



Secretarial Department

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The Manager Listing Department The National Stock Exchange of India Limited Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051 SYMBOL : FEDFINA	The Manager Department of Corporate Services BSE Limited Phiroze Jeejeebhoy Towers, Floor 25, Dalal Street, Mumbai – 400 001 Scrip code: 544027
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Sub: Transcript of Earnings Conference Call held on Wednesday, October 23, 2024

Dear Sir/Madam,

Pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, please find enclosed the transcript of the earnings conference call which was held on October 23, 2024.

The transcript of the earnings conference call shall be uploaded on the website of the Company at <https://fedfina.com/> under the section 'Investor Relations' in due course.

The above is submitted for your kind information and appropriate dissemination.

Thanking you,

Yours Faithfully
For Fedbank Financial Services Limited

Rajaraman Sundaresan
Company Secretary & Compliance Officer
Membership No.: F3514



“Fedbank Financial Services Limited

Q2 FY '25 Conference Call”

October 23, 2024



MANAGEMENT: **MR. ANIL KOTHURI – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER – FEDBANK FINANCIAL
SERVICES LIMITED**
**MR. C.V. GANESH – CHIEF FINANCIAL OFFICER –
FEDBANK FINANCIAL SERVICES LIMITED**
**MR. AMIT SINGH – INVESTOR RELATIONS – FEDBANK
FINANCIAL SERVICES LIMITED**

MODERATOR: **MR. SHREEPAL DOSHI – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Fedbank Financial Services Limited Q2 FY25 conference call hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinion and expectation of the company as on date of this call. These statements are not the guarantee of future performance and involve risk and uncertainty that are difficult to predict.

I now hand the conference over to Mr. Shreepal Doshi. Thank you and over to you, sir.

Shreepal Doshi: Thank you, Nivedita. Good evening, everyone. We have the management of Fedbank Financial Services to discuss the Q2 FY25 quarterly results. The management is represented by Mr. Anil Kothuri, MD and CEO, Mr. CV Ganesh, CFO and Mr. Amit Singh, IR.

I would not take much time and hand over the call to Mr. Anil Kothuri for his opening remarks, post which we can open the floor for question and answer. Over to you, sir.

Anil Kothuri: Thanks, Shreepal. Good evening, everybody and welcome. Thank you for joining the Q2 call to discuss the earnings of FEDFINA. Over a year ago, NBFCs were in a Goldilocks kind of situation. This was based on the trifecta of circumstances. One was growth. The second was what was expected to be a declining interest rate environment. And the third was the benign end of the credit cycle.

Of the three assumptions, one has played out, which is that growth is there and the other two haven't played out the way we thought we would. Rates haven't come off over the past year, even though they still hold the promise over the next six to nine months. And the credit environment seems to have materially changed for now.

In FEDFINA, it was a very busy quarter for us. First up, we've made steady progress on our twin-engine strategy. We've seen growth in the quarter. Our AUM grew to INR14,218 crores at the end of Q2. This is a growth of 7.8% quarter on quarter. Both our businesses, mortgage as well as gold loans, registered smart growth growing 9% and 8.2% respectively. So growth is there for us.

We also invested significantly in our future. We added 46 branches in the quarter gone by. Our presence now is in 665 branches across 18 states and union territories in the country. We've also added about 400 people in the quarter, and we now have 4,743 people at the end of Q2.

Finally, we continue to improve our technology, and we fully implemented Salesforce in our small mortgage business, and this is across over 200 branches, all our throughput now is on Salesforce, which we use as a front-end system. We also made progress in terms of improving our asset quality. This is across buckets. Our 1+, 30+, and GNPA numbers are better quarter on quarter. Our gross stage 3 is now 1.9%.

However, reflecting our view of the environment and feedback from what we see on the ground, we have taken an additional ECL provision of about INR22 crores during the quarter. So our ECL and there on the slide in the deck is up from INR122 crores to INR151 crores. This reflects our view of the environment over the next few months.

Finally, there have been several regulatory kind of vicissitudes over the past six months. At FEDFINA, we have carefully analysed whatever we've seen in terms of either circular, or informal feedback that we get and continue to benchmark our practices and our policies in light of whatever inputs we receive. So adhering to regulations and ensuring that you stay on top of them is now more than a full-time job and we confirm that, we are entirely in compliance with whatever regulations and informal feedback that we receive from the market.

Finally, in Q2, we received a rating upgrade from CRISIL. We are now rated AA+. It's across CRISIL, India Ratings, and CARE. All the three rating agencies, we have a AA+ rating. We are amongst the dozen or so NBFCs which have a rating of similar or better.

Our profit for the quarter was INR64.55 crores. To take us through to the numbers behind this number and other details of our financials, I'll hand over to CV Ganesh, our CFO. Over to you, Ganesh.

