The Federal Bank Limited
Q1 FY'27 Earnings Conference Call

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MANAGEMENT: **MR. KVS MANIAN – MD & CEO**
MR. HARSH DUGAR – EXECUTIVE DIRECTOR
MR. VENKATRAMAN VENKATESWARAN – EXECUTIVE DIRECTOR
MR. VIRAT DIWANJI – GROUP PRESIDENT & NATIONAL HEAD, CONSUMER BANKING
MR. MANIKANDAN M – VP & CFO
MR. SOUVIK ROY – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY27 Conference Call hosted by Federal Bank. 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 call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Souvik Roy: Thank you, Iqra. Good evening, everyone, and thank you for joining us. Before we begin, a small note on scheduling. I'm sure many of you remember the commitment we made some time ago that we would avoid holding earnings calls on Saturdays. We have stayed true to that commitment, and we intend to continue doing so.

Turning to the quarter. This has been by almost every measure we track, one of the strongest starts to a financial year in the bank's recent history. More importantly, these results have been delivered on the strength of our the core franchise. I won't dwell on the headlines. We prefer to let the numbers speak for themselves.

A brief note on our disclosures. Our presentation and the press release has been filled with the stock exchanges. Wherever we have presented sequential comparisons, they are on a business-as-usual basis, excluding the one-off item recognized in the March quarter to ensure a like-for-like comparison. Year-on-year comparisons, of course, remain unaffected.

Joining me today are our Managing Director and CEO, Mr. KVS Manian, our EDs; and members of our senior team. They will take you through the key highlights of the quarter, after which we will be happy to take your questions. Given the number of participants on the call, we would request that everyone limits themselves to two questions initially. If you have any additional questions, please rejoin the queue. We'll do the best to accommodate everyone.

With that, let me hand the call to our MD. Over to you, sir.

KVS Manian: Thank you, Souvik. Good evening, everyone, and thank you for joining us today. This has been one of the strongest first quarters in our recent past and the quality of it matters as much as the outcome itself. There are no one-off gains supporting this performance in this quarter.

Through a challenging period for treasury, we have actually grown our profits, expanded margins, improved efficiency and taken our asset quality to its decadal best. We remain firmly on track against every element of the guidance we have given you earlier. If anything, on several of those metrics, we see a positive bias.

Our focus on CASA mix remains unchanged. We continue to target improvement in our CASA ratio over the coming quarters of our stated road map. This quarter carried the seasonal movements you would expect in the June quarter, especially on the CA front, but our average

CA and average SA growth numbers remain encouraging, and our conviction on the objective is undiminished.

On the asset side, the portfolio mix is evolving as we said it would. Most of our chosen segments are performing well. There are 1 or 2 where execution can be sharper, and we expect to address those over the coming quarters. Since we last spoke, there have been 3 key developments of significance. First, we have a new Chairman, Mr. Elias George, who has succeeded Mr. Hota, and we look forward to his stewardship.

Second, we are in the process of acquiring the Standard Chartered India credit card portfolio, and we remain confident of completing the integration before the end of this calendar year. Cards and especially our organic, the non-co-branded cards are a segment we have been building deliberately, and this accelerates that.

Third, we have secured an investment-grade international credit rating from S&P, one of the only few handful of Indian Private Sector Banks to hold one. Its significance lies in access rather than recognition. It opens global pools of capital to us at competitive rates across bonds, ECBs, IBU funding and other avenues. And it allows us to fund growth more efficiently while diversifying sources of funding. For a bank of our size, this is a door that was not previously open.

We have also entered the leverage-linked FCNR deposit space. The infrastructure is in place. The product is launched, and we have early customer interest. I would add one point of context here. When a comparable window was available in 2013, we did not have a GIFT City IBU. We do now, and it is central to how we build the leverage this time. Some limits are tied up and more are in the pipeline.

We are also in the process of arranging lines with offshore banks to leverage -- for leverage of our customers directly. We believe that we will be able to get our fair share of this flow. Over this quarter, we see this as a meaningful lever for the liability franchise.

Taken together, this quarter reflects the evolving strength of the core franchise. We are executing with discipline across our priorities, and we meaning my team and I remain confident of delivering on our medium-term objectives.

I'll now hand over to Venkat, who can take you through the numbers in more detail. Thank you.

Venkatraman V: Thank you, Manian, and good evening, everyone. Thank you for joining us today, and I trust you have had a chance to review the investor presentation and disclosures. I will focus on the key financial and balance sheet developments for the first quarter. But before that, let me begin by providing a quick overview of the macro environment.

The inflation trajectory during the quarter is broadly along the lines we flagged on our last call. Headline consumer price index moved up in each month of the quarter, 3.48% in April, 3.93% in May and 4.38% in June, averaging approximately 3.93% for the quarter as a whole. But what is more important is the fact that the June print is the highest in the current series and sits above the RBI's 4% medium-term target.

Two drivers account for most of that movement. First is food. When we spoke last, we noted that the food inflation had picked up towards March to 3.87%, and that we would be watching it into this quarter. It has firmed further, 4.20% in April, 4.78% in May and 5.32% in June, with vegetable prices being the principal contributor.

