FEDBANK
FINANCIAL SERVICES LIMITED

Secretarial Department

January 30, 2025

Ref. FEDFINA/ CS/ 226/ 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	To, BSE Limited, The Corporate Relationship Dept. Rotunda Building, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400 001

Re: Scrip Code: 544027, Symbol: FEDFINA

Sub: Transcript of Earnings Conference Call held on Friday, January 24, 2025

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 January 24, 2025.

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
DN: c=IN, st=Maharashtra,
2.5.4.20=af1777a26d4cceb7da49d17feee11ef33d72a5
1529c6f453d915f58fcdd0775b, postalCode=400053,
street=Mumbai,
pseudonym=ddb524af1ce6c48b2cef105b19045e06,
serialNumber=eea329314078c75c2c2e58aa4a73227a4
b791440420c97c9954fb6a94931cfec, o=Personal,
cn=RAJARAMAN SUNDARESAN
Date: 2025.01.30 17:50:16 +05'30'

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

“Fedbank Financial Services Limited

Q3 FY '25 Investor Conference Call”

January 24, 2025

Management:	Mr. Parvez Mulla – Managing Director & Chief Executive Director, Mr. C.V. Ganesh – Chief Financial Officer, Mr. – Jagadeesh Rao – Chief Business Officer (Gold), Mr. Shardul Kadam – Chief Business Officer (Small Mortgage), Mr. Amit Singh – Investor Relations.
Moderator:	Mr. Shreepal Doshi – Equirus Securities.

Moderator: Ladies and gentlemen, good day, and welcome to Fedbank Financial Q3 FY '25 Investor 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.

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

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

Shreepal Doshi: Thank you, Nivedita. Good evening, everyone. Welcome to the earnings conference call of Fedbank Financial to discuss the Q3 performance of the company and the business update. We have with us the senior management of the company represented by Mr. Parvez Mulla, MD and CEO; Mr. C.V. Ganesh, CFO; Mr. Jagadeesh Rao, CBO for Gold Business; and Mr. Amit Singh, Investor Relations.

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

Parvez Mulla: Good evening, everyone. I would like to extend a warm welcome to all of you for joining the Q3 FY '25 post results earnings call. My name is Parvez Mulla, and I have recently assumed the role of MD and CEO of Fedbank Financial Services. I have been in the BFSI industry for over 30 years with my longest tenure being ICICI Bank. It is a privilege to talk to you today and share the update for the company. I joined Fedbank Financial Services in mid-November this year. And during the last few weeks, I have actively engaged with the key stakeholders.

These interactions included discussions with employees across various levels, Board members, investors, analysts and the regulator. Additionally, I had the opportunity to visit branches, meet customers, allowing me to understand our operations and on-ground realities. These experiences have provided me first impression insight into the strengths and areas to work on. FEDFINA, is an organization with a strong foundation built and majorly owned by Federal Bank backed by a strong and committed Board, a diversified investor base and a robust business model.

FEDFINA has a compelling mix of secured play with a wide geographical presence and a diversified product portfolio. I believe this organization has a lot of untapped potential, which represents an exciting opportunity. FEDFINA is predominantly focused on mortgages and gold loans, with a small portion of unsecured business loans. Our Gold loans, which constitute 38% of our AUM business continues to perform well, both on growth and profitability, aided by increase in tonnage and rising gold prices. Our productivity ranks as one of the highest in the industry.

In our Medium Ticket LAP business, which constitutes about 24% of our AUM, we have built a stable business catering to customers with prime and near prime profiles, who require a loan against property. It is a scalable and profitable business and runs with a strong focus on execution and through direct assignment allows us income with low capital allocation.

On the Small Mortgages business side, However, there are a few short-term challenges that the company has faced and these have required our immediate attention. Our small mortgages business is experiencing an elevated level of delinquencies. We have seen a delay and drop in realization for deeper bucket NPA pool. However, we have identified the areas to focus on and are taking proactive steps to address them.

First, we have appointed our seasoned leader, Mr. Shardul Kadam as the new Chief Business Officer. Shardul has been handling various functions in our organization since 2011, including setting up and growing this business in its initial stages.

