FEDBANK
FINANCIAL SERVICES LIMITED

Secretarial Department

May 02, 2024

Ref. FEDFINA/ CS/ 103/ 2024-25

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

Re: Scrip Code: 544027, Symbol: FEDFINA

Sub: Transcript of Earnings Conference Call held on Monday, April 29, 2024

Dear Sir/Madam,

Pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, please find enclosed the transcript of the earnings conference call which was held on April 29, 2024.

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

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

Thanking you,

Yours Faithfully
For Fedbank Financial Services Limited

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

"Fedbank Financial Services Limited Q4 FY 2024 Earnings Conference Call"

April 29, 2024

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

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

Moderator: Ladies and gentlemen, good day, and welcome to Fedbank Financial Services Limited Q4 FY'24 Earnings Conference Call, hosted by Equirus Securities.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during the conference call, please signal the operator by pressing the "*" then "0" on your touchtone phone. Please note that the conference is being recorded.

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

Shreepal Doshi: Thank you, Steve. Good afternoon, everyone. I welcome you all to the 4Q FY'24 Earnings Conference Call of Fedbank Financial Services.

Today we have the management team of Fedbank Financial Services represented by Mr. Anil Kothuri – MD and CEO; Mr. C.V. Ganesh – CFO; and Mr. Amit Singh – the Investor Relations Team Head.

With this brief introduction, I will now hand over the call to Mr. Anil Kothuri and the management team for their opening remarks, post which we can open the floor for question-and-answer. Over to you, sir.

Anil Kothuri: Thanks, Shreepal. Good evening, everybody, and welcome. I hope you have had the opportunity to look at our Results and our Investor Deck, which were uploaded about an hour and half ago on our website as well as on the stock exchanges.

This is a busy time of the year and we have completed an active quarter in what has been a busy year. And I will just take you through the highlights of the quarter:

We saw a strong AUM growth in the quarter, 14% increase over the quarter gone by. Our AUM closed at Rs. 12,191 crores. This is up from Rs. 10,748 crores at the end of Q3.

Now, this happened on the back of disbursals of Rs. 4,337 crores. If these disbursals are split as gold loan disbursals of Rs. 2,849 crores and installment loan disbursals of Rs. 1,488 crores. So, this takes disbursals for the year to Rs. 13,579 crores, of which Rs. 4,202 crores are installment loan disbursals. So, this is the growth that we saw in Q4.

I must particularly call out what happened to our gold loan business. The AUM there registered a 17% quarter-on-quarter increase. So, we closed our gold AUM at Rs. 3,969 crores, so that's 17% quarter-on-quarter and 33% year-on-year. The tonnage of our gold or the weight of gold that we have in our vaults is about 9.5 tons at this point in time.

Now, on the back of all this, we recorded a net profit for the year of Rs. 244.7 crores. And for Q4 it is Rs. 67.7 crores. So, our profit for the year is up 36% over the previous financial year, and our profit for the quarter is up 73% year-on-year and 3% quarter-on-quarter.

Our asset quality also improved during the quarter. We ended Q3 at about 2.2% GNPA and Q4 we closed at 1.66% GNPA. So, that's a reduction of 53 basis points over the quarter, or in absolute terms we reduced by about Rs. 29.3 crores. Now, this reduction of Rs. 29.3 crores was largely owing to the fact that we sold a large NPA account to an ARC that was worth Rs. 23.9 crores. So, Rs. 6 crores is the reduction that we have seen over and above the ARC sale that we have done. The sale that we have done has been at whatever price that we have been carrying the asset at on our books, so there has been no gain or loss owing to that sale, it just deflated our GNPA and released our capital.

Now the progress on our off-book strategy has continued, and our off-book AUM went up from 17.4% the previous quarter to 18.7%. Now, the kind of off-book that we did change in the quarter, this quarter's off-book was largely gold loan co-lending, and that went up from Rs. 176 crores at the end of Q3 to Rs. 522 crores at the end of Q4, so that's about Rs. 350-ish crores that we have added to our co-lending book in the quarter.

We expanded our distribution further by adding 12 branches in the quarter, taking our total branch count to 621. And while I did mention in the last call, since it's a Q4 event I will mention it again, we have received a rating upgrade. We are rated AA+ by CARE and India Ratings, and CRISIL has assigned us a long-term credit rating of AA with a positive outlook.