Secondly, energy. Oil marketing companies raised retail fuel prices in May and transport inflation swung from broadly flat in April to 4.31% in June. This is the delayed pass-through from the West Asia conflict that we said would show up in Q1 rather than the March quarter, and it has indeed started reflecting.

The MPC held a repo rate at 5.25% in June and retained a neutral stance. Alongside that decision, RBI lowered its FY27 growth projection to 6.6% from 6.9% and raised the FY27 inflation projection to 5.1%.

This is a meaningful revision, and it is the frame for how the year ahead is likely to unfold. Against that, the growth base is sound. Full year FY26 real GDP came in at 7.7% on provisional estimates, revised up from 7.6% we cited last quarter with March quarter at 7.8%.

Liquidity conditions have remained supportive and system credit offtake has held up. So on that backdrop, I will talk about our performance in Q1. Souvik has already called out the fact that our numbers will be compared on the underlying basis, excluding the one-off which we saw in last quarter.

Net profit for the quarter was INR1,176.93 crores, up 36.57% Y-o-Y and earnings per share stood at INR19.15, up 36.06%. This is a strong start to FY27, and this is despite the fact that treasury income has been muted in the last 2 quarters. Our net interest income was INR2,945.89 crores, up 26.06% Y-o-Y and NIM was 3.33%, up 13 basis points sequentially and 39 basis points Y-o-Y. Cost of funds declined 21 basis points to 5.25%.

A large part of deposit repricing, which we mentioned earlier, has played out and there's some minor benefit remains, which will play out in Q2. Our deposits and liability franchise highlights that the total deposits closed at INR320,117.66 crores, up 11.37%.

Our CASA balances, which had crossed INR1 lakh crores last quarter is now at INR103,163.15 crores, up a strong 18.26% Y-o-Y, growing approximately 690 basis points, faster than the deposit book. And our CASA ratio has improved 188 bps to 32.23%.

NR deposits, which is NRE and ONR deposits together reached INR105,123.41 crores, up 14.24%, building on the milestone we crossed last quarter. Again, this also crossed INR1 lakh crores last quarter. FCNR (B) deposits grew 37.76% Y-o-Y. Savings balances grew a very healthy 19.3% Y-o-Y.

On a Y-o-Y comparison, current accounts are up 18% and savings up 19.3%. Both engines are intact and they continue with the momentum. We expect the current account traction to resume through the balance of the year as the seasonal effect in Q1 washes out and our transaction banking and channel business continue to scale.

As Manian said, there is no change to our guidance on CASA. On advances, our gross advances closed at INR281,239.54 crores, up nearly 15%. Asset momentum has picked up and it is coming through in the areas we have prioritized. Our stated focus has been on higher-yielding granular assets, which improve the risk-adjusted return profile of the book. And it's the same granularity which feeds into our core fee lines. The direction is now visible in the composition of growth.

Commercial banking grew 22.96% Y-o-Y, and it continues to remain one of the fastest-growing segments in the book. Our CV/CE business also grew healthy at 21.07%. Corporate and Institutional Banking grew 16.12% Y-o-Y. Having exercised selectivity through the second half of last year, we have reengaged where pricing and counterparty quality meets our thresholds. CIB book also surpassed INR1 lakh crores on a gross basis, marking a key milestone.

Our granular retail portfolios maintained strong momentum with gold loans continuing at a very strong rate of growth at 33% Y-o-Y, cards growing, which is again a chosen segment and Manian mentioned about our acquisition of the Standard Chartered portfolio, 36% Y-o-Y and loan against property, which has been seeing very strong traction in the last 2 quarters, grew at 21%.

Retail banking as a whole grew at 10.8% Y-o-Y and with the slippages in the segment down 28%. Business banking grew 7%. This is a segment which we had indicated last quarter that we have prioritized portfolio health and yield protection over headline volume growth. Slippages in this book are down 36% Y-o-Y. And now with the portfolio in better shape, we expect to grow this book from here.

On fee income and operating leverage, our fee income was INR957.21 crores, up 21.7% Y-o-Y. Our fee income is marginally down against the March quarter, which you all know is the seasonal peak for processing and distribution fee income. The Y-o-Y comparison of 21.7% is ahead of balance sheet growth. Fee growth remains well distributed across our businesses and continues to strengthen the quality of earnings.

Our cost-income ratio improved to 52.5%, down 239 basis points Y-o-Y. On asset quality, which has been another highlight of our performance. Our GNPA improved to 1.52%, down 39 basis points and NNPA at a record low of 0.18%, down 30 basis points Y-o-Y. Our PCR, excluding technical write-offs, strengthened to 87.37% and the credit cost was down 41 bps, down 24 basis points Y-o-Y.

A leading indicator for this is slippage. And as we had mentioned in the earlier quarters as well, the trend in slippages continues to be downward. And the fresh slippage was INR409.48 crores, down 37.8% Y-o-Y and sequentially down 13.6%. And our slippage ratio is at 0.61% as against 1.11% last year same time. ROA because of all of these measures have improved to 1.22%, up 22 basis points Y-o-Y and our return on equity improved to 12.02%.