Second, we have reviewed and refined our policies, tightened lending norms and migrated to a robust new business rule engines supported by Salesforce as our loan origination system providing objectivity in decision-making at scale.

Third, in certain locations, our collection infrastructure has not kept pace with business growth, and we are strengthening our team from grounds up. Fourth, we are implementing product-specific collection structures and have onboarded a dedicated senior collection head for this business.

Fifth, towards enhancing resilience of our balance sheet as a one-time exercise, (a), we have shored up our provisions on NPAs in the Mortgage portfolio; (b), undertaken a management overlay to factor for the increased delinquencies to take care of the delayed resolutions. We have also done our annual ECL refresh exercise in Q3 and taken additional provisions on that account. These conservative measures, we believe, will strengthen our balance sheet.

Our Unsecured business, around 12% of our loans has been sourced on an originate to sell construct. We have consciously slowed disbursals in this product. And from a strategic perspective at an entity level, we would be pivoting to a more secured construct, more than 90% to 95% and reduce emphasis on this product. We have taken additional overlays on unsecured book as a conservative measure.

These measures are crucial to addressing current challenges while fortifying our operational and risk management framework. I am confident that these decisive initiatives will not only resolve immediate issues but also position us for long-term growth, sustainability and value creation for all our stakeholders. With a clear focus, empowered team, a drive for excellence and tough decisions, and we are confident in our ability to navigate this phase of rebuild and revive successfully. And bring in a period of predictable and consistent outcomes across the metrics of quality ROA and fostering sustainable growth.

Some of the business numbers are as follows: our AUM touched INR14,922 crores, seeing an accretion of INR704 crores in Q3, translating to a growth of 5% Q-o-Q, 39% Y-o-Y.

Mortgage AUM reached INR7,581 crores and AUM growth of 5.6% Q-on-Q, 38.6% Y-o-Y.

Gold reached INR5,203 crores, and AUM growth of 5.4% Q-on-Q, 52.9% Y-o-Y.

Disbursals have clocked to INR4,395 crores in Q3 FY '25, up 31.4% Y-o-Y.

On the profitability side, our operating profit has grown 30.9% Y-o-Y to INR144.6 crores. However, our net profit stands at INR18.8 crores in Q3 FY '25, down 71.3% Y-o-Y. This profitability impact is on account of a one-time elevated provision of INR75.5 crores. Mortgage gross Stage 3 stands at 3.3% versus 3.2% Q-on-Q, and gross Stage 3 is largely stable at 1.9% at an entity level, the net NPA stands at 1%.

I will now hand over to Mr. C.V. Ganesh to take you through the business numbers and the provisioning details.

C.V. Ganesh: Thank you, Parvez. Thanks, everyone, for your participation on the call. While Q3 was a challenging quarter for us, sharing a few highlights. We commissioned 28 new branches in the quarter, including 21 in Gold Loans and 7 for Small Mortgages. This takes our branch strength to 693 branches.

Overall, AUM was INR14,922 crores as on December 31. This is up from INR12,200 crores as of April 1. In the 9 months ending December 31, our AUM has grown 22% in the first 9 months of this fiscal. Of this, Gold Loans and Medium Ticket LAP have grown 53% and 45% year-on-year, respectively. While Small Mortgages grew 32% year-on-year.

The Unsecured business loans AUM has grown 15% year-on-year. Currently, in terms of split, 51% of our AUM is in Mortgages, of which INR3,979 crores is Medium Ticket LAP and about INR3,602 crores is Small Mortgage. Another 35% of the AUM is Gold Loans, which crossed INR5,000 crores in the quarter and ended December 31 at INR5,203 crores.

Our Gold Loan AUM per branch increased from INR10.7 crores per branch to INR10.8 crores per branch, in spite of the addition of new branches. And overall tonnage at an entity level was 10.7 tons.

Now to new loan origination. Our Medium Ticket LAP continued to clock high growth with disbursements of INR562 crores in the quarter, up 65% year-on-year. However, there was a minor de-growth sequentially partly due to a slowdown in Bangalore due to the government mandating e-khatas of our property records and some challenges with respect to the same.

