic savings, which through the branch expansions that we have had through our fintech partnerships that we have beginning to see traction. Last year, last financial year, we opened 75 branches, which thankfully are holding out well and maturing quickly. This financial year, we are looking at about 100 branches. Our fintech relationships, which is about a year and a half hold, the accounts that we have booked are graduating into its year two. So, we are seeing balance build.

So, on balance FY '24, I just want to point out our focus continues to be not exaggerated risk, credit quality being in and around the guided range of about 40 basis points to 50 basis points, more like 40. The NIM will be around 335 or so, and our commitment, our focus is to make sure that the ROA expansion is well on course and on track, and we believe the foundation of the Bank is in a good place. Credit quality is holding quite well, and we have addressed some of the issues that needs to be addressed from a point of view of ensuring deposit growth remains a priority for the Bank.

So, let me just pause here and open it for questions. Like Souvik mentioned, the entire senior management team is here. We will be happy to take questions and clarify. Thank you very much.

Moderator: Thank you. We will now begin the question-and-answer session. Our first question comes from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Sir, so you already touched upon margins, but if you go by your guidance, then we are talking about some margin expansion from 4Q levels. So, how do you, I mean, what will really drive that? I knew share of new businesses or new products would, but does that take into account the possible deposit competition which could happen because now everyone will chase deposit, everyone has used excess liquidity? So, how does it pan out on margin?

And my second question is even on cost to income, where do you see that settling?

And the third is on loan growth. Do you still maintain the guidance of high teen?

Shyam Srinivasan: Yes, and it's a lot of questions. Let me try. Yes, we mentioned that we are looking at the credit growth in that zone. It looks possible at this juncture. Even this financial year has begun reasonably encouragingly well. So, we are not yet altering our outlook on that count. We are poised for that kind of growth.

The mix of business I think you pointed out. There is a fair degree of traction in all these new businesses, and we believe that should give us some kind of fillip. I think this is a question that was asked of us even when we made our presentation in end February, and we did talk about what kind of mix and how that should help.

And in terms of deposit pricing, it's our belief that probably the peak of the pricing is already factored, and now it's only the playthrough of whatever you have already priced in. It's unlikely there may be a material increase in rates at this point in time. And we have factored in all this.

In terms of cost income ratio, we are in the, you know, around 49 or so. We did talk about it, and we said, we believe that each year we should see some progress on that count. This year even if you take out the one-off expense that we had to carry in the last quarter of last year, last year's full year cost income was around 50 to 53. We have come down to about 49. And we believe it will see another 100-basis point improvement in FY '24.

Moderator: Our next question comes from the line of Dipanshu from Vriddhii Capitol. Please go ahead.

Dipanshu: Sir, I wanted to understand the credit deposits ratio. So, in the last quarter, we have grown our deposits, but we were controlled on our credit output. So, how do we say this? So, this is the first portion.

Shyam Srinivasan: Yes, go ahead. What is the second question?

Dipanshu: And second thing on link to that our capital adequacy ratio is around let's say 13%. So, is it something that we are trying to be a little bit conservative on our advance growth?

Shyam Srinivasan: No, I think our CD ratio between 81 and 83, it hovers around. It's just in Q4 we decided to be a little more focused on generating deposits, and we saw that come through, but we have not let go or not intending to let go of credit growth opportunities. It is in the full year credit growth; we saw about 20%. Last quarter we saw a higher rate of growth in deposits of credit.

But that was conscious. Wherever we have good credit, we picked it up. Wherever pricing was less than attractive, we decided not to pick that up. Our outlook for FY '24 I have already said. If that happens, the CD ratio will be around 82 to 84.

Dipanshu: And sir, can you link it with the capital adequacy ratio? So, are we looking to raise any funds in FY '24? Or are we comfortable on that count?

Shyam Srinivasan: So, I have mentioned when we did our call in the January results, we have our shareholder approval. We are considering options, but we have not narrowed down to anything as yet, but there is a likelihood of a capital raise for growth at an appropriate time, but we don't have any finite date or time as yet.

Dipanshu: Sir, our last question on our credit quality. So, how comfortable are we on the credit quality on the retail side? So, with the new fintech partnerships and all, and we are trying to increase more from the guys who are at a higher rate. So, how confident we are? And what kind of rating mechanism we follow? Any color on that?