I also mentioned in the last quarter that we'll give an update on the impact of ECL transition during the Q1 earnings call. The new framework is effective 1st April 2027. And based on our estimates for rest of this year, we expect the onetime transition impact due to ECL to be about 1.5% to 2% of our net worth.

Secondly, on an ongoing basis, we do not expect any material impact to the P&L due to this change. In summary, this was a quarter in which treasury contributed little. The fee line faced a seasonally high base, and we observed our annual wage revision.

Against that backdrop, our profit grew 36.57% with margin expanding 39 basis points, cost-to-income improving 239 basis points and credit cost declined 24 basis points. This result, as mentioned by Manian, is from pure operating performance from the core of the bank.

The macro picture ahead carries more inflation than the one behind us and RBI's revised projections reflect that. Our priorities are unchanged. We'll work towards deepening the liability franchise, grow in our chosen segments at the right risk-adjusted return and hold the line on credit quality and cost. The granular and secured character of this balance sheet is what allows us to be consistent and consistency is what we are aiming for.

Thank you, and we'll now open up for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mahrukh Adajania from Tara Capital.

Mahrukh Adajania: Congratulations. I had a couple of questions. Firstly, just in terms of your processing fees, they are down quite a bit sequentially. So if you could explain why? And then in terms of NIMs, are these NIMs sustainable going forward? Cost of funds would have bottomed by now? That's my question on NIM.

And if I could also squeeze in a third question on FCNR deposits. If you have any target in mind -- under the RBI scheme, if you have any target in mind? And also, if -- I mean, what is the cost differential on a total cost basis that you would see through FCNR versus your own TD rates right now? So those were my questions.

KVS Manian: Mahrukh, on your first question, of course, it's not -- last quarter of last year and first quarter of this year are not comparable on processing fee. As you know, the disbursement levels vary and therefore, processing fees vary. And this is quite normal in every year that our processing fees in the first quarter will be lower than the fourth quarter. So it's quite -- very normal for that to happen. That was your first question.

On second, NIM, the NIM is a result of both the liability side actions and the asset side actions that we have taken over a period of time. So obviously, we believe that our CASA trajectory is a result of a thought-out action plan and therefore, should remain there, and we should continue our momentum like Venkat mentioned.

And on the asset side, the mix change also is a continuous process. And of course, there is more lever to -- there is more potential to change the mix going forward, and we are continuously working towards that. And as you have noticed, our chosen segments are growing at quite a healthy pace, and this will lead to natural realignment in the mix as we go forward and would add to the yield. So I would like to believe that it is sustainable and we'll build further from here.

And on the FCNR, we don't have a target in mind. All I can say at this current point in time is that we will get our fair share of that business. We do have -- this time, unlike the 2013 round, we do have the ability to offer leverage to our customers as well from our IBU, which we were not able to do in 2013. And therefore, a combination of that and the fact that we also -- we have a good franchise -- existing franchise in this segment, we hope to get our fair share of that flows.

Mahrukh Adajania: Okay. And anything on the cost effectiveness of FCNR, like...

KVS Manian: Let it play out, Mahrukh, and then next time, we'll discuss whether it was cost effective or not. Let it play out and next quarter, we'll discuss this.

Moderator: Next question is from the line of Akshay Jain from Autonomous.

Akshay Jain: Congratulations on a good set of numbers. So I'd like to take the margin question a bit more. So there has been almost 22-odd basis points of sequential decline in your cost of deposits this quarter. So what is driving this sharp decline in just one quarter, while mix change is happening, CASA is improving. But how do we explain this 22 basis points of improvement? And how should we expect cost of deposits to move incrementally? That's the first question.

Second question is on, again, CASA improvement. Your CASA on an average basis have grown like almost 23%, 24% on a year-on-year basis. So what is driving the strength? Are these set of customers -- your existing loan customers who are now keeping CASA federal and they are shifting their CASA from peer banks or these are new set of customers for federal bank?

So basically trying to understand what is the hook for them to move to Federal? Because you don't even offer higher interest rates compared to other midsized banks. And another thing is the CASA driven by either region or corporate or commercial customers? So those are my 2 questions?

Venkatraman V: First part, I'll answer the cost of deposits, Akshay. You're comparing last quarter to this quarter and you said 22 bps. In fact, last quarter, the impact of the cash certificate which happens at the end of the year, if you exclude that, the reduction in cost of deposits is about 11 bps. That is the primary contributor. In addition to that, we had the interest on IT refund, which we got, that's about 2 bps. And the yield on advances was dropped by 3 bps. So net-net, we moved from 320 to 330. That's a broad walk on the NIMs.

KVS Manian: And coming to your question on whether there is further scope for deposit cost reduction? There is a little left, I would say, in one more quarter. Having said that, I think the NIM is a combination of not only the cost, but also of the mix. And the strong CASA average CASA mix that you are seeing the change, that is, of course, driving part of the cost of funds reduction.

Coming to your CASA improvement trajectory, as you have seen, it is not a particular quarter that we have got CASA improvement. It has been consistently we've been growing our CA and SA both at a good pace. This is -- I mean, I can't give you a one-line answer on what is the reason and how. Because it is a combination of multiple things that we do. It is also about more customers.