Finally, the ROA for FY'24 is 2.4%, ROE is 13.5%. The corresponding numbers for Q4 are 2.5% and 12.2%, respectively.

So, with that brief preamble I will open up for questions now, and we can discuss any aspect of the business you'd like me to address now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sneha Ganatra from SNUD Life. Please go ahead.

Sneha Ganatra: I just wanted to know, first question is, how do you see the growth going ahead? And any internal target of the mix which we are focusing? And regarding the gold loan also, considering the continuous uptick on the prices, how is the momentum or the growth path we are seeing going ahead for the next fiscal year?

The second question is, what is the branch expansion strategy? And any internal target of the cost-to-income ratio which we are targeting? And any operating leverage benefit which we expect could be occurring in the upcoming years also? And I would like to know what your guidance on the impairment cost is going ahead?

Anil Kothuri: That's five different questions, and I will attempt to answer them in order. The impairment cost, we believe, on a sustainable basis will be something like 80 basis points. So, that's what we are comfortable guiding ahead. That is question one.

Question two is that we believe that from where we are, we should be able to comfortably grow at a rate of 25% plus. And we will take advantage of any tailwinds that the environment affords us from time to time. Like in the previous quarter we saw that the gold loan business had some advantages going for it, including an increase in gold loan prices. So, that is something that we are comfortable guiding.

Now, with regard to the mix, we are a lender to small businessmen, and we are seeing a far greater traction in our small mortgage business. That's also has the highest behavioral tenor of all our products, so which is why, with the passage of time, it will continue to dominate our balance sheet.

Now the other two installment loan products that we have, which is medium-ticket mortgage and unsecured, we have less than 250 people deployed to both these businesses put together. So, whatever we originate there, we will warehouse on our balance sheet for six months, which is the minimum period, and one or two months after that we will sell down. So, that is the strategy pertaining to the other two businesses.

You would have seen evidence of this in our Investor Deck, Slides #24 and #25. As a percentage of on-books, the small mortgage business is up from 24% to 29% in the current year, and that trajectory should continue in the foreseeable future. That's as far as the product mix is concerned. So, I hope I've answered all your questions, Sneha.

Moderator: So, the current participant line has been disconnected. We will move on to the next question. The next question is from the line of Renish from ICICI. Please go ahead.

Renish Bhuva: Congrats on a good set of numbers. Just two questions from my side, one on the disbursement yield side. We have seen across the market; disbursement yield fell by almost 40 basis points to 50 basis points on a sequential basis. So, what is going on? I mean, since we are growing our AUM at 14-odd-percent, is this because of that? Or there is, let's say, increased competition is leading to the moderation in disbursement yield?

Anil Kothuri: So, the yields on a per product basis continue to hold, Renish, okay, whether it is gold loans or small mortgage or medium ticket mortgage or unsecured, the yields on a per product basis continue to hold. Any changes that we see are owing to the changes in the mix that we would have seen in the quarter. That's basically it.

The second factor affecting yields, as calculated, would be the fact that we have embarked on co-lending for our gold loan business. So, that is where we recognize interest income as the spread, as opposed to the entire yield that we charge the customer. Or to give you an example, if the customer rate is 15% on the co-lend portion of the portfolio, we only recognize 15% minus, say, 9%, 6%. So, that is the only difference. But otherwise, I can confirm that on a per product basis the yields have held across the spectrum.

Renish Bhuva: And second question, again, on the loss on the direct assignment portfolio. Now does it mean that the asset quality for the already assigned portfolio has deteriorated, and hence we have to compensate for that. Or how one should read the loss on the net gain on assigned portfolio versus Rs. 160 odd crores of net revenue last quarter?

Anil Kothuri: It's Rs. 16 crores, actually, last quarter. This is a net gain. The way this works, and I'm sure you know this is that, on what you fell down in the current quarter, there's an upfront gain that you book. And if it is down in previous quarters, there's a negative to the portfolio, owning to the unwinding of the gain that you booked. Okay?

Now in quarters two and three, we had sold down a lot of our portfolio, especially because we were getting into an IPO, and the date of the IPO was far from certain. In the month of September '23, our debt/equity had actually touched 5.8%. Okay? So, we sold down quite aggressively in Q2 and Q3.

