"Federal Bank Limited
Q1 FY '24 Earnings Conference Call"
July 13, 2023

MANAGEMENT: **MR. SHYAM SRINIVASAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER –FEDERAL BANK LIMITED**
MR. ASHUTOSH KHAJURIA – CHIEF MENTOR AND OFFICER ON SPECIAL DUTY – FEDERAL BANK LIMITED
MS. SHALINI WARRIER – EXECUTIVE DIRECTOR – FEDERAL BANK LIMITED
MR. HARSH DUGAR – EXECUTIVE DIRECTOR – FEDERAL BANK LIMITED
MR. VENKATRAMAN VENKATESWARAN – GROUP PRESIDENT AND CHIEF FINANCIAL OFFICER – FEDERAL BANK LIMITED
MR. SOUVIK ROY – HEAD, INVESTOR RELATIONS – FEDERAL BANK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Conference Call of 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 this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Souvik Roy, Head, Investor Relations, Federal Bank Limited. Thank you and over to you, sir.

Souvik Roy: Thank you so much and good evening, everyone. Thank you for joining us on this post-earnings call. We appreciate your time and continued interest in our bank's performance. We are delighted to continue our tradition of reporting our numbers early and providing you with timely insights into our financial results. Today, we are pleased to share, as you may already know, that our total business has crossed an impressive milestone exceeding INR4 lakh crores.

This achievement reflects the exceptional momentum we have experienced across all our businesses, highlighting a strong start to this fiscal year. To address your questions and to provide deeper insights, we have our MD and our senior management present on this call. They are here to provide you with valuable perspectives on our performance and shed more light on our strategic direction. So without further ado, I would hand this call over to our MD, who will provide you with additional details on our recent achievements. Thank you again for your participation and we look forward to a fruitful discussion. Over to you, sir.

Shyam Srinivasan: Good afternoon, everybody. Thanks, Souvik. By way of introduction and updates, I thought I would just begin by sharing some senior level inputs on the bank. Our Chairman Mr. Balagopal retired about 10 days ago after completing eight years on the board. The next Chairman, Mr. Hota, took charge on the 27th of last month. He needs no introduction. Mr. Hota has been a pioneer and the original sort of father of NPCI, if you will. So we're quite pleased that somebody of his capability is now the Chairperson of the bank. And in the board, Ashutosh completed his term as Executive Director and stayed on as a Chief Mentor for another year. And Harsh has become an Executive Director. So thanks to Ashutosh and compliments to Harsh, and I thought that's an important starting point for our conversations today.

The strength and the depth of the team is now both durable and known and they are executing quite well. Just now, sort of, Souvik talked about the 4 lakh crores. I want to point out the 1 lakh crores from three to four was done in two years. And the previous 1 lakh took us, I think, three years and the previous 1 lakh took us five years. So the bank is seeing consistent and steady growth and it's important to point out that in Q1 of this year, at least in all my time, first time we saw sequential, you know, traditionally Q1 and seasonally a slow quarter, we saw strong momentum and we saw all our businesses growing roughly about 5% sequentially.

It's not about the Y-on-Y growth, we saw momentum and we believe that that momentum should be sustainable into FY24 and probably beyond. I had guided at the beginning of this year, financial year, we would be able to grow 18% to 20% both on advances and on liabilities and I'm encouraged to see that that momentum is well in grasp and we've had a reasonably good start to the financial year. Normally, I resist giving commentary on the environment and the economy and neither am I an economist, but I thought this time since we are the first bank to declare results, maybe I will just take the liberty of giving a couple of points in specific to the market and the environment as we see it from the ground.

The credit growth opportunities, particularly for a bank like us, still is intact and growing quite well. Even through the early part of July or in Q2, we are seeing demand sustained credit opportunities to grow are there and our choice has been that we don't want to dominate it to any one business. As I've said for long, we will have the retail mix, the wholesale mix, between them how it should be and within those businesses also where the opportunities are and we're seeing that sustained even in Q2 and I believe that should continue as we go into FY24 and beyond.

On the liability side, I do think, and I would think many in the industry do concur, the worst of the rate war is probably behind us and it did help that the Rupees 2,000 withdrawal aided us all with some additional deposit growing opportunity and provided some much needed respite for that part of the bank. In particular for Federal, the remittance business, which remittance and the NR deposit business, which was kind of muted in most parts of FY23, towards the back end of FY23, we started seeing it pick up.

You may have seen our slides as well, the market share that had come off has come back to us now and likewise NR deposit share, particularly the Rupee deposit share for us is growing and we're seeing that momentum come back in and it's an interesting dynamic. The period post-COVID, we saw some behavioral changes, I was quite, you know, we were watching it quite closely to figure out if there is sort of a long duration change or is it just, you know, behavior correction, it appears to be the, you know, sort of the rubber band is back and growth on that front seems to be coming back up.

And the last point, which is important, which I think particularly in the last three weeks of June, we had an opportunity to go out and meet many current or prospective investors of the bank. We did share our business plans and our commitments and our guidance, so to say, on how the year will shape up and I do think on those points that we mentioned, the first quarter has pretty much stacked up on most of this count, be it growth or be it on the outlook on margins, the near-term impact and the longer-term outlook of margin, the business mix, and the steady overall credit cost that we will anticipate.

So I just want to reinforce our Q1 in the context of the environment we are operating in, we remain quite confident that the growth momentum we saw will sustain in FY24. The margin outlook is playing to what I think our model has suggested. As most of us know that Federal Bank reprices T plus one, so the impact on advance gain was in earlier, so was the impact on margin compression. So between Q4 of last year and Q1 of this year, I think we have seen the impact play through.

