Management Discussion

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

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

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

Joining me today are our Managing Director and CEO Mr. K.V.S. Manian, our ED, and members of our senior team. They will take you through the key highlights of the quarter after which we will be happy to take your questions. Given the number of participants on the call, we would request that everyone limit themselves to two questions initially. If you have any additional questions, please rejoin the queue. We'll do the best to accommodate everyone. With that, let me hand the call to our MD. Over to you, sir.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you, Souvik. Good evening, everyone, and thank you for joining us today. This has been one of the strongest first quarters in our recent past. And the quality of it matters as much as the outcome itself. There are no one-off gains supporting this performance in this quarter. Through a challenging period for treasury, we have actually grown our profits, expanded margins, improved efficiency, and taken our asset quality to its decadal best.

We remain firmly on track against every element of the guidance we have given you earlier. If anything, on several of those metrics, we see a positive bias. Our focus on CASA mix remains unchanged. We continue to target improvement in our CASA ratio over the coming quarters of our stated roadmap. This quarter carried the seasonal movements you would expect in a June quarter, especially on the CA front. But our average CA and average SA growth numbers remain encouraging and our conviction on the objective is undiminished.

On the asset side, the portfolio mix is evolving as we said it would. Most of our chosen segments are performing well. There are one or two where execution can be sharper and we expect to address those over the coming quarters. Since we last spoke, there have been three key developments of significance. First, we have a new chairman, Mr. Elias George, who has succeeded Mr. Hota, and we look forward to his stewardship. Second, we are in the process of acquiring the Standard Chartered India credit card portfolio. And and we remain confident of completing the integration before the end of this calendar year. Cards and especially our organic, the non-co-branded cards are a segment we have been building deliberately, and this accelerates that.

Third, we have secured an investment grade international credit rating from S&P, one of the only few handful of Indian private sector banks to hold one. Its significance lies in access rather than recognition. It opens global pools of capital to us at competitive rates across bonds, ECBs, IBU

funding, and other avenues. And it allows us to fund growth more efficiently while diversifying sources of funding. For a bank of our size, this is a door that was not previously open.

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

We believe that we will be able to get our fair share of this flow. Over this quarter, we see this as a meaningful lever for the liability franchise. Taken together, this quarter reflects the evolving strength of the core franchise. We are executing with discipline across our priorities, and we, we meaning my team and I, remain confident of delivering on our medium term objectives. I'll now hand over to Venkat who can take you through the numbers in more detail. Thank you.

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
Thank you, Manian. And good evening, everyone. Thank you for joining us today. And I trust you have had a chance to review the Investor Presentation and disclosures. I will focus on the key financial and balance sheet developments for the first quarter. But before that, let me begin by providing a quick overview of the macro environment. The inflation trajectory during the quarter is broadly along the lines we flagged on our last call.

Headline Consumer Price Index moved up in each month of the quarter, 3.48% in April, 3.93% in May, and 4.38% in June, averaging approximately 3.93% for the quarter as a whole. But what is more important is the fact that the June print is the highest in the current series and sits above the RBI's 4% medium term target. Two drivers account for most of that moment. First is food. When we spoke last, we noted that the food inflation had picked up towards March to 3.87%, and that we would be watching it into this quarter.

It has firmed further, 4.20% in April, 4.78% in May, and 5.32% in June, with vegetable prices being the principal contributor. Secondly, energy. Oil marketing companies raised retail fuel prices in May and transport inflation swung from broadly flat in April to 4.31% in June. This is the delayed pass-through from the West Asia conflict that we said would show up in Q1 rather than the March quarter and it has indeed started reflecting.

The MPC held a repo rate at 5.25% in June and retained the neutral stance. Alongside that decision, RBI lowered its FY27 growth projection to 6.6% from 6.9% and raised the FY27 inflation projection to 5.1%. This is a meaningful revision, and it is the frame for how the year ahead is likely to unfold. Against that, the growth base is sound. Full year FY26 real GDP came in at 7.7% on provisional estimates, revised up from 7.6% we cited last quarter, with March quarter at 7.8%.

