Secretarial Department

July 26, 2024

Ref. FEDFINA/ CS/ 141/ 2024-25

To, National Stock Exchange of India Ltd., Listing Department Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 Symbol: FEDFINA	To, BSE Limited, The Corporate Relationship Dept. Rotunda Building, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400 001 Scrip Code: 544027

Sub: Transcript of Earnings Conference Call held on Friday, July 19, 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 July 19, 2024.

The transcript of the earnings conference call shall be uploaded on the website of the Company at https://www.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

Digitally signed by RAJARAMAN SUNDARESAN
Date: 2024.07.26 12:34:00 +05'30'

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

"Fedbank Financial Services Limited
Q1 FY '25 Results Conference Call"
July 19, 2024

MANAGEMENT: **MR. ANIL KOTHURI – MANAGING DIRECTOR AND CHIEF EXECUTIVE DIRECTOR – 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 the Fedbank Financial Services Limited Q1 FY '25 Results 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 touchtone phone. Please note that this conference is being recorded.

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

Shreepal Doshi: Thank you, Siddhant. Good evening everyone. I welcome you all to the Earnings Conference Call of Fedbank Financial Services to discuss the Q1 FY '25 performance of the Company. We have the senior management team of Fedbank Financial Services represented by Mr. Anil Kothuri, MD and CEO; Mr. C.V. Ganesh, CFO; and Mr. Amit Singh, Head, IR.

I would now like to hand over the call to Mr. Anil for his opening comments, post which we can open the floor for question and answer. Over to you, Anil, sir.

Anil Kothuri: Thanks, Shreepal and welcome everybody to the Q1 Earnings Call of Fedbank Financial Services Limited. As you're probably aware, we are in business to empower emerging India with easy access to loans. We do this -- we cater to the small self-employed customer. And for this, we have a twin-engine strategy, which basically consists of loans against gold and mortgage loans. This strategy played out well and was validated during the quarter gone by.

In the quarter gone by, we've seen an AUM growth of INR996 crores. So that is an 8% growth quarter-on-quarter, and year-on-year, it is about 40%. Now the bulk of this AUM growth came from the gold loan business. The gold loan business grew by 15% quarter-on-quarter and 46% year-on-year. We benefited from an increase in gold prices and the productivity of our gold loan branches also shot up during the quarter. In fact on a year-on-year basis, our tonnage of gold actually increased about 26% while the AUM went up 46%. That's the gold loan business.

We also made progress on our off-book strategy and increased our off-book AUM from 18.7% in the quarter gone by to 20.7%. So as a result, the non-gold -- the increase in our balance sheet was 500 and -- was about INR590 crores, of which INR560 crores or so was the gold loan business. So the quarter gone by has seen very strong growth, unlike a typical quarter one that is on the back of the gold loan business. Now, as a consequence, we -- our AUM grew by 8.2% quarter-on-quarter, INR996 crores.

We delivered a profit after tax of INR70.23 crores. That is up 30% year-on-year and 3.8% quarter-on-quarter. Our cost to income also improved from 57.3% in the previous quarter to 55.4% in the current quarter, and our ROA and ROE were 2.4% and 12.3%, respectively. So these were the highlights of the quarter gone by in terms of growth and disbursals.

On -- our GNPA increased by 30 basis points in the quarter gone by. This is in line with what happened in quarter one last year where we also increased by about 30 basis points. It was a challenging collections environment in quarter one and we are hopeful of consolidating from hereon.

The other update is that from a system standpoint, we implemented Salesforce across the 180 mortgage branches on our network. So all disbursals now -- all our throughput is on Salesforce right from the login stage to the disbursal stage.

From a regulatory standpoint, on the 8th of May, the Reserve Bank mandated disbursals only through electronic form beyond a threshold of INR20,000 for the gold loan business. We cut over to a 100% electronic disbursals regime the very next day. So all our disbursals on the gold loan business are entirely through electronic form and we are now -- we are entirely in compliance with the RBI directive. That's the update on regulations there.

What I'll do now is to hand over to C. V. Ganesh, who will take us through the financials and the numbers on -- with a little more detail, and I'll come back to taking questions.

C. V. Ganesh: Yes. Thank you Anil, and thanks everyone for your participation on this call. This quarter in specific was a momentous one for us, and we crossed at least three milestones. The first one was that our gross disbursements crossed INR5,000 crores for the first time in our history. The second is that our AUM growth during the quarter came in a whisker under INR1,000 crores. And the third milestone was that our average gold loan AUM per branch has now crossed INR10 crores per branch. So across these three milestones, we have had a good quarter.