I did mention in my calls with the earlier today with some of the media interactions that we believe that the compression we saw should start turning the way, there should be margin expansion that will come through because the tail end of the rate increase on deposits have played through, the yield expansion on both credit and also the business mix is beginning to show through. So our belief is that what we had said last quarter, that the full year margins will be somewhere around the 3.3 space, we will see that pick up from Q2 onwards.

So in short, we have begun the year reasonably well, on guidance on most of the areas that we spoke of when we met, when we spoke in May 6th, I think after the Q4 results and the conversations I had subsequently with many of our investors and analysts who were keen to understand us better. Our outlook for FY24 remains reasonably intact, we believe 80%-20% credit growth is okay, possible. The margin we said will be a year of two halves, the first half being softer and the second half picking up.

I am now encouraged to believe that in the second quarter itself it will start picking up. And lastly, the credit quality and the credit costs are certainly going to be in and around the number which we have talked about, about 40 basis points plus or minus. So with that, let me just mention that we are, as usual, the entire senior team is there and all of us are happy to take questions or clarify. So I am happy to open it up for questions.

Moderator: Thank you very much. The first question is from the line of Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: Yeah. Hi. Thank you for taking my question. The first question is, you know, we are obviously growing the retail high-yield book strongly. Can you just talk a bit about how is the credit performance in that book, especially given the slippage rate has gone up further, you know, in the quarter to 1.9%. So just can you highlight the reasons for that and give some numbers of 6 MOV 30 plus for, you know, gold loans or MSME personal loans, etc?

Shyam Srinivasan: The retail assets that are growing in these so-called high-margin businesses, as I pointed out, they are early, so there is really not much in terms of slippages or even SMA position at this point in time that is uniquely different from our normal run rates. If you are referring to the slightly higher slippage on retail this quarter, I think we had mentioned that in the past, the moratorium on the March 31, 2021 book of retail, which is the COVID restructuring, a large part of the retail restructuring COVID moratorium book ended in March 31, 2023.

So those, their demand would have been in Q1 of this quarter. So of the INR250 odd crores of retail slippages, close to 30% of that is from the restructured portfolio. And that's the reason for the slight uptick in retail, but it was within our overall 40 basis point that we had visualized as credit cost. So in terms of incrementally, at this point in time, we are also acutely sensitive to the question you asked in the narrative that's going on in the market. We're not seeing any trend shift because the book is secured. The unsecured book is just growing at this point in time, hasn't shown any adverse outcome, any differently from what we have faced in any of our credit books.

Naysar Parikh: Got it. And the second question was, you know, on the liability, on the deposit side. So, you know, from a geography perspective, can you give a split of what percentage of that would be semi-urban rural and, is that area of semi-urban rural, is that a focus and are we seeing growth there? And secondly, just one data point, what percentage is outside of Kerala in the deposits?

Shyam Srinivasan: Let me give you some of the details. First is, about 70 odd percent of our network is in semi-urban rural across India, right? In fact, unfortunately or fortunately, Kerala doesn't have anything which is rural. Kerala is a very urban, semi-urban market, but our large part of our network, particularly the incremental 800 branches that are outside of Kerala, are in, at least 70% are in semi-urban rural. So, bulk of the growth that is coming in, therefore, you could attribute to geographies that are fairly widespread across the India.

The non-Kerala, the biggest immediate geography is Tamil Nadu, where we have 200 branches. Out of that, I think the city of Chennai and the city of Coimbatore collectively have about 50 branches. So, the back 150 branches are in sort of spread, we are there in every district in Tamil Nadu. And likewise, we are working to be in every district across the country. And of course, the incrementally of our incremental deposits, say about 15% or so has been coming from FinTechs, which are coming from 18,000 pin codes.

We have about close to INR800 crores to INR1,000 crores of deposits come from all our FinTech partner accounts that we have originated. And that's coming from 18,000 pin codes in India, India has 19,000 pin codes. So, it's coming from very distributed geographies. There was a question, sorry, I missed the other part of the question. Could you just expand on that? Sorry, I missed it.

Naysar Parikh: Yeah, how much, like deposit, what percentage would be outside of Kerala?

Shyam Srinivasan: 45% of the deposit is outside Kerala, 40%, 40% to 45%.

Naysar Parikh: And is that number different for incremental deposits, are we seeing that?

Shyam Srinivasan: Yeah, incrementally for the last two years, because of the expansion outside, that's where it is. The stock is where Kerala is bigger. Rate of growth of deposits outside Kerala has been higher than the rate of growth inside Kerala.

Naysar Parikh: Okay. Thank you so much. I'll come back and look at it.

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

Anand Dama: Yeah. Thank you for the question.

Moderator: Sorry to interrupt, sir, but the line for you is not very clear. We request you to please use the handset while you're speaking.

Anand Dama: Yeah. I was asking that, was there any interest reversal on the NPAs in the current quarter?

Shyam Srinivasan: They would have been, right? Our slippage is about INR495 crores. So, correspondingly, there would have been interest reversal, right? So, last quarter was INR454 crores. So, about INR40 crores extra. To that extent, there would have been reversal of about INR10 crores, INR15 crores.

Anand Dama: Okay. And what basically gives us the confidence that the second quarter onward, basically, we will see a margin expansion?

Shyam Srinivasan: So, the yield on advances, I think, we have shown that, has gone from 920, if I remember right. 921. Our model suggests this quarter will go to 927. The cost of deposit is at 534. Looks like it will start moderating. So, the spread will open up.

Anand Dama: So, basically, in that case, you mean that the yield expansion will happen in the second quarter as well, sir?