In Q4, our appetite for off-book was met through the co-lending route, okay, so which is we only sold Rs. 284 crores. Okay? So, as a consequence of that, the unwinding and the upfronting kind of cancelled each other out. We had a negative of about Rs. 15 lakh or so in that quarter. So, had we stuck to the same trajectory of sell-down as Q3, we would have made, let's say, Rs. 16 crores more in this quarter. But from a commercial standpoint it did not make sense doing it, especially because we were flushed with funds post-IPO and our co-lending arrangements had fructified.

Renish Bhuva: And just a last question from my side on the cost of borrowing front. So, if you can throw some light on, let's say, the blended cost of borrowing for this quarter and the incremental cost of borrowing in current quarter?

Anil Kothuri: Sure. I will let Ganesh answer that, our CFO, he will answer that one.

C. V. Ganesh: Yes. Hi, Renish. Thank you for the question. So, see, on an overall basis, as you would know, in quarter three RBI had increased risk weights on bank lending to NBFCs. As a result of that, there has been a small increase in our cost of about 10 bps, 12 bps in terms of the blended cost of funds. But that being said, post our credit rating upgrade, we have been able to tie up incremental commitments at rates reasonably lower than the blended cost of funds, which gives us confidence that slowly but surely the cost of funds, we have seen the peak, and they should start coming down from here.

Renish Bhuva: Would you like to give the numbers?

C. V. Ganesh: It's not in the deck. I would be a little hesitant to do that, Renish.

Moderator: Thank you. The next question is from the line of Mr. Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Sir, my question was pertaining to margins. So, as you highlighted to the earlier participant that yields are broadly sticking where they were, and COF is likely to have peaked out. So, is it fair to assume that we will be able to hold NIMs at current levels? And if not, then what is the guidance that we have for FY'25 and FY'26?

Anil Kothuri: So, from where it looks right now, our customer yields should stay at the current levels. Okay? The wisdom that we have received on the trajectory of interest rates is that the rate cuts will be more back-ended than front-ended during the course of the year, which is why we believe that our cost of borrowing will also stay sticky during the course of the year, which is why we believe that our spread will stay constant. The only thing that will increase the spread is that if we do more co-lending for gold, which is what we are in a quest for, our spreads might increase from here on. That really is the way this will work in the course of the current year. Of course, if interest rates correct sooner than we expect, then that's a benefit that we all have.

The second factor I would like to overlay is that we have a large gold loan book, and our AUM is positive based right from the first bucket itself. So, we have the inflows to borrow short-term. As of the end of March, we have zero commercial paper, zero short-term borrowing. So, I believe that before the long-term interest rates correct, there will be liquidity, and the short-term interest rates will ease. That will give us a chance to borrow at the shorter end, so then that could depress our cost of borrowings, resulting in higher spreads. So, that's how I think it will pan out.

C. V. Ganesh: In terms of new business originated, we have had a phenomenal Q4. In fact, we disbursed approximately Rs. 1,000 crores more than our best quarter till date. The only challenge was that much of that business was back-ended towards the end of the quarter, which is why when you arrive at a mathematical yield, there is an optical illusion there, which suggests a meaning which is not actually there. When you see the income coming out of that in Q1 of this year, it may lead to a positive surprise.

Also on the gold loan business, there are these twin tailwinds of the gold price rise as well as one of the peers possibly going slower, which also explains why we have had a phenomenal quarter for gold loans. I think the team is geared up to be much more aggressive in that product. So, all of this gives us a lot of confidence entering the new fiscal year.

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

Sameer Bhise: I just wanted to understand or hear your thoughts, especially in context of the greater regulatory scrutiny with respect to the gold business, how are you positioned and your thoughts on the same with respect to how tightening or how tighter have your processes been. Some details there would be helpful.

Anil Kothuri: So, Fedfina has been doing the gold loan business since 2011, okay? And we have been audited every year since then. It's also pertinent to note that we are audited by RBI Trivandrum as opposed to RBI Bombay, and the large gold loan companies are all audited by RBI Trivandrum, okay? So, in audits year-after-year our practices have got scrutinized, we have got feedback, and things have moved on.

And obviously, recently there has been a lot of regulatory action, and there has been information coming in about what the regulator has said and what practices exist and stuff. So, internally we have also gone and checked as to where we stand to all this. All these issues have got discussed, and from our standpoint, got addressed several years ago, mostly pre-COVID and stuff. So, all of what the regulator has said and which has been in the public domain in the months of Feb and March is really quite old hat for us, okay? And we are reasonably robust from that standpoint.