C.V. Ganesh:

Thank you, Anil. Thank you, everyone, for your participation on the call. The past quarter has been equally momentous for us as was Q1 and we continue to cross new milestones. Our disbursements continue to be elevated at INR38 billion, and year-on-year, this represents a 30% growth. For the first time ever, we crossed AUM growth in a quarter of INR1,000 crores. Last quarter, it had come a tad under INR1,000 crores. In Q2, our AUM grew by INR1,030 crores, which is our highest ever till date.

We closed the quarter with a gold loan tonnage of a little under 11 tons, which again is a growth of 2.4 tons year-on-year. Another milestone we had is that from an average AUM per gold loan branch of >INR10 crores, we ended the quarter with an average AUM per branch of about 11.0. These were the milestones. As Anil articulated, we now also have a AA+ from CRISIL, from a long-term rating.

It positions us well from long-term borrowings, because typically for long-term borrowings and bond offerings, people take the lowest of the long-term ratings, and we were a little handicapped there, so this positions us well, given that all the three rating agencies now have us at AA+.

On the new origination side, we originated INR3,810 crores of loans, of which INR1,200 crores was MSME originations across the mortgage and unsecured business loans and INR2,610 crores were gold loan originations.

In terms of the P&L, our interest income grew 6% quarter-on-quarter at INR479 crores versus INR452 crores in the previous quarter. This also represents a 28% growth year-on-year. Our net interest income also correspondingly grew 6% quarter-on-quarter and 28% year-on-year.

Our fee and other income came off a tad higher, so gross income also grew 6% quarter-on-quarter, but 32% year-on-year. On the expense side, in quarter one, we had guided that we are here for the long-term and we will continue to invest in growth. We did that in the current quarter.

We commissioned 46 new branches across gold loans and our small-ticket mortgage and added incrementally about 400 staff on our roles. Now these branches take about 12 to 15 months to breakeven, so there will be a drag in the initial quarters. Because of that and the higher originations, our expenses went up by about INR18 crores quarter-on-quarter and consequently, our cost-to-income has also moved up from 55.4 in Q1 to 58.6.

From our guidance, we believe that some expenses are good expenses. This is an expense which is in the nature of an investment in growth infrastructure. So we do believe that the revenue benefit from this over the coming quarter will offset and bring the cost-to-income over a period of time to the level we started off in Q1.

That being said, on the P&L side, our credit costs moved up 13% quarter-on-quarter. As Anil articulated, as you would have seen in the sector, especially on the smaller-ticket mortgages, we see some stress building up. And we have conservatively taken a ECL overlay on that provided we have hiked up our PCR. If you see our SEBI financials which we have uploaded on the exchange, you will see that we have increased the PCR coverage by 250 basis points quarter-on-quarter.

Our PAT came in at INR64.5 crores. This compares with a INR70.2 crores in Q1 and represents an 8% degrowth. However, on a year-on-year basis, this represents a 12% growth over the INR57.8 crores we did in Q2 of 2024.

Now that being said, I just also want to highlight that our twin-engine strategy is working well. Where we have had some headwinds in the MSME business, our gold loans have performed handsomely in both Q1 and Q2 and across the first half of the year, we have crossed in terms of AUM growth more than what we did in the whole of FY24.

On the treasury side, on a quarter-on-quarter basis, our average blended interest cost, we have been able to bring down by 5 bps from 8.78% to 8.73%. On the incremental cost of borrowing, while you would have seen all banks raise their MCLR, we have actually been able to reduce our incremental cost of borrowing by 5-7 bps quarter-on-quarter.

Our current incremental cost of borrowing is a TAD under 8.60%. Moreover, about 85% of our borrowings are on the floating rate benchmark, which should aid us when interest rates start going south. Roughly 40% of our borrowings are on external-linked benchmarks. Incrementally, in Q2, 32% of our borrowings were linked to external benchmarks, and another 21% were short-term borrowings and resettable on maturity in terms of price.

So this positions us well. So this combined with the fact that in Q1 we had guided that 68% of all incremental borrowings were linked to external benchmarks like Repo rate, table rate, etc. I think this puts us at the forefront as and when interest rates would go south. Our net worth, as on September 30, crossed INR2,400 crores. We came in at INR2,402 crores. This was up from INR2,322 crores in June 24. Our book value per share as of 30th September stands at 64.6.

With that, I hand over to the moderator for questions from the audience. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Renish from ICICI. Please go ahead, sir.

Renish: Hi, sir. Two quick questions from my side. So first on this comment which you made on the small-ticket LAP, I mean stress in small-ticket LAP and HL, and hence we have accelerated the provision under ECL. But when I look at the 1 plus DPD and 30 plus DPD, which fell sequentially, so which lead indicators are you looking at, you know, which suggests that there is a stress building up in this sector?

Anil Kothuri: So, I will tell you how we see it. You look at our provisioning. One of our core tenets is to take up the provisioning on the portfolio. We used to be at 1.4% at a point in time, and at the end of the last quarter, we fell to 1.2%. And we decided that we need to take it back up again, and it needs to happen, you know, piecemeal. So that is one point.

The second is that we did achieve good outcomes in the quarter gone by. But that's the result of intensive activity on the field and the signals that we get is that people are finding it a little difficult to come up with their monthly EMIs as opposed to before. So that's the second data point.