Shyam Srinivasan: I don't know what the question is, but I think our multi-year track record speaks to the fact that we are quite both disciplined and conservative on the overall underwriting across product streams. We don't intend growth to come through flexing or letting go of credit standards. Credit standards, on top of that growth, and we believe that's possible.

Moderator: Thank you. Our next question comes from the line of Renish from ICICI. Please go ahead.

Renish: Hi Sir and congratulations on the great set of numbers, just two questions. One is on the retail deposit share, you know, which has been actually steadily coming down from almost 92% in March '22 to 85% in March '23, and especially in second half, you know, our CD ratio is also coming down, which essentially means that we are sort of from entering the highly liquid balance sheet. So, just not able to understand then why we are increasingly deposit share in any which ways our CD ratio is coming down.

Shyam Srinivasan: I think, Renish, the first point is that it is 85. These are point in time. These are certainly not the trend. I wouldn't make a trend of it. It could quickly set back to 90. I don't believe these are and like I said we were ensuring that we had a good deposit pipeline in the quarter that went by, and we did not shy away from taking those deposits, but that doesn't suggest that it needs to be the trend line.

We are keen to make sure that our deposit growth is able to match up to our credit expansion, and with the combination of that in mind between term, savings, current account, we will ensure that we meet the dilemma of ensuring CD ratios, ensuring mix between deposits, and continues to be retail in nature.

I would not read much into it, at least not as yet. We haven't seen any reason to view it differently. I haven't gone out and bought deposits. Even the term deposits that we have our clients' individual deposits.

It is a fact that the NR customers have moved a large part of their savings to term. Whenever the rate differential is significant, that was bound to happen, and it's not unique to The Federal Bank. I think it's a market phenomenon. We would be foolish to let go of balances to somebody else.

Renish: So, sir, you know, just a follow-up on that. So, maybe it is right to assume that though the deposit definition says, you know, anything less than 2 crores is retail, but maybe the large part of NRI would have been individual but maybe having a ticket size of more than 2 crores, and hence, you know, that ratio is looking like this. Is that the fair assumption?

Shyam Srinivasan: It's a fair assumption. It's a fair assumption.

Renish: And sir, secondly, again on the margin side, so incrementally when we are saying that the high yielding books like CVC, MFI, PL etc., will grow at a faster click plus the strategic focus on gaining market share on the SA side, so why not we are yet aiming for higher NIMs than 3.3, which is currently standing at?

Shyam Srinivasan: It's not that we are not aiming at, Renish. We are definitely aiming at a higher number, but when we speak to the market and give guidance, we have to be honest about it and believe that those are the bare minimum we should deliver. We think at this juncture given the pricing play out of deposits in one more quarter, and we don't want to take disproportionate risk in growing any of these new businesses and then have a problem a year or two down.

The blend looks like, and I constantly remind ourselves that we are not looking at NIM in isolation. We look at NIM adjusted for credit costs. I still argue that a long period of time, a franchise should look at risk adjusted NIM, a risk adjustment margin. You are all seasoned analysts. Please look at our Bank versus many others, and you will find that we are not disproportionately off.

Renish: No, absolutely, sir. And just a clarification. So, in your opening remarks, you did mention that large part of our deposit base is already reprised. So, would you like to quantify, I mean, what percentage of deposit has already repriced at a revised TD rate?

Shyam Srinivasan: I would think about 80% is repriced.

Moderator: Thank you. Our next question comes from the line of Simranjit Singh from MasterTrust. Please go ahead.

Simranjit Singh: Sir, first of all, congrats for the great set of numbers to you and to your all-Federal team. Sir, I have, you know, the next couple of questions. Sir, first of all, can you brief something about the slippage part in quarter four where we are seeing that the slippage having in quarter four?

Shyam Srinivasan: What do you want the commentary on?

Simranjit Singh: Sir, on slippage part. Slippage in quarter four. Slippage.

Shyam Srinivasan: Yes. So, you want the numbers or? Sorry, I didn't get the questions.

Simranjit Singh: No, numbers are there with me. You know, how you see the trend going forward in terms of slippages? Because this quarter in Q4, we have seen that it has increased quarter-on-quarter. So, how you see it in the upcoming quarters, slippages, if you can give some guidance or something, you know, comment on that?

