"Fedbank Financial Services Q2 & H1 FY24 Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2/H1 FY24 Conference Call of Fedbank Financial Services Hosted by Equirus Securities.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Shreepal Doshi: Thank you, Dorwin. Good afternoon, everyone. I welcome you all to the Earnings Conference Call of Fedbank Financial Services to discuss the Q2/H1 FY24 "Performance of the Company, Business Updates, and Industry Trends".

We have the Senior Management team with us represented by Mr. Anil Kothuri – MD and CEO, Mr. C.V. Ganesh - CFO, Mr. Kuldip Deshmukh - Head IR, and Mr. Amit Singh.

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

Anil Kothuri: Thank you, Shreepal. Good evening, everybody, and welcome. We got listed on the 30th of November, so this is our first analyst call after that. So, thank you all for attending. This is to discuss the results of the quarter ended September 30th.

The quarter has been a reasonable one for us. We crossed a landmark in terms of an AUM of Rs. 10,000 crores on the last day of the quarter. Our AUM is just about Rs. 10,000 crores. This represents a 38% growth over the same period a year ago. This is on the back of disbursals of Rs. 2,900 crores in the quarter. This Rs. 2,900 crores includes the disbursals for gold and non-gold. The non-gold loan businesses disbursed about Rs. 930 crores in Q2. So, this Rs. 930 crores is a 39% growth over the previous quarter. And all these disbursements happened at a weighted average origination rate of 15.9%. All this led to financials of as follows:

- Our profit after tax for Q2 was Rs. 57.8 crores. This is a 25% growth on a year-on-year basis.
- Our return on equity was 15.9% for the quarter and our ROA or return on assets was 2.4%. Our small ticket mortgage remains a key focus area for the company and we expect its mix as a percentage of AUM to keep improving year after year.
- In line with pursuing this strategy, we opened 23 new branches focusing on small ticket mortgages this quarter. We forayed into the state of Uttarakhand, which is our 17th state in India that we are present in. So, our branch count is now up to 607.
- We added over 200 employees in the quarter. So, our employee base at the end of the quarter has increased to 3,970 people.

- Our asset quality remains on track. Our gross Stage-2 is 2.3%. So, that's a worsening of 8 basis points quarter-on-quarter, while our net stage three stands at 1.8%.
- Our (+30) for the non-gold portfolio has improved marginally to 4.5%.
- In the quarter, a portion of secured loans continue to stay at 84% of the AUM, even though on an AUF or an on-book basis, that number is about 13.5%.

With this, I'll stop here and open up the call for any questions that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Madhuchanda Dey from MC Pro. Please go ahead.

Madhuchanda Dey: Hi, gentlemen. Congratulations on the listing. I just have one question. This is a little broad-based question, not exactly pertaining to the Q2. This is like, you all are present in gold, small-ticket housing, business loans etc. with a significantly higher yields than what generally earned by your banking counterparts, including your parent. So, now with this expansion in footprint, riding on FinTechs, smaller NBFCs, etc. many of the banks, including your parent is pursuing a strategy of improving their low yields. So, in fact, to that extent, there is going to be significant competition from banks because banks now have a big fight with their low cost deposits and in general. So, everyone is eyeing this high yielding segment. So, how do you differentiate yourself? That is my first question. And secondly, what could you do differently to counter this competition? Thank you.