You know, while one option could have been to just go ahead in light of the fact that the; 1 plus and 30 plus numbers have improved, we've chosen to just take up our provisioning and get to about 1.3% as overall. That impact is a INR22 crores impact. We've gone from INR128.5 crores to INR150.5 crores.

Renish: Yes, Anil, I just, you know, just to follow up on that. So, of course the provision has to be driven by the ECL model, right? So now when the indicators are improving, what parameters are we modifying? I mean, are we increasing PD or are we increasing LGDs to create overlay?

Anil Kothuri: So this is a discretionary management overlay. And as you can see on Slide 43, it is across the buckets, across Stage 1, Stage 2 and Stage 3, okay? Now we do an annual ECL refresh exercise, typically either in Q3 or Q4 every year. Last year we did it in Q3, the year before that we did it in Q4.

And what that exercise will do is to reset the PDs and LGDs in light of our experience over the -- in light of our added experience over the previous 12 months. So that input is not yet baked into what we've done.

Renish: All right. Okay, so last quarter, we sort of highlighted that for the full year our credit cost will remain, I think, around 80 basis point or so. Now when I look at the cost of credit cost, it is actually more than 1%. So how do you see, that line item trending going ahead?

Anil Kothuri: So it's a fair point. Last quarter I did say that our cost of credit through the year will be about 80 basis points, up from 60 basis points in the year gone by. At this point in time, it looks like we may -- it may be a little higher than 80 basis points, okay, given what we are seeing.

Now as a step towards that, we've done a discretionary provisioning this quarter and maybe we could see 90 basis points or even 100 basis points in the -- for the year entirely. But it actually depends on, how the environment plays out and we are calling the environment as we see it right now.

C.V. Ganesh: So I'll just add there, Renish, also our stated intent is to take up our PCR gradually. And from that extent -- to that extent, I think conservatively you should read it as being at least 100 basis points or a little more.

Renish: Okay, okay. So, I mean, then let's say if that is the case, if there is an intent to increase PCR, and I'm assuming it will be more into mortgage businesses where we are at 22, and maybe peer set would be around 30%-odd. So how one should look at it, I mean -- then over the next few quarters we will continue to make this overlay to take PCR to 30% or how one should look at it?

C.V. Ganesh: So see basically, I think at least for Q3, there is visibility. You know, we, as Anil articulated, we do this annual PD, LGD refresh exercise. And as of now, I think we should go with a three-digit bps number, maybe 100, 110 bps number for Q3, Q4. So we are watchful. The idea is not to commit to a number, Renish.

Renish: Yes, no, no, that is fine, sir. I'm not asking for any numbers. But directionally -- then the intent will be to improve coverage?

C.V. Ganesh: That is correct. And given the sectoral commentary, right, we cannot claim to have better data than everybody else, which is why, we will have to acknowledge and take learnings from that data and part of that is driving our strategy around the credit costs as well.

Renish: Got it. Got it. And, sir, my second question is on the disbursement side, especially in the small ticket LAP and HL, wherein we saw the sequential dip. Is this the reflection of our cautious stance? I mean, since we are seeing the increasing stress in that segment, or how one should look at it?

Anil Kothuri: You're right. It is reflective of our stance. And what we've done is to prioritize portfolio management and collections in some branches over disbursements and -- which is the reason we've got the outcomes that we did. So that's the reason for that.

Renish: Okay. And would you like to share some more details? I mean, when we say we are seeing the increasing stress is this, let's say, specific to any pockets, customer segment, or how is it?

Anil Kothuri: So this is reasonably across the board, yes. Okay. We are a self-employed customer provider; a small loan provider and all our customers are in informal businesses. Now, post-COVID, there was a pullback in terms of cash flows and businesses coming back and all that. Now what we see is that, the growth seems to have tapered off for these customers, and their real incomes aren't increasing.

The second thing that I hear is that, there has been expense inflation across the board. Informally, some price of oil has gone up from X to Y, the price of vegetables has gone up, all of those

things. So regular, you know, daily kind of expenses seem to have increased. That is the second kind of feedback that I'm picking up. Okay. So this is the way it is.

Renish: And maybe if we can just speak one last question on the RBI circular dated October 4th, wherein, RBI is sort of setting up on carry-out lending activities under a single entity. Do you foresee any impact on us due to that? Of course, it's out for comment. Of course, it's not being notified, etcetera. But any initial feedback would you like to give?

Anil Kothuri: Yes. So you're right, Renish. This is a draft circular, and a similar draft circular came out in November 2020, you may recall. And about NBFC subsidiaries of private banks at that point in time, we had written back to the RBI, as I'm sure some other market participants have done, and the circular wasn't – these provisions of that circular weren't implemented.

Once again, I'm sure our parent bank as will other banks, write to the RBI and represent our case. The cut and thrust of what we will see is the fact that NBFCs and banks cater to different target markets. So therefore, a mortgage loan done by a bank and a mortgage loan done by an NBFC are two different products, really.

