Equitas Small Finance Bank Ltd. Conference Call Transcript - November 1st 2025

Operator: After the performance of Q2 FY26, we have with us today Mr. P.N. Vasudevan, MD and CEO, Mr. Sridharan, CFO, Mr. Jagdish J., Head of Assets, Mr. Murali Vaidyanathan, Senior President and Country Head, Banking, Branch Banking, Liabilities, Product and Wealth, Mr. Gopal Srinivasan, Head of Treasury, Mr. Suresh, Head of Strategy and Business Intelligence, Mr. Sundaram, Head of Investor Relations, and Mr. Abhishek, Specialist Investor Relations.

Operator: 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 an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

Operator: I now hand the conference over to Mr. P.N. Vasudevan. Thank you and over to you, sir.

Management: Thank you. Good morning, everyone, and thank you for taking the time to join this call. Let me start with a few staff-related changes. Dhiraj, who was handling our Investor Relations and Strategy, is moving on after about a 10-year stint with the bank. A big thank you, Dhiraj, for your valuable contribution to Equitas and our best wishes to him as he moves on to new opportunities outside of the bank. I am pleased to introduce Suresh, who has been elevated as Head of Strategy and Business Intelligence. Suresh has been with the bank for over nine years. Initially, he was handling strategy for Assets, and for the past seven years, he has been driving strategy for our Liability Division. In his new role, he will be responsible for Strategy and Business Intelligence for the bank.

Management: And Sundar Raman, who was supporting Dhiraj, will now head the same, supported by Abhishek. I am sure many of you might have already met and interacted with these two gentlemen. Now, let me come to the business of the bank. I would like to take this up in three parts, namely: one, are there sufficient indicators to show whether the stress we have been experiencing over the past four quarters is behind us.

Management: The second part of my comments would be, what are the key internal drivers that we have in place to deliver consistent and quality growth over the coming years? And third, what is the external market demand and potential? Let me take up the first part, namely whether there are sufficient indicators to show whether we are out of the stress seen in the recent past. The stress was principally coming from the microfinance portfolio, with Micro Loan Against Property (M-LAP), particularly in Karnataka, adding to the stress in the last two quarters.

Management: In microfinance, at the industry level, we see many positive trends like: one, the overall loan outstanding at the sector, which was about 4.4 lakh crores in March 24, came down to about 3.75 lakh crores in March 25, and further down to 3.5 lakh crores in June 25. This indicates the willingness of the players in the industry to show restraint in growth to enable more focus on the quality of lending over the last year and a half. The second indicator I see is that the percentage of customers at the sector level who had four or more lenders was about 22% in March 24, which has come down to 12% in March 25, and further down to 10% in June 25. And lastly, the collection efficiencies reported by almost all players have shown marked improvement over the last few months, including in the state of Karnataka.

Management: While these are positive trends at the sector level, at the Equitas level also, we see many positive trends. While our ex-bucket collection efficiency has been consistently moving up, other parameters such as slippage from the X to OD bucket and the 1 to 90 bucket size have been consistently coming down. Jagdish, in his opening comments, will be elaborating further on some of these trends. In sum, we believe that the stress in microfinance, both at the sector level and at our bank level, has come down to a very acceptable level, and we expect this product to trend towards normal levels of profitability from the fourth quarter of this financial year. As far as the stress in M-LAP is concerned, it was a two-quarter issue that we saw largely coming in Karnataka as a fallout of certain localized events.

Management: We now feel this trend reversing in the month of October. Given that these are basically secured loans with very low to middling LTV, while there could be a timing factor on NPA and provision, the ultimate loss is likely to be low. Historically, for your information, our Loss Given Default from small business loans is practically nil, given that our recovery from GNPA from small business loans is about 105% of the principal.

Management: Now I move on to the second of my opening remarks, namely, what are the internal drivers which we believe we have in place, which would help us pursue robust growth in the coming years? As can be seen in our investor presentation, the CAGR of advances for the past three years ending March is 20%, and the deposits CAGR for the last three years is about 30%. Over the last 20 years of Equitas' existence, we have recorded over 20% growth in almost all the years, except for a few years which had some black swan events during that time.