Shyam Srinivasan: Yes, we are expecting that.

Anand Dama: Yeah, that should be on a higher side, right? Because then only, basically, our spread would increase.

Shyam Srinivasan: Yes. And the trend line, particularly the June-July bookings, are suggesting that.

Anand Dama: Okay, sir. Thank you.

Shyam Srinivasan: When we made our calendar -- I mean, FY24 opening and shared our updates and our outlook, it was designed with this. And I did recall distinctly saying it will be a year of two halves, with the first half being softer and the second half picking up. Now, I am encouraged to say that first quarter and then we think the pickup will be in second quarter because the model is reflecting that.

Anand Dama: Sure, sir. Thank you.

Shyam Srinivasan: Thank you.

Moderator: Thank you. The next question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Hi. Good evening. A few questions. I was asking, what is the breakup of the INR164 crores miscellaneous income that we have? There is a whole of -- lot of this thing. There is recovery from written-off accounts. There is revaluation of investments, which is there. Can you just give a breakup of this INR164 crores? And maybe corresponding to this last quarter breakup, Q4?

Shyam Srinivasan: Venkat, do you want to go?

Venkatraman V.: Yes, Shyam. Yeah, I can go ahead with that. Yeah. Broadly, in terms of the breakup, there were profit on sale of investments, recoveries on assets previously written-off. That was about INR25-odd crores. Then dividends from subsidiaries, we had about INR15-odd crores. And then profit on revaluation of investment was around INR12-odd crores. And PSL, this is the first time we have been net sellers of PSL. So we had a gain of about INR52 crores, which came in from the sale of PSL in this quarter. So this is broadly the breakup of that other income.

Gaurav Kochar: Okay. INR52 crores PSL, investment profit of INR12 crores, dividend of INR15 crores, and another INR25 crores of recovery from written-off…

Venkatraman V.: Recovery from a written-off assets. And then profit on sale of investments was about INR30-odd crores.

Gaurav Kochar: Okay. Sure. So this PSL profit of INR52 crores, do we expect this to recur in the coming quarters also or this is like…

Shyam Srinivasan: Unlikely to recur at scale. There will be some, but it's not at this scale.

Gaurav Kochar: Right.

Venkatraman V.: Typically, we can -- what we should note is that we have now moved to a situation where we are able to generate more and sell and make income out of it. So probably, hopefully, every year Q1, because Q1 if we sell is where we maximize for the full year. We should start seeing this recovering on an annual basis, may not be on a quarterly basis.

Gaurav Kochar: Sure. Understood. So on slide 14, where we give the breakup of the new businesses or so-called high yielding businesses, the share of that and the overall advances, and there's another chart, what is the share of revenue from these businesses? So I think, the revenue includes the revenue of treasury, miscellaneous income, everything, right, here in this case? And the interest income would also include interest income on your treasury book or cash, which may not be the right picture.

Like, what would be the core income shares of these high yielding? Typically, one would assume that the revenue share from these businesses should be much higher than their overall share in advances. But that same is not reflecting out, right? If you look at the average, 33% of the share in advances, but on the revenue, it's just 30%. Optically, it looks different. But if I were to exclude the treasury and the non-advances related income from the denominator, probably the shares of revenue of these items would go up. So just wanted to understand, what would that number be? If let's say, the share in advances is 33%, what would be the like-to-like income share?

Shyam Srinivasan: This wouldn't have a treasury income in this. I don't know where you're reading the part of treasury income in the high yielding part.

Gaurav Kochar: Okay. So here in the clarification down, you've given revenue is equal to interest income, plus non-interest income. So here I'm assuming that interest income includes...

Shyam Srinivasan: No, fees and other stuff, not treasury related. There will be the fee related to these businesses.

Gaurav Kochar: Okay. So in this interest income line, are you only taking interest income on advances or you're taking interest income, total interest income?

Shyam Srinivasan: Only on advances.

Gaurav Kochar: Okay. So in that case, sir, then why the revenue share is lower at 30%? Because typically these are higher margin products. So the yield would be higher. So the share of these on the overall book should be much better than 30%.

Venkatraman V.: Also, you'll have to look at the period at which this growth in terms of average during the quarter or is it more towards back-ended. So there are different factors which come into play in the income number.

Shyam Srinivasan: Venkat, cost of origination will be there in the first year.

Venkatraman V.: Yeah. The first year it will be there for some of the products. Yeah.

Gaurav Kochar: Sorry, sir, this is just revenue, right? So you also considered cost. Is it net of that or its only the...

Shyam Srinivasan: No, not the -- in some products, we'll have to do the net whereas in some of them, the cost is shown in the expense line. That's based on the accounting.

Gaurav Kochar: Okay. It's not very clear, sir. Maybe I'll take this offline.

Shyam Srinivasan: Yeah. I can give you the details separately which products we net of, what cost element. It's gross and then cost is shown separately.

Gaurav Kochar: Okay. Sure. The idea was that if these are higher yielding, typically they should fetch more on revenue despite being 33% of advances. Ideally, the revenue mix should be much higher. But the same is not reflecting in this chart. So I thought maybe you, on the denominator, there is other income also included. Sure. I'll take it offline.

Shyam Srinivasan: I think, the observation is valid. We will put out an explanation for everybody to see, not only the Mirae folks. We'll put out to everybody.

Gaurav Kochar: Sure, sir. And then the last question, what would be the incremental cost of term deposit? You mentioned that you expect the cost of deposits to trend down in this quarter. So I just wanted to understand what would be the incremental cost of term deposits and what would be the stock cost of term deposits?

Shyam Srinivasan: Venkat, Mani, you have it?

