Management Discussion

Souvik Roy - Head of Investor Relations, Federal Bank Limited
Thanks, Ryan. Good afternoon, everyone, and welcome to our earnings call. We have announced the results. I'm hoping all of you have gone through it already. And we are pleased to share that the Bank has delivered a strong performance this quarter. We have with us today our MD and CEO, Mr. KVS Manian, along with the entire senior leadership team, who will take you through the performance and the key developments that happened in the quarter that went by.

With that, I'll hand it over to Mr. Manian for his opening remarks. Over to you, sir.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you, Souvik. Good afternoon, everyone, and welcome to Federal Bank's quarterly results call. Let me begin by briefing you on some changes to our Board. Virat Diwanji, who has been our National Head of Consumer Banking, joins our Board, and we look forward to his continued leadership. I am also pleased to welcome Rajesh Varrier to the Board. He is strong as an Independent Director. His strong technology background and experience will be valuable as we continue to strengthen our capabilities in the technology and AI areas. I would also like to place on record our sincere appreciation for Ramanand Mundkur for his valuable contribution and service to the Bank over the past five years. We thank him for his guidance and association with the Federal Bank and wish him the very best.

Coming to the quarter, we have delivered a strong performance underpinned by sustained momentum on the liability side, disciplined growth on the asset side and continued focus on fees and operating efficiency. A significant milestone this quarter has been our average CASA deposits crossing INR1 lakh crores. This reflects the progress we have made in strengthening our liability franchise and improving the quality of our deposit mix. We have also garnered our meaningful share of FCNR(B) deposits under the special window, participating at a quantum and economics that we believe are appropriate for us.

On the asset side, we have continued to grow in a calibrated and disciplined manner with healthy momentum across our chosen segments. Our focus remains on pursuing quality growth while maintaining the discipline on risk-adjusted returns, which continues to improve each quarter. As we have articulated in our annual report, sustained momentum and discipline remain central to our approach. The progress we are making on both sides of the balance sheet reflects this commitment. A stronger liability franchise combined with disciplined asset growth is helping sustain our NIM trajectory, and we remain confident in its underlying resilience. The evolving interest rate cycle should provide an additional supportive factor as we move forward. Beyond margins, we have delivered a strong performance on fee income. Fee income as a proportion of average assets has reached an all-time high, with performance broad-based across various fee-generating businesses. In the same time, we have maintained discipline on operating expenses and kept our cost-to-income trajectory under control.

If you look at the guidance we provided about a year and a half ago, we have by and large tracked well against our stated objectives on NIM, ROA, and fee income with certain parameters actually outperforming the anticipated metrics. Our profitability trajectory and PAT growth reflect the underlying strength of the franchise and progress we are making towards our strategic objectives. Our reported profitability for the quarter also incorporates the impact of the change in accounting policy related to ESOP expenses. Venkat will later explain on this call the accounting treatment and

its implications in more detail.

Looking ahead, we remain constructive about the balanced quarters of the financial year. We will continue to pursue growth with discipline, strengthen the quality of our earnings and remain focused on delivering sustainable value for all our stakeholders.

With that, I will hand it over to Venkat to take you through the financial performance and the key numbers in greater detail. Venkat?

Venkatraman Venkateswaran - Executive Director (KMP), Federal Bank Limited
Yeah, thank you, Manian, and good afternoon, everyone, for joining this call. I'll focus on the key financial developments for the second quarter. As usual before that, a quick overview of the macro environment. In the last call, we flagged on the inflation trajectory, and you would have noticed that the headline CPI rose in each of the months July, August, and September from 4.45 in July to 4.83 in August and 5.54 in September. It averages approximately 4.94% for the quarter. The September reading was the highest so far in 2026 under the revised series and the fourth consecutive month above RBI's 4% target. Food inflation remained the main driver. It was 5.52% in July, 5.97% in August, and 7.74% in September. Whilst in August the MPC held the repo rate at 5.25% and retained its neutral stance. On October 7th they unanimously raised the repo rate by 25 basis points to 5.5%, and it also changed the stance to calibrated tightening.

RBI raised the FY27 growth projection to 7.1% from 6.7%. It also raised the FY27 inflation projection to 5.2% from 5%. The growth base remained strong. Real GDP grew at 7.8% in June quarter ahead of RBI's estimate of 7%, and the March quarter was revised up to 8.6%. Most of the benefit from the easing cycle has now passed through to our liability book. From here, the margin mix will depend on improvement in assets and strength of our liability franchise.

Now, coming to the performance overview for Q2, our net profit for the quarter was INR1,386 crore, the highest in the Bank's history. It's 45.1% of YoY and 17.77% QoQ. Earnings per share stood at INR22.26, up 44.34% and 16.25% QoQ. Operating profit was INR2,225.37 crore, up 35.35% YoY and 17.29% QoQ. In fact if you look at our OP, if not for the one-time impact of the income tax refund which we had in Q4 of last year, if we exclude that, OP also has been the highest ever for the Bank at INR2,225 crores.