Shyam Srinivasan: Sure. I think the sequential or long period average has been between 350 and 400. This quarter is a tad higher. That's because of some actions we took on the retail ag, you know, on the agri portfolio in certain products, but retail has trended down, and commercial banking has come down. Some part of minor uptake in business banking. So, it's not out of range. We think our guidance, if I remember right, when we began the financial year, I said it will be around 1,800 crores, and thankfully it came at about 1,600 crores full year slippages, and equally recovery upgrade even, it did even better. So, this trend line should continue. We are about a 1% slippage Bank, which probably is amongst the best in the market.

Simranjit Singh: And sir, my second question is on the gold loan front, how are you means what is your maximum cap in terms of loans you are looking at this point of time? Because gold is already at the all-time high. So, how you see what the gold demand in your Bank means at this present juncture?

Shyam Srinivasan: So, you are saying what share of gold will be our overall, as part of our overall business. Is that the question?

Simranjit Singh: Yes. My first question is, you know, what will be the percentage going forward? And second, how you see the gold asset quality going forward? Gold asset quality means in terms of the gross NPAs.

Shyam Srinivasan: No, unless there is a fraud or any wrong practice, gold as a business continues to be attractive, and we will continue to grow that. The rate of growth depends on I think both the opportunity and the timing. If other businesses are growing rapidly, gold usually tends to grow slower. We believe between 20%, 25% growth in FY '24 is very possible in gold, and we will do.

And as a percentage of gold, as a percentage of overall portfolio, today it's about 1.9. So, it's about 10%, 11% of our overall outstanding. We have a internal cap, and it should never cross 15, but we are distance away from that.

So, you could believe that we will grow about 20%-odd in gold. Portfolio will be okay. Yes, there are some practices that needs to be corrected, but gold as a category continues to be profitable and growing and continues to be an opportunity to grow.

Simranjit Singh: So, then my last question is that sir, and my last question is, is there any acquisition target, you know, The Federal Bank is looking for in the upcoming time?

Shyam Srinivasan: Certainly, if there was one, I would not be just casually speaking in a call like this. I have to go through a process, but suffice to say, we are organically focused. If there is anything that's useful, relevant, accretive, and at an affordable price, we will consider. All four of this makes it a very rare opportunity that something will show up, but if it does, we will consider appropriate enough, but right now nothing.

Moderator: Thank you. Our next question comes from the line of Pranav from Rare. Please go ahead.

Pranav: Sir, thanks a lot for the opportunity. Sir, just have one query. In terms of CD ratio has actually reduced, but if we consider C plus I, that is credit plus investment to deposits plus borrowing, that ratio is almost constant. So, that, that should not have actually suppressed the NIM so much. So, that is one part.

So, congruous to that part, can you just, you know, elaborate how much percent of advances are yet to reprice? And how much percent of deposits are yet to reprice and by what amount so that we can have a stable outlook for NIM for next coming quarters?

Shyam Srinivasan: Pranav, I think the answer to the question goes back to where I had guided. We think 330, 335 is the outlook that we are visualizing at this point in time. Certainly, in the quarters ahead, we will look at revisiting that guidance, but at this point in time, suffice to say that taking into consideration all the points you pointed out which are valid points, we think we are poised for a margin range of 330 to 335.

Pranav: So, this is just because of the mismatch between the timing, right?

Shyam Srinivasan: Yes. Largely yes.

Pranav: So, that is one question. Second is in terms of employee expenses, can we assume now this is as a stable base or are there any one-offs in this current quarter 597 crore of employee expense?

Shyam Srinivasan: One-off in this quarter nothing. I think in the last year, last quarter had the upfronting of the entire family pension. That was not there this year. So, to that extent, yes, if pension requirements go up because yields fall, that can change, but at this point in time, this is the run rate. Venkat, would I be right?

V. Venkateswaran: Yes, Shyam, that's right. There are no one-offs in this quarter's number.

Moderator: Thank you. Our next question comes from the line of M. B. Mahesh from Kotak Securities. Please go ahead.

M. B. Mahesh: Just two questions on my side. If you could just quantify what is the current cost of term deposits that you have carrying today as well as the savings deposits?

Shyam Srinivasan: Current cost of?

M. B. Mahesh: Term deposits.

Shyam Srinivasan: You mean the cost of deposits or cost of term deposits?

M. B. Mahesh: Cost of term, because if I look at your website, you currently have let's say the one year book is at about 6.8% to 7%. I am just trying to see where is the term deposit rate in your book as well.