We have been tightening the policy and process around our small mortgage product. And this has resulted in a slowdown in new origination. New originations for the quarter came in at INR171 crores, a degrowth of 26% quarter-on-quarter. Quarter 3 is historically a weak quarter for gold. In spite of the above, our Gold Loan AUM grew by INR269 crores, which is 5.4% sequentially quarter-on-quarter and 53% year-on-year.

As Parvez mentioned, strategically, as we pivot to a more secured construct, we have gone slow on the unsecured business loans and have decelerated originations by 39% Q-o-Q to INR220 crores. On the P&L, our yields have increased by 20 bps, and we have been able to hold and even improve cost of borrowings in the quarter. As a result, our spreads have correspondingly grown 20 bps sequentially quarter-on-quarter.

Our net interest income is up at INR284 crores, which is a 7% sequential quarter-on-quarter growth and the 31% year-on-year growth. Our net total income is up 6% sequentially and 27% year-on-year. We were able to hold opex flat quarter-on-quarter at INR177 crores. We had a steady operating performance. Our pre-provisioning operating profit came off better at INR145 crores, which is up 14.5% quarter-on-quarter and up 31% year-on-year. For the 9 months of this fiscal our pre-provisioning operating profit crossed INR400 crores, which is 40% up over the corresponding period of last year.

Now on credit cost. Our credit cost for the quarter stood at INR119.6 crores, which is about 4.2% of our average AUF. With this, the credit cost for the first 9 months of this fiscal stands at 2.4% of the average AUF.

Let me deconstruct this for you. We had elevated delinquencies in Q1, which persisted in Q2. We have seen a continuation of the stress in some parts of the small mortgage book in Q3 also. Also, on the NPA pool, where we had seen a dry up of cash realization, we saw further de-risk in Q3, which has necessitated a re-evaluation of provisioning on the pool.

Out of this INR119.6 crores, our core credit cost is only INR25 crores, which is 88 bps annualized. As we guided last quarter, we have our annual ECL refresh in Q3 of every year. So when we did this exercise, we got a P&L charge of INR19 crores, which is incremental provisioning on the entire stock of the loan book.

This, which happens annually, accounts for another 67 bps. We did a thorough evaluation of the NPA book and with a view to strengthening the balance sheet, have decided to do a onetime additional provisioning of INR75.5 crores which is another 270 bps. It is primarily made up of 2 parts.

There is a onetime additional provision on the NPA pool of INR57 crores. This is across our mortgage book and the residual book on construction finance. With this, we believe our NPA book is adequately provided for. We have also taken additional management overlays of INR18 crores, primarily on Stage 1 and Stage 2 loans in the Small Mortgage book.

On the GNPA, we have been able to hold our GNPA flat at 1.9% as a result of the additional provisioning on the NPA bucket, our net NPA stands at 1%, down from 1.5% in the last quarter. Consequently, our PCR on Stage 3 has moved up from 21.9% to 45.2% as of December 31. The provisioning on Stage 2 has also gone up from 11.6% to 12.8%.

On the treasury side, I'll break it up into 2 parts. One is on total borrowings and the second is on incremental borrowings. On a quarter-on-quarter basis, our weighted average interest cost has gone down by 4 bps from 8.73% to 8.69%. This is the third quarter of consistent decline in weighted average cost of borrowing and has been facilitated by resets on our external benchmark linked borrowing book.

About 88% of our total borrowings are floating rate in nature. Of these 41% of our borrowings are external-linked benchmarks and another 47% are linked to MCLR. We added one new PSB lender to the relationship, and our total partners now stand at 41. On the incremental borrowing, our incremental cost of borrowing for the quarter was 8.69%, 79% of the incremental borrowings raised, during the current fiscal are on floating rate benchmark, which should help us as rates start going down.