Total business crossed INR6 lakh crores, and gross advances crossed INR3 lakh crores. Net interest income was INR3,153.4 crore, up 7% QoQ and 26.38% YoY. NIM was 3.32%, down only one basis point QoQ and up 26 basis points YoY. Our cost of deposits declined three basis points during the quarter and 39 basis points YoY. Last quarter we said that the pace of decline in deposit cost would moderate, and it has. The cost of deposits fell three basis points QoQ against 22 basis point in Q1. With the October rate increase, the externally benchmarked part of our loan book will reprice ahead of deposits, which will reprice as they mature. We also expect competition for deposits to intensify once the liquidity situation normalizes. On the deposit and liability franchise, our total deposits closed at INR3,42,693 crores, up 7% QoQ and 18.6% YoY.

Our CASA balances stood at 1,09,803, up a very impressive 6.44% QoQ and 22.56% YoY. That is approximately 395 basis points faster than the deposit growth. Our CASA ratio improved 103 basis points YoY. Another important milestone was the average CASA crossed INR1 lakh crore during the quarter. NRE and ONR deposits together reached INR1,19,055 crore, up 13.25% QoQ and 26.6% YoY. Savings balances grew close to 4% QoQ and 19.6% YoY.

Last quarter we addressed the sequential dip in current accounts, and we did say that traction would

resume as the March quarter seasonality washed out. It has. Demand deposits grew 14.4% -- 14.04% QoQ and 33% YoY. CASA itself grew by 6.4% QoQ, and there is no change to our guidance on CASA. The 103 basis point improvement in the ratio YoY reflects the trend in the growth. On advances, our gross advances closed at INR3,01,687 crore, up 7.27% QoQ and 21% YoY. We have grown on the chosen segment, and our stated focus remains on the higher-yielding granular assets that improved the risk-adjusted return profile of the book. And this granularity also feeds into our core fee line.

Gold loans grew 37.13% YoY, and 6.67% QoQ. LAP grew 32.21% YoY, and credit cards grew an impressive 28.27% YoY. Commercial banking continues with a strong growth trajectory over the years, and in this quarter also grew 6.99%, almost 7% QoQ and 25.46% YoY. CV/CE grew 21.74%. Corporate and institutional banking grew 17.19% YoY. We continue to engage where pricing and counterparty quality meets our threshold. Business banking grew 12.39% YoY and QoQ 7.48%. We did mention in the last quarter that we would grow this book as risk-adjusted returns justify. We are seeing directional change coming through now. Retail banking grew by 17.92% YoY. The average CD ratio for the quarter was 86.22, and we continue to operate within the band which we have set for us. On fee income, our fee income was again INR1,167 crore, up 22% QoQ and 31.86% YoY. The total other income at INR1,490 crore is the highest in the Bank's history. Our fee income to assets is at an all-time high of 1.11%.

Last quarter fee income was seasonally lower against strong March base. This quarter has been a very strong growth, and it is well distributed as Manian mentioned. Our cost-to-income ratio improved to 52%, down 196 basis point YoY and 42 basis point QoQ. We'll continue to operate in the range of 52% on the CI ratio, as expected in the past as well, the focus will be on ensuring that the revenue growth is faster than cost growth. We will be investing in technology, in new branch openings, and other initiatives which will position us well for the future.

Manian also mentioned that I'll explain about the ESOP employee cost-related change. Until last year, we followed the intrinsic value method for ESOPs granted to non-material risk takers. For the material risk takers, it was at fair value. From 1st April '26 we have standardized this, and this is in line with best practices, and we are moving to fair value accounting for ESOPs across all employees. This change has resulted in an incremental employee cost of INR32.7 crore, and a consequent PAT impact of INR24.5 crore. So when you are comparing year-on-year moment in employee cost and profitability, please keep this accounting change in mind.

On asset quality, our GNPA improved to 1.32%, down 20 basis points QoQ and 51 basis points YoY. Our NNPA continues to be the best in class in the industry at 0.17%. Both GNPA and NNPA are at decadal lows. Our PCR, excluding technical write off is at 86.78%, and including technical write-off, the coverage is at 94.4%. Credit cost is at 0.31% down sequentially by 10 basis point and 19 basis point YoY. Our ROA improved to 1.32, up 10 basis points in this quarter and 23 basis points YoY. You will recollect that we had given a guidance of ROA of 3 bps to 4 bps per quarter. And we did mention that it will not be on a quarterly basis, but it won't be in every sequential quarter, but for the year, we had given the guidance. And our ROE improved to 13.57%, up 156 basis points QoQ.

Last quarter we did explain the sequential dip in ROE, reflected the share warrant subscription money received ahead of deployment, and we said that it is expected to reverse as the capital was deployed. Our book value has grown to INR166.32 and CRAR stands at a very healthy 16.84%.