Shyam Srinivasan: Venkat or Damodaran, would you have it off top of your head?

V. Venkateswaran: Blended would be currently for deposits around 6.2.

Shyam Srinivasan: I think he is looking at term.

V. Venkateswaran: Yes. I am talking about term.

M. B. Mahesh: So, you have the cost of deposits which you have reported is 5.1. You have, but if you work backwards, it can't be at this number, right? It appears to be a bit low.

V. Venkateswaran: Mahesh, can you come again? 5.1 you said is the cost of deposit, overall cost.

M. B. Mahesh: So, yes, for your CASA ratio that you have, just trying to work backwards as to what would be the implied term deposit book interest rate that you are carrying today? I am just trying to, Shyam, just trying to work through this statement that you made that we have closer to the peak of cost of deposit repricing. Just trying to understand when we compare it with the headline base that you report as to whether we are there or not. Just trying to reconcile these numbers.

Shyam Srinivasan: Maybe we could pick that as Venkat, and he probably offline give you the details.

M. B. Mahesh: On the other side when you look at the yields, yields are up about let's say about a little over 120 basis points since the start of the state cycle. Your repo book is approximately a little over 50%. This by itself should have created a 120-basis points delta favorable, but if I look at the other parts of the book which also would have repriced during the course of the last nine months, where is it that we are missing here in terms of numbers?

Shyam Srinivasan: Anybody wants to do it? Ashutosh or Venkat, do you have anything that you can offer or we should give that as a clarification later?

M. B. Mahesh: Let me just rephrase it then. How much of room is still available for the yields to move up in your portfolio given the current interest rates?

Ashutosh Khajuria: So, I think there are two parts. In MCLR, there is a room, in MCLR linked loans because that grows with the lag, and it's more to do with the proportion of the stock for a particular bucket and all. So, the computation of MCLR is like that. So, on repo side, the repricing has been happening at the same time when the repo rate hike was happening. Except in those cases where the reset period is monthly or quarterly or annual, so where like in case of, I mean, majority of these are T plus 1 itself, but in some cases where the reset would be for a longer frequency, that would be remaining, but that should not be material. MCLR linked loans, definitely there is a room to grow unless the repo rate itself goes up further. If assuming that that's the pivot, that's the maximum and all that, then I think it would only be the spread on which the yield would go up.

Harsh Dugar: 50% of our loans are repo linked which have been completely repriced. 13% to 14% is MCLR based which I would feel half of it would have got repriced and half of it still keep getting repriced. Some are fixed rate loans, both shorter tenure and longer tenure. Those also will get repriced. So, about 15% of our portfolio in advances I think still has scope for improvement and repricing.

Moderator: Thank you. Our next question comes from the line of Anand Dama from Emkay Global. Please go ahead.

Anand Dama: First, we have seen some decline in the gold loan portfolio. So, that basically is primarily with the issue that we had with the rupeek earlier on or is there something else?

Shyam Srinivasan: No, I think you are partly right. It's not an issue. It's just a digital lending criteria required them to readjust. They did pick up, but unfortunately, there were more work to do. So, to that extent that slowed down, but the organic branch led is continuing to grow, but some of that gold being a short tenure product did run off.

Anand Dama: So, next quarter onward we should see quarter-on-quarter growth?

Shyam Srinivasan: We expect growth back again, also because it's growing up a smaller base, a lower base.

Anand Dama: Secondly, if you look at the risk weight assets growth, that seems to be far higher than somewhere about 28 odd percent versus the loan growth. So, is it primarily because of the growth that we have seen in the PL microfinance book and so on? Or is there anything else in terms of, you know, risk weight adjustment that we have done?

Shyam Srinivasan: I think it's the latter. You may all be aware, there is a regulatory requirement for clients who are unrated to carry a higher risk weight if there is an unrated and unrated as in they are not declared. So, we looked at our portfolio. If the client had not given their ratings, then it would be a higher risk weight. So, that's a one-time activity and should not be of any significant impact.

Ashutosh Khajuria: Basically, it used to align with the regulatory requirement. We have classified some of those rated accounts also as unrated because our amount is not reflected there in that rating. So, because of that, you know, some part has had to be classified, and that process is on to get our amounts included in the rating process.

Shyam Srinivasan: I hope you understood that explanation. That's important, Anand.