So we are opening more current accounts today. We are opening double the current accounts that we were opening a year back. We are opening more savings account, higher variant accounts that we are opening are higher. So better quality accounts we are opening.

So I can't give you one answer -- one reason, but it is a combination of things. For example, our branches KPIs, the way we measure them and evaluate them has significantly changed in favor of liability side than on the asset side. So therefore, it's a combination of multiple things, and we believe that these are medium-term measures.

And yes, our products are competitive in the market. Having said that, it is also about good execution, good focus. And in fact, we have good deployment of resources, branches in the right locations. I can go on and on. So there are multiple things that are driving the CASA trajectory.

Akshay Jain: And sir, just 2 follow-ups. One, I did not understand the 11 basis points comment on the cost of deposit. And number two, on the CASA, if you can provide any indicative mix of incremental CASA coming from retail, commercial, corporate?

Venkatraman V: On the deposits, 11 bps, Akshay, I'll take it with you separately. I'll explain to you and give you the report.

KVS Manian: Again, the current account is a reasonable mix of all 3. All of them have almost grown roughly the same pace, retail, commercial and corporate. All 3 CASAs have grown -- I mean, CA have grown in equal measure.

Moderator: Next question is from the line of Kunal Shah from Citigroup.

Kunal Shah: Congrats for good set of numbers. So the first question is on the -- maybe the low-yielding proportion. No doubt we have been indicating that focus is clearly on the chosen segments and yield levers are still to play out with the change in the mix. But when we look at it this time, the proportion sequentially has been slightly up.

So is it more to do with the opportunistic lending, which would have been done over there and it would course correct over the period and that's the reason we are confident that still the proportion -- like last time when you look at it, the low yielding was 49.8% now it's like 50.1%, so that is still growing?

KVS Manian: So you are right. So this is -- because if you look at our corporate growth rate this quarter has been 6%. So corporate has grown very strongly. This is not our normal trajectory, as you know. Even if you see the Y-o-Y number there, it is closer to 16%. So we do expect -- this was -- we did get good opportunities in the market at that short-term products that we get -- that we do in the corporate side. And we, of course, use that opportunity.

But fundamentally, if you look at our mid-yielding segment, which is commercial at 24%, gold at 30%-plus, cards at, again, very strong rates on cards, CV/CE at 24% kind of number. So all the chosen segments, we continue to grow very fast. And we do not expect corporate to grow at 24% in the future. And therefore, the yield mix change -- the asset mix change will stay. I think we'll stay the course on that.

Just a clarification on that. Interestingly, our low-yield business, which has corporate and home loan primarily. Also, I must tell you that even in the corporate, we have been within corporate, shifting our mix towards mid-market rather than the upper market. And we have seen NIM upgrades or yield upgrades coming even in our corporate book through the year.

And that is again something that we have -- we disclosed this last time as well. Almost 75% to 80% of our new customer acquisition is now in the mid-market segment. And as the mix there changes, actually, even the low-yield book will start giving us better yields than it used to give in the past.

And on the home loan, again, we are quite clear that we want to serve our existing customers. So we serve our customer -- existing customers at the competitive rate, where we are sure that the customer has bought multiple products from us. And when it comes to new customers, we are clear that we are happy to do at competitive rates if they are shifting their relationships with at least 3 products to us.

And that remains our focus. And we think that is a reasonably accretive way of doing that business. So our fundamental strategies on -- around asset mix and doing it in a particular way that is accretive continues to remain, and we are fairly confident that our strategy stays.

Kunal Shah: Sure. And the second question is on asset quality. So slippages, they have behaved quite well. Even in a seasonally weak quarter, we have seen improvement both on the corporate and the retail and credit cost settling at 47%-odd equally confident on the ECL transitioning. So would we be revising the guidance on the credit cost? We have been indicating 50%, 60%, but it appears like performing quite strong today. So any worries out there or should we see it sustaining at the first quarter level?

KVS Manian: Yes, Kunal, it is not 47%, it is 41% in the first quarter. Yes, our guidance was 50% to 60%. Yes. So let me say that just now, you treat it at the lower end of the guidance just now. We are not yet formally wanting to revise because we want to watch. This war and this monsoon, there are still headwinds out there. So we don't want to hurry up and issue a new guidance. Right now, let's say that we are likely to be at the lower end of the guidance.

Moderator: Next question is from the line of Nitin Aggarwal from Motilal Oswal Financial Services Limited.

Nitin Aggarwal: Congrats on good numbers. So sir, my question is on growth. Overall, like we have started the year on a strong note. So how should we look at the growth trajectory for the coming year? Like last year, we were much more controlled in terms of our growth delivery. How much should we benchmark the numbers to now?

KVS Manian: Nitin, we had earlier -- again, I would say the same thing that I said to the last question that our guidances remain where they were. Maybe as I said in my opening remarks also, bias is towards positive. So I have a positive bias to that. I would leave it at that -- at the current point in time. We had said mid-teens plus. So I would say mid-teens plus. That is a positive bias.