On the balance, which are fixed rate in nature also another 17% are of short term in nature and hence resettable on maturities. Consequently, our debt-equity ratio has also improved to 3.98% from 4.09% in September 30. During the quarter, the company continued to move forward in its policy of deleveraging through co-lending and direct assignment of instalment loans. We added one new bank partner for Gold Loan CLM during the quarter.

Our AUM grew by INR704 crores. On the securitization side, we did INR302 crores of co-lending, and securitized another INR486 crores across the mortgage book and the unsecured loans. Through this, we have been able to improve capital adequacy and improve our leverage position.

Currently our off-balance sheet book stands at INR3,471 crores, up from -- up 86% from INR1,864 crores in the previous year. Of this, Gold Loans held in partner books account for INR875 crores. Unsecured business loans securitized stand at INR554 crores and Mortgage Loans securitized accounts for INR2,042 crores. Our CRAR stands at 21.6%, up from 21.4% in September.

Lastly, our shareholders' equity as of December 31 was INR2,464 crores, and our book value per share stands at INR66.1. With that, I hand it over to the operator for any questions.

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

Renish: Sir, my first question is on the strategy side. So you did highlight about re-looking at some of the process in the way business is structured currently. So just wanted to know what is your sort of initial assessment in what areas we have to sort of restructure the process, etcetera? And does that require additional investment? And if yes, where do you see cost ratios settling down in near term?

Parvez Mulla: As far as my strategic thoughts are concerned, one is we want to look at capital allocation to high ROA-ROE businesses. So -- and clinically look at it. So if business loans is not giving us the ROE that we want and if the appetite for sell-down is not there for business loans. We want to take a tough decision on it. And so be it, then we want to pivot on secured business construct. If the environment is not helping us make money on it. It doesn't make strategic sense for us to continue. That's why we're slowing down that business.

Second is if you look even in the secured business construct, we want to double down on our LAP and gold business. LAP includes our Medium Ticket LAP business and our Small Ticket LAP business. We would like to be known as a company which is doing LAP. First, there are many players who are doing home loans and also doing LAP. We want to be known as a company which is doing LAP first.

And our Gold business is doing well, and it is a twin-engine strategy, which we have communicated earlier also and it helps us to hedge constructively. Even in the Secured business side, we want to look at a mix of high yield and low yield. That is why we feel Medium Ticket LAP and a Small Ticket LAP, both go hand-in-hand, where one is a high yield, one is a moderate yield business. One is a moderate risk and the other is a low-risk business. So that gives us an adequate diversified hedge.

We also want to be deep invested in collections, and that is where we were lacking. I personally believe we should have invested into collections. We want to be spending more money in terms of hiring people at the right strategic level as well as at the ground level. Collections in lower bucket is very different from collection in a deeper bucket, especially when you are doing the affordable segment. We want to be deep invested, and there are models which have done well there.

At our opex side, we want to solve it by -- with the aid of tech. Obviously, you might not see it in the immediate. But directionally, we want to go there. We want to look at a frugal opex structure and which will encourage collaboration. So you will see by the next quarter, we telling you about our synergies between our gold branches and our Small Ticket LAP branches.

Today, our Small Ticket LAP branches do business separately and our gold branches do separately. By next quarter or FY '26, you will see us not putting so much investment on the ST LAP branches, but trying to do business through the gold branches. And we will pilot some successful models through the gold branches.

So more core business, less DA, overall, trying to focus on the quality of business followed by profitability and growth and trying to take these provisions so that we can make credit costs more predictable putting processes which will allow us to scale making processes as lean as possible. So the standard stuff, but focusing more on execution and getting the collaboration right.

Renish: Got it. So just a follow-up on that is that once we go through this part, there will be a lot of AUM mix sort of will change, where in Small Ticket LAP, Medium Ticket LAP or incremental will go at a faster pace, unsecured business will go at a slower pace. And of course, as you rightly mentioned, there will be investment towards collection infrastructure, etcetera.

So I mean, where do you see you want to achieve a steady state ROA after sort of restructuring everything? Or is there any thought behind that?