Liquidity conditions have remained supportive and system credits offtake has held up. On that backdrop, I will talk about our performance in Q1. Souvik has already called out the fact that our numbers will be compared on the underlying basis excluding the one-off which we saw in last quarter. Net profit for the quarter was INR1,176.93 crore, up 36.57% YoY and earnings per share stood at INR19.15, up 36.06%. This is a strong start to FY27. And this is despite the fact that treasury income has been muted in the last two quarters. Our net interest income was INR2,945.89 crore, up 26.06% YoY and NIM was 3.33%, up 13 basis points sequentially and 39 basis point YoY.

Cost of funds declined 21 basis points to 5.25%. A large part of deposit repricing, which we

mentioned earlier, has played out, and there's some minor benefit remains which will play out in Q2. Our deposits and liability franchise highlights that the total deposits closed at INR3,20,117.66 crore, up 11.37%. Our CASA balances which are crossed INR1 lakh crore last quarter is now at INR1,03,163.15 crore, up a strong 18.26% YoY, growing approximately 690 basis points, faster than the deposit book, and our CASA ratio has improved 188bps to 32.23%.

NR deposits, which is NRE and ONR deposits together, reached INR1,05,123.41 crore, up 14.24%, building on the milestone we crossed last quarter. Again, this also crossed INR1 lakh crore last quarter. FCNR (B) deposits grew 37.76% YoY. Savings balances grew a very healthy 19.3% YoY. On a YoY comparison, current accounts are up 18% and savings up 19.3%. Both engines are intact, and we continue with the momentum.

We expect the current account traction to resume through the balance of the year as the seasonal effect in Q1 washes out and our transaction banking and channel business continue to scale. As Manian said, there is no change to our guidance on CASA. On advances, our gross advances closed at INR2,81,239.54 crore, up nearly 15%. Asset momentum has picked up, and it is coming through in the areas we have prioritized. Our stated focus has been on higher yielding granular assets, which improve the risk adjusted return profile of the book. And it's the same granularity which feeds into our core fee lines. The direction is now visible in the composition of growth.

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

Our granular retail portfolios maintain strong momentum, with gold loans continuing at a very strong rate of growth at 33% YoY, harsh growing, which is again a chosen segment, and Manian mentioned about our acquisition of the StanChat portfolio, 36% YoY.

And loan against property, which has been seeing very strong traction in the last two quarters, grew at 21%. Retail banking as a whole grew at 10.8% YoY and with the slippages in the segment down 28%. Business banking grew 7%. This is a segment which we had indicated last quarter that we have prioritized portfolio health and yield protection over headline volume growth. Slippages in this book are down 36% YoY. And now with the portfolio in better shape, we expect to grow this book from here.

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

Our cost income ratio improved to 52.5%, down 239 basis points YoY. On asset quality, which has been another highlight of our performance. Our GNPA improved to 1.52%, down 39 basis points, and NNPA at a record low of 0.18%, down 30 basis points YoY. Our PCR excluding technical write-offs strengthened to 87.37%. And the credit cost was 41 bps, down 24 basis point YoY. A leading indicator for this is slippage, and as we had mentioned in the earlier quarters as well, the trend in slippages continues to be downward and the fresh slippage was INR409.48 crore, down 37.8% YoY, and sequentially down 13.6%, and our slippage ratio is at 0.61% as against 1.11% last year same time.

ROA, because of all of these measures, have improved to 1.22%, up 22 basis point YoY, and our return on equity improved to 12.02%. I also mentioned, in the last quarter, that we'll give an update on the impact of ECL transition during the Q1 earnings call. The new framework is effective 1 April, 2027. And based on our estimates for rest of this year, we expect the one-time transition impact due to ECL to be about 1.5% to 2% of our net worth.