So, you cannot cover them under one umbrella of mortgage loans. So that will be, what we will – or what our parent bank actually will try and represent. And we will then see what the RBI has to say. So that's our take on it right now.

Renish: And same is the case for gold loan as well?

Anil Kothuri: Now, on gold loan, look, whatever the circular has said, we benchmarked our practices, okay? And we are reasonably in compliance with what is there. On that, there seems to be a limited kind of variability.

Renish: Right. Okay. That's it for my side. Thank you and best of luck.

Moderator: Thank you for that question, sir. The next question is from the line of Pranav Gupta from Aionios Alpha Investor Advisor. Please go ahead, sir.

Pranav Gupta: Hello.

Anil Kothuri: Hi, Pranav.

Pranav Gupta: Yes, hi. Good afternoon and thanks for the opportunity. A couple of questions. First is in terms of the costs that we incurred this quarter. Obviously, we understand that we have been investing in the distribution and we opened about 46 branches this quarter. If you look at our overall guidance for the year, which you mentioned in last quarter, 50 branches on gold and 30 branches on market side, a large part of that has already been done over this year.

Is it fair to assume that incrementally we can see a big dip in costs in the second half? And do we still hold on to our guidance of 30 to 40 basis points reduction and cost to average assets through this year? That's the first question.

Anil Kothuri: Okay. Yes. In fact, you look at it, your costs get reset in the first quarter when you have pay hikes and pay hikes for everybody who works in the organization. And then there is some small increase across the year for any hiring that you may do. Now, the bulk of the increase has happened in Q2 because most of our hiring has happened. We opened 46 of our projected 80 branches.

In Q3, there will be a marginal increase in terms of people cost for the remaining branches that we will open. And the intent is to get done with the branch opening agenda by the end of Q3. So that is what it is.

In terms of cost as a percentage of AUM, it is reasonable that we may get to a 30 basis points kind of improvement across the year. It actually depends on how we see -- how we pursue growth over the next two quarters. The first two quarters have been good. We have grown at 40% year-on-year kind of number. And while that's ahead of what we intended for the course of the year, if we don't dramatically slowdown, we should be able to get to those numbers.

Pranav Gupta: Just a follow-up question on the previous question on asset quality. If you look at, like you mentioned, there is some pain on the mortgage side. And you mentioned that the reduction that we have seen in other indicators, which is 1 DPD, 30 DPD, is mainly due to the efforts that we have put in terms of collections.

But I mean, if you look at gold, asset quality has remained stable there. Not just for us, but probably at an industry level with gold prices going up, LTVs getting better. Is it fair to assume that maybe we are being a little too conservative on the varied cost guidance of 100 basis points? And maybe third quarter sort of surprises us positively, or at least not third quarter, but the year itself?

Anil Kothuri: So the short answer is, I hope you're right. But ours is a business of two halves. There's a gold loan business, there's a non-gold loan business. The gold loan business has zero to negligible credit cost. And to the extent that gold loan forms an increasing portion of our on-book or AUF or balance sheet, we are well served. We will not have credit cost on that.

Now on the non-gold loan side, look, there are two components to credit cost. One is what you crystallize, and the second is what you estimate and pursue through ECL. On the latter, it's a function of what your view of the environment is and what the feedback on your portfolio is in terms of PDs and LGDs.

Now, for now, I think we should continue to believe we'll be at about 1%. And if there's an upside at some point in time, so be it. There's no need to think about it just now is what I would say.

C.V. Ganesh: Right. I'll just add that, Pranav, that see there is internal data and there are external data as well, right? So we have to be cognizant of the external data telling us a story as well. And that's where, that's why the commentary.

Pranav Gupta: The reason I'm asking this is because while on one side, we are talking about some stress being built up, or at least what data we are seeing. But our growth hasn't really eased off in that

segment, right? So it's sort of sounding either counterintuitive or us being too cautious. That's the reason I'm asking this question, because our growth has been pretty strong in the mortgage piece as well.

Anil Kothuri: You're right. I think what you should take away is that the management expects 1%. And there have been better one-plus 30 plus outcomes in the previous quarter. But however, those have been hard one. And I don't think that will change in at least Q3. And we'll wait for Q4 to happen before we comment on what could happen on Q4.

Pranav Gupta: And in that case, do we envisage some slowdown on the smaller ticket or medium ticket lap side in terms of growth as we sort of either tighten standards or take it a little slow in the second half?

Anil Kothuri: In Q3, definitely. Because as any organization would, we continually review our practices, see what kind of borrowers are stressed and all that. And we calibrate our approach. So I can say that since we are already almost a month into Q3, there will be a marginal slowing down in this quarter. And in Q4, depending on what it looks like while we enter Q4, we will be able to guide you.

C.V. Ganesh: So I'll just maybe supplement what Anil is saying there. See, I think one thing a little different about us is that we are not a single product company. We have four products. So if you see the medium ticket, while there has been a slowdown in the small ticket portfolio, if you see our originations in the medium ticket lap, it has gone up 50% quarter-on-quarter. And the year-on-year growth in that book is 130%.