So, our understanding of the regulations, our adherence to those regulations, as well as our execution of the gold loan business where absolutely everything gets run out of the system right from KYC to training people to auditing to managing the auctions, doing the auctions at taluka level, district level, the periodicity of those auctions, the fact that we auction on a per-customer basis, all of that is done and dusted for us. And I'm happy to confirm that, yes.

Sameer Bhise: Great. This is comforting. Also, just wanted to understand in terms of seasonality, how would the business look, say, given that we had a very strong Q4 in terms of growth, do you expect exceeding those in the near term in terms of disbursements? Or do you think that there could be a meaningful dip in the near term given the way the business is shaped?

Anil Kothuri: Our gold loan business has a few different variables which drive growth, one of which is the price of gold. And we saw the price of gold increase in the previous quarter. We believe that impact will last till the mid of May, given that we take the 30-day average of price of gold, that's regulatory how your lending rate is calculated. So, the previous growth will trickle in to the middle of May or so. So, we are in a good place there.

The second thing, obviously, is the progress of opening branches. And we did not open branches last year. And we intend opening up a few branches this year. So, this is the second thing that will take up our AUM. The third is obviously productivity. Now, last year our AUM per branch started at Rs. 6.3 crores per branch and we closed at Rs. 8.7 crores. So, we have had a ramp-up in productivity. We've also had a ramp-up in the amount of new gold that's coming to our vaults over the previous years. So, all of these factors contribute to the increase in gold AUM.

I believe that for the current quarter there seems to be an upward bias in the price of gold, so that should contribute. And that should counter away the fact that seasonally Q1 is a weak quarter. The second factor is that one large player is still not disbursing loans. So, whether it's Fedfina or anybody else doing gold, they will see some overflow of demand coming there. So, Q1 will be a good quarter for gold based on all of this. But I don't think it will be comparable to Q4. In Q4, we saw an AUM increase of Rs. 556 crores, I think, for gold. We won't see that kind of increase this quarter. But it will be a reasonably good quarter is my estimation.

Moderator: Thank you. The next question is from Nirmal Bari from Nuvama Asset Management. Please go ahead.

Nirmal Bari: My first question is, if you can give the slippage and write-off numbers for the current quarter and the full year.

Anil Kothuri: We're just getting that. And while we get that, do you have a second question?

Nirmal Bari: Yes. Actually, I would like to understand a bit more on the net gains on direct assignments side. I understand that an earlier participant had asked the same question and you had said that unwinding of discount led to this. But an unwinding of discount should lead to a positive number being added, right, because we are discounting like till Q3 in this case, and then that unwinding should add a positive number. Shouldn't that be the case?

Anil Kothuri: I will just explain giving you a numerical example, okay? Let's say in a certain quarter, Q1, you sell Rs. 100 crores and you book a Rs. 10 crores gain on sale, okay? That is essentially the discounted cash flow of the future receivables, assuming a certain prepayment rate and all of that. You discounted a certain rate. That is your gain on sale. At the end of Q1, you say that this is what it is, and that's the gain you book.

At the end of Q2 what will happen is there will be some repayments, prepayments and stuff. Let's say your Rs. 100 crores portfolio comes down to Rs. 95 crores, okay? Then at the end of Q2 you again estimate what the present value of your discounted future cash flows is. That number will obviously be less than what you estimated at Q1, okay, because your portfolio is lower. Now that difference you charge off to P&L, and that is the unwinding that I was alluding to. So, while you have a gain on sale in the quarter that you book the transaction, in every subsequent quarter you have an unwinding of that gain on sale, so that when the transaction gets nullified you're done and dusted. So, that's basically how it works.

What happened in Q4 was that we did a lot of direct assignment transactions in Q2 and Q3 because, like I said, we did not have visibility to the IPO, and we wanted to secure our debt/equity ratio. And that unwinding is what hit us in Q4. And the gain on sale just about compensated for the unwinding that hit us, okay, which is why it was a negative Rs. 15 lakh as opposed to a positive Rs. 16 crores in the previous quarter.

Nirmal Bari: And what was the total quantum of direct assignment done in this quarter?