Venkatraman V.: Yeah, it should be another probably around 10 bps increase from where we are currently, right? Yeah. Its 6.4, 6.5, 10 bps movement.

Gaurav Kochar: Okay. So you're saying current stock is 6.5 and incremental is 6.4?

Venkatraman V.: No, the other way around.

Gaurav Kochar: Okay. Stock is 6.4 and incremental is 6.5. Okay. Sure. Helpful, sir. Thank you so much.

Venkatraman V.: Thank you.

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

Kunal Shah: Yeah, thanks for taking my question. So firstly, with respect to yield repricing, no doubt repo has got repriced at 3-plus 1. But last time you were highlighting that there could be benefit of MCLR repricing, plus the proportion of high yielding is actually moving up. So is there maybe only either on the business banking, commercial banking, we are seeing some competitive pressures with respect to yield on account of which there is only like 7 bps, 8 bps kind of a sequential rise?

Shyam Srinivasan: Kunal, indeed, yes. I mean, we are -- the business model not willing to go at the segments that are willing to pay you price but has risk associated higher. Our model has always been where we get competitive price but try to get more business from the customer. And we are seeing that play through in all our full engagement. You are seeing our fee income steadily improve as you have seen this quarter also. So our model of the bank is to ensure that we go after the better rated segments in every -- better rated customer in every segment, be comparatively priced. So we may not enjoy very high margins on that count but get good credit quality and fee income increase. And therefore, the ROA expansion that we have seen will sustain.

Kunal Shah: Sure. So even in terms of like going forward, despite the proportion of high yielding expected to inch up, we will not see too much of improvement on the advanced side because of maybe moving towards the better rated customer segment.

Shyam Srinivasan: The margin expansion will be there. That's why we said it's troughed out and we believe it will go up by maybe 7 basis points, 8 basis points in this quarter, the quarter that succeeds. And that sustains from there on. But it is not going to go back, go to 3.8 basis points or 3.7 basis points in a hurry.

Kunal Shah: Okay. Sure. And last time you highlighted that the bulk deposit increase was largely due to CDs and most of it has unwind in 1Q. But again, if we look at it, in fact, there is still like 70%, 80% sequential growth seems to be there in the wholesale deposit while retail seems to be relatively low at less than 2-odd percent. So maybe -- and maybe the deposit cost unwinding we are expecting because this proportion could actually come up or maybe what could be the proportion of the wholesale? Maybe if we have to look at it two quarters down the line, two, three quarters down the line?

Shyam Srinivasan: See, at the peak where we were 95% retail in the RBI definition of retail deposits, that's come down to about 86%, 85% now. This will be the baseline, but in 85% and 88% is where retail deposits will be.

Kunal Shah: Okay. And we see benefit of this reflected in the cost of deposits. Maybe is there any unwinding of wholesale which is giving us the confidence that cost of deposits should be lower in Q2 compared to that of Q1 because otherwise the cost should actually rise upward only.

Shyam Srinivasan: We did mention, I think I did mention even today, so did Venkat. The Q2, our overall cost of funds will move up from, I think this quarter was 530 something, it'll go to 540, but the yield on advances expansion will be higher. That's how the margin expands.

Kunal Shah: Okay. Got that. And lastly, in terms of fee, so maybe excluding the forex, when we look at it in terms of card processing fee and all, there is a different level of traction. So should we see maybe what we highlighted in terms of that being one of the incremental delta to the ROAs, we are equally confident in terms of maybe given this kind of product segments and the process which is happening, we should be able to sustain this overall momentum on the fee side?

Shyam Srinivasan: I think, yes. If you see slide 19, where we have given the mix and fee income, it is distinctly pointing out the areas and many are volume and scale related. They are not one-off or unique to a quarter, as in the PSL one which Venkat spoke of. They are all transactions and we think that's sustained, right? So it should, we are confident that momentum will play through. In fact, we are pursuing fee as a share of assets closer to 1%.

Kunal Shah: Okay. Got it. Okay. Thanks a lot and all the best. Yeah.

Moderator: Thank you. The next question is from the line of Aravind R from Sundaram Alternates. Please go ahead.

Aravind R: Hi, sir. Thank you for taking my questions. This was already discussed, but I still would like to understand like a CASA-plus retail term deposit has been coming down. Even though like, in other peer companies, banks, CASA has been coming down. CASA-plus retail TD has been fairly stable. What gives you confidence that we will be able to bring it back up?

And like, I wanted to understand like, how much of this 7 bps to 8 bps is attributable to like a high yielding segment. Why I'm asking this is like as the repricing has already been done by now, like hereafter only the mixed change will contribute to higher yields? That's my question.

Shyam Srinivasan: Yeah, I think, you're right. Mixed change and incremental volume coming at pricing higher than what it was traditionally, which is what I said, we're extrapolating the last 45 days kind of run rates we are visualizing. And that's how the yield and advances expansion will happen.

On the mixed of retail deposits, I mentioned, the rate is between 85% and 95%. We were at 95%. We are close to 85%. You know, there are probably banks which are at 70% and stable at 70%, 75%, but we were already at a high. So it's likely that we had to support our credit growth in an era where deposit costs were higher. We had to get term from retail customers. These are retail customers' term deposits. We have not done bulk borrowings in the market.

Aravind R: Okay, sir. Thank you. So, but if I see core fee income to average assets, that is actually fairly been stable. Maybe in the first quarter. It is slightly lower because of the seasonality in the fourth quarter. But you're talking about, i is a fee income actually inching up, but it is primarily due to treasury income, treasury gains and PSL income. This is not, these are all not recurring for every quarter on quarter.

