Fedbank Financial Services Ltd Conference Call Summary Report - January 16th 2026

Management Consistency Check

- **Stalled ST LAP Recovery** - In July 2025, management projected a "steady rise" in Small Ticket LAP (ST LAP) business activity for the quarters ahead following team strengthening. However, in the January 2026 call, disbursements remained essentially flat at INR 208 crores compared to INR 206 crores in the prior quarter, failing to deliver the promised growth momentum. Prior Call (Jul 2025): 'Consequently, we expect to see steady rise in business activity in the quarters ahead.' Latest Call (Jan 2026): 'This quarter, ST LAP disbursed 208 crores.'
- **Gold Tonnage Growth Deceleration** - Management dismissed the drop to 4% tonnage growth in the October 2025 call as seasonal, explicitly guiding for a strong pickup in Q3 (January) consistent with historical trends. However, the January 2026 call reported tonnage growth of only 5.1%, failing to return to the double-digit growth levels (10% YoY) seen in July 2025 or the historical 10-12% quoted strategy. Prior Call (Oct 2025): 'Our tonnage usually picks up in Q3 and Q4... We are very, very confident about Q3 being a definitive quarter for us, which is comparable to our previous seasonal movements.' Latest Call (Jan 2026): 'We spoke about seasonality last quarter... tonnage growing 5.1%.'
- **Strategic Pivot Diluting ST LAP Yields** - In July 2025, management listed their strategic priority as focusing on "high-yield" ST LAP business. In the January 2026 call, they admitted to shifting ticket sizes upward and reducing exposure to smaller segments (sub-5 lakhs), acknowledging this shift has naturally lowered yields (noted by analysts as an ~80 bps drop), contradicting the prior high-yield focus. Prior Call (Jul 2025): 'Within LAP, we will concentrate on a combination of low-risk -- high-yield ST LAP business and low-risk MT LAP business' Latest Call (Jan 2026): 'We have shifted our ticket size upward and reduced exposure to the 5-7 lakh segment, which naturally lowers the yield.'

Key Quote

- This disbursement of Rs 7,853 crores in gold loans marks the highest amount ever achieved by the company in a single quarter, leading to net AUM growth of Rs 1,174 crores - a remarkable quarter for our gold business - Parvesh Mulla, MD and CEO

Sentiment

- Cautiously Optimistic
- Management demonstrated strong execution on gold business with record originations and 52% YoY AUM growth, but acknowledged near-term headwinds in ST LAP and sequential margin compression from DA income reduction. Leadership expressed confidence in medium-term structural improvements while maintaining disciplined capital allocation

Call Summary - Gold Loan Surge Drives Growth While ST LAP Stabilization Remains In Progress

- Q3 FY26 marked a transformational quarter for gold loans with record disbursements of Rs 7,853 crores and 52% YoY AUM growth to Rs 7,905 crores, though tonnage growth more modest at 5.1%
- Business AUM reached Rs 17,500 crores (17% YoY growth, 32.5% excluding divested business loans); Mortgage AUM grew 20% YoY to Rs 9,084 crores
- Net interest income grew 16.8% to Rs 318.9 crores; Operating profit up 11.7% to Rs 149.4 crores; ROA expanded from 2.2% to 2.5%; ROE improved 130 bps to 12.7% over four quarters
- Unsecured lending portfolio reduced to 0.6% of on-book assets (99.4% fully secured); Credit costs maintained below 1% at 0.9%
- Management provided credit cost guidance of 1% plus or minus 10 bps for FY26 and signaled shift toward opex-to-average-assets guidance for FY27 as structural benefits materialize
- FY26 positioned as investment year for branch expansion (130 new gold branches opened, total 54 in Q3) and ST LAP rebuild; operating leverage and cost savings expected to reflect clearly in FY27

Gold Loan Business - Record Momentum and Strategic Positioning

- Disbursements of Rs 7,853 crores (highest ever) with net AUM addition of Rs 1,174 crores; Portfolio LTV at comfortable 59.3%, onboarding LTV conservative at 70-71%
- Opened 54 new gold branches in Q3 (130 total for year); AUM per branch reached Rs 13.3 crores (up Rs 0.91 crore per branch), with significant headroom to reach Rs 20 crores per branch
- New branch expansion contributed 30% of growth; existing branch expansion contributed 70%, indicating strong same-branch momentum and pricing power
- Gold tonnage growth maintains 10-12% CAGR trajectory over five years; management expects tonnage growth to remain unconstrained despite rising gold prices and higher eligible ticket sizes
- Yield compression from 19.1% to 18.3% attributed to mix effects from exceptional disbursement volumes, not competitive pressures; company conscious of volume-yield tradeoff
- Co-location with ST LAP expanded to 63 branches (14 added in Q3), leveraging synergies between gold and LAP operations; incentives linked specifically to tonnage growth rather than price appreciation
- Competition viewed as highly localized with stronger growth in Western and Northern geographies versus South; gold treated as vernacular business with yields matched to regional competitive dynamics