In closing, the Bank has delivered its highest-ever profit and highest-ever other income. Total business crossed INR6 lakh crore, and advances crossed INR3 lakh crore. Over the year profit has

grown 45%, margin expanded 25 bps. Cost-to-income improved by 190 basis point, and credit cost declined by 20 basis point. And our provision coverage ratio has improved by 1,300 basis points. GNPA and LNPA are at decadal low. The macro picture ahead carries higher inflation and tighter policy. And also the overhang of the West Asia crisis. Competition for deposits will intensify in due course. Our priorities are unchanged. [Indecipherable] the liability franchise, grow in our chosen segments at the right risk-adjusted return and hold the line on cost and credit quality. The granular and secured character of this balance sheet is what allows us to be consistent.

Thank you all. And we'll now open up for questions.

Questions & Answers

Operator
Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions].

Souvik Roy - Head of Investor Relations, Federal Bank Limited
Ryan, one quick thing before we begin. A quick request to everybody. Please limit yourself to one question per participant so that we can allow most people to participate in the discussion. So please bear this in mind. Yes, please go ahead Ryan, and open the line.

Operator
Thank you. We take the first question from the line of Mahrukh Adajania from Tara Capital Partners. Please go ahead.

Mahrukh Adajania - Analyst, Tara Capital
Yeah, hi. Congratulations. I had a -- actually I had a few questions. My first question is on general asset quality, right. Given inflation, drought, does that affect any of your segments, especially the high-yield segment? Have you seen any stress in any of these segments so far? That's my first question. And my second question is on your levered FCNR deposits, the leverage seems to be lower than other banks, right. So any thought process behind it? And my third question is on talks about M&A. You've already clarified on exchanges, but what I want to understand is that, I mean, why would the Bank be keen on acquiring an MFI given that the cycles may be too short, they are very volatile, and they are very steep and deep batch cycles. So just your thought process around it.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So your first question related to asset quality. We have not seen any impact on our asset quality of the environment that we were talking about yet. Having said that, we remain watchful and we will -- as you know we have also been cautious about growing certain segments. If you look at our agri book, it has not --we have not pushed the pedal on that. For example our microfinance book, we have not pushed the pedal on that. So therefore, we have been cautious about some of those segments, and we continue to watch the outcomes of El Nino, geopolitics, all of that, interest rate scenario, inflation, all of that. Just now we don't see any impact on our portfolio. That is your first question.

The second question related to, I mean, we have disclosed our leveraged FCNR, and I think what we focused on was the right quantum, right economics, and right granularity of that exercise was important for us. And I think we did what was appropriate in those contexts. And rest of the questions, I just leave it to, they don't need an answer because there is nothing to discuss right now.

So we don't discuss.

Mahrukh Adajania - Analyst, Tara Capital
Okay, sir. Thank you.

Souvik Roy - Head of Investor Relations, Federal Bank Limited
Thank you. Operator, next call, please.

Operator
Thank you. We take the next question from the line of Akshay Jain from Autonomous. Please go ahead.

Akshay Jain - Analyst, Autonomous
Hi sir. Thank you for the opportunity, and congratulations on a great quarter. So my first question is again on FCNR. So, given like Federal Bank's strong NR base, one would have expected it to have a much higher share of FCNR. So what is driving this number? And if you can provide margins excluding the FCNR impact, like what is the FCNR funds which have been deployed in loans or bulk deposits, which have been repaid. And what is still sitting in liquidity? So that's my first question.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Right. So like I said, I think what we wanted to ensure was there was right granularity to it, right economics to it, and we think what we have done is appropriate given our size of the balance sheet. It's appropriate given our ALM economics, granularity, all of that put together. And deployment opportunities, tenor, all of that. So I think we did what is appropriate from our point of view. Rest of the deployment into what and all is a matter of a lot of detail, Akshay, so I will leave that to -- if you require a one-on-one discussion, we can do that. But a lot of that is not really value-additive. Finally, all of that is reflected in the NIM figure that we have reported, right? Finally, it bakes in all of that.

Akshay Jain - Analyst, Autonomous
Fine. So second is on the loan growth. So loan growth, if I remove the FCNR leverage is now around 18%. So like how sustainable is this loan growth? And is there any revision in growth guidance?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So we continue to maintain what we had guided as mid teens as the growth rate guidance. We continue to maintain that guidance, Akshay.

Akshay Jain - Analyst, Autonomous
Understood. And sir, lastly on the inorganic growth, I understand you will not be able to comment on any specific deal, but what is the philosophy when you refer to any inorganic acquisitions, given the hard work you have put in strengthening the asset quality over the years, like will you be comfortable in going into segments like MFI or similar segments?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
From our point of view, I think I have stated this earlier on our inorganic philosophy, what we want to follow. One is we are quite clear that whatever we do, we must see it as accretive, and we are very disciplined about that. There are instances where we have given up opportunities where we have found it not accretive enough. And some of them are known. And therefore the first principle is that it should be accretive. We remain focused on areas where we think we can acquire newer capabilities or scale remains the second area, and of course, our preference is core over a period of

time, also the universal banking franchise that will determine the opportunities we evaluate and take forward. So that, and I have earlier said that we also believe that a string of pearls strategy is probably better than a big bang strategy, and that's what -- these are some of the guiding philosophies we will follow as and when we look at an opportunity and close that.

Akshay Jain - Analyst, Autonomous
Understood, sir. Thank you. Those are my questions.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yeah.