So we have multiple levers. And if we go slow on something, we have the opportunity to go fast on something else. So that gives us confidence in terms of the resilience of the product suite.

Pranav Gupta: Yes, absolutely. Just one last question on the gold loan bid. So we've seen the investments come off on a quarter-on-quarter basis. Obviously, last quarter was probably an aberration on the upside. And if you see the off-book proportion, that has also come off on a quarter-on-quarter basis. Are we seeing any teething issues on the gold lending partnerships? Or is it just a blip in the quarter and then you normalize from here?

Anil Kothuri: So the growth of gold loan is not a concern here. And you should not look at disbursals. You should look at the growth in the balance sheet. Because the borrowers tend to borrow multiple times. And repay. So from that standpoint, we are well served. We had a blowout Q1 because of a dramatic increase in the price of gold at that point in time. That is point number one.

Point number two is you look at our co-lending volume. It has stayed roughly more or less static over the past, quarter or so. That's because our partner banks are also processing all the regulations that the RBI is issuing. As we speak, we are talking to three new providers. And we are inking in the midst of going live, in the process of going live with three new partners. And that should happen over the next couple of weeks.

So the hiatus that we have seen over the past quarter is because people are trying to come to grips with the -- with the altered reality, if any, for them. And otherwise, structurally, I don't see

a slowing down of co-lending for gold loan because the banks are hungry to get as much gold loan as possible because it's a zero-risk weight product for them.

So, it's an arrangement that works very well for the bank as well as for the NBFC that partners it.

C.V. Ganesh: I'll just add a little bit more to that commentary. See, in the regulatory context, RBI has been very stubble'd in terms of their approach, and they have been soliciting a lot of data points from various providers. So normally, in such an environment, when, all regulated entities are a little unsure. And typically when you're unsure, you go slow. You remove your leg off the accelerator. I think that's -- only that much to it for Q2.

Pranav Gupta: And could we just get the amount of tonnage on an absolute basis, if possible?

C.V. Ganesh: We were a little under 11 tons. So we were a little under 11 tons, yes. 10.7 is the number.

Pranav Gupta: And maybe a Q2-Y-o-Y comparison, if possible?

C.V. Ganesh: So 10.2 June, and 8.3 in September '23.

Moderator: The next question is from the line of Ganesh Nagarsekar from Bharat Bet Research.

Ganesh Nagarsekar: So my question is regarding the business loan book. So if you look at the average ticket size here, it's gone up quite substantially from, 2.25 million to 2.86 million or so. And I just broadly wanted to understand the reason for this drastic jump, given that broadly we are a bit cautious on the credit environment. So broadly, how are we looking at this case and incremental lending in this subsector as well?

Anil Kothuri: So the business loan -- our business loans are catered to a segment which is, the prime segment, which means these are customers who have a P&L, balance sheet, tax return, and everything else. So that is the segment that we cater to. That is point number one. Point number two is that we see that this is a risk grind by ticket size. So that is the second thing that we see.

In terms of ticket size, our average ticket size for the quarter gone by was INR23.4 lakh, which has been constant at least over the past six quarters. Q4'23 was 23, 23.1, 24, 24.4, 24.3, 23.2, 23.4. So I'm just reading out data in Q4'23. We are in Q2'25. So for the past seven quarters, it's been constant. So it's not a change in target segment or something.

Ganesh Nagarsekar: So the number on the presentation is 2.86 million. I just wanted to make sense of that number.

Anil Kothuri: Which information, which data slide are you using?

Ganesh Nagarsekar: On slide 41.

Anil Kothuri: Average ticket size for retail instalment loans. This includes medium ticket loan against property, small ticket loan against property, as well as business loans, which means it includes all our non-gold businesses. So there is a medium ticket loan against property business that we have where the average ticket size is about, I think, INR60 lakh. -- So now I get your question...