Management: In terms of drivers, our product range on the asset side is fully in place, be it small business loans, or vehicle finance. As mentioned in the first quarter investor call, we are strengthening the distribution of these products both in terms of strengthening the sales and collections team and making the products available in more of the existing branches. Jagdish would again give an idea on this. Gold loan, which was the only product absent for a long time in Equitas, we commenced that in over 200 liability branches recently and have built a book of about 400 crores. We are now going to introduce this in about 50 asset branches. And over the next few quarters, this will be made available in most of the asset branches also, finally giving a flip to our gold loan book. On deposits, over the past nine years, we have put in place almost all the products and services that a typical depositor may look for from a bank. Having done this, we believe we are in a position to engage depositors meaningfully over a wider range of products and services, strengthening the relationship in the process and enabling us to reduce our interest rates over time. Murali will talk about the rate reductions that we have been carrying out and its impact on the cost of funds and also his strategy on deposit mobilization to support the overall bank's growth.

Management: I now come to the last part of my opening remark, namely the market potential and demand. As per a recent RBI report, the overall banking sector's credit exposure to the MSME segment in the country is about 32 lakh crores. This is as of March 25. Out of this, the banking sector's disbursement—I am saying disbursement—to New-To-Credit (NTC) MSMEs for the last year, which is the year 24-25, is about 1.7 lakh crores. I repeat that the overall banking credit exposure to the MSME sector in the country is about 32 lakh crores, and last financial year, the disbursement to NTC MSME units by the entire sector put together was 1.7 lakh crores.

Management: Out of the above, Equitas contributes about 0.7% of the overall credit exposure to the MSME segment in the country. However, when it comes to new to credit disbursement for the year 24-25, our disbursement represents about 50% of the total banking sector's disbursement, clearly showing our dominant presence in the NTC MSME segment. Further, SIDBI has published a report titled "Understanding Indian MSME Sector Progress and Challenges" on May 13, 2025. In this report, SIDBI estimates the total unmet credit demand from the MSME borrowers in the country to be about 30 lakh crores, which is almost the same size as the current banking sector's total exposure to the MSME sector. Similarly, there are reports indicating equal levels of unmet credit demand in the affordable housing finance sector also. The segments in which Equitas operates, as can be seen, have a very high level of unmet demand and potential.

Management: At Equitas, we have established over the last 12 to 15 years strong domain knowledge and capability to address the credit needs of borrowers. From this perspective of internal drivers that we have already put in place over the last decade and more, and the external demand and potential, we believe Equitas is best placed to deliver consistent and high-quality growth. Shridharan, CFO.

Management: Good morning, everyone. Thank you for joining us today for the Q2 FY26 earnings call of our bank. I appreciate your continued interest and support. Let me take a few minutes to walk you through the financial performance for the quarter. While most of these details are also available in our investor presentation, we reported a Net Interest Income of 774 crores and other income of 224 crores, bringing the total net income to 998 crores for the quarter.

Management: The yield on advances, adjusted for IBPC, declined by 33 basis points quarter-on-quarter to 15.73%, primarily due to the reduction in the microfinance mix. Our Net Interest Margin stood at 6.29% compared to 7.69% in the same quarter last year, reflecting the contraction in the microfinance portfolio. The bank reported a PAT of 24 crores for Q2 FY26 as against a loss of 224 crores in Q1 FY26. Return on Assets and Return on Equity were 0.18% and 1.65%, respectively. On the cost front, operating cost remained flat sequentially, supported by a 5% decline in other operating expenses.

Management: In terms of asset quality, Gross NPA remained stable at 2.82% and Net NPA at 0.95%. Credit cost has significantly improved to 2.16% in Q2 FY26 from 6.48% in Q1 FY26 and 3.72% in Q2 FY25. Our provision coverage ratio remains healthy at 66.93%, and we expect the credit cost to taper down by Q4 FY26. During the quarter, we have sold 216 crores of NPA assets from our secured portfolio to an ARC (Asset Reconstruction Company).