Operator
Thank you. We take the next question from the line of Kunal Shah from Citigroup. Please go ahead.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Hi, Kunal.

Kunal Shah - Analyst, Citigroup
Yeah, hi. So firstly on opex, even if I adjust for the overall ESOP, opex appears to be quite high, both the overhead cost as well as the employee cost. I do understand we added almost 75 odd branches. So would this be largely the infra-related spend which would have been there, which is leading to this kind of rise in opex?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So Kunal, first of all you have to see it in the context of cost-to-income and our past guidance on that. We have always maintained that don't bake in advantages on cost-to-income. And therefore, first of all, it is in line with our guidance, the cost-to-income guidance that we have given, number one. Number two, this of course includes extra branches, extra people we have added, as you know, as we have added a new sales channel. We are investing in technology. We are -- so there are several lines of expenses that we are -- and of course there is some actuarial impact that has happened. So it's a combination of things. But I would say that remains within the overall guidance that we issued.

Kunal Shah - Analyst, Citigroup
The question was more in terms of ROA lever looking at opex. So we have seen this getting towards like 2.3 now, more than 2.3 on average assets. So would this kind of investments continue? And would we see like limited levers on the opex side towards the ROA or maybe a negative lever to the ROA, yeah?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Not negative, but we had, Kunal, you would recall all our calls over the last several quarters we have maintained that, please don't bake in benefits out of cost on ROA. And that guidance remains as of now. That was a two-year -- we had at that time indicated that for a couple of years we'll like to invest for a sustainable future protection. And that guidance continues.

Kunal Shah - Analyst, Citigroup
Sure. And second question is on fee side. So does this include the fee on the leveraged book, which is leading to the higher fee income or this is more, I would say, more business as usual, and we should continue to see the traction because again fee income was something wherein we were

expecting a buildup out there. So is there any one-off in fee income or it is all structural, yeah?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So if you have seen the document we have given you, the disclosures we have given you, almost every line of the fee income [Speech Overlap].

Kunal Shah - Analyst, Citigroup
The only thing is processing fee and other service charges, if there is any component within, yeah.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yes, there is some component of the FCNR there. But it is not, I mean, if it was that significant to call out, we would have called out.

Kunal Shah - Analyst, Citigroup
Okay. Got it. And any reason to book this treasury of 238 odd crores, even when yields have hardened overall the other income there is a huge support coming in of 238 crores. So any gains which have been booked even from the, maybe the portfolio which has been there, investment portfolio?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So we've got -- it's a combination again of some investment that we encashed during the quarter. There was some -- so in treasury, I would say, we had a good quarter. I don't know what to call one-off, but there was -- clearly we gained out of IPOs, we gained out of some other one particular investment. And of course, there was an SR that was encashed during the quarter which also contributed to it. But more importantly, when you are looking at the numbers, please remember that you are looking at it from a very low base in the last two quarters.

Last two quarters were super suppressed because of NOOP and other issues. And therefore, to some extent it is also retracing back to normal that is contributing. If you go back to earlier quarters, our treasury incomes were not as low as the last two quarters, right. So it's a combination, I would say. Yeah, to some extent, it is a good treasury quarter. Whether we can assume that the same will repeat? Yes, it may not repeat.

Kunal Shah - Analyst, Citigroup
Okay. Thank you. Thanks, and all the best.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yeah, thank you.

Operator
Thank you. We take the next question from the line of Nitin Aggarwal from Motilal Oswal Financial Services Limited. Please go ahead.

Nitin Aggarwal - Analyst, Motilal Oswal Financial Services Ltd
Yeah, hi, good evening, and thanks for the opportunity.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Hi Nitin.

Nitin Aggarwal - Analyst, Motilal Oswal Financial Services Ltd
Hi sir. Congratulations on a good quarter. I have couple of questions. One is on the lending yields. So, if I see like while our focus has been like to grow the mix of high-yielding deposits, but given how the repricing has been playing out, the lending yields has been coming down bit by bit every quarter. And so, not counting in any rate hike related gains from here. Can we say that the lending yields now have bottomed? And therefore, how do you expect the margins to play out now over the coming quarters?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yes, you can say that. If you see last quarter the lending yield was almost, if you adjust for, there was an FCNR(B) impact on that. But if you adjust for that, it was more or less constant or slightly higher, I would say, compared to the last quarter. So we have already seen the bottom of that cycle last quarter, I would say, this quarter is more the FCNR impact. But I would say last quarter, we saw the bottom of that cycle.

Nitin Aggarwal - Analyst, Motilal Oswal Financial Services Ltd
Okay. And sir, on the margins now this quarter we have held essentially flat, how should one look at the margins now over the coming quarters?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So broadly, Nitin, I would say, for the year, we gave a broad guidance that it will be 5 basis to 6 basis per quarter improvement. And we had said that it will not be linear, it will vary from quarter to quarter, but on an average we should get that. We are still striving to get that number.

Nitin Aggarwal - Analyst, Motilal Oswal Financial Services Ltd
Okay. And second, just as a data point on the LCR ratio, if you can share that number.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
LCR ratio is -- average LCR 119.8, 120.