Anand Dama: Yes. And sir, lastly, if you can help with the LCR ratio that we have for the current quarter?

Shyam Srinivasan: Around 120. 120 point in time.

Anand Dama: 120. And how much was that last quarter?

Shyam Srinivasan: Around the same, 124 or 125. Damodaran, is it around that number? But roughly 124, 125.

Anand Dama: And sir, we have done any working on the ECL provisions? And is there any shortfall or like we already carry excess provisions over there?

V. Venkateswaran: Yes, we have worked on it, but at this stage, we don't disclose in terms of the workings at all. We have done the calculations, and we have confidence of meeting once the regulations come in play.

Anand Dama: We don't have to do any additional provisions, right? We have it comfortably placed.

Shyam Srinivasan: We will come back when we have present data on that. Better timing for that. I don't know if you can properly talk about it now.

Moderator: Thank you. Our next question comes from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: So, firstly on wholesale, I missed the comment, but there was a significant increase in the wholesale portfolio on a quarter-on-quarter basis. And what cost are we raising? And how much was that impact in this particular quarter in cost of deposits? And given that it would be towards the end of March, do we see maybe a further impact in Q1 of a relatively higher deposit cost because that will have a full quarter impact?

Shyam Srinivasan: Did we? Ashutosh, which one is that one? Lakshmanan or Ashutosh?

Shyam Srinivasan: Wholesale deposits.

Kunal Shah: When we see there is a significant price on a quarter-on-quarter basis, if we just look at the calculate the numbers given from the….

Ashutosh Khajuria: So, it's basically CD issuance.

Shyam Srinivasan: Yes. CD issuance.

Ashutosh Khajuria: For the short term. CD issuance for short term. Three months, two months CDs.

Kunal Shah: So, we will not see that full impact coming through in Q1 as well and keeping the deposit cost elevated.

Ashutosh Khajuria: It will mature. I mean, April also, part of it has already mature. I mean, April, part of that book has already matured. May also it would be mature. It's widely spread. So, I think if you compare the CD issuance number March '22 versus March '23, there was an increase and which is showing in a higher percentage of wholesale.

Shyam Srinivasan: Yes. And even on a quarter-on-quarter I would say, yes.

Ashutosh Khajuria: Yes. I think that would not be material. CD rates are greatly cooled down. It has already come down by about 30-40 basis points.

Moderator: Thank you. Our next question comes from the line of Gao Zhixuan from Schonfeld. Please go ahead.

Participant: I just have quick follow-up questions on the margins. First of all, do you mind sharing, you know, what's our exit margins for fourth quarter, i.e, what's the margin for month of March?

Shyam Srinivasan: For the month of March? I don't know if I would have that readymade, but the full quarter is 331. Can't be very different in March. In effect, March may have been a slightly higher month also. It's got 31 days.

Gao Zhixuan: I mean, adjusting for these, is it higher or lower than the average quarterly margin?

Shyam Srinivasan: March would be higher. So, I would think you should -- the blended number is a better number for your calculation. I am guessing you want to do that for your extrapolation on what is the exit rate. I think 331 is the number you should pick.

Gao Zhixuan: And then on deposits, what's the average maturity of our fixed deposits and the average?

Shyam Srinivasan: Large part is in 12-month bucket.

Gao Zhixuan: And also, on our guidance of, you know, margin FY '24 to be 300 to 305 basis points. How much of mix impact of these to margins are we assuming?

Shyam Srinivasan: How much of?

Gao Zhixuan: How much of increase in margin due to mix are we assuming in the forecast?

Shyam Srinivasan: No, the 330, 335 is quite reflective of where we are, right, at the exit rate. And that's the Bank.

Gao Zhixuan: I mean, we are increasing, you know, those higher yielding.

Shyam Srinivasan: Playthrough, right? There is a playthrough because like Ashutosh and others pointed out, some deposit cost accretion happens. So, some new business that goes at a higher margin, so the blended outcome will be 330, 335.

Gao Zhixuan: So, I just want to understand, you know, how much, how many basis points roughly increase in margins are we assuming in FY '24 is due to the improvement in mix towards higher yield products?

Shyam Srinivasan: You could do that, take the businesses that are relatively higher yielding, and they are growing at about, some of them are growing at, you know, well north of 30%, 40%. So, that should give some kind of indication. Businesses, credit card, personal loans, commercial vehicles, microfinance, and to some extent gold, these businesses are growing at, barring gold, others are growing at well north of 40% albeit on a small base.