Coming on to disbursements. Our gold loan disbursements for quarter one stood at INR3,970 crores, which was up 39% quarter-on-quarter and 73% year-on-year. Mortgage loan disbursements at INR737.6 crores were also up 74% year-on-year and business loan disbursements grew 21% year-on-year.

On the AUM side, at the end of -- on the loan book side and on the total overall balance sheet side, as of June 30, our balance sheet is just shy of INR12,000 crores, an increase of 27% over Q1 FY '24. Our AUM as of 30th June stood at INR13,188 crores, which is an increase of 40% over the corresponding quarter of June '23 and an increase of 8% over the last quarter.

Of the total AUM growth we achieved in quarter one of INR996 crores, 59% of that AUM growth was contributed by gold loans alone. The fact that this happened after a transition to a fully digital disbursement mode in a cash-intensive industry vindicates the head start we had in this matter.

The gold loan AUM grew 46% year-on-year and 15% sequentially over last quarter and now stands at INR4,562 crores, constituting 35% of our AUM and 38% of our on-balance sheet loan book, which is up from 33% of AUM and 35% of loan book in the March '24 quarter. The mortgage AUM grew 40% year-on-year and 5.88% sequentially.

As Anil articulated, the financial sector and NBFCs, in particular had multiple regulatory headwinds in Q1 '25. Mentioning a few, there was the cap on gold loans in cash. Then on April 29th, RBI came out prescribing new guidelines on fair practices to be adopted by regulated entities in terms of when interest can be charged from, collection of advance installments, charging for interest -- modus of charging for interest in the month of disbursement, etc.

The minutiae in the new guidelines may have some impact on revenue and asset quality for NBFC sector in the transition period, and our results also need to be seen in that context. I now come to the profit and loss account. Our net interest income at INR249.6 crores grew 19% sequentially quarter-on-quarter and 41% year-on-year, outpacing the loan book growth. This included a net gain from direct assignments of INR21.5 crores. Adjusted for the sales, the core net interest income has grown 7.5% sequentially and 28.5% year-on-year, which is again more than the loan book growth in the corresponding period.

As against this net interest income growth, operating expenses grew 9.7% quarter-on-quarter and 31.5% year-on-year, some of which is a wage-related quarter one impact. This resulted in pre-provisioning operating profit, PPOP, growing 18.6% quarter-on-quarter and 55.7% year-on-year to INR128.8 crores.

Credit costs came in higher at INR35.2 crores, up 98% quarter-on-quarter due to a one-off write-off of a trade receivable amounting to INR3.7 crores, technical write-offs of INR16.7 crores during the quarter, and the overall increase in ECL provisions due to bucket delinquencies, especially in the mortgage book. Consequently, PAT was INR70.2 crores, up 30% year-on-year and 4% quarter-on-quarter.

Due to our income expanding at a higher TAC than expenses, our cost-to-income ratio has improved to 55.4% from 57.4% in quarter four '24. We expect to continue to scale up our branch infrastructure over the next two quarters to aid a sustained AUM growth, and that investment may temper the cost-to-income in the short term, but will be medium and long-term accretive.

The Company continued to move forward in its policy of deleveraging through co-lending and direct assignment of installment loans. As on June 30th, our off-balance sheet book stands at INR2,725 crores, up 168% year-on-year from INR1,039 crores in the previous year, and up 20% quarter-on-quarter.

Of this, gold loans held in partner books accounted for INR630 crores, while mortgage and unsecured business loans accounted for the rest. While this earns us a spread while needing to devote only limited capital, it has helped us manage a relatively lower debt/equity ratio at 4 and enhanced capital CRAR at 22.8% without needing to compromise on the exciting loan growth opportunities.

On the NPA front, our Gross Stage 3 assets stood at 1.97% with Net Stage 3 assets being 1.60%. These are attributable to higher mortgage delinquencies, but our comparatively lower LTVs on the mortgage product, which is mentioned in our presentation, give us comfort on our collections ability.

On the treasury front, on a quarter-on-quarter basis, our average blended interest cost on overall borrowing has gone up 3 bps from 8.75% in the last quarter to 8.78%. The rise is attributable to a full quarter impact of rate resets on borrowings in the last quarter.

Our incremental cost of borrowing for quarter one '25 was 8.63%. Around 88.7% of our borrowings are on a floating rate benchmark, which should help us when rates start to moderate downwards. Also, roughly 30% of our borrowings are on external-linked benchmark, namely repo or T-bill, which should accelerate the downward journey from a benchmark perspective.