Secondly, on an ongoing basis, we do not expect any material impact to the P&L due to this change. In summary, this was a quarter in which treasury contributed little. Fee line faced a seasonally high base, and we observed our annual wage revision. Against that backdrop, our profit grew 36.57% with margin expanding 39 basis points, cost to income improving 239 basis points, and credit cost declined 24 basis points.

This result, as mentioned by Manian, is from pure operating performance from the core of the bank. The macro picture ahead carries more inflation than the one behind us. And RBI's revised projections reflect that. Our priorities are unchanged. We'll work towards deepening the liability franchise, grow in our chosen segments at the right risk-adjusted return, and hold the line on credit quality and cost.

The granular and secured character of this balance sheet is what allows us to be consistent. And consistency is what we are aiming for. Thank you, and we'll now open up for questions.

Questions & Answers

Operator
Thank you very much. [Operator Instructions] Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mahrukh Adajania from Tara Capital. Please go ahead.

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

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

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

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

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

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

Mahrukh Adajania - Analyst, Tara Capital
Okay, thank you. And anything on the cost effectiveness of FCNR, like --

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Let it play out, Mahrukh, and then next time, we'll discuss whether it was cost effective or not. Let it play out and what, we'll discuss.

Mahrukh Adajania - Analyst, Tara Capital
Okay, thanks a lot. Thank you.

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

Operator
Thank you. Next question is from the line of Akshay Jain from Autonomous. Please go ahead.

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

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

So basically trying to understand what is the hook for them to move to Federal because you don't even offer higher interest rates compared to other mid-sized banks. And another thing is the CARA driven by either retail or corporates or commercial customers? So those are my two questions.

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
Okay, the first part, I'll answer. The cost of deposits, Akshay, you are comparing last quarter to this quarter and you said 22 bps. In fact last quarter, the impact of the cash certificate which happens at the end of the year, if you exclude that, the reduction in cost of deposits is about 11bps. That is a primary contributor.

In addition to that, we had the interest on IT refund which we got. That's about 2bps, and the yield on advances dropped by 3 bps. So net-net, we moved from 320 to 330. That's a broad walk on the NIMs.

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

Coming to your CASA improvement trajectory. As you have seen, it is not a particular quarter that we have got CASA improvement. It has been, consistently, we have been growing our CA and SA both at a good pace. This is -- I mean, I can't give you a one-line answer on what is the reason and how because it is a combination of multiple things that we do. It is also about more customers. We are opening more current accounts today. We are opening double the current account that we were opening a year back. We are opening more savings account, higher variants. Higher variant accounts that we are opening are higher.

So better quality accounts, we are opening. So I can't give you one answer, one reason, but it is a combination of things. For example, our branches' KPIs, the way we measure them and evaluate them has significantly changed in favor of liability side than on the asset side. So therefore, it's a combination of multiple things, and we believe that these are medium-term measures. And yes, our products are competitive in the market. Having said that, it is also our good execution, good focus, and in fact, good deployment of resources, branches at the right locations. I can go on and on. So there are multiple things that are driving the CASA trajectory.

Akshay Jain - Analyst, Autonomous
Thank you, sir. Just two follow-ups. One, I did not understand the 11 basis points comment on the cost of deposits front? And number two, on the CASA, if you can provide any indicative mix of incremental CASA coming from retail, commercial, corporate?

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
On the deposits, 11 bps, Akshay, I'll take it with you separately. I'll explain to you and give you the work.

Akshay Jain - Analyst, Autonomous
Okay.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yeah. Again the current account is a reasonable mix of all three. All of them have almost grown roughly the same pace. Retail, commercial, and corporate, all three CASAs have grown -- I mean, CA have grown in equal measure, actually.

Akshay Jain - Analyst, Autonomous
Okay, sir. Thank you. Thank you for the answers.