- Ganesh Nagarsekar:** The bulk of the growth is -- the ticket sizes come in the medium ticket lap, is it?
- C.V. Ganesh:** That's right. See, as I articulated, that has gone up 50%. The originations have gone up 50% quarter-on-quarter. That's taken up the average, at an instalment loan level, it's taken up the average ticket size of the book, per se. But on the unsecured business loan side, we continue to keep it steady or maybe a little lower than it used to be on a quarter-on-quarter basis. And if you see, even the off-book arrangements on that has gone up to 33% in September from 30% in June.
- Moderator:** The next question is from the line of Manav, Individual Investor.
- Manav:** Sir, can you give your guidance for the ROA and the ROE numbers because it is continuously decreasing from last two, three quarters?
- C.V. Ganesh:** So, I'll try to answer that. See, essentially -- as you would have seen the sectoral commentary, while all of us would have liked interest rates to go down, interest rates continue to remain at elevated levels. Plus, there is a funding squeeze in terms of bank lending to NBFCs, which is making liabilities costly, right?
- So the environment that combined with the commentary in terms of the increase in collection intensity on the ground and subsequent costs incidental there too, right, lead us to believe that we may need to downward revise our guidance from what we had given in Q1. As of now, you know, so we had delivered a 2.4% ROE in FY '24. I think conservatively, you know, we will at least try to be steady on that for this financial year.
- Again, every quarter we will revise this. But as of now, looking at how Q1 and Q2 have trended and some of the other indicators, while we have had a robust asset growth, looking at some of the other indicators, it requires us to be a little more conservative in terms of this.
- Manav:** So ROE in the Q1 you had given that it will be between 2.7 to 2.75. So now you are telling that it will be around 2.5, right?
- C.V. Ganesh:** So we are saying we will try to maintain it at the FY '24 level. FY '24 it was 2.4.
- Moderator:** The next question is from the line of Sandeep Joshi from Unifi Capital. Please go ahead, sir.
- Sandeep Joshi:** So I am just trying to understand our credit cost guidance. So I guess for the first half, we are somewhere about 1.4 to 1.5 level. And I guess for the full financial year, we have guided between 90 basis points to 100 basis points. Is that correct?
- C.V. Ganesh:** That's right, yes.
- Sandeep Joshi:** Yes, so which means that for second half, we are building a very, very minimal credit cost for the second half. So that will be led by resolutions, or can you just speak a little bit on this?
- C.V. Ganesh:** Yes. So, Sandeep, I will maybe just clarify. So when Anil guided about 100 bps, he meant on the ROA tree basis, not on the AUF basis. If you see on the ROA tree, right, on ROA basis, I think our credit cost is coming off a little under 1.3. I think you should look at that number in terms of that indicator.

- Sandeep Joshi:** Sure, understood.
- C.V. Ganesh:** We believe that we are being -- as one of our colleagues on the call said, maybe we are being a little more conservative is what we believe. We would like to be hopeful. So that's where it is.
- Moderator:** The next question is from the line of Renish from ICICI. Please go ahead, sir.
- Renish:** Just one question from my side on the growth. Even the situation is that maybe we are also of the opinion that there is some stress building up in some of the product segments, be it unsecured loan or small ticket LAP segment. So what is the guidance for growth maybe for FY '25 and if you would like to share for '26 as well?
- Anil Kothuri:** So, we have four businesses, Renish, and let's look at them, try and build this growth up elementally business by business. Now, as far as gold loan is concerned, it's in a good place. And the growth will be determined by two things over the next six months. One, obviously, is the price of gold, which seems to have an upward bias. That is one.
- And the second is the fact that we will have 50 additional branches. Okay. Those branches, you know, did not exist or did not deliver in the first half of the year. So the second half of the year, they will be productive. Okay. So that is one. So the gold loan business is in a good place. It is robust. And as soon as the new co-lending arrangements kick in, we will have the ability to press the pedal on originations, even in the slightly lower yield segment. Okay. So that is as far as gold loan is concerned.
- Now, as far as medium ticket loan against property is concerned, our originations have been increasing quarter-on-quarter. And we seem to have settled in on a sweet spot, which optimizes yield, risk, and growth for us. We are able to get all three, you know, in the cities that we do business in with the product that we sell. So that business has no issues. It should continue to grow. And the trajectory of origination and growth is there on a slide in the deck.
- Now, as far as unsecured is concerned, the feedback from our portfolio has been similar to the previous year, if not marginally better. Now, in contrast to whatever the environment is articulating on unsecured performance, our unsecured portfolio has largely held. We are also seeing a lot of interest from banks to purchase our unsecured portfolio. In the first half of the year, we sold down as much as we originated, roughly. So that business is good.
- And the origination on that and the growth on that is calibrated by how much we want to keep unsecured as part of our overall AUF. So that's what determines this. So, these three businesses, there are no issues at all. Now, the small mortgage business because of the share, number of tickets and the spread that this business has 18 states that we are present in, we are saying that there is no need to double down on growth the way we did last year. Last year, we had a near 80% increase in terms of AUM growth. That is not what we are shooting for in the current year.
- We are saying that we will be a little more measured and ensure that we get better portfolio outcomes than we did in the past. Evidence of that is the 1 plus and 30 plus that you are seeing in the deck. We should try and better that in the coming quarter and that will be a good place to

be in. A couple of INR100 crores of growth this way or that, we are reasonably sanguine as far as the unsecured lending business is concerned.

Now, equally we are continuing to invest in the business. We are building 30 new branches in the unsecured loan business because that is not for today. That is for the years to come. That's how we see growth here. Also, we started this year with INR12,000 crores, INR12,100, we are at INR14,200. So, that's already a 40% kind of annualized growth that we are seeing now. Our guidance always has been that we will strive to do 25% and anything over and above that will be opportunistic.

We have been opportunistic because gold has worked well for us for environmental kind of reasons. And that is the upside and the advantage of our twin-engine model, and which will use to compensate maybe some lower origination in the small mortgage business, but overall 30-35% I think is reasonably there for the taking in the current financial year.

Renish: Okay, got it. This is very helpful, sir.