In quarter one '25, 68% of the incremental borrowings in the quarter, or INR1,415 crores to be exact, were at external benchmarks, which were either repo or T-bill linked. Lastly, our net worth as of June 30, '24 was INR2,322 crores and our book value per share was INR62.60.

With that, I now hand over to the moderator for inviting questions.

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

Renish: Yes. Hi, sir. Just two, three questions from my side. One, on the asset quality. So we have seen some deterioration this quarter on most of the asset quality metrics, whether it is credit cost, GNPA, 1+ DPD, etcetera. Especially in the mortgage book, though I know there is a seasonality, right, I mean, last quarter, we sold something to RCM there was a sharp fall in the gross NPA ratios. But if you can throw some light on what is leading to this deterioration or this is purely because of the similarity?

Anil Kothuri: All right. So you look at Q1, typically we have the highest GNPA of the year in Q1. I'll just give you numbers that we had last year. In Q4 '23, our Stage 3 was 2%, which went up to 2.3% in Q1 '24. Correspondingly, in Q4 '24, we were 1.7%, and we've gone up to 2%. So a 0.3% increase is something that we've seen the past three years in Q1. Seasonally, I think this is a slightly tougher quarter to collect.

Also, the fact is, operationally, after a hectic March, people take their leaves in April and all that, and that does have an impact. So Q1 seasonally is that. So that's the way it is. Having said that, our understanding and the progress that we are seeing in June, July and all that says -- suggests that our annualized credit costs should be as envisaged. We've guided 0.8% and we should stick to that number is my guidance.

Renish: Got it. So basically, the trend which we have seen this quarter is purely because of either due to some seasonality or due to some operational challenge, and that should reverse in rest of the three quarters. I mean, is that fair understanding, sir?

Anil Kothuri: Yes. From the field, people said things like it was very hot and there were elections and all of those kind of things, but that's...

Renish: Correct. Correct…

Anil Kothuri: But yes, that's where we are. But having said that, I should we fix this in the coming quarter.

Renish: Got it. Sir, my second question is on the asset yield. So this quarter, we have seen a pretty sharp increase in the asset yield of more than 90 basis points sequentially. Of course, some bit of it is because of the high growth in gold loan, which is at almost 16% versus mortgage at 14%. So how do you see the asset yield settling over the next three quarters from this base?

Anil Kothuri: You're referring, I presume, to the numbers on slide 35. Is that right?

Renish: Yes. Correct.

Anil Kothuri: Yes. So Q3 shows 17.4%, Q4 shows 16%, and Q1 again shows 17.4%. So our daily average portfolio yield is reasonably constant or has been over the past three quarters. So the undulations that you see which is 17.4% going to 16% and going to 17.4%, is actually a Q4 quirk where we had a blowout March. So the 2 point average the interest income divided by 2 point average actually comes to 16% where a lot of the business was back ended.

It's just a statistical quirk which shows the yields at 16% there, but otherwise if you look at it on a daily average basis it has been rock solid. Our yields were 16.11% in Q3, 16.21% in Q4 and 16.1% in Q1 FY '25. So there has been no change as you would expect in an actuarial business.

Renish Bhuva: Got it. So it's just a mathematical abbreviation. Otherwise trends are pretty much solid. Okay. And my last question is on the cost of borrowing. So again we have seen a pretty sharp increase to 9.3% and I'm assuming maybe some part of the borrowing might have come for a reprice at a higher rate. And if that is the case then it is fair to assume that the bulk of repricing is behind and now the cost of fund should stabilize at around 9% in Q1.

Anil Kothuri: Actually this is again, 2 point average. You look at Slide 45 we've given the daily average cost of borrowing, and Ganesh also articulated this. In Q4, our daily average cost of borrowing was 8.75%. And in Q1 that is 8.78%. So that 9.3% at a 2 point average, what happens is that on the last day of the month you end up taking bank disbursals. So that just distorts the 2 point average.

Renish Bhuva: Got it. And sorry just last question on the branch expansion part what Ganesh, sir was highlighting/ I mean so sir has also mentioned that the cost in the interim will go up. I mean would you like to put any numbers around it? I mean at what level you see the cost inching up once we start the branch expansion plan?

Anil Kothuri: I think our branch opening agenda for the year we haven't embarked on in Q1. We envisage opening 50 gold loan branches and 30 small mortgage branches. Now while those have got identified and work is underway the costs haven't hit us yet. So obviously the new branches will be a drag on cost to income. So that was the point that he was making.

My sense is that the impact should be at about 1 percentage points, 1.5 percentage points in terms of cost to income when we open those branches. So in our 2Q or Q3 depending on how we execute and open up that should be the kind of impact is what I would think.