Anil Kothuri: Thank you. Our mission statement is that we are in business to empower emerging India with easy access to loans. That means we are very focused on these small self-employed customers. Now the demand in this segment is quite vast and it's estimated that only 20% of the demand is actually catered to. The remaining just goes a-begging. So, the first point is, regardless of how many NBFCs and banks there are, there's a market much larger than the appetite of the existing players to feed this segment. That is point number one. Point number two is that we use whatever information the customer has and whatever collateral he can provide and we fashion a loan to him on that basis. So, some customers have gold, we do a gold loan. Some customers have property, we do a loan against property. So, that's the way this thing works. Now the challenge is not just to, is that we don't have ready-made P&L balance sheets that we have access to, that we can put into a model and quickly make a decision. Our underwriting requires us to invest time with the customer, understand his business, estimate the size of his business, his income and then fashion a loan amount that's a comfortable debt burden for him. So, it's very intensive. So, the number of players doing this in the market is very small. The large banks most definitely don't do it because they prefer to have models which they can replicate over thousands of branches and they strive to achieve uniformity in their underwriting practices. That is the other point. Now, the difference in yields between what we get and what the banks get are quite vast. Since you mentioned our parent, our yield on the gold business, for instance, is upwards of 17.5%, whereas for our parent, it's about 10.1%. So, it's a different customer and a different value proposition that banks and NBFCs offer. Now, the way we are approaching this in future is to co-operate with banks, there are co-lending arrangements that we put in place, especially for our gold loan business. What these arrangements do is to help broad base our business so that we are not anchored to customers only give us 17.5%, but we cater to customers at different price points while preserving our returns on equity. We can make our equity go further. We can cater to a wider base of customers. There's superior cost absorption that results as a consequence. So, that really is the way forward for us.

Madhuchanda Dey: So, if I just may ask you another question, who all have you partnered with for this co-lending?

Anil Kothuri: There is a large private bank and a foreign bank that we've already tied up with and have commenced co-lending with. So, those two arrangements are already up for it.

Madhuchanda Dey: So, I mean, just to understand from you correctly, you still believe that with the penetration of the FinTechs etc. the turf that you cater to is going to be exclusive and not going to be serviced by the banks in the near future. Is that a correct understanding?

Anil Kothuri: The banks and FinTechs are different. The banks cater to a more established self-employed customer base or a salaried customer base. What FinTechs in the lending space do is to cater to customers who meet three characteristics. Their loans have three characteristics. It is short-term, it is unsecured, and it is low ticket. That seems to be the preserve of FinTechs. So, that's a segment that we are not present in. Short-term, small ticket, unsecured loans of Rs. 10,000, Rs. 15,000, Rs. 20,000, we are not present there at all.

Moderator: Thank you. The next question is from the line of Sneha from Star Union Daichi. Please go ahead.

Sneha: We have reached our landmark of AUM of Rs. 10,000 crores. How do you see going ahead practically? Any ballpark number you would like to share? Can we expect any mix changes? And how the percentage sharing will be done? And what is the thought of the dispersal process more on the gold loan or more on the non-gold loans? And the second question is, there has been spike on the expenses on quarter-on-quarter, anything to look into that? And the third question is, there is a little bit spike on the asset quality, basically, across stage 2 as well as Stage-3 on quarter-on-quarter. So, just wanted to know your thoughts? And regarding the co-lending model, how do you see that net securitization volume going ahead? When during the meeting you had mentioned that you would be like to follow your peers in some of these segments, specifically on the co-lending model. So, what are the pieces and the workings? These are questions from my side.

Anil Kothuri: You asked four questions. I missed the second one. So, let me just answer the remaining three, then we can get to the second. Your first question is on the mix and the AUM and what it may be in future. Now, our business is a business of two parts. There is the gold loan business and there is the non-gold business. In terms of the gold loan business, we are present in 437 branches. We started the year with an AUM per branch of something like ₹6.5 Cr. We crossed the ₹7.5 Cr mark by September, October and we are on track to increase our AUM per branch, especially with co-lending coming in. The other tailwind that we hope to get is an increase in gold prices. So, these are the two factors that will play out in building our AUM per branch for gold loans. Now as far as the non-gold loan business is concerned, we have capacity that's already there and our disbursals will keep increasing and the AUM will keep increasing as a consequence. Now the bias of the AUM will be towards small ticket mortgages. That's because as we keep originating, this is the longest tenure product that we have. It has a behavioral tenure of something like 7 to 8 years. So, while the other products run-off quicker, the portfolio will keep getting enriched by the presence of a greater proportion of small-ticket mortgage loans. So, that's the way the mix will trend. Now, you've seen our quarter-on-quarter or year-on-year trends in terms of AUM growth, and it will be our endeavor to try and preserve them.