Anil Kothuri: Given that we have already finished the first two quarters, and we have done INR2,100 crores of growth.

Renish: Correct.

Anil Kothuri: Sorry apparently I said 30 branches in unsecured, 30 branches in small mortgage. So, I should clarify. Sorry.

Renish: Okay, so another 30 branches in second half.

Anil Kothuri: No, apparently when I spoke in my commentary, I said 30 branches in unsecured. I misspoke. I said we are opening 30 branches in the small mortgage business.

Renish: Got it. So, this is over and above 40 plus branches what we added this quarter, right?

Anil Kothuri: Yes we added 46 in the quarter gone by. Okay. Our total, our target for the year is 80. So, 80 minus 46 is 34.

Renish: Okay, got it. Thank you, sir and best of luck.

Moderator: Thank you for that question, sir. The next question is from the line of Sneha Ganatra from Star Union. Please go ahead, ma'am.

Sneha Ganatra: Hello. Regarding this, just wanted to know your thoughts on this, basically on the margin and the cost of funds. I just want to understand that are we seeing that the cost of funds are expected to be peaked out from here on? How do you see the second half of the cost of funds and basically on the margin? Can you guide us?

And second question is what are the opex that we are planning for additional 40 branches and additional overall 80 branches and additional 40 branches are expected to come? So, what are

the core benefits? When we expect that the cost to income benefit that could be, that we can incur?

Moderator: Ms. Sneha, we can't hear you. Can you please?

Sneha Ganatra: Yes, first question is just wanted to know your thoughts. How is the cost of funds to be planning out? Are we seeing the peak in the cost of funds considering the rating agency has upgraded us? And second question is how do we see overall opex to be planning out and when we expect that operating leverage benefit that will occur in the upcoming quarter?

Anil Kothuri: So, I will request Ganesh to answer question one on our cost of funds and what we anticipate will happen in H2.

C.V. Ganesh: Thank you, Sneha, for the question. I think it is fair to say that I don't have a good answer for that because we have been hopeful that RBI will mirror what the Fed is doing, but it will happen when it happens. Till then the money market continues to be tight. Lending rates continue to be high. So, Q3 we have been I think, will the cost of funds be lower than Q2? I don't think so. Okay, so Q4 is a different game.

So, based on what happens in the December policy, we may see a calibration. So, I think we should not prejudge RBI. We will watch it every two months depending on how the RBI policy pans out, but at least for now, it seems reasonably clear that in Q3, we may at best be steady or maybe a little higher on the cost of funds than lower. Now, the second question was in terms of operating leverage. I will pass it on to Anil.

Anil Kothuri: So, yes your second like I said, we are opening 80 branches in the course of the year. We finished with opening 46 and the remainder we have either opened in October or should finish, by the end of November. Now, opening branches is a bit like going to the gym. You wish you had done it in the morning so that the rest of the day is good, but it's not fun when you do it.

In our gold loan trajectory this year, there was a huge tailwind in terms of the price of the gold. And our AUM per branch increased quite dramatically last year from about INR7.5 crores to INR11 crores or so. Now, what we wish this year was that instead of, 400 branches, 430 branches, we should have had 600 branches or 700 branches. That was our wish. But then the time for us to have opened this was 2 years ago when, it would have hit our P&L then. So, that's just how it is.

Now, we opened branches out of these 80 branches, 50 are for gold, 30 are for small mortgage. The small mortgage branches between opening, staffing, and achieving some level of maturity is 15 to 18 months' time frame. Our thinking is that instead of tanking up on growth in specific years, it should be a gently calibrated branch opening kind of strategy.

Now, in terms of approach, what we are seeing is that we will try and do it in a way that it least impacts our cost to income, which means we are not adding any senior cost, any supervisory cost, but we are adding branches in regions that we are already present in, which is why our headline of 18 states and union territories hasn't changed for at least almost a year now. So, we are adding branches, the area manager and the, business head and the regional manager all exist.

So, we will at least add only production staff and that should translate into origination very quickly and give us slightly better P&L outcomes.

Sneha Ganatra: Okay, and one more question, once you mentioned the stress, are we witnessing any geography specific stress, or it will be across the state?

Anil Kothuri: The stress is actually segment specific, yes. We are seeing people, who are paying mortgage loans at what was a 50% instalment to income ratio, over two years. Now, normally what happens is that the instalment to income ratio declines because the instalment stays the same and the income increases, let's say, nominally by 10% every year, which is your inflation.

Now, what is happening is that the inflation that is hitting the poor, this segment is far in excess of nominal inflation. So, therefore the 50% that they had, okay, to repay the loan is now, let's say, less than 50% of the overall income. Structurally, that is what is happening, and this is what I piece together from, interactions with our field force and all that. Okay, so that's the way I see it.

Sneha Ganatra: Okay, because already we have achieved a strong set of the numbers. We would be continuing guidance of a 25%. We won't like to revise our guidance afterwards.

Anil Kothuri: Sorry, if I can ask you to repeat the question and, from a bit further away from the phone, yes.