Management: Moving to the advances book, it grew 9% year-on-year to 39,123 crores. While the microfinance portfolio contracted by 40%, our non-MFI book grew by 17%, led by 17% growth in small business loans and 43% growth in used car finance. Disbursement for the quarter stood at 5,380 crores with strong momentum in the secured segment. On the liability side, total deposits grew 11% year-on-year to 44,094 crores. Our CASA ratio remained stable at 31%, and retail deposits now constitute 75% of our total deposit base. As of September 30, 2025, our capital adequacy ratio stood at 20.74%. In July 25, we successfully raised the second tranche of 500 crores in Tier 2 capital, further strengthening our capital position. With this, I hand over to Mr. Jagdish.

Management: Good morning, everyone. We have closed the quarter with gross advances of 39,123 crores, reflecting a growth of 9% year-on-year and 4% quarter-on-quarter, which is driven by a healthy uptake in our disbursement. Let me walk you through some key highlights. Microfinance disbursements have resumed this quarter, helping us to maintain the MFI book at around 10% of the overall advances book. Disbursements for financial year 26 grew 156% quarter-on-quarter, reaching 682 crores, up from 266 crores in quarter one. On the non-MFI front, we have delivered our highest-ever quarterly disbursements, totaling 4,700 crores in quarter two, which is a 24% year-on-year and 45% quarter-on-quarter growth.

Management: Our non-MFI secured book now stands at 35,730 crores, marking a 17% year-on-year growth. Within our Small Business Loans, which is a flagship product, the micro segment saw a robust 39% year-on-year growth, and Vehicle Finance grew by 10% year-on-year to 9,800 crores. Both used commercial vehicles and new commercial vehicles showed significant growth. Used commercial vehicles grew 25% year-on-year and used cars grew 43% year-on-year.

Management: Our strategic focus remains on the used commercial vehicle and used cars. Housing finance has grown at 15% year-on-year and 4% quarter-on-quarter, now at 5,066 crores. And MSME finance has grown by 36% year-on-year, reaching 1,851 crores. The microfinance portfolio stands at 3,392 crores, and it is expected to grow driven by our improved disbursements in the coming quarters. Coming back to the yield and asset quality front, the yield on gross advances declined by 33 basis points quarter-on-quarter to 15.73%. This is primarily due to the lower contribution from the MFI mix. On the non-MFI yields, it remains stable at 15%, underscoring the strength of our secured portfolio. Our asset quality continues to improve. Net slippages reduced to 3.78% in quarter two, down from 4.77% in quarter one. In value terms, net slippages reduced to 355 crores, down from 453 crores from Q1. The credit cost showed sharp improvement to 2.16%, compared to 6.48% in Q1 and 3.72% in quarter two financial year 25. The non-MFI credit cost stands at 1.01%. Coming back to the microfinance segment, the strength we have been seeing in the past three to four quarters is coming to normalcy. I would like to point out certain trends on the microfinance performance. Our expected resolution in Q1 was 98%. And as on September, it has improved to 98.6%. And the book of the last six months disbursement is close to 99.52% resolution. And the book of the last six months disbursement is close to 27%. The most important indicator is the fresh overdues which have been flowing into the delinquency bucket. In the month of April, we had a fresh OD of 97 crores, but in the month of September, our fresh OD flow is only 30 crores. And in the month of October, it drops down further to 24 crores. So these are the indicators which show that in the coming quarters we can see normalcy in microfinance. In addition to that, we also covered CGFMU of 27% on our overall book, which will increase to 50% by Q3. And we are looking at a growth rate of close to 15% to 16% in the current financial year and looking forward to a growth of 20% in the next financial year. And there are certain strategic initiatives which we have taken on various products, which I will give you a brief description. In Vehicle Finance, the used car segment, which has been growing at 43%, we further want to grow at a higher rate by focusing on 100 high-potential existing branches, ensuring focused execution and accelerated growth. And Affordable Housing Finance (AHF) is currently operating at only 70 branches, and in Q3, we are expanding to an additional 30 existing asset branches in Tier 2 to Tier 5 towns. And further expansion of 120 branches will be done in the next financial year. As the MD pointed out, gold loan will be offered in our 50 asset branches in H2 financial year 26, and another 150 branches will be added in the next financial year from our existing set of asset branches. So with all these initiatives, we can look at 20% plus year-on-year growth from the next financial year. Thank you. I will hand it over to Mr. Murali.