Parvez Mulla: No, definitely, there is a thought. See, if you look at our 3 businesses that I spoke about, our Medium Ticket LAP business, our Small Ticket LAP business or our Gold business. Our Gold business is a good profitable business, very execution focused. We've invested well in it. It is operationally run very, very efficiently. And we have a definite ROA glide path to that. And we are very happy with the kind of glide path that we are getting on our Gold business.

And that mix of Gold business will always remain between 30% to 40%. So we will be between 30% and 35%, and sometimes it might go to 40% when we are trying to slow down on our BL business. Our BL business in the next 1 year, you will see us reducing our contribution from 12% to 5%. And then slowly, it might slow down. So that is where the piece will be.

Our Small Ticket business, which is the Small Ticket LAP business, you will see us allocating more of our resources and our some of our best people that side. You will see us focusing more on this business, putting in processes tech on this business so that we can scale this business. This business will grow at a much, much faster pace than all other businesses. But it will be grown with quality.

And that is why you have a seasoned leader who has handled risk as well as growth and Shardul who's coming in there comes with a risk mindset as well as a growth mindset. So the idea is to scale it. Today, initially, you will see higher growth in that business, which we are trying to be, but it will pivot to a decent growth rate once we put the processes in place once we put the tech in place.

And that is my only injured business. See one of the advantages of being in a diversified setup is you have 3, 4 businesses, then one business gets injured, you have the other businesses taking care. But once this business picks up, this will be our pivot business.

And I personally think, if our business loans slow down, it might go down to 5%.

But in that ratio, you will see us putting our portfolio forward. Basically looking at quality then profitable sustainable growth.

Renish: Got it. Sir, just last question to Ganesh. So where do you want to keep the PCR? I mean, in this quarter, with accelerated provision, we've been able to improve our PCR to 40%-odd. Now of course, this is a one-time exercise. But going ahead on incremental flows, you guys want to keep

PCR at 40% or let's say, typically, injuries in mortgage business is lower, maybe at around 25%, 30%. Gold literally is 0% or maybe 5%, 10%. So how does one see the PCR going ahead?

C.V. Ganesh: So thanks for that question, Renish. See our current PCR rises incidental to the provisions we have taken. Our ECL model has shown a rate of the impact of the ECL refresh exercise is INR19 crores. Now on top of that, we have taken a management overlay of another INR19 crores. Now that is based on the current empirical data, which we see with respect to our delinquencies.

If the delinquencies improve based on the investments we are putting on the ground, then there is a case for a revaluation of these provisions. Now on the PCR, it's not that we will stay here. But what I can tell you is it will not be as low as it was in the past, but it will also not be as high it is as we are reporting for December 31.

Renish: Got it. would you like to guide us for a credit cost for next year?

Parvez Mulla: On the credit cost, Renish, I can assure you that in the Q4, we will keep it sub-1%. So this provision that we are taking is a one-time provision for this particular time. And Q4, we should normalize. And the idea of taking this one time is to get a predictability to the credit cost. There, you have to also understand that I am slowing down BL. And that credit cost BL is a part of my credit cost.

Almost -- I mean, if I have to give you some number about 20% to 30% of my credit cost comes from BL. So that is the piece. Once it goes slow down, you will see a far more predictable credit cost.

Moderator: The next question is from the line of Vivek from DSP Mutual Fund.

Vivek: Ganesh, thank you very much for giving the split between the various provision numbers, it was very useful. So I wanted to ask about the economic situation, especially in the small mortgage business, and you said there's elevated delinquencies in select pockets and delayed realization in deeper buckets NPAs. So my questions are, is there an income shock or are there specific geographies or specific clients who are facing this problem? And how is the situation on the soft bucket collection efficiencies in the same areas?

Parvez Mulla: See, Vivek, typically, I don't want to attribute it to the environment. We are in a secured environment. The environment for unsecured is very different and secured is different. There could be inflationary pressures there. But our issue is our own operational issue. The provision that we are taking is because we were under invested in collections. We personally believe the segment that we are operating in requires a constant touch with the customer, consistent engagement and proactive falloffs.

It is a collection intensive business. And that so I don't want to attribute it too much to the environment. There could be some factors of the environment definitely. And Shardul, do you want to add about the environment?