Nitin Aggarwal - Analyst, Motilal Oswal Financial Services Ltd
Okay. So it has improved 3 odd percentages this quarter, am I right?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yes, that's right.

Nitin Aggarwal - Analyst, Motilal Oswal Financial Services Ltd
Okay. Great.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Our desired band of 110 to 120, we are continuing to operate within that kind of a band as an intention. So I don't see 17 to 19 as an improvement. It is just that we are operating in that band. So it is sometimes 117, sometime 120, whatever or 115. It could be anywhere between 110 to 120.

Nitin Aggarwal - Analyst, Motilal Oswal Financial Services Ltd
Got that. Got that.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
That's our targeted band at which we want to operate.

Nitin Aggarwal - Analyst, Motilal Oswal Financial Services Ltd
Got it. Thanks so much, sir. Wish you all the best.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you.

Operator
Thank you. We take the next question from the line of Piran Engineer from CITIC Securities International. Please go ahead.

Piran Engineer - Analyst, CITIC Securities
Yeah. Hi team. Congratulations on the quarter.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Hi, Piran.

Piran Engineer - Analyst, CITIC Securities
Hi. Just one thing, this other clarification. Is there any one-off opex from raising of USD bonds for the FCNR thing?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
We have not raised bonds. There is some loan processing transactions which are built in. Yeah, which are built in.

Piran Engineer - Analyst, CITIC Securities
Got it. And also this, could you help me understand the NIM thing in totality now? So if you had not raised FCNR, our NIMs would have been at least 80, 10 bps higher. Is that a fair conclusion? So it's flat because you raised FCNR and X of that, that much higher.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So, Piran, that is a slippery slope of calculation. All I can say is it would have of course been higher for sure. How much is a matter of what all assumptions you make. FCNR(B), this scheme did not come doesn't mean no FCNR(B) would have come right in normal course of business. So all those are very complicated calculations to make. So all I would say is, yes. Has the FCNR(B) impacted NIM? Of course it has impacted NIM. Especially the lending side of the leverage side has impacted the NIM. But how much is a matter of how -- what all kind of assumptions you make.

Operator
Thank you. We take the next question from the line of Jai Prakash Mundra [Phonetic]. Please go ahead.

Unidentified Participant
Hi sir. Yeah, hi sir. Just a few questions, sir. First on gold loan, we have yield at around 10.4%. Now, in -- yeah, I believe, I mean, if you can specify what is the usual average tenure of this product? Because I believe the rates are fixed here. And how quickly, or how easy or difficult would it be for you to change the rate in rising rate cycle? Or you believe because it is a short tenure product, it may not have any issue in from the NIM accretion perspective.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Jai, if you look at overall structure of our book, it's fairly healthy. 33% of our book is fixed, 45% is repo-linked and the rest of it is MCLR-linked. So we have a good mix of floating and fixed book in our balance sheet now. And gold loans are typically a one-year kind of product. So we don't see an issue. And I think this mix, overall, it's a fairly good mix for us to work with NIM in over cycles.

Unidentified Participant
No, sir, I'm saying the yields on gold loan are higher than the blended yield. When the other floating rates yield go up in line with repo. Do you think that this product can also see similar upward movement in yield or this may not have, because it is a fixed yield product.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
No, no. It's a fixed loan, but every month something matures, right? So it is like the maturity will be repriced at the higher levels, yeah. And it is a one-year maturity product, largely. We have a little bit of long-term loans. Otherwise it is a one year maturity product. And every day some new loan matures, which will obviously be priced at higher interest rates if interest rates go up.

Unidentified Participant
Right. No. So that is the precise question, sir. When interest rate were to go up, can -- do you see a scope to increase the price --

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Of course. Why would we not? Why would we not?

Unidentified Participant
The only thing is that there are a lot of competition from PSU banks, which charge less than 9%. So that is the background of the question.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
But they were always charging less than us.

Unidentified Participant
Right. Right. Right. Okay. Sure. And secondly, sir, on opex, right, so apart from this INR32 crores of ESOP provisioning change, how to look at the staff cost incrementally, was there any INR32 crores pertain to only this quarter or maybe some backdated. Is this the new normal for staff cost or how to think about this, sir?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
No, no, the 32 is the one-time impact of change in accounting policy. So it's a one-time impact of 32. And just to stop -- sorry, just to go back to your question. You asked, others were charging low. There were many people charging higher than us also in the market on gold loan. So --

Unidentified Participant
Yeah, understood, sir. On this staff cost, so INR132 crore is, let's say, one-time.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yes.

Unidentified Participant
And the rest of the base is reasonably the new revised base, right. That is the way to look at this.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
No. So it has a combination of two or three things. One is of course we are adding people, and that is adding to cost, as we are adding branches and people, therefore it is adding cost. Second is that actuarial impact is there. And that keeps fluctuating a bit, as interest rates rise, some of that will get written back in the next few quarters. So that retirement cost will fluctuate a bit with the market.