Nitin Aggarwal: Okay. Okay. And sir, second thing related is like the yield on advances this quarter has a slight dip, partly because of the corporate growth also which you alluded to. So when do you think this mix change benefit will start reflecting in the lending yields?

KVS Manian: So that is a math, right, Nitin. The percentage -- as the percentage builds up, it is a pure math in terms of what it results into. Yes. So the reason you are seeing -- you must also see it one way that finally, it is not only about yield, right? It is about NIM. So if we have to grow business, we may drop rates.

As long as we drop rates slower than our deposit rates, we are still fine, right? So looking at yields in a stand-alone basis may or may not be the right way of looking at it. Yes, of course, we always keep trying to improve yields.

But remember one more thing that we -- if you look at our numbers, the very high-yield segment, which is MFI, we have still held steady. We have not grown that business significantly over the year. And that is another opportunity if things look better, could drive a slight improvement in the asset side yield.

Nitin Aggarwal: Right, sir. And sir, the other question I have is on the gold loan segment. If I look like while it is maybe true for the industry also, but the tonnage is declining across many lenders. And for us also, it's like a Y-o-Y 10%, 11% decline in the gold loan tonnage. And LTV because of the gold price has also gone up.

So in context like in wake of these parameters, how are you looking at the gold loan growth over the year? What -- how are we managing risk given the volatility that has seen in the gold loan prices recently? And some color around here over as to how do you see the growth?

KVS Manian: Nitin, our LTVs continue to remain around 60%. And therefore, we feel fairly comfortable with our current levels of LTV and the risk in the portfolio. And we do not expect gold prices to correct that sharply at least in the coming year.

Harsh Dugar: Plus, we keep revising our per gram gold loan which we gave, which is calibrated according to market price, which has averaged last 30 days. And we also build in buffers when we see volatility.

KVS Manian: So right now, we are comfortable and we think the gold loan growth trajectory can be sustained.

Moderator: Next question is from the line of Piran Engineer from CLSA.

Piran Engineer: Congrats on the quarter. Firstly, just a couple of questions on your opening comments. Sir, when you mentioned 1 or 2 segments are there where execution could be sharper, which ones were you referring to?

KVS Manian: I was referring to auto and business loans, small business loans.

Piran Engineer: Okay. And I mean why do you say that? Like in what aspect do you mean like it could be sharper?

KVS Manian: In the sense, in business loans, as Venkat mentioned in his commentary, we were still trying to get our overall risk metrics and portfolio cleanup, all of that well. We wanted to get the base right and also -- so therefore, that was one segment where we think our execution, we can get it sharper and build growth there. By and large, that falls in our mid-yield bucket. It falls there, and therefore, we want to build growth there.

Second, on auto, industry has grown and we have not grown as fast. And of course, that was because we had our internal organization changes that we had made in terms of structure of how we were doing that business. And that is settling down, and we are hoping that as that settles down, we can improve our quality of outcomes there.

Piran Engineer: Understood. But just on business loans, Venkat sir also mentioned that now growth will pick up going forward?

KVS Manian: Yes, let's hope. Yes.

Piran Engineer: And that's because we've got asset quality comfort or because yields are now a bit better in the market?

KVS Manian: No. Yields are whatever market yields will keep going up and down. But yes, asset quality stability and our process -- credit process and underwriting process and all that, we have done some work around that. And therefore, we want to get -- I think we have got more comfortable now to start trying to push for growth there.

And also just to remember, this was also a segment we had consciously kind of -- when all that war and -- I mean, this is the more -- the small part of the business is the more vulnerable segment, and it is more vulnerable to the impact of war, price of energy, monsoon, all of that. So we had to be more careful. But we think we have built the necessary guardrails to try and push for. And we are also getting branches to focus more on this business, the small lending business.

Piran Engineer: Got it. Got it. Just what's our average SA cost, SA deposit cost?

KVS Manian: Average?

Piran Engineer: SA. Savings deposit cost.

KVS Manian: It will be approximately 2.6%.

Piran Engineer: Got it. And just lastly, Venkat sir, for the benefit of everyone on the call, can you just explain that 11 bps cost of deposit decline that the other participant also asked? Because this is a key -- crucial driver of your NIM beat this quarter. So it will be helpful for everyone to know?

Venkatraman V: See, there is a thing called the reinvestment deposits which we have and the interest on that, if you see at the end of the financial year in Q4. So you have to exclude that impact. That's not repeated, it's one quarter impact. So that 11 bps, if you adjust from that 22 bps, you will get another 11 bps, which is what is the real drop in improving NIM. So that is what is helping the NIM expansion of 11 bps.

Moderator: Next question is from the line of Param Subramanian from Investec.

Param Subramanian: Congrats on the quarter. First question is on LCR. What is the LCR for this quarter? Because I see the balance sheet has not grown as much as the loan book. So -- and the reason I ask is I think this appears -- this is a lever we have used on NIM, right?

KVS Manian: Yes. So our average LCR for the quarter is 117%. We had -- I think in the earlier calls, we have said that we want to operate around 115% to 120% range, and this falls squarely in that range. 117% is something that we are comfortable operating at. And yes, excessive LCR does have an impact on NIM. And you carry negative yields on -- negative carry on HQLA, right? So yes, it is an efficiency that we have brought in over a period of time, and we are comfortable staying in the 115%-120% range.