Operator
Thank you. Next question is from the line of Kunal Shah from Citigroup. Please go ahead.

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

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

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Right. No, so you are right. If you look at our corporate growth rate, this quarter has been 6%. So corporate has grown very strongly. This is not our normal trajectory, as you know. Even if you see the YoY number there, it is closer to 16%. So we do expect -- we did get good opportunities in the market at that short-term product that we get -- do in the corporate side, and we, of course, used that opportunity.

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

Just a clarification on that. Interestingly, our low-yield business, which has corporate and home loan primarily, also, I must tell you that even in the corporate, we have been, within corporate, shifting our mix towards mid-market rather than the upper market, and we have seen NIM upgrade or yield upgrade coming even in our corporate book through the year. And that is, again, something that we have -- we disclosed this last time as well. Almost 75% to 80% of our new customer acquisition is now in the mid-market segment. And as the mix there changes, actually, even the low yield book will start giving us better yields than it used to give in the past.

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

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

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

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yes. Kunal, it is not 47%, it is 41% in the first quarter.

Kunal Shah - Analyst, Citigroup
Yes.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yes, our guidance was 50% to 60%. Yes. So let me say that, just now, you treat it at the lower end of the guidance just now. We are not yet formally wanting to revise because we want to watch. This war and this monsoon, there are still headwinds out there, so we don't want to hurry up and issue a new guidance. Right now, let's say that we are likely to be at the lower end of the guidance.

Kunal Shah - Analyst, Citigroup
Perfect. Yes, makes sense. Thanks and all the best.

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

Operator
Thank you. Next question is from the line of Nitin Aggarwal from Motilal Oswal Financial Services Limited. Please go ahead.

Nitin Aggarwal - Analyst, Motilal Oswal Financial Services Ltd
Yes. Hi. Thanks for the opportunity. And congrats on good numbers. So, sir, my question is on growth. Overall, we have started the year on a strong note. So how should we look at the growth now trajectory for coming year? Like last year, we were much more controlled in terms of our growth delivery. How much should we benchmark the numbers to now?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Nithin, earlier -- again, I would say the same thing that I said to the last question, that our guidances remain where they were. Maybe as I said in my opening remarks also, bias is towards positive. So I have a positive bias to that. I would leave it at that at the current point in time. We had said mid-teens plus. So I would say mid-teens plus. That is a positive bias.

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

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So that is a math, right, Nitin? As the percentage builds up, it is a pure math in terms of what it results into. Yes. So the reason you are seeing -- You must also see it one way, that finally it is not only about yield, right? It is about NIM. So if we have to grow business, we may drop rates. As long as we drop rates slower than our deposit rates, we are still fine, right?

So looking at yields in a standalone basis may or may not be the right way of looking at it. Yes, of course, we always keep trying to improve yields. But remember one more thing that, if you look at our numbers, the very high yield segment, which is MFI, we are still held steady. We have not grown that business significantly over the year. And that is another opportunity if things look better, could

drive a slight improvement in asset side yield.

Nitin Aggarwal - Analyst, Motilal Oswal Financial Services Ltd
Right, sir. And, sir, the other question I have is on the gold loan segment. If I look like -- While it is maybe true for the industry also, but the tonnage is declining across many lenders, and for us also, it's a YoY 10%, 11% decline in the gold loan tonnage. And LTV, because of the gold price, has also gone up. So in context like this, in wake of these parameters, how are you looking at the gold loan growth over the year? How are we managing risk given the volatility that is seen in the gold loan prices recently? And some color around here as to how do you see the growth?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So, Nitin, our LTVs continue to remain around 60%. And therefore, we feel fairly comfortable with our current levels of LTV and the risk in the portfolio. And we do not expect gold prices to correct that sharply, at least in the coming year.

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
Plus, we keep revising our per gram gold loan which we give, which is calibrated according to market price and the weighted average last 30 days. We also build in buffers when we see volatility.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So right now, we are comfortable, and we think the gold loan growth trajectory can be sustained.