Shardul Kadam: Yes. So the way we've seen it in particular, the stress build-up has been in certain select pockets for a few states. See, the customer segment, which we deal with is typically an assessed income program. And these are relatively underbanked customers. So it's very important that we need to have the last mile collection reach in place, which, as Parvez mentioned, in some pockets, we are falling short of that because of which we've seen some flows.

And typically, after this kind of a customer has some 2 or 3 EMI spending, then obviously, the resolution, the rollback becomes that much difficult. So in anticipation of that basis, our ground team feedback is where we prudently believe that we should shore up the provisions. Having said that, 96% of our borrowers are having self-occupied properties, I mean the properties which are mortgaged with us are self-occupied residential properties. And more often than not, these are the primary assets of these families.

So the way we look at it is, while there has been a shore-up in the provisions we will see resolutions subsequently coming in here, but it may possibly get delayed as compared to what we've seen in the past. Hence, this particular shore-up.

Vivek: And now I can see the confidence that you all say about keeping the credit cost lower going forward because it's your own effort. The second is a more trickier question on this for Ganesh, with the bank-owned NBFC guidelines out there, are there any thoughts on the management of either yourself or your parent that you want to convey to us? That's the last question.

C.V. Ganesh: So thank you for that question, Vivek. So we have that deal in correspondence with RBI as have many of the other impacted parties as well. So broadly, the way we see it, the October 4 guidelines add 4 stipulations, okay? One is that the upper layer restrictions will apply. The second is that you have to be listed. The third is that there will be no regulatory arbitrage in the NBFC. And the fourth is that you will follow rules and regulations applicable to loans and advances, that's applicable to banks.

Now we take most of those boxes, right? And for us, so what we have, again, I think the RBI letter is confidential. I can't speak much. But I think at the end, we already seem to be at much of the end state there, which is why the -- if the destination is where we are, then we have possibly a reason that maybe there is an opportunity to relook in terms of the differential niche, the priority sector segment we lend to.

And we are confident RBI will apply in mind. As of now, they are interacting in a constructive manner. So we'll keep our fingers crossed.

Parvez Mulla: Yes, Vivek, but just to add there, see, this is a space where the regulator will take the final call. and we are cognizant of that. And as a regulated entity, we have represented our side of the story, and we are hopeful that the regulator will look at it because we are a listed entity. And there are certain challenges of a listed entity going through those things. So it is a representation, a representation both from our parent as well as from us and we are seeking the regulators' exception for this.

And we believe that we have a case for representation. We strongly believe we have a case for representation.

Moderator: The next question is from the line of Shubhranshu from PhillipCapital.

Shubhranshu: I just have 2 questions. The first one is around this change in the mix that we spoke of just a bit earlier that was not very clear to me? Second is that is there a regulatory pressure to change Gold Loans from a bullet repayment product to an EMI product, which could be yield mitigating?

Parvez Mulla: So the mix that we have today is in our mortgages business, mortgage occupies about 50% of our AUM. So 25% is Medium Ticket LAP, Small Ticket LAP is about 25%. And about 35% to 38% is gold and about 12% to 15% is our Business Loans piece. The only piece which we are changing there is business loans, we are slowing down.

So you will see the percentage contribution of business loans going down from 15% to 10% then slowly to 5%. And that additional increase will, for the short term might go towards gold, but eventually, it will go towards a small-ticket LAP business. So you will slowly see small-ticket LAP business occupying more percentages and business loans occupying lesser percentage. That's the mix change. As far as gold is concerned...

C.V. Ganesh: Is there a regulatory pressure to move to a non-bullet was the question.

Parvez Mulla: No, there is no regulatory pressure to do that, although the regulator has issued guidelines in terms of how Gold Loan companies as well as NBFC is doing gold, have to follow those regulations. And we also have had a Gold Loan audit, and we have successfully complied with most of them. Wherever we had certain concerns, we engaged with the regulator and the regulator clarified to us, and we complied with it.