Shyam Srinivasan: Well, you're right. This 535, which is the core fee income is the number that I'm also referring to because those are the rest tends to be, sort of choppy. This is going at about 20%, 22%.

Aravind R: And like the higher yielding segment of like, like I understand that it is 32%, 33% as of now. But do we have any, medium term target in terms of like reaching 40% or 50%?

Shyam Srinivasan: No, I'll tell you, where we have mentioned that, quarter also. Overall book of the bank, we wouldn't want these segments to cross 10% of the overall outstanding of the bank. There are three guidelines, retail, wholesale, 55%, 45%. Unsecured as a part of the total portfolio, not more than 10%. And no segment will be more than 15% of the bank.

Aravind R: Okay, sir. Just one more thing, like, could you give me like a little more color on MSME segment? What is the usual average ticket size? And, maybe like, what could be the yields? Like, if you can give something like that, and like, whether it is predominantly working capital, term loan kind of thing, and what kind of sectors, they usually give to, like, is there any exposure to any particular sector or geography?

Shyam Srinivasan: Harsh and Shalini, do you want to go? Maybe Harsh and Shalini on this?

Harsh Dugar: Sure. Yes. I'll take it. Shalini, are you going to go ahead?

Shalini Warrier: Harsh, go ahead.

Harsh Dugar: Yes. Okay. MSME, for us, goes across all verticals. There are some at the higher end of the MSME are in corporate banking, and up to the lower end, which is in business banking. So all three verticals have it. In terms of the things, which we are looking at the sectors, we are using every sector agnostic. Some of the places where we are very comfortable at is FMCG suppliers, vendors and suppliers, to some of the large OEMs. And some of the sectors, which we are looking at, like chemicals, like goods, all those sub-vendors over here.

MSME is quite broad-based across sectors, across regions. So this is on the MSME side. We are comfortable in terms of going with through the supply chain initiatives also, which again qualify us, apply MSME. The vendors and the dealers of the large corporates is what we are tapping on and going ahead.

Shalini Warrier: Yes.. If I can just add to that, on the lower end of the MSME, which is the business banking kind of segment that we call business banking, typically somewhere in the range of anything up to about five to about seven, seven and a half. That would be the ticket size for the lower end of the MSME. In this, we follow really a catchment approach. It's driven. It's very much a branch-centric business. And the catchment area of the branch is what becomes the target customer segment.

So industry agnostic, grow where India grows. So as you notice, we've added more branches, for example, in Tamil Nadu, Karnataka, Telangana, etc, because we're seeing growth opportunities over there from a B2B segment. So MSME kind of spans across all of these areas, and we get the benefit of PSL across all these areas. But within that, we've segregated it to see the lower end of it. The lower ticket sizes is primarily branch-driven, secured, term loans, working capital, both, a mix of both, but serviced by, serviced typically by the branch. So that's really, what it is.

The MSME under BuB, for example, the ticket size would be about 70 odd lakhs. Average ticket size, about 10.5% yield, etc. But to your broader question, MSME for us, and you'll see it in slide 14, actually spans across business banking, commercial banking also. Some data is there on slide 14.

Harsh Dugar: Yes. Just two points I'll add. On the working capital and term mix, we are roughly about 55% to 60% on working capital, the balance of the term size. The average ticket size, if I look at the medium and the small category of the MSME, it would be in the region of about INR15 crores odd, INR15 crores to INR17 crores odd. Micro will obviously be smaller. That's what Shalini had covered.

Aravind R: Okay. Thank you. Thank you so much.

Moderator: Thank you. We have the next question from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Hi. Good evening, sir. I have this more or less same question on margins, but I wanted a few data points before that. If you can help me with the blended savings account cost for us, maybe for this quarter and last quarter, and the loan mix by benchmark, so fixed EBLR and MCLR?

Shyam Srinivasan: Yes, Venkat, go ahead.

Venkatraman V.: Shyam, I have the numbers for the savings in this detail, so I'm just thinking, whether we should be giving that level of details in the call.

Shyam Srinivasan: No, share whatever we can, and then they can interpret from there.

Venkatraman V.: 3.2 for the savings and blended.

Jai Mundhra: Sure, sir. And, just for comparison, if you have a large…

Shalini Warrier: Sorry, if I can just come in on the savings account, please. You know, Venkat, given the overall kind of blended number, but a very large part, we at the lowest end, we really offer only 3.05%. We do have it on the, you'll see it in the public domain as to what our kind of thresholds are and what, not very extravagant in, how we pay for our savings account, Jai. Yes.

Jai Mundhra: Right.

Venkatraman V.: And also, just for your other question in terms of comparable, it will be around similar levels last quarter also, Jai.

Jai Mundhra: Sure. And, sir, the loan mix by benchmark.

Venkatraman V.: Yes. The repo link is around 49% plus. Fixed is 27%. And the MCLR is about 14%.

Jai Mundhra: Right. So, now, sir, the question is, if you see the, let's say, on both yield side as well as cost of deposit, slash cost of fund, the yield, if I see our reported yields in the last two quarters, three quarters, there has been a sharp, let's say, deceleration in the pace of yield expansion. 49 basis point rise was there in third quarter that decelerated to 35 and this quarter has been 8 basis point.

And while the loan mix may change and hence, let's say, it remains at similar levels, but then the cost of deposit, as you said, that the incremental TD is still outpacing the outstanding TD cost and the cost of deposit may still remain firm. So, it looks like the margin expansion, of course, it could be because of the capital raise, if that happens. Or is there any organic mechanism also to sort of help NIMs? Because the high yielding product…

Shyam Srinivasan: Let me just interrupt and say, in my calculation, when we have spoken, we have not taken capital increasse, whenever we do that, into this conversation when I guided for 7-8 basis point improvement. So, trust our mathematics and this is the final answer to this. I don't need any more conversation on this.