Param Subramanian: Perfect. Secondly, very -- so a question on this NRE deposit. Is there any chance that the FCNR offering has an impact on the NRE franchise in the sense that the same customer said because the FCNR is a far more attractive rate that there is some poaching of deposits. This is something I wanted to understand?

KVS Manian: Not really. We haven't seen that kind of a correlation or negative correlation between the two. I don't think that -- on the ground, I don't think that happens.

Param Subramanian: Okay. Okay. Very clear. And sir, a question on the corporate loans. I think you pointed out that this time it was opportunistic. But now that we are seeing the funding cost declines and the environment improving, is that something that can pick up and support loan growth going ahead?

KVS Manian: So Param, as we have always said, agility is important in these and it's important to remain agile to the market situation. And we have no dogmatic views about whether we should not access wholesale deposit market or wholesale short-term assets, deploy money there. If we see opportunity at a reasonable spread, we will do it. But we remain focused on the fact that we must earn good risk-adjusted returns to do that. And if we do get that, we will use that opportunity.

Param Subramanian: One last question, if I may. In any of your low-yielding products, are you beginning to see any competitive pressures easing, say, which we have -- the segment which we have consciously decided not to grow?

KVS Manian: Yes. If you heard my last answer to another question, in corporate, as we move our focus to mid-corporates and rather than at the top end of the corporates, we are clearly seeing yield upticks happening there. So there is -- even in the low-yield side, it is not that we are just saying that sit tight on the low-yield side and don't do anything. We are making a lot of efforts to make sure that they give us better yields. And the mid-market shift is one step on the corporate side.

But even on the home loan side, we are quite clear that existing customers, customers who buy multiple products from us, we try and leverage our relationship. And we have kind of kept the book where it is, right? We have not grown it sharply, but we have kind of kept it where it is, trying to do our best on the yield side.

Moderator: Next question is from the line of Avadhoot Joshi from Trivantage Capital.

Avadhoot Joshi: So, the question is on the CV/CE book. We are growing at 20-plus percentage. I want to understand considering the war situation and the increase in the diesel prices, do we see any stress in this part of the book? Are we seeing any early indicators of growth? And secondly, the growth which is driven by it would be largely because of the CV. Any part of construction equipment also we are seeing growth. These are my 2 questions.

KVS Manian: So Avadhoot, as of now, we are not seeing any significant -- any meaningful stress in that segment. Just to clarify, we continue to operate in the slightly higher segment. We are not in very retail segment of CV yet. We operate in medium-sized fleet operators and that kind of, 5 truck, 10 truck operators and that kind of a segment.

We are not in -- largely, we are not in the single truck operator segment and FTUs and that segment and all of that. So we have not yet seen significant or any meaningful stress there yet, but we are watchful. What you are saying is correct. This can have liability impact on operators, and we are conscious of that. We are watching the situation carefully.

Avadhoot Joshi: Understood. And secondly, on the construction equipment part, are we seeing growth in that segment as well?

Harsh Dugar: Yes, growth is there as well in the construction equipment also, we are seeing -- we are focusing more on that as well.

Moderator: Next question is from the line of MB Mahesh from Kotak Securities.

MB Mahesh: Three questions. One is if you were to raise dollar borrowings today versus raising FCNR deposits under the current window, does it make a difference on the cost of funds at which you are borrowing today?

KVS Manian: So Mahesh, there are several moving parts in this. One is, of course, the base rate, which, of course, if too many people go to the market at the same time, the rate can harden and things like that. Second is, of course, the dollar-rupee swap rate and that fluctuates. And we also see depending on the success of the FCNR flows, there could be impact on the dollar-rupee swap rates. And therefore, we have to watch that carefully.

And third is, of course, the rupee rates, what happens to rupee rates. Because even they could change, given that there will be significant liquidity into the banking system coming through these windows that RBI has opened. Even the liquidity in the system can change and rupee rates can change.

So I would say there are too many moving parts. We'll have to look at the price at the time we price the deal and see whether we are -- it is worth doing it or not. There are times when it looks just about okay. There are times when it looks better, but we'll have to see the -- timing will be very important in this.

MB Mahesh: Second question is your fair share, what is your definition of fair share?

KVS Manian: Let me put it this way. Our usual share in FCNR deposits normally is of the order of 2.5%.

MB Mahesh: Okay. Second one is on CGTMSE as well as ECLGS. Are you kind of giving loans under these schemes?

KVS Manian: What's your question? CGTMSE, ECLGS, what is the question?

MB Mahesh: Are you giving loans under these schemes?

KVS Manian: Yes, yes. We are. Selectively, but we are giving yes.

MB Mahesh: Okay. A person who is taking a loan under ECLGS is this a person who you see this as a person who you think has stressed or do you think that the common proposals that are coming out here is better off through the ECLGS route? How are you kind of bifurcating between what goes through an ECLGS and non-ECLGS?