Renish Bhuva: Got it. Sorry sir just last thing. On this one-off write-off which Ganesh sir was mentioning about the trade receivable, can you just throw some light on, I mean, what kind of a exposure this was?

Anil Kothuri: So this was INR3.5 crores. It was a trade receivable from a counterparty and it was due for a reasonably long while. The amount was a little larger. So we had provisioned some bit of it in the past. So this quarter we took a decision to write it off entirely. And the accounting demands that that comes on the credit cost line because that was a receivable.

The objective of Ganesh articulating it is to say that it has nothing to do with the portfolio performance. That INR3.5 crores has nothing to do with the portfolio performance. That's all. Yes.

C. V. Ganesh: So that was a legacy item Renish. It was a one-off. So the idea of pointing it out or calling it out was that if you exclude the effect of that item the credit cost would be lower by about 16 bps.

Renish Bhuva: Got it sir. Okay.

C. V. Ganesh: So that has to be seen in that perspective and not to be confused with any loan quality in that regard.

Renish Bhuva: Got it. Thank you sir and best of luck, sir.

Anil Kothuri: Thanks so much.

C. V. Ganesh: Thank you.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Aionios Alpha Investment Advisors. Go ahead, sir.

Pranav Gupta: Yes. Hi. Good afternoon and thanks for the opportunity. Congratulations on a decent set of numbers. Just a few questions. One just touching up on the asset quality bit like you mentioned there was some seasonality that we saw in this quarter mainly coming in from the mortgages book. Just to sort of crosscheck that have you seen any geographical SKU or whether it's coming more from the mid -- the small ticket mortgages or the medium ticket mortgages? Any deeper understanding on that bit, that will be really helpful?

Anil Kothuri: The -- what we've seen in quarter 1 is an impact across the board Pranav. It's not that anyone geography has blown out or something. What we've seen is an increase across the board and this is basically due to the collection effort or the intensity or the difficulty of realizing money on Q1 whichever it is.

There is nothing to call out from a geography standpoint. It is not that one geography is -- has done significantly worse than the other. And what we've seen is in the small mortgage business because the number of tickets in the larger business tend to be lower. So therefore the efforts are a little more concentrated there.

Pranav Gupta: Okay. Just to understand this a bit better is it fair to assume that we should -- while we see improvements in stage 3 through the year as we've seen last year because of the seasonality sort of going away, is it fair to assume that we should start seeing pullbacks in one-plus and 30-plus buckets as well going forward?

Anil Kothuri: Yes, most definitely.

Pranav Gupta: Okay. The second bit is on the branch openings. You mentioned that we'll be opening 50 gold loan branches and 30 mortgage branches like we have guided. Are we still sticking to our reduction of 40 basis points reduction in cost to average AUM guidance for '25 or is there any change there?

Anil Kothuri: No, we're sticking to that. In fact the branch openings were part of our long-term planning process and whatever guidance we have in terms of our cost to AUM or our cost to income includes these initiatives. It is just that they haven't played out in Q1 and they will play out in Q2 and Q3.

Pranav Gupta: Understood. Sir just one last question on the Salesforce bit. So you mentioned that now Salesforce is life on -- live on all the mortgage branches. When do we see this sort of being implemented fully on the gold loan bit and also is there any additional cost that is sort of planned for Salesforce implementation in the year going ahead?

Anil Kothuri: So the gold loan business is on a different system. It's called Prosper by -- Prosper [inaudible 28:22]. This is something that we implemented in the year 2021 and absolutely everything we do in the gold loan business is on this system. It's probably the industry standard or industry-leading gold loan system implementation that we have so which is why we are now a cashless, paperless gold loan business.

Now the implementation is for the small mortgage business which is the -- which is where the bulk of the tickets reside. Now that one we've digested in the previous quarter all our 180 branches are live. So that is behind us. Whatever costs relate to Salesforce implementation are there in the numbers that you see and they will continue for the rest of the year.

Pranav Gupta: Understood. Thank you so much and good luck for the future quarters.

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

Moderator: Thank you. Our next question is from the line of Deepak Mandhana from Avighna Investments. Please go ahead, sir.

Deepak Mandhana: Hello. Hi sir. Congratulations for the good set of numbers. My basic two, three queries were one that the -- what is the average tenure of the loans in each of the segment, business loans, mortgage loan and the gold loan?

Anil Kothuri: So the gold loan business has an average tenure of between four months and five months. Having said that, about 70% of the customers renew their loans, okay? So they do a re-pledge or they simply renew their loans using the Fedfina app. So that's the second loan or a third loan they take. For the unsecured loan business, the door-to-door tenure is three years. So therefore the average tenure is just shy of two years, let's say, about 19 months, 20 months or something like that.