Nitin Aggarwal - Analyst, Motilal Oswal Financial Services Ltd
Okay, sir, sure. Thanks.

Operator
Thank you. Next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer - Analyst, CLSA
Yes. Hi, team, congrats on the quarter and thanks for taking my question. Firstly, just a couple of questions on your opening comments. Sir, when you mentioned one or two segments are there where execution could be sharper, which ones were you referring to?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
I was referring to auto and business loans, small business loans.

Piran Engineer - Analyst, CLSA
Okay. And I mean, why do you say that? Like in what aspect do you mean it could be sharper?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
In the sense, in business loans, as Venkat mentioned in his commentary, we were still trying to get our overall risk metrics and portfolio cleanup, all of that well. We wanted to get the base right. Yes. So therefore, that was one segment where we think our execution, we can get it sharper and build growth there. By and large, that falls in our medial bucket.

Piran Engineer - Analyst, CLSA
Correct.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
It falls there, and therefore, we want to build growth there. Second, on auto, industry has grown and

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

Piran Engineer - Analyst, CLSA
Understood. But just on business loan, Venkat sir also mentioned that now growth will pick up going forward.

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

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

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
No. Yields are whatever. Market yields will keep going up and down. But yeah, asset quality, stability, and our process, credit process and underwriting process and all that, we have done some work around that. And therefore, we want to get -- I think we have got more comfortable now to start trying to push for growth there.

Piran Engineer - Analyst, CLSA
Got it. And just lastly --

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

Piran Engineer - Analyst, CLSA
Got it, got it. Just what's our average SA cost? SA deposit cost?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Average?

Piran Engineer - Analyst, CLSA
SA, savings deposit cost.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
It used to 2.6.

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
2.63.

Piran Engineer - Analyst, CLSA
I'm sorry?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Approximately 2.6.

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

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So there is a thing called reinvestment deposits, which we have, and the interest on that, if you see at the end of the financial year in Q4, so you have to exclude that impact. That's not repetitive. It's a one-quarter impact. So that 11 bps, if you adjust from that 22 bps, you will get another 11 bps, which is what is the real drop in -- Yes. That is what is helping the NIM expansion of 11 bps.

Piran Engineer - Analyst, CLSA
Understood. Okay. Yes, that's it from my end. Thanks and wish you all the best.

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

Operator
Thank you. Next question is from the line of Param Subramanian from Investec. Please go ahead.

Param Subramanian - Analyst, Investec
Yes, thanks for the opportunity and congrats on the quarter. First question is on LCR. What is the LCR for this quarter? Because I see the balance sheet has not grown as much as the loan book. And the reason I ask this is, I think, this appears -- this is a lever we have used on NIM. Right? So yes.

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

Param Subramanian - Analyst, Investec
Perfect. Thank you so much. Manian sir. Secondly, so a question on this NRE deposit. Is there -- Sorry, there's an echo on the line. Yes. Is there any chance that the FCNR offering has an impact on the NRE franchise in the sense that the same customer set, because the FCNR is a far more attractive rate, that there is some poaching of deposits? This is something I wanted to understand.

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

Param Subramanian - Analyst, Investec
Okay.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
We haven't seen that kind of a correlation or negative correlation between the two. I don't think that

-- On the ground, I don't think that happens.

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

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

Param Subramanian - Analyst, Investec
Okay, sir. Thank you so much. One last question, if I may. In any of your low-yielding products, are you beginning to see any, say, competitive pressures easing? Segments which we have consciously decided not to grow?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
No, Param, if you heard my last answer to another question, in corporate, as we move our focus to mid-corporate and rather than at the top end of the corporate, we are clearly seeing yield upticks happening there. So there is -- Even in the low yield side, it is not that we are just saying that sit tight on the low yield side and don't do anything. We are making a lot of efforts to make sure that they give us better yields. And the mid-market shift is one step on the corporate side.