KVS Manian: So let me say one thing very clearly that if we think fundamentally, the company is bad credit and we don't see it as a short-term problem in the account, we would not do that case. So therefore, we do not make a credit compromise just because it is guaranteed by the state -- government of India.

So if we see the customer in a temporary cash crunch or where we think his viability is not impacted, but he has a short-term issue to tide over, that is when we do these loans. And, if he is good, of course, there is no question.

But just to tell you, these are -- the way I look at it is even good customers take this because these are well-priced loans, right? Because of the guarantee, they are better priced than otherwise we would have lend to that customer. So there are customers who are good customers who come to borrow this even if they are not in stress.

MB Mahesh: And my last question, sir, can you give us an exit margin guidance for FY27 based on what you're seeing today?

KVS Manian: Mahesh, if you recall our guidance that we said that net interest margin expect improvement for the next 3, 4 quarters, at least 5 to 6 basis points per quarter, right? And we had said it may not be linear. You will see some quarters better, some worse. But on an average, this is what we will achieve. We are sticking to that guidance.

Moderator: Next question is from the line of Bunty Chawla from ASK.

Bunty Chawla: Just one question. Are we seeing any ground level stress on MSME book with respect to this fuel price hike or West Asia? Anything if you can share on the ground level, sir?

KVS Manian: No. Venkat in his remarks also mentioned that we have seen a decline in slippages in our small business loans. So we are not yet seeing any impact of this in our books.

Moderator: Next question is from the line of Ankit Bihani from Nomura.

Ankit Bihani: Congrats on a solid quarter. I'll just hop upon the net interest margins once again. So if I heard it clear, you had highlighted that cost of funds had a benefit of around about 11 bps, which was kind of seasonal or one-off. So if that wasn't there, would we have seen the extent of margin improvement that we have seen currently?

Venkatraman V: We are not saying it is seasonal or one-off. It is a reinvestment deposit, Ankit. And the interest is accrued quarterly, but paid at the end of the year. It's at the end of the year. Yes. So the denominator effect is what is playing out in this quarter. So if you exclude that, our margins have improved by 11 bps on account of cost of deposits.

There are a few other factors and offsetting is the increased drop in yield on assets. Net-net, 320 has moved to 333. A large part is due to the cost of deposits not related to that denominator effect…

KVS Manian: So when you see 320 to 333, that has no effect of all that cash deposits, nothing. 13 bps, actually, the NIM has improved…

Venkatraman V: And every quarter, Ankit, if you see every year, first quarter, you will hear this.

KVS Manian: Every first quarter, this cost of funds, it is more optic cost of fund difference, but NIM, the NIM you see does not change because of all this.

Ankit Bihani: Okay. Okay. And my second question is on -- if I look at the deposit accretion vis-a-vis your advances and investment book accretion, so it is almost 2.5x that we have grown our advances and investments compared to our deposits. So now going ahead, given that now that our LCR also stands at 117%-odd, how important is the deposit growth to pick up from here on for us to continue to maintain the loan growth momentum?

KVS Manian: Ankit, of course, deposit growth has to meet the funding requirements of the bank, but please do also remember 2 things. We have actually, over the last 1 year, drawn down on our wholesale deposits. In the sense, the wholesale deposits as a percentage of our deposit is significantly down. We have had a negative growth in that. So we are focused on growing retail, which has grown at 16% overall on a Y-o-Y basis.

There are 2 things. One, going forward, FCNR is a window that has opened up, which will help us grow deposits. Second, if that is going to happen, we expect rates to ease in the system and actually wholesale deposits may be worth going back. We also can access borrowings, ECB, OFCB window that has opened to fund growth.

And therefore, I think there are enough avenues for us to -- and we have not used refinance aggressively in the last year. We can also go to refinance windows like the SIDBI and NABARD and all of those windows. We have not gone. So I think there are enough opportunities for us to fund growth.

Moderator: Next question is from the line of Abhishek Murarka from HSBC.

Abhishek Murarka: Congratulations for the quarter. So the first question sort of goes back to NIM and your guidance was broadly 5, 6 bps kind of trajectory, improvement trajectory every quarter, considering you've seen almost 13 bps or 10, 11 bps Q-o-Q. Does this mean that most of the improvement that we should have expected this year is already reflecting in your current NIM? And incrementally, there's not much by way of NIM improvement that we should expect for the rest of the year? That's my first question.

KVS Manian: Abhishek, that is a math, 5, 6 into 4 is not 13.

Abhishek Murarka: Yes. So basically, residual is hardly 10, 15 bps depending on how things move, rates move. I mean, is that a fair way to think about it?

KVS Manian: Let's say, we have given you a guidance. Let us stick with that. We'll see how that plays.

Abhishek Murarka: Okay, sure. And in the FCNR context, you just spoke about how it will improve liquidity and also bring down wholesale rates. But do you also expect it to bring down rates on the asset side, especially wholesale, lending and housing, etc.? And if so, then how does that play out into spreads, loan spreads?

KVS Manian: Yes. So possible, what you are saying is quite possible. Like I always say, that we have to remain alert to the market and act as per the market. Let's see. I mean, yes, both of us are guessing what it will be. But all I can say is we'll make sure that we do it -- we do business accretively.