Moderator: Thank you. Our next question comes from the line on Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal: So, interesting to see that profits for four quarters of FY '23 have been 600, 700, 800, and 900 crores. I hope this run rate sustains. I have three questions. First, while you indicated that depository pricing was higher in 4Q, and you are guiding for a slightly higher margins now for FY '24, can first off margins be lower versus second half as depository repricing will continue and benefits from improving mix of high yielding loans will take time to play out? So, that's question one.

And second is on the restructured book wherein we still have 1.6% of restructured loans. So, if I compare this to like most other large private banks, the restructured book has been fairly resolved, and most of them are like fairly below 1 now. So, how do you see the dissolution of this restructured book going forward?

And the third question is on core fee income, which has grown on a Y-o-Y basis but still broadly the same for past three quarters now. So, how do you see the trend here?

Shyam Srinivasan: Let me take the fee income piece first, and we come back to all your questions. I think the number you mentioned about 540 odd crores but do see the mix on that. I think processing fees is broadly consistent. It's linked to volume, and it's trending quite well. The fee related to the third-party products and others have even sequentially moved quite well.

The one that is a little moving back and forth is the profit on Fx which tends to be choppy only because it depends on the environment. In Q4, it was lower. Q3, Q2 was higher. We believe that should come back. So, the fee income fees, what is important is exchange commission brokerage, other fee income we have seen good progress, and that should continue. So, the overall fee income, non-treasury related is tracking well. FX continues to be opportunistic. Sometimes the environment is not conducive. So, we believe that should continue to grow.

The other two questions remind me the order. Sorry, I skipped the second question in the order.

Nitin Agarwal: Yes. One on the restructured book, how do you see the dissolution of that? And the third on the margins. Can the first half margins be lower than the second half?

Shyam Srinivasan: Your assumption would be probably right. I do think it will be consistently the same. The blended number is what we are talking of about 330, 335. It could have a slightly more softer start and then catch up. So, yes, that could be a fair assumption.

On restructure, Raj, Ashutosh, you want to give the clarity on that?

Ashutosh Khajuria: I think there are two ways of, you know, I mean having the restructured book measured. And one is, you know, when you have restructured as per new terms and conditions, and once the moratorium is over, and you have three installments or four installments, six installments coming in time or so, you take it out of restructured book and treat it as like any other standard asset.

The other way is the, you know, I mean the tag continues as a restructured book, and you have a longer time period given to that to really assess. So, those which have either it gets reduced by repayment, but if you have housing or like the composition of our book and all, now these are the loans for say 15, 20 years or so. Now there the repayment would be gradual and all that, but we have not removed any of the accounts from restructured book as long as it is standard and meeting its new terms and conditions. So, that's the basic difference.

If you have a short-term restructured for two years or three years, by now, you know, a good chunk of it would have been repaid, and therefore, it would have come down some of their banks or so, or they would have taken it out on account of satisfactory performance as per the revised terms and conditions. So, I hope the composition is the one wherein, you know, we have not removed any account from that book as long as, I mean, even if it is meeting its so-called new revised terms and conditions.

Shyam Srinivasan: Just to add to that, Nitin, I think the performance on the restructured book, not just one, I think across all the four quarters of FY '23 in the quarter that the demand comes up, they have been consistently good and haven't shown any adverse behavior. So, they are not, the tag in itself doesn't mean that they are under any significant risk as evidenced by four quarters of performance post-COVID also.

Moderator: Thank you. Our next question comes from the line on Gaurav Jani from Prabhudas Lilladher. Please go ahead.

Gaurav Jani: Just some clarifications on the yield and cost dynamics. Now basis the numbers that you guys have disclosed, quoting the cost of deposits have gone up by about 90 basis points over the last three quarters, right? Systemically, what we understand is cost of incremental deposits or cost of incremental TD has gone up by about 200 basis points. So, you know, is it a case that we have taken a lower increase in cost of TDs versus the system? I mean, try to assume that, and going forward, do you see the run rate of increase in cost of deposits coming down?

Shyam Srinivasan: Yes. I think I mentioned it earlier also, Gaurav, that we believe that most of the increases of deposits are in the price. I don't believe it should go up materially at this point in time. There may be some buckets, some tenure for a shorter period it maybe, but not significantly.