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

Param Subramanian - Analyst, Investec
Perfect, sir. Thank you so much. And congrats on yet another strong quarter. Thank you so much.

Operator
Thank you. Next question is from the line of Avadhoot Joshi from Trivantage Capital. Please go ahead.

Avadhoot Joshi - Analyst, Trivantage Capital
Hi. Am I audible?

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

Operator
Yes.

Avadhoot Joshi - Analyst, Trivantage Capital
Yes. Thank you for the opportunity. The question is on the CE/CV book. We are growing it at 20 plus percentage. And I want to understand, considering the war situation and the increase in the diesel

prices, do we see any stress in this part of the book? Are we seeing any early indicators of so? And secondly, the growth which is driven by it would be largely because of the CV. Any part of the construction equipment also we are seeing growth? These are my two questions. Thank you.

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

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

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

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
Yes, there's a growth there as well, in the construction equipment also. We are focusing more on that as well.

Avadhoot Joshi - Analyst, Trivantage Capital
Okay. Understood. Thank you. That's it from my side.

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
Thank you.

Operator
Thank you. Next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

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

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

And therefore, we have to watch that carefully. And third is, of course, the rupee rates, what happens to rupee rates because even they could change, given that there will be significant liquidity into the banking system coming through these windows that RBI has opened. Even the rupee rates could -- liquidity in the system can change and rupee rates can change. So I would say there are too many moving parts.

We'll have to look at the price at the time we price the deal and see whether it is worth doing it or

not. There are times when it looks just about okay, there are times when it looks better, but we'll have to see the timing will be very important in this.

MB Mahesh - Analyst, Kotak Securities
Perfect. That's fine. Okay. And the second question, you said you have fair share, what is your definition of a fair share?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So okay, let me put it this way. Our usual share in FCNR deposits normally is of the order of 2.5%.

MB Mahesh - Analyst, Kotak Securities
Okay. Second one is on CGTMSE, MSME and as well as ECLGS. You are kind of giving loans under these schemes?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
What's your question? CGTMSE, ECLGS, what is the question?

MB Mahesh - Analyst, Kotak Securities
Are you giving loans under these schemes?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yes, we are. Selectively, but we are giving. Yes.

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

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So let me say one thing very clearly, that if we think fundamentally the company is bad credit and we don't see it as their short-term problem in the account, we would not do that case. So therefore, we do not make a credit compromise just because it is guaranteed by the Government of India. So if we see the customer in a temporary cash crunch or where we think his viability is not impacted but he has a short-term issue to tide over, that is when we do these loans.

And of course, if he is good, of course, there's no question. But just to tell you, the way I look at it is even good customers take this because these are well-priced loans, right? Because of the guarantee, they are better priced than otherwise we would have lent to that customer. So there are customers who are good customers who come to borrow this, even if they are not in stress.

MB Mahesh - Analyst, Kotak Securities
Okay. And my last question, sir. Can you give us an exact margin guidance for FY27 based on what you're seeing today?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Mahesh, if you recall our guidance that we said that net interest margin, expect improvement for next three, four quarters at least 5 to 6 basis points per quarter, right?

MB Mahesh - Analyst, Kotak Securities
Yes.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
And we had said it may not be linear. You will see some quarters better, some worse, but on an average, this is what we'll achieve. We are sticking to that guidance.

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

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

Operator
Thank you. Next question is from the line of Bunty Chawla from ASK. Please go ahead.

Bunty Chawla - Analyst, ASK
Thank you, sir. Thank you for giving me the opportunity. Just one question on my end. Are we seeing any ground-level stress on MSME book with respect to this fuel price hike or West Asia? Anything if you can share on the ground level, sir.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
No. Venkat, in his remarks, also mentioned that we have seen a decline in slippages in our small business loans. So we are not yet seeing any impact of this in our books.

Bunty Chawla - Analyst, ASK
Thank you and best of luck.