Abhishek Murarka: Sure, sure. And just on the ROE, if we were to tie this to ROA trajectory. Now last year, you had almost like last 4 quarters, you had about a 20 bps improvement. What are the levers you see now, let's say, between now and end of this year, do you -- how much -- of what order of magnitude should we expect an improvement in ROA? And yes, where does that come from?

KVS Manian: So NIM improvement, of course, yields ROA improvement as well. And of course, we are expecting fee also to grow. We have been growing fee quite -- in a robust way. So growth in fees and growth in NIM both should yield us better ROAs going forward.

Abhishek Murarka: Would it be like similar sort of magnitude of improvement or it will be much slower?

KVS Manian: No, no. Of course, it can't be equal. It will be lower than...

Venkatraman V: We gave a guidance last time as well on the ROA, it will be around 3 to 4 bps per quarter.

KVS Manian: Again, on an average basis, it's nonlinear, not necessarily linear.

Abhishek Murarka: So we are holding on to that?

KVS Manian: Yes, yes.

Moderator: Next question is from the line of Pankaj Murarka from Renaissance Investment Managers.

Pankaj Murarka: Congrats on a fantastic execution. Manian, I have 2 questions. One, meaning, obviously, just to set the context, obviously, now the Federal Bank that we are seeing is very different than traditionally what we've seen over the last 10, 15 years. And it seems like now all that work you've done has started showing results over the last few quarters and probably in a more amplified manner in this quarter.

So my 2 questions is, one, do you think now the management team in terms of across business verticals and across business units and everything is firmly in place? Or do you think you still have gaps to fill on the team side is one.

And second is now when I look at the bank and your strategy, there is significant leverage across both in the balance sheet across loans and deposits on the liability side to drive growth and profitability within loan book.

Obviously, apart from aggregate growth, obviously, there's levers across mix and the pivot we're trying to make to changing the mix of the loan book and so on and a lot of these more remunerative or lucrative categories are very small, and we have a significant headroom there, and apart from driving CASA, operational efficiencies and all of that.

My understanding is that you will drive or use each of these levers in the context of how the environment is. So what's the kind of growth context you want to set for investors to look through from a slightly more medium-term perspective, let's say, over the next 3 years, 5 years that one should expect because I'm presuming each quarter, you'll end up pulling different levers because there's so much that I can see across?

Venkatraman V: First question on management team.

KVS Manian: Yes. So management team, by and large, the team is in place. But I would say at the margin, we are looking at a few hires in specialists, some specialist areas like tech and things like that. But I think that's a continuous work in progress. But by and large, I think we have the team to run this execution reasonably well. Small changes here and there, we'll make, but nothing very dramatic. That is one.

And second, on the 3 to 5 years, of course, 3 to 5 years, if you ask me, we have generally given a guidance that we should pencil in mid-teens kind of growth. And I said slightly earlier in this call that maybe you can have a positive bias to that. And that's what I can see now. So let's say, just now that is the outlook. If the economy looks better and we see stronger credit growth, of course, we'll participate in that as we go forward.

So -- it's not a clear runway, right, Pankaj. We know there are headwinds -- there are certain headwinds. And therefore, I don't want to make an absolutely confident forecast saying that I can grow at 18% for next 3-5 years. I don't know. All I would say is we'll remain alert to the environment and flex our strategy to suit the environment.

Pankaj Murarka: But what I understand is that loan growth can be moderated within a band in the context of the environment. But my question is more on operating profits because we have so many of these levers, not only on the asset side in terms of growth, but the mix in the loan book and then on the liability side as well with CASA and other things.

So how should we think as shareholders in terms of growth, let's say, in operating profit? Because even if you grow mid-teens or high teens, obviously, the operating profit growth will be much higher. And given our...

KVS Manian: Pankaj, we have given a reasonable amount of guidance around NIM growth and ROA growth. That should give you a reasonable idea of what is likely to happen. And I'm telling you a growth number for the balance sheet as well. So it should give you a reasonable idea of that.

Moderator: The next question is from the line of Chintan from Autonomous.

Chintan: Just on the FCNR, your headline rate is 6.25%. But when you offer leverage on the product, does that reduce your all-in cost for you? And if you can give the idea of like a quantum of all-in cost on that leverage product for you?

KVS Manian: No. So when we offer leverage, of course, we make some spread on the leverage. So I don't look at it as a reduction in cost of deposit because the leverage on the other side also expands my asset side. So I need to produce an ROA on that as well, right? So yes, but it does produce some return for us on the asset side, if we look at it independent of deposit cost.

Chintan: So it would be fair to say that if the headline is 6.25% on the plain vanilla on the leveraged product, actually, it is lower for you by some amount of basis points?

KVS Manian: I don't know how you look at the math. My asset side also expands, right, equal to the leverage. So I need to produce NIM and ROA on that asset side growth in the balance sheet, right?

Souvik Roy: Operator, I think there aren't any more questions, should we close the call?

Moderator: That is the last question for today, sir.

KVS Manian: Thank you so much, everyone, for joining us on this call. We really appreciate your time. Thank you.**Venkatraman V:** Thank you.

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