Deepak Mandhana: Okay.

Anil Kothuri: The mortgage business -- the larger mortgage business, the medium ticket mortgage business tends to have a behavioral tenure of 4, 4.5 years, whereas the small mortgage business has a tenure of about 7, 7.5 years.

Deepak Mandhana: Okay.

Anil Kothuri: So those are the tenure dynamics.

Deepak Mandhana: Okay.

Anil Kothuri: So if we just continue to originate just the way we are doing, the portfolio will continue -- will continually get biased towards small mortgages, simply because it has the longest tenure of all products.

Deepak Mandhana: Correct. So is this a prime reason that obviously when I see during the quarter, the disbursements have been of INR50 crores and your AUM size have only increased by INR10 crores. Your AUM has gone to INR131 crores as compared to last quarter when it was -- I mean, INR10 billion. Your AUM -- current AUM is INR131 billion and last quarter was INR121 billion.

Anil Kothuri: Correct.

Deepak Mandhana: And if I see the disbursals is INR50 billion during the quarter. So the net impact of roughly INR40 billion is the amount that you guys would have received back in terms of the people who would have prepaid or their loan tenure would have ended. Is that a correct thinking?

Anil Kothuri: That's correct. I'll just split this a bit for you, Deepak. So of the INR5,000 crores disbursals, about INR3,700 crores is gold loans, okay? Now, the 3,700 -- INR3,970 crores, beg your pardon, so say INR4,000 crores out of the INR5,000 crores is gold loans, okay? Now the INR5,000 crores disbursal for gold loan results in a roughly INR600 crores balance sheet increase.

The way to look at gold loan is how a bank would look at, let's say, a savings account or current account. There are deposits and there are withdrawals, okay, both of which will be large numbers, but the net growth in balances is what's material for the bank. So there's a lot of volume in the gold loan business when it comes to disbursals and repayments, including automatic renewals, which count as both disbursal and repayment, for instance, okay? So INR4,000 crores results in about INR600 crores of balance sheet growth.

On the non-gold business, the installment loan business, we have about INR1,000 crores of disbursals, okay, which result in balance sheet growth of something like -- AUM growth of about INR450 crores.

Deepak Mandhana: Okay. I get that. And the last question was, in the terms of borrowing -- on the side of borrowing, how much is your borrowing assigned from Federal Bank in terms of percentage to overall?

C. V. Ganesh: See, we have about 28 lenders at the current date and roughly 13%...

Deepak Mandhana: Okay.

C. V. Ganesh: Okay? A little over 13% is from Federal Bank.

Deepak Mandhana: Okay. Thank you.

Anil Kothuri: Thanks so much, Deepak.

Deepak Mandhana: Yes.

Moderator: Thank you. The next question is from the line of Mayank Mistry from JM Financial. Please go ahead.

Mayank Mistry: Thanks for the opportunity. Sir, I had three questions. First is on the asset quality again. So we had this high credit cost as per -- we understand due to some seasonality, there was also a one-off and so, but our PCR has dropped since last two quarters. So what is the comfortable level of PCR that we are planning to achieve? Because you still continue to maintain the credit cost guidance at 0.8%. So isn't it the PCR at a slightly lower level?

Anil Kothuri: So when we look at our overall PCR first up is 1.2%, which is the same as the previous quarter, okay? And you can see this on Slide 43, the total ECL provision as a percentage of -- ECL provision as a percentage of total assets is 1.2%, which is the same that has been in the previous quarter, okay?

Now, what happens quarter-on-quarter is that the mix changes, okay? The gold loan business, for instance, did extremely well in the previous quarter. And because of the nature of security and the extreme liquid nature of the security, we are required to provision a far lower amount on, let's say, gross stage 3 or stage 2 for that, okay? So what I can confirm is that on a product-wise basis, our PCR has not changed. It is only the variance in mix that changes the PCR.

Mayank Mistry: Okay. So basically, our gold loan mix is increasing and because of that, denominator is -- but the provision on this book is lower. So that's why the blended PCR is lower. Am I right?

Anil Kothuri: That's right. So if you look at it at a product-wise level, it has not changed and the mix -- product-wise mix contributes to any changes in this.

C. V. Ganesh: So Mayank, I'll just maybe add a little more light to this. Roughly, on the gold loans NPAs, we carry a PCR of about a little under 8%, okay, which is much higher than what is needed, but traditionally, in the last many quarters, we have never had any principal loss or interest loss in any auctioning of gold. But in spite of that, we have, as I said, a little under 8% of PCR on gold loan. On mortgages, we have around 20% of PCR. And that, based on empirical data, is based on our -- the way our LTV works, our recoverability data and so on, right?