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

Operator
Thank you. Next question is from the line of Ankit Bihani from Nomura. Please go ahead.

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

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
No, we are not saying it is seasonal or one-off. It is a reinvestment deposit, Ankit. And the interest is accrued quarterly but paid at the end of the year. Yes. So the denominator effect is what is playing out in this quarter. So, if you exclude that, our margins have improved by 11 basis points on account of cost of deposits. There are a few other factors, and offsetting is the increase, drop in yield on assets. Net-net, 320 bps has moved to 333 bps. A large part is due to the cost of deposits, not related to that denominator effect.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So when you see 320 bps to 333 bps, that has no effect of all that cash deposit, nothing. 13 bps,

actually, the NIM has improved. Every quarter, Ankit, if you see, every year, first quarter, you will get this. Every first quarter, this cost of funds, it is more optic cost of funds difference, but the NIM you see does not change because of all this.

Ankit Bihani - Analyst, Nomura
Okay. Okay. And my second question is on, if I look at the deposit accretion vis-a-vis your advances and investment book accretion, so it is almost 2.5 times that we have grown our advances and investments compared to our deposits. So now going ahead, given that now that our LCR also stands at 150%, 170% odd, how important is the deposit growth to pick up from here on for us to continue to maintain the loan growth momentum?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So, Ankit, of course, deposit growth has to meet the funding requirements of the bank. But please do also remember two things. We have actually, over the last one year, drawn down on our wholesale deposits. In the sense, the wholesale deposits as a percentage of our deposit is significantly down.

We have had a negative growth in that. So we are focused on growing retail, which has grown at 16% overall on a YoY basis. There are two things. One, going forward, FCNR is a window that has opened up, which will help us grow deposits. Second, if that is going to happen, we expect rates to ease in the system and actually wholesale deposits may be worth going back.

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

Ankit Bihani - Analyst, Nomura
Okay, yes. Thank you, that's very clear.

Operator
Thank you. Next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets
Hi. Congratulations for the quarter and thanks for taking my question. So the first question sort of goes back to NIM, and your guidance was broadly 5, 6 bps kind of trajectory, improvement trajectory every quarter. Considering you've seen almost 13 bps or 10 basis points QoQ, does this mean that most of the improvement that we should have expected this year is already reflecting in your current NIM, and incrementally, there's not much by way of NIM improvement that we should expect for the rest of the year? That's my first question.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Abhishek, that is a math. 5, 6 into 4 is not 13.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets
Yeah. Basically residual is hardly 10, 15 bps, depending on how things move, rates move. I mean, is that a fair way to think about?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
We have given you a guidance. Let us stick with that. We'll see how that plays.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets
Okay. Sure. In the FCNR context, you just spoke about how it will improve liquidity and also bring down wholesale rates. But do you also expect it to bring down rates on the asset side, especially, wholesale lending and housing, et cetera? And if so, how does that play out into spreads, loan spreads?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Yes. Possible. What you are saying is quite possible. Like I always say that we have to remain alert to the market and act as per the market. Let's see. I mean, yeah, both of us are guessing what it will be, but all I can say is we'll make sure that we do business accretively.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets
Sure. Just on the ROA, if we were to tie this to ROA trajectory. Last year, you've had almost -- like last four quarters, you've had about a 20 bps improvement. What are the levers you see now, let's say between now and end of this year? How much -- Of what order of magnitude should we expect an improvement in ROA? And yes, where does that come from? Thank you.

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

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets
Would it be like similar sort of magnitude of improvement or it'll be much slower?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
No, of course it can't be equal. It will be lower than --

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
We gave a guidance last time as well on the ROA, that it will be around 3 bps to 4 bps per quarter.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Again, on an average basis, non-linear, not necessarily linear.

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets
Sure, sure. So we are holding on to that?