Anil Kothuri: There are Rs. 284 crores.

Nirmal Bari: And my final question is, again, a data-keeping question. On the credit cost, if you can give us a split of current quarters and full-year credit cost between standard asset provisioning, NPA-related provisioning and the write-offs.

Anil Kothuri: Sure. First, I will give it to you for the entire year then. For the entire year we have had an ECL impact of Rs. 6.5 crores, okay, write-offs of Rs. 73.6 crores, and a recovery of bad debts of Rs. 14.2 crores. So, the net of all these numbers is Rs. 65.9 crores, which is the total credit cost that we had over the course of the year. The corresponding numbers for Q4 are write-offs of Rs. 28.86 crores, recoveries of Rs. 3.3 crores, and an ECL of Rs. 7.83 crores, giving us a net of Rs. 17.73 crores.

Nirmal Bari: And this Rs. 28.86 crores would include the large account that we sold to ARC?

Anil Kothuri: That's right. It would include the large account that we sold to ARC, yes.

Nirmal Bari: And the first question on slippage, if you can give that number, I think.

Anil Kothuri: We will just get back here. We will go through the question, and we will just get back.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Aionios Alpha Investment Advisor. Please go ahead.

Pranav Gupta: Congratulations on a good set of numbers. A couple of questions on the cost side. So, we have seen overall OPEX remain steady for this quarter. I mean, flattish if you compare it on a Q-o-Q basis. Could you talk about two things? One, where we are in the journey of transitioning of the Salesforce? And secondly, is this an indication of some of the operating leverage coming in, or is it just a function of the back-ended growth? That's the first question.

Anil Kothuri: So, I will talk about Salesforce. Salesforce has gone live, and we did a pilot in 10 branches, to start with. We will take -- 20 branches, sorry, to start with. And we are observing how it works, and then we will expand it to the rest of the business. Okay? So, that's where we are on our Salesforce journey. And that has happened in the month of April. Okay? So, that's as far as Salesforce is concerned.

Now, otherwise, on our expense journey, we believe that our expenses will not increase significantly here on in proportion. Our expenses are directly linked, 90% of our expenses are anyway directly linked to originations and underwriting. And the platform costs are much, much smaller. So, whatever expenses we incur has to do with the origination. So, the trajectory of these will ebb and flow with how much we originate.

Now, for the year gone by, we were at a cost-to-income of about 58-ish-percent or a cost-to-AUM of 5.2%, okay? Now, that is down from, I think, 5.6% a year ago. So, we want to keep making progress on a cost as a proportion of AUM, and improve that by maybe 30, 40 basis points during the course of the year. That is where we are.

C. V. Ganesh: So, I will just add maybe a couple of numbers from a quarterly improvement in OPEX here on. See, as of quarter three, okay, our OPEX has a percentage of average loan book has gone down in Q4 by 30 bps, Q4 over Q3. So, OPEX as a percentage of average AUF has improved 30 bps, okay, Q4 over Q3. Now as Anil articulated, given that we have a program of selling of some part of what we originate, this improvement would be a little more material when you look at the OPEX-to-AUM. So, there again, our OPEX to average AUM has shown an improvement of 40 bps quarter-on-quarter, Q4 over Q3, right? Now that being said, typically in Q1 you have employee-related costs, which is a step-up in salaries and all that which come in. But the way these metrics are moving, this gives confidence that we are on the right path and the trajectory is downwards.

Pranav Gupta: Just wanted to understand two things, mainly on the other expenses bit. That's sort of remained flattish for the last three quarters or so, if I look at it on an absolute basis. Is this an indication that from here on we might see that that group might not sort of match up to the AUM bit? That's the first bit.

Second is, obviously, we understand that given the fact that we are transitioning from having a slightly lower share of AUM off-book to a higher share, cost-to-AUM will move down faster. But if you look at cost-to-assets as well, that's even an improvement. Should one expect that improvement to continue through FY'25 as well? That is what I was trying to figure out.

Anil Kothuri: I did not get your first question, Pranav. The second bit I did, but I did not get your first question. Please repeat it.

Pranav Gupta: So, if you look at other expenses of the line item, the lines have sort of remained flattish over the last three quarters. From here on, should we expect that probably other expenses growth is in line with either expansion of branches or much lower than AUM growth? Or is this just something that has stayed here for a bit and then will start in line with AUM again?