And lastly, on the business loans, we have a policy of writing off once it crosses 90 days to 120 days and whatever residual, we have a PCR of at least 58% to 60%. So that's roughly the split. Now between this, as we articulated early in the call, there have been two things which have happened. I did mention that some of the higher provisioned loans, we conservatively took a technical write-off for it, which means we have provided 100%, right?

So that -- what that -- what happens when such a thing happens is, optically, since it goes off the loan book, the loan provision also goes off. So the PCR seems to optically drop. And the second thing which I want to highlight is as -- based on the tremendous growth we have seen in the gold loan book in the last two quarters, that also -- given that that comes at a lower PCR, optically that also, at an entity level, it does not do justice when you look at a number in absolute.

Mayank Mistry: Okay. Got it. Sir, my second question is on the branch. So the number of branches have declined for gold. So which geography has this occurred? So basically, what can be the reason to -- for this decline?

Anil Kothuri: So these are two branches we've -- which we've consolidated with neighboring branches in Tamil Nadu, okay? So it's just two branches because our density of branches was high and it seemed more optimal to consolidate these two branches.

Mayank Mistry: Okay. And sir, my last question is on -- again, on the borrowings, the floating mix of the assets and borrowings that you mentioned. So, on the assets side, if I've heard correctly, it's -- 88.7% is floating rate loans. And on the borrowings side, 30% is EBLR linked. So are -- on the borrowings side, only 30% is floating or what is the exact mix?

C. V. Ganesh: No. So -- Yes. So maybe -- thank you for that question. It helps me clarify the matter. Around a little under 89%, 88.7% to be exact, of our loans are linked to floating rate benchmarks. Now, these floating rate benchmarks are either linked to three-month, six-month or one-year MCLRs of the respective lending institutions or linked to external benchmarks. Out of the floating rate loans linked to external benchmarks, we said 30% is lent -- is on external benchmarks like repo rate or T-bill rate, where your transmission is on a much more accelerated basis. On the MCLR front, we might see a slower transmission. So that was the limited point of providing that clarification.

Mayank Mistry: Okay. So these all on the -- totally on the liabilities side, right?

C. V. Ganesh: That is correct.

Mayank Mistry: Yes. Okay. Got it. Thanks.

Moderator: Thank you. The next question is from the line of Harshit from Premji Investment. Please go ahead.

Harshit: Yes. Sir, just one data keeping question. So if you look at the breakup of asset under finance in the total, there is a slight mismatch, if you can -- on the presentation.

Anil Kothuri: Yes.

Harshit: Yes. So if you can just help clarify that mismatch as to what exactly the balance is? Is it within the mortgage, gold loan or business loan?

Anil Kothuri: You're talking about the balance 2%?

Harshit: Around INR1,500 million. Yes, that INR150 crores balance.

C. V. Ganesh: Can you just help with the slide number for our benefit?

Harshit: Yes, I'll just help you. It's on Slide 31.

Anil Kothuri: So these are basically some Ind AS adjustments, okay, which is EIS, OCI gain and all that, which adds up to INR154 crores.

Harshit: Sorry, sir. Can you again repeat that part? What are these?

C. V. Ganesh: Yes. So basically, see, what we do is, while you have the principal outstanding which flows from an Indian GAAP basis, okay? Now the Ind AS accounting standard has certain accounting adjustments to the loans, right? Now what we have done is we have aggregated that and held it separately at a bucket level. While that is attributed to the loans, but it's coming separately as a line item...

Harshit: That I understand. Got it, sir. Okay, sir.

C. V. Ganesh: So there's nothing else in the balance sheet other than what you see. I think...

Harshit: Understood. Okay.

Moderator: Thank you. The next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: Hi. Yes, good evening. So just firstly, what is the outlook or guidance when it comes to AUM growth and return on assets for FY '25?

Anil Kothuri: We've consistently guided an AUM growth of 25%, Rahil, okay? And we said that we will take advantage of any episodic opportunities to better that. In Q1, we saw the advantage growing -- owing to rising gold prices and the absence of some competition, our gold book -- and gold business has had a good run. We don't know how long this will last, but otherwise, we should be able to grow at 25% on a Y-o-Y basis from hereon. So that is growth. In terms of ROA, I think we should look at an ROA of between 2.7% and 2.75% for the entire year.