Medium-Ticket LAP (MT LAP) - Yield Protection and Capital Efficiency

- Q3 disbursements of Rs 545 crores with yields held stable; direct assignments and co-lending of Rs 313 crores (down from Rs 578 crores in Q2) as guided migration away from DA income continues
- Management expects continued DA income reduction as strategic shift toward co-lending accelerates; Q3 DA income was 20 bps lower than Q2, impacting reported yields
- MT LAP yields held better than many market players despite competitive pressures; business scaling with minimum capital allocation through co-lending structures
- Old vintage book (pre-FY24) showing 100-150 bps higher delinquencies versus new book; pain concentrated in specific cohorts in Maharashtra and Tamil Nadu; recovery processes showing effectiveness after shift to legal and NPA management teams

Small-Ticket LAP (ST LAP) - Rebuilding Mode with Quality Improvements

- Q3 disbursements of Rs 208 crores as business undergoes comprehensive rebuild from previous underwriting challenges; transitioned to system-driven Bureau Risk Engine (BRE) for objective credit assessment
- Fresh sourcing under new BRE showing much better quality indicators at 12, 15, and 18-month performance marks; management expects significantly improved predictability by Q4 as in-house collections transition completes
- Yield pressure of 80 bps over three quarters partly reflects deliberate ticket size upward migration from stressed 5-7 lakh segment (affected by MFI spillover); company reducing exposure to sub-5 lakh segment
- Origination yields currently depressed due to environment-driven stress in sub-5 lakh segment; management expects normalization as portfolio mix tilts toward higher ticket sizes
- FY26 credit cost guidance of below 1% maintained despite fluctuating GNPAs from legacy book transition; confidence in target supported by forward flows stabilization and improved new origination quality

Asset Quality and Credit Cost Management

- Gross Stage 3 assets rose to 2.1% from 1.9%, driven by forward flows from Stage 2 rather than fresh delinquencies; 1+ bucket delinquencies improved from 7.5% to 7.1%
- Credit costs held flat at 0.9% despite higher Stage 3 migration, demonstrating effective provisioning and recovery management
- Legacy ST LAP book from pre-FY24 continues experiencing stress; management indicated FY26 as peak stress year with expected stabilization and improvement in FY27
- Tamil Nadu regional stress (personnel and market challenges) showing signs of recovery with 20-30% business pickup, but full normalization expected only in Q4
- Specific cohorts in Maharashtra and Tamil Nadu (mortgage division) identified as pain points; targeted legal and NPA recovery efforts delivering positive recovery rates

Funding and Liability Management

- Weighted average interest cost of borrowings decreased 32 bps from 8.19% to 7.87%; Incremental cost of borrowings in Q3 at slightly under 7.6%
- Fixed-rate borrowing increased from 11% to 29% to lock in spreads in declining interest rate scenario
- Debt-to-equity ratio increased to 3.99 as of December 31
- Treasury strategy focused on reducing cost of capital while maintaining conservative leverage positioning

Operational Metrics and Cost Management

- Operating expenses increased 21 bps primarily due to: employee costs for 130 new gold branches, higher gold loan incentives for tonnage growth, and one-time labor code regulation impact of Rs 3.9 crores

- One-time labor code impact of Rs 3.9 crores related to retrial benefits catch-up; future labor code impacts dependent on industry-wide adjustments
- FY26 designated as investment year for branch expansion; operating leverage improvements and cost savings expected to reflect in FY27 from structural changes and co-location synergies
- Company signaled shift in guidance metric from credit costs toward opex-to-average-assets ratio for FY27, reflecting focus on operational efficiency realization

Strategic Priorities and Capital Allocation Framework

- Twin-engine strategy of gold and LAP business delivering results; management views multi-product positioning as competitive advantage versus single-product gold companies
- Capital allocation prioritized toward businesses with high ROA and ROE; movement toward fully secured lending portfolio now at 99.4% completion
- Within LAP, concentration on high-yield ST LAP rebuild and low-risk MT LAP expansion; portfolio mix not constrained by internal percentage limits on gold
- Collection infrastructure strengthening remains priority for managing delinquencies and improving recovery rates; transitioned ST LAP to in-house collections (expected fully in-house by Q4)
- Core income growth prioritized while consciously reducing DA income reliance; credit costs maintained below 1% plus-minus 10 bps as disciplined guardrail

Forward Guidance and Management Outlook

- Credit cost guidance of 1% plus-minus 10 bps maintained for FY26; predictable range will be provided for FY27 after Q4 results
- Gold tonnage growth expected at 10-12% CAGR with unconstrained growth strategy; company not capping gold as percentage of portfolio mix
- ST LAP stress expected to normalize through FY27 as legacy book plays out and new sourcing improves; slippages expected to stabilize with improved predictability
- Operating leverage improvements from branch co-location and cost optimization to materialize clearly in FY27 after investment phase in FY26
- Management expects 20-30% business pickup in Tamil Nadu with full normalization anticipated in Q4