Anil Kothuri: There are two large components of the other expense lines. One is what we invest on technology, and the second is the leases that we pay for our branches. Now, this year we have opened 50 small mortgage branches, so the expenses have gone up in line with that. And we have also done development of our new LOS, which is Salesforce-based. So, those are the two items of expense that we have incurred. So, next year we will open branches so, obviously, the lease expenses for those will happen. But otherwise, I think they will stay reasonably range-bound. There is no other head of expense that will increase. So, our other expenses are linked to, you can say, branch expansion. And that's the only thing that will impact this over the coming year.

Your second question was about cost as a percentage of assets. The trajectory of costs will not increase as quickly as the trajectory of assets. So, we should see this coming down also just the way cost as a proportion of AUM will come down.

Pranav Gupta: Just one last bit, could you give the break-up of other income?

Anil Kothuri: The break-up of other income. I will just tell you what this other income includes. Broadly, it is income that we get for distribution of Federal Bank products and marketing activities that we do, profit on sale of G-Secs, net gain on sale of fair value charges. So, all of that is what other income is composed of.

And I have the breakup of our credit cost. So, we started the year with a Stage-3 of Rs. 164.5 crores. We added Rs. 116.9 during the course of the year. We reduced Rs. 89 crores and wrote off Rs. 26 crores and giving us a closing balance of Rs. 165.28 crores during the course of the year. Okay? So, between last year and this year we have added less than Rs. 1 crores to our Stage-3.

Moderator: The next question is from the line of Kunal Khudania from DSP Asset Managers. Please go ahead.

Vivek Ramakrishnan: Hi, this is Vivek here. My question is on the cost-to-income. I joined the call a little late, so sorry if we had already answered it before. Is there a cost-to-income ratio or a cost-to-AUM ratio that you're guiding us to? And another tricky way of asking the same question is, for a mature branch what would be the cost-to-income or a cost-to-AUM?

Anil Kothuri: For the year gone by, we had a cost-to-AUM of 5.2%. We believe that in the coming year it should be better by between 30 basis points and 40 basis points. Okay? So, that is the answer to part one of your question.

Part two of your question, we do have metrics depending on the kind of branch that we have, but the metrics are not cost-to-income. They are more about the absolute cost that we want to incur in each branch in relation to the AUM of that branch. And these are different for different kinds of branches, there are gold loan branches, non-gold-loan branches. There are historical branches in South India which were architected to be of a certain size, and rest of India branches are a little bigger because the AUM per branch in the rest of India is a lot bigger. So, there are different dynamics and particulars. But to abstract this at a slightly higher level, I think how you should look at us is that we were at 5.2% on a cost-to-AUM, and that should improve by 30 basis points, 40 basis points during the course of the year.

Moderator: Thank you. The next question is from the line of on the line of Harshvardhan Agrawal from Bandhan AMC. Please go ahead.

Harshvardhan Agarwal: Just wanted to understand the amount of sell-downs that you have done in Q2 and Q3, this is just to understand the negative BA income that you have got. So, just understand that flow, if you can help us with that.

Anil Kothuri: Harsh, you will find this on Slide 40 of our Investor Deck. In Q2 we sold down Rs. 527 crores. In Q3 we sold down Rs. 457 crores. In Q4 we sold down Rs. 284 crores.

Harshvardhan Agarwal: So, basically this Rs. 1,000 crores roughly that we sold down was yielding us Rs. 15 crores income on a quarterly basis. Is that correct?

Anil Kothuri: Well, each quarter we disclose the net gain on sale that we get, which is upfronting minus unwinding. For Q4, those numbers exactly cancel themselves out.

Harshvardhan Agarwal: So, sir, what I am trying to ask is, this Rs. 285 crores that we sold in Q4, would have yielded somewhere around Rs. 15 crores, Rs. 16 crores. And the unwinding of the Rs. 1,000 crores of the previous year were around Rs. 15 crores, Rs. 16 crores?

Anil Kothuri: Yes, the upfronting during the fourth quarter was Rs. 16.5 crores, the unwinding was about Rs. 18 crores. So, that's how we got a negative Rs. 1.5 crores.