Rahil Shah: Okay. And in the beginning of the call, somewhere you mentioned once we start opening the new branches -- you have a branch opening agenda. So once you start doing that, you will see an impact of a certain percentage on cost to income. But then in the middle again, you mentioned you stick to your guidance of cost to income reduction gradually. So just clarify my confusion and can you please also suggest a certain outlook for cost to income for the whole year? What can one expect?

Anil Kothuri: Okay. So in Q4 '24, we were at 57.4%, okay? We should see a bettering of that and come in at 56% at least across the year. Now in Q1, we are better than that, okay, because we haven't opened branches as envisaged. What Ganesh pointed out is that the quarter that we open the branches, we will have the cost, but not the revenues from there, so that could be Q2 or Q3. So that impact will be there. But if you look at our annual financials, we should be able to come in at 56%.

Rahil Shah: Okay. So annually you'll be able to reduce over FY '24 but once we open there will be a certain

Anil Kothuri: [Inaudible 44:52]

Rahil Shah: Yes. Got it. Perfect. Okay. Thank you and all the best.

Anil Kothuri: Thank you so much.

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

Aravind R: Good evening, sir. Like, you were talking about EBLR borrowings and MCLR borrowings. Similarly, on the asset side, I mean, like, do we reset the rates for the products every year or something like that? Or is it always a fixed yield given to the customers?

Anil Kothuri: So we have different kinds of asset products, and I'll lay them out for you. The gold loan is a short-tenor product. So -- and there is a jumping interest rate regime in [46:18 woke/Vogue] where the customer can either service the interest on a monthly basis or service interest at a higher rate on a lump sum basis. So that is gold loan.

The unsecured lending business is entirely fixed rate business. And given that the maturity of the loan or the weighted average tenure of the loan is under two years, so that's the characteristic of the business. Our medium ticket mortgage business is entirely a variable rate business, and it is repriceable depending on our reference rate. We have done, I think, four or five rounds of repricing between 2018 and now, so that the repriceability of the portfolio is established.

The small mortgage portfolio has some loans which are variable rate, some loans which are fixed rate. Most recently, we've migrated to a regime where we have a three-year fixed rate and it is repriceable thereafter. So that's what -- the certainty in the short term is what the borrower seems to like. So it's a three-year fixed rate followed by the ability to reprice. So that's as far as small mortgage is concerned.

Aravind R: Okay. When we talk about repricing like either in medium ticket or small ticket loans, is it like an MCLR for a bank? We have an internal rate, internal reference rate, based on that, we give a rate to them after that -- after that fixed-rate period?

Anil Kothuri: Correct. We have an internal reference rate, and -- which we change in line with our borrowing. And the most recent change that we did was, I think, in July last -- April, this year, sorry. So -- and the repricing then follows depending on the movement in that rate.

Aravind R: Understood, sir. And I don't -- last time, I remember like asking you like what could be the, like, other source of other income, like fee income. You also mentioned about brokerages for insurance. I mean, like, have we got that? And have we started the operations on that?

Anil Kothuri: Yes. We've got our insurance agency license in June, and we are in the process -- we've tied up with insurance companies and the income for insurance should start trickling in this quarter onwards.

Aravind R: Sure, sir.

C. V. Ganesh: We are in the process of formalizing agreements, Aravind.

Aravind R: Okay, sir.

C. V. Ganesh: It may have some lead time...

Aravind R: Sure. Sure.

C. V. Ganesh: After this partnerships will begin but it is a slow but sure process.

Aravind R: Understood, sir. Yes, but it will be like structural income for us. Yes.

C. V. Ganesh: Yes.

Aravind R: So it will be -- the focus would be on general insurance or would be -- you would be also interested in like life insurance?

Anil Kothuri: So there are different opportunities here. First is that a lot of our customer base is underinsured, okay? So there is life insurance that most definitely is an opportunity. COVID has brought to the fore the need for health insurance. So that is an opportunity. And plus, there is some credit protect kind of insurance products that we can do. So, all these opportunities exist.

Aravind R: Understood, sir. Yes. Thanks. Thank you. Thank you so much.

Moderator: Thank you. The next question is from the line of Sanjeev Agarwal from Avighna Investments. Please go ahead.

Sanjeev Agarwal: I have two specific questions for you. Please confirm if I'm audible.

Anil Kothuri: Yes, you are. You're a little blurred. I don't know whether you can get close to your instrument. It could be better.

Sanjeev Agarwal: Sure. I think my system is having some problem. I'm so sorry for that. The first question goes like this. Could you please throw some light on the competitive landscape on the gold loan business for your company?

Moderator: Sorry to interrupt, sir. Can you please use a handset before speaking?

Sanjeev Agarwal: Sure.