Jai Mundhra: Sure. No. That is…

Shyam Srinivasan: Don't try to cross question management's capability to calculate, guys.

Jai Mundhra: No, no sir. Anyway.

Shyam Srinivasan: I am putting a final word. I have not calculated capital raise in this conversation that of adding 7-8 basis point. If capital raise happens, when it happens, it will add its own value. But that is not in my conversation.

Jai Mundhra: Right.

Shyam Srinivasan: Okay. Now do your mathematics.

Jai Mundhra: Yes. Sure.

Shyam Srinivasan: Next question please.

Jai Mundhra: Yes. And sir, just a small question on PSL. So, I see that the CV, proportion of CV, which contributes to PSL is 69%. Is that the, is that a broad number to be taken or there is some, let us say, one of it. I would have thought that the CV proportion to PSL would have been much higher? Just a small observation.

Harsh Dugar: It is actually 69% of the presentation, Harsh here. It is 69%. It is roughly about, because we also classified once we get the, whether this is a pre-certification, which we have been getting. And it is closer to 76% now. It typically hovers around 75% to 77%. A large portion of the school buses also, which we finance, come under commercial vehicles, but they do not qualify under URC, because schools do not qualify under that. So, given all of that, roughly about 70% to 80% would remain under PSL

Jai Mundhra: Right.

Harsh Dugar: And also of this, about 15% to 20% would be micro.

Jai Mundhra: Right. Understood, sir. Yes. Thank you and all the best, sir.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Yes. Good evening, sir. Sir, my question was firstly on deposit growth. Of course, it looks very good right now. It is on a sequential basis. Even for the sector, it is higher than loan growth because of the, possibly because of the INR2000 note deposits. But a lot of bankers point out that, this is not permanent flow. Right. And then, papers also point out that, the FM has asked PSU banks to focus on deposit mobilization given the HDFC bank's merger.

So, given all this news flow, do you see a situation, possibly when growth picks up in the second half, that banks may have to hike deposit rates through special schemes, even though RBI does not hike repo rates? Or does liquidity look like comfortable and sustaining? Because if PSU banks start attractive schemes, they had started festival schemes for deposits even in October last year like that?

Shyam Srinivasan: No, I think that challenge is an ongoing challenge. It could be PSU. It could be another private sector bank. But if credit expansion happens, deposit automatically follows, Mahrukh. You know that, right? Credit creates deposits. So, I do not believe, we will be in a situation of no deposit creation, but only asset creation. Then there is a fundamental problem. So, I do think the deposit, and I, for us, I mentioned, we have seen marked and quite defining changes in the deposit momentum, and in particular to the non-resident deposit momentum in the last 45 days. Quite meaningful.

So, I don't believe, in the positive direction, I do not believe it will, Nothing is easy, right? And our business is not like you can sit back and believe it will come to you. There will be competition, but the deposit, certainly at a price, it will be available, whether it will be at all CASA or whether it will be retail term and CASA, that is, as long as the bridge between savings and term is not very distinct, then you will see SA grow. If savings and term is 400 basis points gap, you will see deposit grow in the form of term. We have seen that for long periods of time. I can see that, slowly compressing.

Mahruk Adajania: Okay, sir. Sir, and my second question is on loan deals again for this quarter, that is for the first quarter, that the mix has changed very favourably, right? The growth in, of course, on a low base growth in CVs, MFIs, credit cards has been very, very strong. So, even so, yields may not have risen at the pace of the change in loan mix, and that is because of competitive pressures in those price segments, is it?

Shyam Srinivasan: Partly that, partly, it's the growth could have been more at the second half of the quarter. So, we didn't get the full benefit of it in the quarter. But yes, it's a combination. I don't believe it's just one. It's a combination of all of this. Given in the CV business or the microfinance business, while they are higher yield than our average, we are not going after 24% or 36% or 28%. We are still, if our run rate is 12%, we'll go at 14%, because we don't want to go into riskier of the nature, at least in the early days till we understand these businesses much better.

Mahruk Adajania: Sure. Sir, in general for the sector, there has been some, even based on sectorial data, some moderation in growth in mortgages, in home loans. Is it just seasonal or what is your take?

Shyam Srinivasan: We've also been talking about it, but you may have seen our numbers, it's still been consistent and growing, but we are seeing pressure on pricing in the segments we have been. There is a real fight for taking share. And in home loans, there is no cost, there is no foreclosure or nothing. So people can move with great abandon.

So we have to worry about that. But yes, not seen any -- and we are -- our home loans are quite concentrated in five, six geographies. We are not very deeply into every part of the country in home loans. In those geographies, we haven't seen any slowdown. Shalini or Chitrabhanu, if any one of you are on the call, you can add.

Shalini Warrier: You're right. Shyam, we haven't seen any slowdown. Yes, there is competitive pressure on pricing, particularly new sourcing in some of the metros that we kind of compete in Mumbai, Bengaluru, Chennai, Delhi, etc. There is a pressure on pricing. So we're being quite disciplined about pricing. We look at the overall relationship, look at other aspects and do it, but momentum per se, haven't seen any concerns, touchwood.

Moderator: Thank you. We have the next question from the line of Saurabh Kumar from JP Morgan. Please go ahead.

Saurabh Kumar: Sir, just two questions. One is, how would you think about opex growth, especially employee cost growth this year? Should we see any operating leverage come through? The second is again on NIM, sorry. So basis your guidance of 330, 335. Fair to say that your second half NIM will be touching 350?