So we are on complete sync with what the regulator wants and we have complied with most of the pieces on the Gold Loan side, including the LTV piece, which the industry was interpreting it differently. But as of 1st January, we have complied with the regulator has said that we should maintain it completely at a sourcing level, we have reduced our LTV.

Shubhranshu: So Gold Loan won't become an EMI product in the future. Is that a fair understanding?

C.V. Ganesh: So basically, we do a mix, Shubhranshu. It's not that we don't have the EMI product. I think the limited answer was that there is no regulatory pressure. In fact, we had an annual RBI inspection for the last 2 years, which happened for us about 2 months ago. And we have had a very satisfactory outcome.

So I think RBI pretty much is giving us the freedom to choose. And we are very clear of what RBI wants us to do, and we will adhere but there's no product construct level stipulation being guided by the regulator.

Moderator: Thank you. The next question is from the line of Chirag from Fast Water. Please go ahead.

Chirag: So I just wanted to ask regarding, let's say, in the next 2 years, where do you see the cost to income, ROA and ROE, just wanted to know your guidance on that?

Parvez Mulla: Chirag, I would like to jump on that question, but if you could give me Q4 to give you those numbers, because I'm right now guiding on the credit cost for Q4. Directionally, I can tell you that FY '26, you will see us driving cost to income. There is a definite number in our head where we want to chase an ROA, ROE for FY '26, but it will be too early for me to give you that number right now.

C.V. Ganesh: So Chirag. I think the point being made here that we will be agile and nimble and calibrate our strategy according to the environment. I think that's what we are saying. We have very clear large numbers in our minds but we will go one quarter to another in terms of that number.

Moderator: The next question is from the line of Pranav from Aionios Alpha Investment Manager. Please go ahead.

Pranav: Just a couple of questions. One clarification for Ganesh, sir. So you mentioned the breakup of credit costs were INR75 crores is -- about INR75 crores is onetime and or INR19 crores is for the management overlay. But the math is sort of not adding up, maybe you can clarify or maybe I misunderstood it? So that's the first bit.

C.V. Ganesh: Yes. And I'll just maybe -- just I'll make sure that I clarify appropriately. So our total credit cost was INR119.6 crores. Of that, the core credit cost was INR25 crores, which will be normalized credit cost for the quarter. The annual refresh exercise we did, the ECL refresh exercise which we do once a year, right? Now in light of the elevated delinquencies, we had, it led to an increase -- and that we do on the entire stock. So that led to an additional charge of INR19 crores.

Now that leaves INR75 crores. Now that INR75 crores, so both of these are normal. So I wouldn't call the ECL refresh also as a onetime because that anyway we are supposed to do annually. Now apart from this, what we did, that INR75 crores is the onetime element. Out of the INR75 crores, the INR57 crores was towards the NPA pool where we have taken up provisioning and there is another INR18 crores has been on account of management overlays across the small mortgage and the unsecured business loan book.

Pranav: Understood. Now that's clear. So the second question is on the opex, while obviously the guidance that you would want to give us probably next quarter. But just qualitatively, Parvez sir, you mentioned that you want to take -- you want to get more synergies out of the gold branches wherein more LAP business can happen through those?

Could you just give us a qualitative sense of a few of the things that you think are low-hanging fruits where you can reap benefits on the cost side probably through '26, not asking for any numbers, but just qualitative guidance?

Parvez Mulla: See, qualitative wise, you can look first is the BL construct. There will be an opex, which will change there. Second, as I told you, we will look at gold branches and not putting the MSME branches or very few MSME branches is the second construct, which we look. Third is we will look at manpower wherever we can use, I mean there is an industry which is using the apprentice model, and we want to explore that model in certain functions, and that is where we personally believe there could be a cost saving.

Technology, there is an investment of technology, which we have done on the MSME side, and there is a digital flow, which is happening and which will give us certain process efficiencies once we start scaling our Small ticket LAP business. Next quarter, we should implement sales force on the LAP business. We will also reevaluate certain branches, which are not giving us the revenue, or if the cost to income is not correct in certain branches.