You had a question on the co-lending model, how does it work? We've commenced co-lending for gold loans. And let's say the other bank takes over the loan at 9%. And we do a loan at 12%. Thus far, we won't offer the customer a loan. But now what we do is that we offer the customer a loan and offload 80% to the other bank. So, we make 3% on 80% of the loan and on the remaining 20% we make let's say a little more than 3%, our cost of borrowing is let's say 8.6%, 8.7%. So, even if you round that off to 9, we end up making around 15% on the loan that takes up the ROE quite significantly that's how co-lending works for us and we are able to occupy the wide space that currently exists in our portfolio between let's say 17.5% all the way down to maybe even 10.5%. You know, that becomes ROE accretive for us. So, that's how co-lending will work.

The third question was with respect to asset quality. Asset quality has stayed largely flat over the previous quarter. There's been a worsening of 8 basis points. That's because there has been some increase in delinquency in the medium ticket mortgage business. So, this is as of September 30th. But post September 30th, that has come back under control and I'll have more to say in this probably in the next analyst call. So, that is the reason that Stage-3 has bloated by 8 basis points. Your second question I didn't get, Sneha, if you can just repeat.

Sneha: Yes, I was just speaking on the expenses side that has been rising on quarter-on-quarter, is it due to the IPO expenses or any further expenses. What would be the reason for the rise in the expenses basically?

Anil Kothuri: So, our expenses have broadly four components, okay, which have contributed to increase. One part of the expense increase has to do with the number of branches we open and the people we hire. Also in our existing branches we've hired more people. You know, it's not as if our growth only happens to new branches, even existing branches have room for adding 1 or 2 people, we've added people. So, some bit of that is capacity building, that is number one. The second thing is that we are in the midst of a transformative IT implementation in our installment loan businesses. So, that is the second thing that is happening. The third is some bit of our expenses has to do with the quantum of origination that we do. As origination increases, there are expense increases that we do, not everything can be amortized you know along. There is some bit that we have taken upfront. So, that is the other component of the expense that is there.

Sneha: And when we can expect that operating leverages to start bearing the fruit considering the implementation of the IT and whatever the branch expansions and the employee addition has been done, but still some of them has been pending on your end and what we can expect the core basically on the operating leverage that can play out?

Anil Kothuri: So, the investment phase is largely behind us whether it's in terms of the transformative change in our branch landscape or in terms of the IT implementation or hiring people. So, the platform now is reasonably in place and any expenses we incur will be largely at valorem linked with origination. So, the operating leverage should start and should start right now, if you ask me. Every quarter, we hope to demonstrate some bit of this happening.

Moderator: Thank you. We have the next question from the line of Harshvardhan Agrawal from Bandhan Asset Management. Please go ahead.

Harshvardhan Agrawal: Sir, two broad questions. One is around the AUM growth. I understand that the last participant asked about AUM growth. Is that fair to understand that the current growth of around 38% is that we would maintain for FY24-25?

Anil Kothuri: 38% is a large number. Our endeavor is to ensure that we grow at something between 25% and 30%. That's what I'm happy and comfortable guiding, even though we have several engines firing in terms of products and geographical presence.

Harshvardhan Agrawal: Sir, second, largely on the recent RBI norm changes which have happened. So, two parts here, one is any impact on our capital adequacy due to changes in the risk weights and secondly, because it's been almost a month obviously, we will have had some discussions with the banking partners. So, do you see any impact on our cost of funds?

Anil Kothuri: On the first part, we have separated which of our loans have to do with working capital and which of them have to do with consumption. And we have identified these loans and they amount to something like maybe Rs. 250 crore or so, I forget the exact number and the impact on our capital adequacy is something like 20 basis points. So, that is the data point. Given that we've just IPO'ed and have capital far in excess of the regulatory minimum, we can take this in a stride. That is number one. The second question is in terms of the banks, a few banks have come back to us and said that they want to take up their rate. Conversations are underway, but the impact is marginal. The impact is definitely there, but our efforts are to ensure that it's not significant. And my estimate is that it could be something like, God knows, between 25 and 50 basis points maybe.