Shyam Srinivasan: First quarter 315, we think second quarter onwards, it will start picking up. Now I'm not even venturing into talking about last quarter as yet. But we still think the full year NIM will be closer to 330.

Saurabh Kumar: Okay. And on the opex piece, on the employee cost?

Shyam Srinivasan: I think people cost is pretty much running on course, Saurabh because whatever the increments and the expected raises have been factored in. That's on the people cost. On the operating expenses, it should be more like a single digit or early double-digit kind of growth, but Venkat can expand on that.

Venkatraman V.: Yes. I think on the opex two parts, the staff and the other opex. Staff cost what we have seen is the impact of the yield movements for the pension gratuity provisioning, which is actually a liability, which we have taken in. And that will move subject to the yields movement during the next few quarters.

And also in Q1, we traditionally see a slightly higher uptake on staff cost on leave encashment, leave travel and all that stuff. So that has come in. So I don't expect staff cost movement to be very nice from now on.

On the other opex, we've seen between Q4 and Q1 also, there's been a slight increase. And large part of it is variable business related. There is impact of some flow-through depreciation coming through for projects which have gone live over the last year. Other than that, there is no significant nonvolume-related costs which are likely to come through.

Saurabh Kumar: Got it, sir. And sir, on that pension piece, I mean, as it roll downs, the benefit is still at INR250 crores, INR300 odd crores or? The defined contribution, I mean, as you -- on the employee cost or the defined contribution share increases?

Shyam Srinivasan: Yes, roughly about INR300 crores a year.

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

M B Mahesh: Just a few questions. One, on the demand environment, if you could just kind of briefly kind of highlight across the segments, how is it shaping up?

Shyam Srinivasan: I opened saying, Mahesh, we are at reasonable traction. We saw good traction in Q1. Even in Q2, just two weeks have passed, our credit committee has met four times. So we are seeing reasonable momentum in most of our businesses in volume and at least new proposals coming in.

Yes, I must admit, we are pursuing segments which are relatively on the lower risk spectrum. So to that extent, it will be a very competitively priced, but we are seeing good -- reasonable good traction even now. And outlook for Q2 looks quite similar.

M B Mahesh: Okay. On the second question on NR deposits, there has been some level of slowdown there. Some clarification on that?

Shyam Srinivasan: No, NR deposits, I did mention at the beginning of the call and I will just reiterate. In fact, we are reasonably happy to see that come back profit in the second part of Q1 and the early part of Q2 and hope that sustained. We did see post COVID remittance is coming in, but not all of it translating into deposits, particularly this -- non FCNR.

We are not a big FCNR player, so our focus is on NRE -- savings and NRE terms. That's where we have a large share. That share has gone up, in fact, from 8-odd to 8.38% or 8.4% of India's NR deposit in that category is with us.

So we're gaining share there. What was a little behavioral change we saw is that remittances are coming, but not translating into deposits as it did in the past period. We thought there was some structural change of -- whatever post COVID. It looks like those -- either they were making investments or onetime -- whatever commitments being fulfilled, that is beginning to build back.

In the normal quarter, we've seen in the past as high as INR2,000 crores to INR2,500 crores of incremental deposit build. For then it fell off materially, we are seeing it come back to about INR1,000 crores or so now. So there's a build back coming.

M B Mahesh: Okay. Perfect. My last question, sir, for a 250 basis points increase in lending rates, the corresponding increase that we've seen so far is about 130 basis points. Where are you seeing the pressure on the lending side from a pass-through perspective?

Shyam Srinivasan: Across the spectrum, Mahesh, I think we've discussed this at length, right? We have seen about 130 basis points, and there will be another -- residual of another 10-odd basis points will come through -- 10 to 15 basis points will come through. We did think that about 150 basis points is a maximum that can pass through.

Again, going back to the segments that we are, I don't believe you can just transfer it entirely and expect because we are playing in a very competitive environment, right? Everybody is going after the best.

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

Rakesh Kumar: Yes. Thank you, sir. Sir, just a couple of questions. Firstly, with respect to the increase in the cost of deposit, which is close to around 20 bps quarter-on-quarter. But we haven't increased our MCLR. Correct me if we are wrong.

Shyam Srinivasan: I think last month -- Damodaran, if you're there, MCLR went up, right, last month?

Damodaran: Actually, there was one reduction in between due to minor reduction in the operating cost factor. You see MCLR actually is driven by a formula given by RBI. So whatever is the number we are computing accordingly, it will come.

We have increased MCLR quite very well based on the increase in the marginal cost. From the original level, if you see, I will come back with the, say, total increase from the days we've started increasing the repo rate. I will come back with the number very quickly. There is a reasonable increase in our MCLR across this period.

Rakesh Kumar: No, I was looking at the RBI number, which is giving MCLR at 9.35 in March and 9.05 in February and 9.35 in June. So I was thinking like our ROE -- so if you look at MCLR template, what RBI gives, so like opex to asset ratio, your marginal cost, your ROE number...

Shyam Srinivasan: You're right. I think your point about MCLR 9.35, going to 9.05 coming to 9.35. So -- because the 9.35 coming down to 9.05 like Damodaran pointed out, it's not just cost of deposits, that's operational costs also. Some cost reduction happened that also as we pass through. So the formula at it takes not just entire cost of deposit alone, right? Cost of deposit is one element of the MCLR calculation.

Rakesh Kumar: So I was thinking, sir, like 14% of loan as we mentioned is on MCLR and 49% on repo-linked, 27% on fixed rate, what is -- where the remaining 10% would be, sir?