Unidentified Participant
Right. And last question, sir. We had around INR390 crores of bancassurance fee last year. What would be your rough cut impact of this fee and under the revised, under the light of draft regulation, and how do you intend to sort of offset that? Thank you.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So too early to answer that question just now, because we have many options, like changing the mix of products we sell, all of that. Yes, volumes can go up, and therefore we have to see what is the impact. Is there an impact? Of course there is an impact. But how much is something that we would get a better handle as we go. And of course we must remember this is just a draft guideline yet, and we don't know what the final outcome will be. But having said that we will be in a better position over the next quarter or so to be able to estimate this better.

Unidentified Participant
Right, sir. Sir, if I may ask the last question on ECL, I think last quarter you had mentioned that the impact is less than 2% of net worth. I believe there is no change in that. But just because the yields have hardened by 40 basis point, does that impact the ECL transition impact at all? Or that less than 2% number was only for loan loss and hence the ECL impact is because of HTM hardening is a separate impact, right?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yes, yes, that, I mean, we talked about the ECL credit loss impact, and that doesn't change with this, yeah.

Unidentified Participant
Right. Okay. Thank you. And all the very best, sir. Thank you.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you.

Operator
Thank you. [Operator Instructions] We take the next question from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh - Analyst, Kotak Securities
Hey, hi. Okay, one question then it is. Sir, on the gold loans, quarter-on-quarter, the LTV has moved up from what used to be around the mid-50s to let's say the early 60s in about a quarter. Just if you can clarify what's happened in the quarter. And just additionally on that yield question, you've also seen an improvement in lending yields for the past couple of quarters in this portfolio, suggesting that you have taken some rate actions on the portfolio, which I think you'll probably see for the next

couple of quarters. Is this two assumption, right, that is happening here?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So Mahesh, yes, 55 has moved to about 60, 61 or so. Some movement has happened there. But having said that, we have also grown tonnage in the last quarter. This quarter we have grown tonnage. So I would say it's a mix of things. And yes, we have taken rate actions, which we are trying to get better yields on the portfolio.

MB Mahesh - Analyst, Kotak Securities
Sir, just to clarify, the -- if you were to increase, I don't know, 100 basis points, you see sensitivity on the customer base or if the pushback is more at the field staff level rather than the customer level. What is your sense on?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So Mahesh, we play the fine balancing game between what NBFCs do and what the PSU banks do. I mean, somebody asked this question earlier also, and we play the middle band, right? We play the middle band where we try -- our rates are better than NBFCs, but they are better than the lowest cost providers. And this is a fine game to play, but we are able to do that, marginally we keep pushing a bit to improve our rates there. There is no perfect answer to your question. [Indecipherable] you wanted to add something?

Unidentified Speaker
Let me just add one more thing. We are also focusing a lot of income generating loans, which typically will give us a higher yield also over there. So that's another conscious step over there. When you were doing Agri linked gold loans earlier, there are micro-based gold loans also under the income-generating loan, which gives typically a higher yield.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Which is a product we just launched in Q2.

MB Mahesh - Analyst, Kotak Securities
Sorry, I didn't get that. You said income-generation gold loans.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Income generating gold loans. Yeah, in the sense the customer segment is product purpose. Purpose of the loan is for productive purposes of generating income. That is a new classification. RBI had come back with certain dispensation around that in the new gold loan policy. So we launched a product around that in the last quarter. And that gives slightly higher yields. Yeah.

MB Mahesh - Analyst, Kotak Securities
Okay, sir. Thank you.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you. Thank you, Mahesh.

Operator
Thank you. We take the next question from the line of Gaurav Jani from PL Capital. Please go ahead.

Gaurav Jani - Analyst, PL Capital
Thank you, sir. And congratulations.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you.

Gaurav Jani - Analyst, PL Capital
Just two quick questions. The first is, we've, this quarter has been pretty [Technical Issues]

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Hello? We lost you.

Operator
Sir, we have lost the line from our participant. We'll move on to the next question which is from the line of Param Subramanian from Investec. Please go ahead. Param, please unmute your line and proceed with your question.

Param Subramanian - Analyst, Investec
Hi, thanks for taking my question. Sir, congrats on the quarter. So I just wanted to clarify the -- on the opex, the other opex in the quarter, do we have to look at it in conjunction with the higher fee also? Is that what you were trying to say? As in, are the two sort of linked? Is it a processing fee and a grossing that is happening over there, say relating to general expenses, some of that.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Not materially, but yeah, some -- in the FCNR thing, there can be, on the borrowing side, some costs and the lending side some fees. But it's not material. I mean, yeah.

Param Subramanian - Analyst, Investec
Okay. Is there any one-offs, sir, that affects in the fee line? FCNR, it's not very material.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Not material.

Param Subramanian - Analyst, Investec
Okay. Okay. Yeah, that's it from me, sir. Congrats on the quarter. Thank you so much.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you.

Operator
Thank you. Next question from the line of Ravi Purohit from Securities Investment Management Private Limited. Please go ahead.

Ravi Purohit - Analyst, Securities Investment Management Private Limited
Yeah, hi. Am I audible?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yeah.