Harshvardhan Agrawal: Sir, this 25-50 basis point broad impact, that could be there on the entire bank funding book, right? Because even the existing loan would be repriced.

Anil Kothuri: So, look, we need to see how this plays out. Currently, it's just about 3 banks who have written to us and we are parlaying and the increase doesn't seem to be substantial. So, it's just an estimate that I have at this point in time now. But yes, in terms of impact, the entire bank loan, bank funding should get impacted less what we borrowed specifically for PSL.

Moderator: Thank you. The next question is from the line of Gao Zhixuan from Schonfeld. Please go ahead.

Gao Zhixuan: Just a follow-up on the previous participant's question on the borrowing cost. So, 75% of our borrowings are bank borrowings, right? And out of that, how many percent is PSL compliant and was excluded from the risk-weight increase on the banking side?

Anil Kothuri: So, virtually all the loans that we do are PSL, in that we lend to the small self-employed customer. However, there are some specific requirements of documentation that we need to collect to demonstrate that they qualify for priority sector lending. And so therefore, only those loans are earmarked for PSL borrowing. It's under 10% yes.

Gao Zhixuan: Under 10% of our bank borrowings are PSL.

Anil Kothuri: That's right.

Gao Zhixuan: So, 90% of our bank borrowings will be, our lenders were subject to the risk weight increase?

Anil Kothuri: That's right.

Gao Zhixuan: And just on the margins of the spread, right, this quarter we saw a pretty sharp jump in the yield and at the same time we saw a pretty big decline in the cost of funds. Is there any one-off there? How should we look at the spread going forward excluding the potential impact of this RBI directory?

Anil Kothuri: So, in terms of the spread, I think a fair way of looking at it would be to average it across Q1 and Q2, our spreads are around the 8% mark. That would be a fair way to look at it. Across the two quarters, there have been one-offs. In Q1, we have repaid some loans in the end of the quarter. So, when you average it on an opening plus closing quarter by 2 basis points, your borrowing cost looks a little high. So, that was the impact in Q1. In Q2, we sold some portfolio down to securitize because we wanted to ensure that we had adequate capital in hand in case the IPO timelines get delayed. So, which is why we've had some larger gain in terms of securitization, which adds to the interest income.

Gao Zhixuan: I'm just wondering, because since we're doing more co-lending/securitization, right? So, I'm just wondering the spread that we earn on those off-book AUM and also the ROA that we earn on those off-book AUM, how is it comparing to, let's say, on-book AUM?

Anil Kothuri: Our cost of borrowing for the last quarter was 8.6%. The co-lending book we offload to other banks at say 9.5%. So, the spread then will be about what 1% lower. So, 17.5 minus say 8.5 would have been 9% on the gold loan book instead we will get 8%. So, that is roughly the way to understand it, but there will be no deployment of capital on this. So, therefore, the ROA on the off-book component of the portfolio will be much higher.

Gao Zhixuan: So, 1% is your spread basically on the off.

Anil Kothuri: So, if we look at it as we earn 1% less, we will deploy only 20% of the capital that we would have otherwise deployed on the book.

Gao Zhixuan: And just my last question is on the overall ROA trajectories. We are looking at somewhere about 2.3-2.4 kind of ROA. So, how should we think about ROA for this full year and also next year? Any guidance that we should look forward to, sir?

Anil Kothuri: You look at us, we've been consistently at 2.3-2.4 for about 3 quarters. Now henceforth we will have the benefit of the IPO money, which is about Rs. 6 billion. So, that should take our ROA up in the short term. That coupled with some expense absorption should mean that we should touch or cross the 2.5 mark comfortably.

Gao Zhixuan: 2.5, exiting this year?

Anil Kothuri: Yes, that's a reasonable estimate.