Management: Good morning all. Just to give you a snapshot of what happened, we have grown deposits at 11%. Retail Current Account and Savings Account (RCD) grew by 11% year-on-year, and CASA compared to last quarter remained more or less flat, but we gained 1%. Our primary driver is how we enhance customer stickiness through relationship management so that, as our MD mentioned, over a period of time, we can bridge the differential between us and the bigger banks in terms of cost of funds. That is the journey which we are on. This year, during quarter one and quarter two, we have done three rate changes on term deposits (TD). And this will be on a continuous basis because our proposition in terms of household segments—today we believe we have investment accounts, we have ASBA, we have trading accounts—we are enhancing our relationship channel. Just to give you all a snapshot, 60% of our book is into the premium or HNI segment, which is an elite proposition. So we are strengthening that proposition in a two-tier mode. Elite being the mid-level, we are going to launch something called Elite Light, which is going to be anything between mass affluent and HNI, and for HNI, we are going to have Elite as a proposition. In the coming quarter end, we can see Elite Plus as a model which is going to cater to the HNI plus category. Now, why are we going in this direction? We have seen in our book at this point of time we have 35,000 ASBA customers and 35,000 SAP customers, and we have 20,000 broking accounts, which, when engaged properly, is giving us a much better ARV and, most importantly, deepening the relationship part. And we are also going into family banking as a route. We have been on this journey for the last six months, and last quarter also, we have crossed 25,000 families who are banking with us, and we are seeing close to 4,000 crores of ARV coming from there, which means it is not only individual. When we started as a saver as a mode, then we migrated individual into saver plus investor plus trading; today we are saying that along with investor and trading and broking accounts, we are going to have family banking as a key proposition. With Elite Plus and Elite Light coming in, this is going to be one primary driver where multiple products and absolute yield at the customer level is going to only enhance because the bouquet of products is given through the relationship management and virtual Relationship Manager (RM). This is one approach. The second approach, if you see in our presentation, is the Non-Resident (NR) segment. Now that AD1, SCNR, and inward remittance have gone live, outward and prepaid forex should be in the next three months' gap. We will have the entire suite of products for NR. So, to make the NR proposition and NR affluent customer base come in, we have already launched EPIC, which is an NR elite equivalent program, and we are targeting specific segments in NR as an opportunity. For example, seafarers as a segment is our key segment, and you would have read in recent news that one in five seafarers is going to be from India. So NR is going to be one proposition where a combination of rupee deposit, SCNR, and SCNR—what we launched recently—we saw a good number of existing customers at this point of time actually supporting us and also seeing a better return, backed by inward and outward remittance. So NR is one key proposition which is going to help us to reduce the cost of fund for a simple reason: as we are aware, for less than one year, NR cannot book any FD, which means a good proposition backed by SCNR, backed by an investment account, is going to be the journey in NR. Third is the institutional segment. What we have mentioned, we have already got the PFMS and SNA live, and we are looking at empanelments. We have three or four empanelments, and we are going to go deeper. So these three are going to be a very major approach, along with the current account as a proposition. When coming to ASBA, this quarter, I think we did something close to 6,000 crores of blocked funds for IPOs, and through our new mobile app, which is Equitas 2.0, we could see a good appreciation from consumers because we have crossed 4 lakh downloads, and importantly, 90% of our ASBA customers are using mobile banking as a route. I think this is one significant step, and we will strengthen ASBA in the coming days because our work in progress, backed by current account, will have AIF also coming into it. So ASBA is a key driver to drive value, and ASBA being a customer, the entire yield and increasingly multiple product holding is going to be one key approach for us. And the third thing is, as we move on, the differential, what we have mentioned in our investor presentation, should not be more than 1% or 1.1% as an absolute cost of fund journey. So with that note, I hand it over to Gopi, who will give you some treasury insight.