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

Mayank Mistry: Sir, my question is on the average ticket size of medium ticket LAP, which we have mentioned on Slide #18 as Rs. 67 lakhs. So, basically last quarter it was at around Rs. 49 lakhs, which have increased significantly to Rs. 67 lakhs. So, what explains this significant growth? I mean, is there a major sell-down, or is it only on the fresh disbursals? Can you please explain this?

Anil Kothuri: So, what we did was we previously used to restrict this business up to a ticket size of about Rs. 1 crores, we now let them go up to Rs. 2 crores. So, that is what explains this inflation in ticket size between the last two quarters.

Mayank Mistry: So, this is the on-book average ticket size of medium ticket, right?

Anil Kothuri: That's right.

C. V. Ganesh: So, Mayank, I will just come in here. See the point is, when you originate, it is always on-book, right? But typically, I think we have a stated policy or strategy that for we keep the higher yielding assets on books, and the lower yielding assets we originate higher ticket sizes where we see appetite for an onward sale, and we optimize on that. So, obviously, after a seasoning period, as required by the direct assignment rules, these would be available for sale. And which opportunities we would capitalize on based on the wide array of partnerships we have who have the appetite to buy these.

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

Aravind R: I hope you can hear me. Sir, like the ECL provision as a percentage of assets across Stage-1, Stage-2 and Stage-3, I can see that it has declined a bit. I just wanted to understand, are we comfortable with the current levels? Or do we want to fortify it to the FY'23 or above levels? That's my first question.

And the second question is on like what would be a branch addition and employee addition plans for gold and non-gold businesses?

And the third question is on the other income, what are the potential opportunities you are seeing in terms of other income, like, say, cross-selling insurance products or any other third-party products? Is there anything in addition to whatever we are doing now, like do you see any significant opportunities in the coming years? Thank you.

Anil Kothuri: Hi, Aravind. Yes, we have applied for a corporate agency, we will get our license hopefully in the month of May or June. And at that point in time, we will use our distribution network of gold and non-gold branches to also sell insurance. We currently don't embed insurance with our gold loan customers. And health insurance and life insurance are products that we can cross-sell to these customers. So, that's an opportunity that's there.

Now, number two with regards to the ECL provision that we have. So, on Stage-1, Stage-2 and Stage-3, each of our products will continue to maintain the same provisions that we used to previously. So, any changes that you see is owing to the mix. It's also owing to the fact that our gold loan has had a stronger growth than the other products in terms of AUM and the ECL provision required on gold loan, especially for Stage-1 is negligible.

Also on Stage-3 what has happened is that we sold one large account to the ARC that was provided to the extent of 53% or so, okay? So, given that we sold it off, that provisioning also has corrected itself. On Stage-2 accounts, we used to have a restructured book at a point in time, okay, where we used to provide as per Stage-3 kind of levels. Now that book also has more or less gone, which is why the provisioning for Stage-2 has come down. So, these are the different variables that impact provisioning.

But otherwise on a product-by-product basis, we continue to be provided as we used to be. And you may recall that at the end of Q3 we actually took up our provisioning for mortgage loans from 19.5% to 23%. That's for Stage-3 loans. So, that's the migration in Stage-3.

Finally, you spoke about our plans to grow and expand. In the coming years we want to open about 50 gold loan branches and 30 small mortgage locations. So, that is the plan for the year, and we will execute it, try and front-end that during the course of the year. That's the intent.

Aravind R: Any color you can give on, like, which region it would be, like these branches, or is distributed throughout the country?

Anil Kothuri: So, the approach that we followed is to try and grow efficiently this year, which means that we are not opening any new regions, because a new region is overheads in terms of regional leadership and all that. So, the branches that we have identified will add up as four, five, six branches in each of our existing regions for gold loans and ditto for our non-gold businesses. We already have leadership built out for the branches. These are the only production-related expenses that we will incur in terms of people and premises. And that's a more efficient way of growing in the current year. That's our thinking.

Aravind R: And just one last question, if I can squeeze in. What would be the credit growth guidance, like, either segment-wise or the overall? Is there any guidance on that?

Anil Kothuri: Our cost of credit, you should assume, 80 basis points.

Aravind R: No, credit growth.

Anil Kothuri: Credit growth. Advances?

Aravind R: Yes, advances growth, yes.

Anil Kothuri: That I've already guided 25% growth. And we should try and top that if there are tailwinds, like there were in the previous quarter.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Shreepal Doshi for closing comments.

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

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