Moderator: Thank you. The next question is from the line of Prateek from Citi Group. Please go ahead.

Prateek: Congratulations on the listing. I have a slightly technical question. So, I'm looking at your FY23 annual report. And under the disclosure of your asset quality, there is a certain proportion of loans which are classified under Stage-2, around roughly Rs. 7 billion or Rs. 708 crores, but they're also classified as substandard. So, I have two questions. So, first, why are they classified as substandard despite being a Stage-2? And secondly, if you can help us understand what is the proportion of such loans as of September 23. Thanks.

Anil Kothuri: So, those loans are gold loans which are completely standard, but they have been re-pledged. So, there is a technical reason. The Reserve Bank regulations say that any loan that has got restructured needs to be classified as substandard. Now we took a view and there are many views possible that these loans which have not got repaid but instead the borrower has repledged the loan which means he sought to renew it, is called a restructured loan. So, that bit is about Rs. 708 crore out of a total gold loan portfolio at that point in time I think Rs. 2,800 crores or so. So, we've just disclosed that these loans are good performing and completely regular, but there is an argument to call them substandard, which is why we have made that disclosure.

Prateek: So, if I'm understanding it correct, so these are the loans where borrowers have actually defaulted on their payments, right? And there is some kind of restructuring which has been done for such loans, right?

Anil Kothuri: No, it's not restructuring. What happens is the gold loan borrowers are habitual borrowers, they're perennial borrowers. So, the way they tend to treat this borrowing is that they come, they close this loan, they open another loan, okay? And that's the nature of the business, for all gold loan borrowers of NBFC. Now these borrowers what they have done is that they haven't come and repaid their loan entirely, but they've sought to renew their loan. So, that's what this is. And as of September 30, it is Rs. 129 crore. So, which number was 700 and something is now about Rs. 129 crores. You'll see this Stage-2 of gold loans.

Prateek: And they are still classified as Stage-2 and substandard?

Anil Kothuri: Correct.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Nippon Mutual Fund. Please go ahead.

Bhavik Dave: So, a couple of questions. One is on the previous participants mentioned, you answered only like 10% of our borrowings will be PSL compliant. Did I get that number right?

Anil Kothuri: It's a guesstimate, it's about 10% but the exact number I can get back to you, Bhavik.

Bhavik Dave: Yes, sure. But that number seems to be low considering we have a large part of our business in gold loans and small ticket home loans. Generally, most of them classify as PSL compliant. So, I'm just a little surprised with the 10% number. But we'll be happy to understand the exact number if at all later in the call if you can mention. The second question, sir, is on the operating cost and when we see our operating cost even this quarter, it's around 34% Y-o-Y. Just wanted to understand how we're thinking about operating leverage, right? Because like you mentioned 25% to 30% kind of AUM growth, I'm assuming similar kind of an IA growth is what we pencil in. What will be the kind of operating cost growth that we'll be comfortable with and what is the kind of cost to income or cost to asset ratio, maybe one year out is what our aim would be?

Anil Kothuri: So, the first target is to ensure that we have our income growth ahead of our expense growth. So, that is the first milestone that we should cross in a quarter or 2. Now our expenses are largely discretionary in that we have people cost and premises cost, but everything else in terms of hiring new people or opening new branches or paying ad valorem for business that we originated discretionary and we will exercise that discretion. So, that is number one. The second thing is in terms of cost to income from here on, it should moderate. Like I said, we have branches in different cohorts of vintage year one, year two, year three, greater than year three, and there's a cost to income for each cohort that we track. Obviously, our year one cohorts have the worst cost to income issue. So, that is what we will seek to moderate and improve our cost to income from here on. This year we should, we are at 60 for the quarter gone by, and I think this is as high as it can get, from here on it should keep getting better is my guidance. Regarding your first question, I have Ganesh – our CFO here, who will provide some color and clarification.