So we will look at that. We want to look at frugal construct when we are constructing the ST LAP business and when I told you that Shardul is coming in, Shardul is also looking at the kind of construct that is there in the ST LAP business and the kind of cost to income that we are incurring on the ST LAP business, he's looking at everything there, including incentives, including the tenure yields where we can get the better cost to income.

So you will also see -- One is, obviously, the back office lift, but a productivity lift on the individual businesses also will give us certain pieces there. We will also explore some synergies, which we can get with certain partners, which should give us another upside. So these are broad level thoughts, but I will be able to articulate it to you in a more constructive manner. But there are opportunities for us to take it directionally with the number that we have in mind.

Pranav: Fair enough. That's pretty useful. The last question, sir, on credit costs. But obviously, again, you mentioned that maybe guidance is something that you will look at in the fourth quarter for FY '26. But again, looking at all of the changes in terms of tightening of underwriting standards and imposing correction infrastructure in the Small Ticket LAP business?

On a more longer term basis, where do you want this business to settle? Because if you look at what was guided to us earlier, we were looking at about 75 to 80 basis points. But with this improved construct, is it fair to assume that the steady state credit costs for this business once the dust settles, could be a lower number than that?

Parvez Mulla: See, as I told you, even with my business loan construct, I'm telling you that by Q4, we will try and do our sub-1%. And then in that sub-1%, I'm telling you that my BL is there. And my BL as a construct will slowdown. And that is almost 20%, 30% of my credit cost today. So it will come to the number that you have in mind.

Moderator: The next question is from the line of Aditya from Bandhan Mutual Fund. Please go ahead.

Aditya: I had a question. So in last quarter, you had mentioned that there is some stress in our Small Ticket LAP book. This quarter, we have built a contingent provision to manage that stress. So I just wanted to understand what are the possible reasons for this stress? And like are these the same as the reasons for the microfinance players?

And what time could it take for this to normalize? Because this is a secured product and the level of stress that I'm expecting should not be as high as other unsecured products. So what is your outlook on this loan book right now?

Shardul Kadam: Yes, Aditya. I'm Shardul, I'll want to take this call. So first of all, the customer segment, which we deal into does not have so much offer an overlap with the micro finance segment, because my average ticket size is ranging at about, say, INR13, INR14 lakhs. So we're talking about the collateral, which is mortgage is roughly in the range of about INR25 lakhs to INR30 lakhs of a property

And we've done our checks also through the bureau scrubs. So we are really not seeing too much of an overlap in the MFI segment. We do have our borrowers who have taken unsecured loans elsewhere. But then again, a large portion of them continue to remain current with us or less than 30 DPD, though there may be deeper buckets with unsecured loans.

And we remain watchful on those accounts from a potential stress build. But because, as I said earlier, that 96% of our collaterals offered are self-occupied residential properties. To that extent, we believe that while we may see delays in our EMIs, but ultimately, we should be able to get our monies back.

Now to address as to what has been the reason for the stress. So clearly, this is a relatively underbanked customer segment. So it's important that your last mile collection reach also needs to be in place because the price of our mortgages roughly in the range of about 17%, 17.5% kind of yields.

That is where, in some pockets, we found that we were not adequately capacitized on collections, which resulted into certain flows, and we're taking corrective actions in terms of strengthening our collection infrastructure grounds up.

Aditya: So if there's no like issue with the borrower capacity. So this should normalize within next how many quarters?

Shardul Kadam: So the way we are looking at it is, see, there has not been any systemic risk as such, which you're seeing. I mean there have been delays on the borrower side, yes. The sense what we get from the ground is wherever we felt that there was a reason to shore up of provisions, I think we've done that.

The way we are looking at it is with the collection infrastructure falling in place, we already got a dedicated collection head onboarded and we're putting a structure under him. So by Q1 is where we should start seeing a good pull back.

Moderator: Thank you. That was the last question. I will now hand the conference over to Mr. Shreepal Doshi.

Shreepal Doshi: Thank you, everyone, for attending the call, and thanks to Fedbank Financial Services Management for giving us the opportunity to host this call. Thank you, everyone, and have a good weekend. Thank you.

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