Gaurav Jani: Secondly, on the yield side, you know, there seems to be a bit of a negative surprise out here. So, the last part of the portfolio, which is corporate and housing, did we see some bit of competition coming there which is why you would have taken a cut on yields or something of that sort?

Shyam Srinivasan: A bit of competition here, I mean, you know, if we pursue the better credits which we do and quite uncompromisingly, we have to be thoughtful about pricing. We may not have all the pricing power we want. So, this reflects that. We haven't taken any undue risk, and I go back to originally where the business model of the Bank is. We will not be in the camp that takes disproportionate risk for growth.

Gaurav Jani: So, can you repeat, you know, your clarification on the RWA versus loan growth and a soft question to that is, how do we look at hence capital base if RWA growth would exceed loan growth in FY '24?

Ashutosh Khajuria: Yes. Actually there is a requirement, regulatory requirement, that if your loan amount is not included in the rating exercise specifically by name, then you cannot take it as a rated loan for your book, and therefore it would go into unrated and would require 150% of risk weight and all even if it is Triple A or double A or A. So, what is required is to go back to client as well as to rating agency and say that why my name is not there? So, this process was done. It has been resolved in majority of the cases. There are still some remaining cases where it is in process, work in progress. So, on 31st March, we straight away have taken it as an unrated one, and therefore a higher credit risk weighted assets are coming in disproportionately higher vis-à-vis the previous quarter because this phenomenon is a fourth quarter, so you see the difference between December and March. Loan book has not grown that much as the CRW has grown.

Gaurav Jani: So, they would have not really registered with the rating agency.

Ashutosh Khajuria: What I am saying is it will come back. So, there would be a release of capital.

Gaurav Jani: Just a clarification on, Ashutosh, on the higher treasury income, please, I mean, the reason for that?

Shyam Srinivasan: Higher treasury income?

Gaurav Jani: Yes.

Shyam Srinivasan: I don't think. Higher it is just not good. I wish it was higher.

Ashutosh Khajuria: I mean, it is something which is independent of the interest rate cycle. So, whatever is coming through, you know, Forex side, it's more of customer derivatives transactions or Forex related sale to retail through our exchange bureaus and all other things. As far as the interest rate products are concerned, it's more or less the bare minimum which we earn in any quarter by, I mean, by recharge. It could be in one particular quarter last year, fourth quarter, it may not have been there, but whatever is appearing is without any benefit of interest rate cycle at a stagnant yield basis.

Gaurav Jani: Just one sort of guidance on the fees, like the fees to assets are done fairly well in FY '23 have increased to about 75 basis points versus 60 odd in the previous year on a full-year basis. So, you know, what would explain this? That's one and secondly, do we see this healthy cliff coming through, you know, FY '24 and FY '25?

Shyam Srinivasan: Yes. I think the track back many quarters, maybe many years, the conversation has been how is the Federal Bank capability to originate fee income and fee as a percentage of assets? And I think we have demonstrated for long periods of time, that's focus, and it's beginning to reflect a full range of products, disciplined origination capability, cross-sell to existing customers. I think I mentioned the corporate, when we get good corporate credits, we are looking at the client wallet. So, I think fee income on corporate has gone up 37%. So, I think that's a design, and there is a distribution capability for that design. The rates you are seeing growth should continue.

Moderator: Thank you. Our next question comes from the line of Sanket Kapoor from Kapoor and Company. Please go ahead.

Sanket Kapoor: First is a clarification, sir, on the treasury income part, it has not been affected by the softening of the G-Sec yields. This is what you were trying to narrate, and it is independent of that or to come again on the same?

Shyam Srinivasan: Yes. You are right. Your assumption is right.

Ashutosh Khajuria: Your assumption is right. Basically, some provision release has happened for the trading book and all. So, with the movement in that because the opportunity to, see, I will just give you some comparison. You know, in a falling yield scenario or even if the yields are lower and all that, we may profit on sale of investment which basically is the profit on the interest rate products is always for our Bank is in three digits. It could be 200 crores, 300 crores, 400 crores. As against that in this year, you would see it in the lower double digit. So, that's what, you know, the difference is. Otherwise, other than that, you have an HFT book, which is up to 90 days and all that, and the traders keep trading in that, and whenever the opportunities are there, they may come out, but the larger amount comes from the investment portfolio when the yields fall in. So, that opportunity has not been there for the last almost one and a half year or so.