Ravi Purohit - Analyst, Securities Investment Management Private Limited
Yeah. Hi. Congratulations on a good set of numbers. Sir, a couple of years back I think we had outlined our strategy to kind of add financial services side, right. Be it wealth or also kind of to tap the NRI segment, right. We had mentioned that we had significant large exposure to NRIs on the deposit side, but not so much on the product side. And I think there have been discussions and rumors about the Jana Finance. So, the two kind of loans seem to kind of go hand in hand. So just was wondering if you can share whether our thoughts on monetizing or utilizing the very strong NRI franchise remains a focus area or if you could kind of share some more insights there. And second on initiatives that we have taken on the CASA side, which seems to have done significantly better in the last one year. So if you could just share some thoughts on both the sides.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So we remain steadfast on the fact that our NR franchise needs to be holistically covered. And one of the items there was building our wealth side of the business. We remain committed to doing that. So -- and coming to initiatives on CASA side, I mean that's, there is no one silver bullet on initiatives on CASA. There are multiple things that we have done to get CASA right. And now what we tried for last six to eight -- six quarters or so, and we will continue. There are still new initiatives happening. All the initiatives, it is not my intention to discuss that on this call here. I am assuming that, that will be a long, long discussion.

Ravi Purohit - Analyst, Securities Investment Management Private Limited
Right, right. And sir, just under your [Indecipherable] in Kotak, I think the ING Vysya merger happened, right. But it was a painful merger for a few years. So I'm sure like so investors are kind of a little wary about this Jana Finance news that has been floating around. So I'm sure you'll have best interest of shareholders. But these mergers have had -- they've kind of been very tough.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you. Thank you for your advice. And we'll -- I have taken note. Yeah, thank you.

Ravi Purohit - Analyst, Securities Investment Management Private Limited
Sure, sir. Thanks a lot, sir.

Operator
Thank you. We take the next question from the line of Gaurav Jani from PL Capital. Please go ahead.

Gaurav Jani - Analyst, PL Capital
Yeah. Am I audible, please?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yeah.

Gaurav Jani - Analyst, PL Capital
Yeah. So sir, two questions from my end. First is this quarter we have seen a pretty strong growth in our higher-yielding segments, right. I think be it unsecured, be it business banking, right. So is it a fair assumption next quarter, also given the impact of the repo hike, our margins would probably the movement would be pretty positive. That's number one. And the second is, if you could talk about -- is this growth sustainable in these segments? I mean the momentum. And just one data-keeping question on the staff cost on the other opex. If you could call out the change due to the interest rate

movement, yeah, that's it. Thanks.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So, your first question was on the asset side, of course we have always called out the mid-yielding segments as an asset, the category of assets that we want to grow. And we had called out that in some we were successful, and in some we were still trying to get that better. So a few quarters back, LAP was not showing the traction that we wanted, but it is now, last two, three quarters, you can see good growth. Similarly in personal loans now for a couple of quarters we have built a traction. Now we have -- last quarter when we came here, we talked about BuB is a segment that we would like to build traction going forward, which you are seeing now. So each of these are initiatives that we have put in through various quarters, and we are finding, I mean, it's finally about executing those initiatives in the right earnest and making sure that we see the outcomes. That's what is happening.

And of course margin, I already gave a guidance, that we'll stick to that guidance that we said 5 basis point to 6 basis point, not necessarily linear, but that kind of on an average, that kind of improvement is what we are wanting to strive for. And growth guidance, again I gave a specific guidance saying that mid-teens guidance, so we'll stick to that. And on staff cost, other than the INR33 crore, like we mentioned about the ESOP accounting change, I mean, yes, interest rate fluctuations do cause a difference to that retiral cost there. But that is something that we take in our stride and we don't call out that usually as a variation. It's too complicated to keep calling out that.

Gaurav Jani - Analyst, PL Capital
Okay. And sir, any one-off in the other opex because of the interest rate fluctuation.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Nothing material.

Venkatraman Venkateswaran - Executive Director (KMP), Federal Bank Limited
Nothing material.

Gaurav Jani - Analyst, PL Capital
Okay, sure. Thanks. That is fine. Thank you.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thanks, Gaurav.

Operator
Thank you. We take the next question from the line of Madhuchanda Dey from MCPro. Please go ahead.

Madhuchanda Dey - Analyst, MCPro
Hi. Congratulations on a good quarter once again. My question is very simple. If you could share your thoughts on the roadmap to a 1.5% kind of an ROA, especially given that your asset quality is very strong. There's not much of a headroom, and you mentioned that you don't want to kind of cut back on costs because those are necessary investments. So onus basically is on the interest margin and a bit on the fee. So given this scenario, what kind of a timeline do you see for that kind of a target?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Madhu, if you just go back and look at our ROAs, four quarters back, it was close to 1%. And we are today sitting at about 1.33. So there are liability mix actions, asset mix actions, which have resulted in that, and fee growth options. And so therefore, the execution on those fronts continues. [Technical Issues] And that's --

Madhuchanda Dey - Analyst, MCPro
Would you like to give any timeline for that kind of a target?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
We have given you a guidance on ROA in the past. That 3 to 4 basis per quarter is the improvement we want to strive for. That's the broad guidance that we have given even earlier, and we stick to that guidance. Again, these may not be linear every quarter, but on an average, we will get there. This quarter we were 10.