C V Ganesh: So, thanks for your question. I'll try to answer both, but first, see, so far, there was no visible cost advantage or prominent cost advantage for a PSL borrowing versus a non-PSL. So, we have been able to get equivalent rates on both. But we do see the opportunity given now the starker differentiation in risk weights to get a little more documentation because as you know, most of our lending, on-lending is MSME. So, with a little beefing up of documentation for the newer loans we take, we do see as the situation evolves, we see an opportunity to sort of evaluate a PSL kind of rate on this growth. I think the limited point Anil was trying to make so far, given that there was no rate differential or a major rate differential, we did not have that segregation. That being said, clearly right now with the rules being laid as they are, I think we are better placed than most other players to take advantage of the PSL rules and possibly mitigate some or most of the impact, which may occur on a sectoral level. Now the second question, I'll just maybe give a minor clarification. See the OpEx increase you see has been to build muscle and not fat. We have stopped hiring. Or again, as I said, I think we are adequately staffed in all the mid and back office function. Most of the employee cost increases you would see would be towards increasing the tooth-to-tail ratio only. Now this quarter for example, we added 23 branches on the small ticket lab site to deepen our presence and penetration in geographies where we saw a larger opportunity from a risk reward ratio. Also, we have added 238 odd people on the ground, all front end sales and credit staff to avail of this opportunity. So, I think also as Anil mentioned, we are in the midst of a technology transformation exercise. So, all of these consciously we are aware that while we have been now put post listing into a quarter-by-quarter cycle, but there is an investment play which is also there. But that being said, I think much of the platform is built out. We see the drags on account of these coming down, material in a more pronounced way, and you will see the results of these in the forthcoming quarter.

Bhavik Dave: Perfect. That's helpful. And sir last question is on like what we are seeing in our books, like we have a reasonable amount of unsecured business that we've built over the last couple of years. Just wanted to understand, and also the small ticket home loans and other products, just wanted to understand on the asset quality bit, are we seeing any signs of stress building up in terms of our unsecured business loans or anything that you are calling out, considering RBI has been talking about the consumption bit of unsecured? Any thoughts on how our book is spanning out? Any early warning indicators or anything that we're tightening just to be a little more conservative versus how the market is playing out? Just any thoughts on that?

Anil Kothuri: So, two questions you've asked, small mortgage and unsecured. Our small mortgage customers continue on an even keel. For them, the stressful event was COVID and they couldn't keep their businesses open and there was loss of demand, all that has bounced back. So, if anything, they're seeing better times than they did in the past few years. So, post-COVID, that has continued to get better quarter after quarter. The portfolio performance will continue to get better quarter after quarter. Now in terms of unsecured, the Reserve Bank's directions were regarding loans for consumption whereas the loans that we do are exclusively for working capital. Now this is colloquially called business installment loans or UBL, unsecured business loans in the market. And these have been in existence for about 25 years. So, it is a very established method of lending based on the borrower's documented income and followed by personal discussion and all that. So, we do this like any way else that is about 13% of our AUF and those loans again are performing better than they used to. There was a COVID related kind of shock, but after that they have been continuing to get better. We are not doing consumption. So, we are not.

Bhavik Dave: So, it's fair to assume that the bounce rates in this 30 DPD, 60 DPD are like broadly stable, right? Like what we are penciling in for. Is that a fair assumption?

Anil Kothuri: Yes, it is. In percentage terms, 30 plus is exactly what it was a year ago.

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

Sameer Bhise: Thanks for giving me the opportunity and congrats on a steady set of numbers. Just wanted to get product-wise yields on an incremental basis versus what were they 6 months or a year back. Product-wise lending rates or yields?

Anil Kothuri: On gold loans, we are onboarding at 16 versus 15.75 a year ago. So, that has improved. Large ticket loan against property, we are onboarding at 12.52 versus 11.42 a year ago. Small loan against property, we are onboarding at 17.5 versus 17.1 a year ago. Business lending, 17.5 versus 16.9 a year ago.

Sameer Bhise: And secondly, the bump up on the yield this quarter is mainly due to some of the gains on co-lending?