Shyam Srinivasan: Staff is about 5.5%, and then we have base rate foreign currency.

Rakesh Kumar: And sir, have we increased any spread on the fixed rate loans from March end to June end. So have been -- like there is some struggle to increase the spread on the fixed rate loans. So what is our experience there, sir?

Shyam Srinivasan: Only when it comes up for renewal, right? Harsh do you have any...

Harsh Dugar: Yes, let me clarify. Our fixed rate loan, technically speaking, we cannot change the rate because by the very nature of it is fixed. But let me clarify the number given is fixed was anchored. It also includes short-term one, which has been given. So it's not that we are carrying a long term or a low rate or something like that.

So fixed rate, the fresh ones taken down at revised rates, like to give you an example, in commercial vehicles, the loans had gone to as less -- below 7%. Today, the loans are being done well above 9%. These are for fresh ones. The stock remains at what it is. Similarly, our fixed rate loan done with a large corporate remains fixed for the tenor or the period for which it has been fixed for.

Rakesh Kumar: So actually, sir, if we are not changed the MCLR and obviously, repo rate has not changed, fixed rate book, there is like we have not done much. Then whatever the increase in yield is there in this quarter is basically because of composition change?

Harsh Dugar: Part is composition change, part is fresh booking as well. To give an example, if a fixed rate loan book, which we have obviously constant maturities also, the lower end of the fixed rate, which was booked two years back or three years back, obviously comes of maturity -- and the fresh ones booked are at 1.5%, 2%, 2.5% higher than that. So that is also the question is what we also add to that. It's not just the mix alone.

Rakesh Kumar: No, but I was looking at the NSFR data. So that was showing that the amount on asset side, which was coming for repricing, that number was quite low actually. The number given in the March quarter number and as for disclosure. As per that number, the repricing was scheduled in this quarter or maybe for the 6 months, number was not much?

Harsh Dugar: This is the repricing that you are talking about?

Management: Shall I give you the updates. March 2022, our MCLR was 790 one year MCLR whereas it is now at 930. So there is an increase of 140 bps across this period. And this may again pick up based on the changes. It can go up or down, but generally the trend may be slightly higher.

Rakesh Kumar: And sorry to come back to the incremental TD cost and outstanding TD cost. So incremental TD cost, sir, is 6.4 and outstanding is 6.5. Correct, sir?

Management: The way it is worked out is slightly different. You need to take our latest cost of the profits that we are offering for the slabs and the factor to which we need to multiply it is basically our historical book distribution across those buckets. So though we call it marginal cost, slightly historical and slightly marginal. The assumption is that your growth -- incremental growth also is in the same portion for different buckets.

Moderator: Thank you. The next question is from the line of Tanika Agarwal from Green Portfolio Private Limited. Please go ahead.

Tanika Agarwal: So the question is also around like...

Shyam Srinivasan: We can't hear you.

Moderator: Ms. Agarwal, the line for you sounds muffled. It's not clear. We will move on to the next question, which is...

Management: Operator, we can probably close after two more questions.

Moderator: Thank you. Yes, sir. The next question is from the line of Bunty Chawla from IDBI Capital.

Bunty Chawla: Small data point, if you can share. This quarter, retail NPA has been higher. So which segment under retail has shown this kind of a stess? And secondly, the restructured assets, as we have seen, it has declined, but still it remains INR2,500 crores kind of thing. So -- and as you said, almost two years moratorium, I believe all this portfolio has been completely out of the moratorium. So how we can see the NPA pressure coming from these books?

Shyam Srinivasan: No. The restructured book is restructured standard. As you know, the regulation is required to continue to be one year of servicing before you can upgrade it. So that period that's going on. The demand of the restructured book in Q1 that we saw that I mentioned a third of the retail slippages is from restructured. Retail book is secured home or LAP. So the slippages is on that one.

Bunty Chawla: And sir, lastly, as your -- previous guidance was 5 to 10 bps improvement in ROA should be there in coming years as such? Now what is the guidance currently because as we have said, the margin should be remaining stable as compared to last year and credit cost should be also a similar kind of this. So how one should see the ROA guidance going forward in the next 2 years?

Shyam Srinivasan: We had said when we started financial year, we ended last year at 128. We said 78 basis point improvement in FY '24 and a similar repeat in FY '25.

Bunty Chawla: So we maintained that guidance, sir?

Shyam Srinivasan: Yes.

Moderator: We will take the last question from the line of Darpin Shah from Haitong India. Please go ahead.

Darpin Shah: All my questions have been answered. Just one, how much will be the outstanding provisions on the standard restructured book?

Shyam Srinivasan: Including management overlay, we have a significant sum, not touched close to -- I don't know if you've shared in the past, but yes, a meaningful sum. It required us to have -- if I remember right, 15% provision on the restructured book. At the peak, the restructured book was INR3,600 crores -- so we had made that plus we made a significant overlay of another 10%. So you can do the math. And we haven't touched that.

Moderator: Thank you. I would now like to hand the conference over to Mr. Souvik Roy for closing comments. Over to you, sir.

Souvik Roy: Thank you so much, and thanks to all of you for joining us today. As always, we are committed to delivering value, and we'll continue to focus on our growth and strategies. As always, the management team is available to answer any questions that we may have skipped today. I believe we have answered all. And we, of course, appreciate your continued support. And we will keep in touch, and we'll keep updating you on our progress in the future. Thank you all, and have a great day ahead.

Shyam Srinivasan: Thank you.

Moderator: With that, we conclude the conference on behalf of Federal Bank. Thank you for joining us. You may now disconnect your lines.