Madhuchanda Dey - Analyst, MCPro
Yeah, got it. Thank you.

Operator
Thank you. We take the next question from the line of Jayant Kharote from Axis Capital. Please go ahead.

Jayant Kharote - Analyst, Axis Capital
Sir, thank you for the opportunity. First, first question is on your thought process on risk-adjusted margin, sir, given when we started this transformation we had focused on mid-yielding books, and that sort of kept the investor comfort on the trajectory of credit cost as well. Of course, this is in context of the rumors around MFI. So want to understand if your thought process is still anchored around margins or it has been expanding to risk-adjusted margins. That is the first question.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
These are always -- these are reporting our risk-adjusted margins always. We were always focused on risk-adjusted margins. And every quarter from last -- for the last four to six quarters, we have seen improvement in our risk-adjusted margins.

Jayant Kharote - Analyst, Axis Capital
Yes. So philosophically you do get -- you are anchored to risk-adjusted margins incrementally as well.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
I don't know how to answer. I have shown you last six quarters that it is happening, right. The pudding is in the action, right?

Jayant Kharote - Analyst, Axis Capital
Yes, of course. The context is, if you are willing to add more risk for more yield. And that's where the question was, not what you've been reporting for the past six quarters.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
We have already -- already, we have said that we are keen on mid-yielding assets, and that is the method. Does mid-yielding assets add some risk? Yes, it does add some risk. Does it give improved

yield? Yes, it does give an improvement yield. The question is whether the net of the two, whether it works or not. So mid-yielding assets has been our focus.

Jayant Kharote - Analyst, Axis Capital
No, sir. That's what we started the question with. Mid-yielding is what all of us are very comfortable with. The question was with high-yielding assets, where we are doing very good work in credit [Speech Overlap]

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Why are you asking me a hypothetical question?

Jayant Kharote - Analyst, Axis Capital
Great, sir.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
I am telling you what we have done. Yeah.

Jayant Kharote - Analyst, Axis Capital
No, no, sir, I [Indecipherable] the comfort level.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Okay. Let's move on, please.

Jayant Kharote - Analyst, Axis Capital
Yes, sir. Sir, second question is on the opex piece. While you have guided on the cost-to-income in the past, but I think Kunal was also saying on cost to assets, this is quite a meaningful increase, and especially when our asset growth has accelerated this quarter. So even if we do assume, if we are even holding the ship tight on our core PPOP ROA, QoQ movement seems hardly -- barely like 2, 3 basis points especially when our credit costs are below normal. So that jaw doesn't seem to have played out this quarter or am I misreading it? If you remove treasury income and looking at the core operating jaws, sir.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Right. So we have always been saying that this is a tightrope walk that we will do. We are working towards improving incomes, and therefore being able to invest more through higher opex. And that remains our strategy. And so we are very conscious about what kind of cost we incur and what kind of income improvement we can get. And yeah, like we guided that, you know, we had said that we were operating at about 54-ish on cost-to-income, and we said we will continue to operate around that, in and around that, few basis points here, there. So you assume please that we will operate at around that kind of a cost-to-income for the time being.

Jayant Kharote - Analyst, Axis Capital
Understood. Sir, just last question. On the other opex, is there any upfronting at all for branch expansion on the other opex, not the employee cost?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
No. Branch cost cannot be upfronted. No.

Jayant Kharote - Analyst, Axis Capital
Great, sir. Thank you. And all the best.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you.

Operator
Thank you. We take the next question from the line of Jeet from Pinpoint Asset Management. Please go ahead.

Jeet - Analyst, Pinpoint Asset Management
Hi sir. Thanks for taking my question, and congratulations on a great quarter. My question [Technical Issues]

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Hello? Sorry, we lost you.

Souvik Roy - Head of Investor Relations, Federal Bank Limited
Jeet, are you there?

Operator
Jeet, are you there?

Souvik Roy - Head of Investor Relations, Federal Bank Limited
Looks like we lost him.

Operator
Sir, we have lost the line of Jeet.

Souvik Roy - Head of Investor Relations, Federal Bank Limited
Wait for a couple of seconds for him to join back, just in case if he does.

Operator
Sure.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Hello? Let's bring him back later.

Operator
Sir, Jeet has left the call, sir.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Okay. The next one.

Souvik Roy - Head of Investor Relations, Federal Bank Limited
No, that was the last question.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Okay, great. On time.

Venkatraman Venkateswaran - Executive Director (KMP), Federal Bank Limited
Thanks, Ryan.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you. Thank you, everyone, for joining us. Happy festival time to all of you. And thank you very much for the interest in the company. Thank you.

Souvik Roy - Head of Investor Relations, Federal Bank Limited
If you have any further questions, feel free to reach out to us offline. We'll be more than happy to assist. And wishing you and your families a very happy Navratri. Have a wonderful weekend ahead.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you.

Operator
[Operator Closing Remarks]