Anil Kothuri: Okay. I'll paraphrase the question. He's asked me to throw light on the competitive landscape in the gold loan industry. So basically, there are banks and NBFCs which operate in this segment. NBFCs offer the promise of convenience and turnaround, whereas banks offer lower rates and they typically cater to their existing customers. If you look at the structure of the industry, approximately INR5 crores AUM is with banks and about INR1.3 crores, INR1.4 crores -- INR1.4 lakh crores is with NBFCs, okay? So that's the structure of the industry.

Now we compete within the NBFC space. So therefore, the other -- there are two large listed players, NBFC players, and another third multi-product company which offers gold loans. These tend to be competition for us. South India is relatively over-penetrated in gold loans. The rest of

India, less so. So the opportunities for growth are in rest of India. Now, so this is the competitive landscape.

The gold loan borrower typically tends to be a habitual gold loan borrower. He seeks to maximize not just the emotional value of the gold that he has, but also the financial value, so which means he pledges it and takes money for working capital. When there's a festival, he releases it and uses the ornament. The women folk in the family use that. So that is basically what it is. The opportunities include widening the base of gold loan borrowers, and that typically is happening non-South India. So that constitutes the landscape.

Sanjeev Agarwal: And sir, going forward on the second question, sir, as you rightly pointed out, in this market, when the gold loan prices have gone up, this happens to be a favorable scenario for the company since the underlying assets put on mortgage by the clients are basically adding value or getting value added as such.

So in a kind of a downturn, how does the company -- I understand that the gold loans are for a shorter period, but still in such a shorter period, how is the company coping up with such a downturn in the gold prices? Because somehow the LTV would get impacted in such a short period of time.

Anil Kothuri: You're right. So we have a robust risk management process, which tracks the price of gold on a daily basis, and we take portfolio actions accordingly. The price of gold that we give is the average of the past 45 days. But however, if the price of gold declines, then we will use the latest price of gold.

Now we run it like a margin finance product. Anybody whose LTV approaches, let's say, 88%, he gets a margin call notice. He has 15 days to top up either cash or collateral. Otherwise, we auction the gold. So this is a process that's been in place quite for over a decade now, and it has also got stress tested.

I remember during, when was it, '22, between the 15th of February and the close of March, the price of gold actually declined by about 17%, I think, in those 45 days. So that's a scenario that we've handled and we have some experience with that.

Sanjeev Agarwal: Thank you, sir. Thank you for your time.

Anil Kothuri: You're welcome.

Moderator: Thank you. The next question is from the line of Harshad Bhagwan from Visolitech Invesment Advisors. Please go ahead.

Harshad Bhagwan: Yes. So I wanted to ask regarding the gross stage III assets, like they have increased from 2.2% to 3% on the mortgage side in this quarter. So could you just throw some light on this?

Anil Kothuri: Yes. So like I mentioned early on the call, it was a challenging collection environment in Q1. And typically, in Q1, we see an increase in GNPA. So we've seen that in Q1 last year and Q1 the previous year, which has also happened now.

This year, the percentages have been aggravated by the fact that we've also sold down a lot of mortgage loans. So the net increase in our mortgage portfolio is only about 50 -- Yes, is about what, INR70 crores or something for the -- I'll give you the exact number, but it's about INR70-ish crores for the quarter.

So there has been a numerator increase and a denominator stagnation, which has caused the percentage to increase. But having said that, we are committed to resolving this in the coming quarter.

Harshad Bhagwan: Okay. And my next question is regarding the -- like, are we targeting any numbers for the ROAs and ROEs in upcoming years? Like, is there any target set ahead for targeted return on assets that we shall achieve in upcoming years?

Anil Kothuri: Yes. The ROA target, and I mentioned this [inaudible 56:23], is between 2.7% and 2.75%, and the ROE for the year should be upwards of 14%. That's what we're targeting.

Harshad Bhagwan: For the next year or there is a timeframe for that?

Anil Kothuri: Sorry.

Harshad Bhagwan: For the next year, upcoming year or specific timeframe...

Anil Kothuri: The current year, FY '25.

Harshad Bhagwan: For the current year.

Anil Kothuri: That's right.

Harshad Bhagwan: Okay. That's it from my side. Thank you.

Anil Kothuri: You're welcome.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Shreepal Doshi for closing comments.

Shreepal Doshi: I would like to thank the management of Fedbank Financial for giving us the opportunity to host the call and would like to thank all the participants for being part of the call. Thank you all and have a good evening and a good weekend.

Anil Kothuri: Thanks, everybody.

Moderator: On behalf of Equirus Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.