Sanket Kapoor: No, what we have seen currently is the softening of yields and just at the…

Ashutosh Khajuria: So, that would turnover probably if this continues, we will see that in FY '24.

Lakshmanan V: If I were to just add, bulk of the softening of the yield has happened in the last…

Ashutosh Khajuria: After March.

Lakshmanan V: After March. Otherwise, through the last quarter, the yields have been fairly range bound. So, as has been clarified, the income that we are seeing on the treasury side is essentially the HFT trading activity on various asset classes, and that is what is showing over here plus a write back of provision serving to softening of fields relatively compared to the third quarter.

Sanket Kapoor: So, this line item will move significantly if the softening remains the way it is today. That is the…

Shyam Srinivasan: Let me clarify. I think this is a trader's call, and when the fruit is ripened is left to be trading desk and all that. Now if it falls from 7.30% to 7%, is it the time to book the profit or wait for expecting that it would go to 6.70%? Now this is something, you know, which you cannot project or you cannot extrapolate or give a guidance on because that opportunity should be left to the trading desk. So, sometimes you find such opportunities coming in a particular quarter where you see because of some measures sharp fall has happened. Trader moves the profit and buys again when it goes up and all. So, I think this is something which you cannot predict as to in one quarter how much would be there.

Sanket Kapoor: So, just to hopping on it, again, sir, it will mark-to-market at least. Even if you don't book the profit, this will be priced at, yes.

Ashutosh Khajuria: But you can't book it into profit. If you have a positive mark-to-market as per current instructions, as per current Indian GAAP, you cannot take it to your profit book. You may simply show it on in your book, and it's a positive NPA.

Sanket Kapoor: So, the second point was, when the Board decided on the dividend payout, what worked for loading the dividend from last year levels when the profitability…

Shyam Srinivasan: Yes. I think I responded to it. There was a question that was earlier asked about capital adequacy and capital raising. We considered, the Board considered multiple options, and it said, if you are going to be in the market for raising capital this year, we should be more thoughtful about how we use our capital, but having said that, we did believe that the reward for our shareholder should be there. We also considered the fact that in the last 12 months or last 18 months, The Federal Bank stock has delivered the best returns amongst all stocks. We I think had 46%, 50% growth. So, on balance, the Board considered 50% is an appropriate number.

Sanket Kapoor: Sir, I didn't get your points. How will the stock performance determine the dividend payout? Dividend payout is towards what the earning have been. EPS is Rs. 15 and we are declaring Rs. 1 dividend?

Shyam Srinivasan: The shareholder looks at combination of things. Dividend is one stream, and if they have how does the stock perform? In the past period if the stock had not performed, there was a concern that this stock is not good, you know, is giving me return. So, it's a balancing act.

Sanket Kapoor: So, we will be into the CAPEX raising exercise going ahead.

Shyam Srinivasan: We are considering. I don't have any timeline. I mentioned there is nothing that I can confirm at this point in time. The Bank is considering. We think in the course of FY '24, we will, but I don't have any commitment as yet. We are working on it.

Operator, I think it's coming up to six. If there are no other questions, is there anything else?

Moderator: We can stop the Q&A maybe.

Shyam Srinivasan: I just wanted to mention one thing. Most of you know, probably all of you do know. Mr. Ashutosh Khajuria completed his term as the Executive Director of the Bank at the end of April and has accepted to continue with us for one more year as a Chief mentor and the focusing on a certain bunch of areas of his expertise and helping the Bank for another year. So, to the market, you know, we made the announcement the end of April that he is retiring, but the Board has reappointed him to be with us for one more year. So, I want to thank Ashutosh in this platform and also advise all of you that Ashutosh will be with us for another year and share his expertise and guide us through FY '24 as well. So, Ashutosh, thank you.

Ashutosh Khajuria: Thank you very much.

Shyam Srinivasan: If there are no other questions, we will bring this to close, Souvik, operator?

Souvik Roy: So, thank you, sir, and thank you all again for your participation on a late Friday evening. We appreciate the ongoing support of our stakeholders like yourself, and we remain committed to delivering value to all of you. So, look forward to updating you on our progress in the future. Best wishes for Buddha Purnima, and goodbye until we meet next with our next quarterly results, of course. Thank you.

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