Anil Kothuri: That's right. We sold down some bit of our portfolio, so there's a gain on sale, which adds to the interest income line.

Moderator: Thank you. We have the next question from the line of Prateek from Citi Group. Please go ahead.

Prateek: This is just a follow-up from my previous question with regards to the gold loans, which were classified as Stage-2 and substandard. Could you just tell me, are there any provisions created up here, source?

Anil Kothuri: There are provisions created in line with any Stage-2 gold loan that there is.

Prateek: Okay, so no additional provisions being created apart from as per the regulations?

Anil Kothuri: That's right, a Stage-2 gold loan, whatever provision is required is created.

Prateek: Just a follow up from the previous question. So, with regards to the business loans, you said what is the new yield for new originations?

Anil Kothuri: Yes, 17.5 I think is what I said.

Prateek: Versus 16.9 previously.

Anil Kothuri: That's right.

Moderator: Thank you. The next question is from the line of Akash Jain from Vijit Global Securities Private Limited. Please go ahead.

Akash Jain: Congratulations on a good set of numbers. My question is regarding the guidance for ROA. As you said that operating leverage will kick in and cost to income ratio is likely to increase further, so what kind of guidance would you like to give us?

Anil Kothuri: We discussed ROA in response to a previous question. I said that we are at a consistent 2.3, 2.4 over the past few quarters and with the addition of new capital and operating leverage kicking in, we should definitely cross the 2.5% mark and it should improve from here on.

Akash Jain: And sir my second question is considering the growth, then what kind of capital adequacy do you foresee say by FY25 and would you require additional capital?

Anil Kothuri: So, the landscape is changing quite rapidly. What we are doing is to try and make our capital last as long as possible. To this end, we are entering into co-lending arrangements and we also sell down bits of our portfolio every quarter. This is to ensure that our off-book portfolio comprises a reasonable part of our overall AUM so that the capital required is a smaller proportion of the AUM than otherwise. So, by doing all this, we hope to make the capital last as long as possible.

Akash Jain: And sir what is the expectation in terms of off-book AUM as a percentage of total AUM?

Anil Kothuri: For the quarter ended September, we were at about 14% in terms of off-book AUM and we have commenced co-lending only after the September quarter that coupled with our normal sell down program should take this number up rather than down is what I would guide.

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

Shreepal Doshi: I just have a couple of questions. So, firstly, since we've done a capital raise, would we still continue with our strategy to have a decent size of off-book in the overall scheme of things?

Anil Kothuri: Yes, we haven't raised an inordinately large amount of capital. When you look at the landscape, there are companies with a capital to AUM of 30%, 40%, 50% or even 60%. So, our tier one post the fund raise is about 21%, I think. So, our endeavor is to try and make this capital last as long as possible. So, you cannot start the off-book strategy and do it one shot when your capital is lower. So, we will attempt to do it consistently. That's how we will make the capital last as long as possible.

Shreepal Doshi: So, what percentage would we be trying to maintain as a strategy off-book loan book?

Anil Kothuri: So, we are at 14 right now and we will try and take it up from here on, okay, so maybe we will try and get to maybe 4% to 5% points higher than this.

Shreepal Doshi: So, one last question on the loan gold guidance. So, for FY24, FY25, what is the guidance that we are sort of having, or what is the target that we're keeping in mind?

Anil Kothuri: FY25. So, our endeavor will be to ensure an AUM growth of between 25% and 30%. 25% I'm comfortable guiding and like I said we have 4000 people coming to work every day and we have over 3 lakh customers who can be cross sold too, so there is a lot of work happening and we'll try and top that.

Moderator: Thank you. Ladies and gentlemen, we have no further questions at this time. I would now like to hand the conference over to Mr. Shreepal Doshi for closing comments. Over to you, sir.

Shreepal Doshi: Thank you, Dorwin, once again. Thank you all for participating in the call, and we would like to thank the management of Fedbank Financial Services for giving us the opportunity to host this call. Thank you, everybody, and have a good evening.

Anil Kothuri: Thanks everybody for joining the call.

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