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

Abhishek Murarka - Analyst, HSBC Securities & Capital Markets
Okay. Okay, got it, got it. Thank you so much. And all the best.

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

Operator
Thank you. Next question is from the line of Pankaj Murarka from Renaissance Investment Managers. Please go ahead.

Pankaj Murarka - Analyst, Renaissance Investment Managers
Yes. Hi, Manian and team, Venkat, congrats on a fantastic execution. Manian, I have two questions. One, meaning, obviously, just to set the context, obviously, now the Federal Bank that we are seeing is very different than traditionally what we've seen over the last 10, 15 years, and it seems like now all that work you've done has started showing results over the last few quarters and probably in a more amplified manner in this quarter. So my two questions is, one, do you think now the management team in terms of across business verticals and across business units and everything is firmly in place or you think you still have gaps to fill on the team side? Is one.

And second is, now when I look at the bank and your strategy, there's significant leverage across both -- in the balance sheet across loans and deposits on the liability side to drive growth and profitability within loan book. Obviously, apart from aggregate growth, obviously, there's levers across mix and the pivots you're trying to make to changing the mix of the loan book and so on. And a lot of these more remunerative or lucrative categories are very small. And we have a significant headroom there.

And apart from driving CASA, operational efficiencies, and all of that, my understanding is that you'll drive or use each of these levers in the context of how the environment is. So maybe what's the kind of growth context you want to set for investors to look through from a slightly more medium-term perspective, let's say, over the next three years, five years that one should expect? Because I'm presuming, each quarter, you'll end up pulling different levers because there's so much that I can see across.

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
First question, management team.

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

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

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

Pankaj Murarka - Analyst, Renaissance Investment Managers
But what I'm saying is, I understand that loan growth can be moderated within a band in the context of environment. But my question is more on operating profits because we have so many of these levers, not only on the asset side in terms of growth but the mix in the loan book and then on the liability side as well with CASA and other things. So how should we think as shareholders in terms of growth, let's say, in operating profit? Because even if you grow mid-teens or high teens, obviously

the operating profit growth will be much higher. And give our medium-term --

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

Akshay Jain - Analyst, Autonomous
Sure, sure. Thank you.

Operator
Thank you. Next question is from --

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
We'll take the last question.

Operator
Yes, sir. The next question is from the line of Chintan from Autonomous. Please go ahead.

Chintan Joshi - Analyst, Autonomous
Hi, thank you for letting me ask a follow-up question. Just on the FCNR, your headline rate is 6.25%, but when you offer leverage on the product, does that reduce your all-in cost for you? And if you can give the idea of a quantum of all-in cost on that leverage product for you. Thank you.

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

Chintan Joshi - Analyst, Autonomous
So it would be fair to say that if the headline is 6.25 on the plain vanilla, on the leverage product, actually, it is lower for you by some amount of basis points. Is that fair?

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
I don't know how you look at the math. My asset side also expands, right, equal to the leverage.

Chintan Joshi - Analyst, Autonomous
Okay.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
So I need to produce a NIM and ROA on that asset side growth in the balance sheet, right?

Chintan Joshi - Analyst, Autonomous
Okay. Got it. Okay. Understood. Okay. Thank you.

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
Thanks and operator. Thank you. There are any more questions? Should we close the call? Thanks, Chintan. And, operator, I don't think there are any more questions. Should we close the call?

Operator
That is the last question for today, sir.

Souvik Roy - Head of Investor Relations, Federal Bank Limited
Thank you so much.

KVS Manian - Managing Director and Chief Executive Officer, Federal Bank Limited
Thank you. Thank you so much, everyone, for joining us on this call. We really appreciate your time. Thank you.

Venkatraman Venkateswaran - Group President & Chief Financial Officer, Federal Bank Limited
Thank you.

Souvik Roy - Head of Investor Relations, Federal Bank Limited
Wish you all a pleasant evening. Bye-bye.

Operator
[Operator Closing Remarks]