Sneha Ganatra: Yes, just wanted to know, already they have achieved a strong set of numbers on the growth fund, and we won't be planning to revise our growth guidance about 25% plus for the next fiscal also?

Anil Kothuri: No, the next fiscal is 6 months away. So, I think when I say 25%, that is, on a medium-term basis. We've had a good 6 months, and we have overshot that guidance. That is correct. But equally, we should be conscious that not every quarter will be like this. The price of gold can come down sometimes or, there may be some competitive intensity somewhere. Lots of things can happen.

So, I just think when you are guiding for the medium term, we should take 25% plus and, we'll try and stay ahead of the asking rate quarter-on-quarter and maybe better outcomes will result like we've seen. Now, as far as the next fiscal is concerned, it is 6 months away. So, maybe the right time to discuss this would be either the next earnings call, where we can guide for 6 months ahead from there and so on. But for now, I think we have visibility to the current financial area.

Sneha Ganatra: Okay, thank you and all the best and hope to continue to deliver the stimulus to campus.

Anil Kothuri: Thank you so much, Sneha. Thank you.

Moderator: Thank you for that question, ma'am. The next question is from the line of Aditya from Securities Investment Management. Please go ahead.

Aditya: So, I had a question on your medium-ticket LAP segment. So, who would be some of the players we will be competing against in this segment? And so, here we are catering to, higher quality customers where the credit assessment is more income based rather than cash flow based. So, if

you could just help us understand, do we have any advantage over smaller banks or small finance banks who are also in this segment? Who would have a cost of fund advantage over us?

Anil Kothuri:

So, I don't know what the cost of funds of individual small finance banks is. But leaving that aside, the loan against property business is largely done by the private banks. And they have, let's say, thousands of branches across the country. The way they seek to manage, this large network of branches is by having some kind of a uniformity of approach. So, there is a standard product that you offer, any deviations to that are approved.

And their degree of standardization is far higher because, that is the scale at which they need to manage. Now, where organizations like Fedfina, why Fedfina does business is because the segment that we cater to is, does not fit into the standardized norms that various banks have. So, which is why it's a slightly more intensive or diligent kind of underwriting that we need to do.

You cannot just take somebody's numbers, put it in a spreadsheet, send it up the chain for approval and go on. The upshot of this is that we get better yields from our customers, okay, for roughly the same level of risk. That is roughly what it is. So, that's the reason we do business. And like I mentioned, we are able, we've been in this business since 2011. We've disbursed about, I think, some between INR10,000 crores and INR12,000 crores at this point in time, till now.

And this segment has worked very well for us from a risk as well as revenue standpoint. The other thing is that the PSU Bank system would like to do business but does not have the commensurate ability to originate loans. That's why they like to buy our portfolios and our DA transactions every quarter are testimony to this.

We have, I think, how much, almost 27% or so, which is off scope, which is what we've sold down to, 20.8% of our portfolio, which we've sold down. And on an incremental basis, broadly, whatever we originate, we manage to sell down to our counterparty. 24.2% is what we have on the market business overall, yes.

Aditya:

Sir. Some of the smaller banks have started offering OD products, to these smaller customers. So, we being a BSC, we won't be able to provide this overdraft facility. So, do you think this could hamper our growth in the future segment because some of these, this seems to be an attractive option for a borrower to have an OD facility instead of a term loan?

Anil Kothuri:

Correct. There is, broadly, I'll tell you why people end up taking a term loan. It is to finance expansion of business. In a nutshell, that's what they do. Okay? If somebody's got a shop, he wants to buy stock, he does that. Somebody's got two outlets, selling Namkeen and Ahmedabad, he wants to put up a third outlet. That kind of expansion people take these loans for and they're quite happy paying instalments.

Now, it's a, what, INR6.5 lakh crores, INR7 lakh crores kind of AUM, industry-wide. Sure, some part of it is OD, okay. And I have no numbers on how much is OD. But, judgmentally, I don't think the fact that we don't offer OD will impact us. Thus far, it hasn't. But the future is not ours to see.

- Aditya:** Last question on this median ticket LAP. So, what kind of ROEs we would be making in this segment?
- Anil Kothuri:** So, this business is an extremely profitable one for us. And the ROEs that we get are above-entity ROEs, yes. So, it makes sense for us.
- Aditya:** Instead of the yields being 3% to 4% lower, we are making better ROEs than the company level?
- Anil Kothuri:** Correct.
- Aditya:** Okay. Sure, sir. Thank you for answering my questions.
- Anil Kothuri:** Thank you.
- Moderator:** As there are no further questions, I would now like to hand the conference over to Mr. Shreepal Doshi for closing comment.
- Shreepal Doshi:** Thank you to all participants for being part of the call. And thank you to the management of Fedbank for giving us the opportunity to host this call. Thank you, sir. And thanks to everyone for being part of the call.
- Moderator:** On behalf of Fedbank Financial Service Limited, I conclude this conference. Thank you for joining us and you may now disconnect your lines.