Management: Thanks, Murali. Good morning, everyone. The quarter went by as the respective market was very volatile, driven by overnight global news flow and big-ticket announcements by the Union government. The US Fed recently cut rates in line with expectations; however, the uncertainty as to the future rate cuts has seen US treasury yields rise post the FOMC decision. For Equitas, rupee, and broader markets, the trade tariffs continue to be a source of concern, with India actively seeking to diversify export markets. Domestic CPI is expected to remain within MPC's inflation target. Government bond saw the benchmark 10-year yield hardening by roughly 25 basis points during the quarter, peaking towards 6.65%, mainly attributed to a change in the RBI MPC stance and the announcement of GST 2.0, causing the market to initially price in a larger fiscal burden coupled with the likelihood that any future rate cuts would be off the table. Volatility is thus likely to continue across asset segments, and we remain watchful in the near term. Coming to Equitas, our treasury income stood around 34 crores during Q2 FY26. Thank you.

Management: Back to the operator.

Operator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove your question from the queue, please press star and one again. Participants are requested to kindly hold on for a few questions. Ladies and gentlemen, please wait for a moment while the question queue assembles. The first question is from the line of Renish Shah, please proceed.

Renish Shah: Hello, am I audible?

Management: Yes, yes.

Renish Shah: Yeah, hi, sir. First of all, congrats on showing resilient trends in such a challenging time. So, just two things: one on the NIM side, right? So obviously, we have been changing the mix more, and now the cost of fund benefits has also started kicking in. So where do you see the entire NIM trajectory over the next two to three quarters, even going ahead, even which more or less is going to remain the same. So where do you see the NIM ultimately over the next two to three quarters?

Management: See, actually, we had a drop in NIM in the second quarter. It has been a consistent drop for the last few quarters, but the second quarter drop was largely contributed by the average microfinance portfolio outstanding coming down between the first and second quarter on a quarter-on-quarter basis. And as we have indicated in the presentation, the average loan outstanding in MFI is expected to actually marginally inch up between Q2 to Q3, which means that MFI will no more be a contributor to NIM drop, and the rest of the book is not an issue fundamentally. So we expect the NIM drop to actually reverse in the third quarter, and from there on, we expect the NIM to actually strengthen. Maybe between the third and fourth quarter, we expect the NIM to actually go up in both the quarters, contributed both by the fact that there will be a larger amount of growth on the asset side and also a reduction in the cost of funds, and we have seen that trend is expected to continue. And so we expect the NIM to actually go up between the third and fourth quarter.

Renish Shah: My question is slightly from a perspective. So, you know, if you look at historically, your NIM used to be in the range of 8.5% to 9%. Obviously, those numbers used to be significantly higher, which we are to believe going ahead. So how do you see the NIM setting? I mean, whether it will settle at 7%, 7.5%? What is your internal assessment about that?

Management: See, currently the NIM is 6.3%. I guess I mean it is very difficult to give you an exact point by which it will move up. But by the end of the year, I think the 6.3% should cross 6.5%, and on an ongoing basis, on a steady-state basis, I think we should be looking at anything between 6.5% to 7% as a steady state.

Renish Shah: Okay, got it. So again, I mean, if you now work on the 6.5% to 7% NIM, even if the cost is set at 5.5%, even if it is set at 5%, the operating profit will be significantly lower than what it used to be. So I mean what are the strategies in place to take this Return on Assets to at least about 1.5%, which is not the case currently? So what is your thought on that?

Management: See, basically, we should be able to look at a steady-state ROA of anywhere around 1.5% plus. So that is a goal that we are looking at in the short to medium term.

Renish Shah: Got it. Would you like to share any initiatives around that at all?

Management: Yeah, I mean, all the various factors that we have mentioned in the opening remarks should all aid that in terms of asset growth. Fundamentally, you know, it is all down to a question of growth because our operating cost, if you can see—I think we mentioned this in the past also—our operating cost is kind of fixed in nature, it is not that variable in nature. So, even when we do not do business, the operating cost will be practically where it is. So the growth is the one which will help us leverage the investments and cost that we are incurring. And growth, you know, as the growth comes back, when we start doing a 20% plus growth, then you will see that the cost leveraging is really starting to support in terms of the peak ROA levels. And credit cost, I think, as Jagdish mentioned, we should settle down at 1.5% to 1.7% levels. So a combination of these two is where we expect a steady-state 1.5% kind of ROA.

Renish Shah: Got it, got it. Okay. Best wishes and best of luck.

Management: Thank you. Thank you, Renish.

Operator: Thank you. The next question is from the line of Shalesh Kanani from Centrum Broking. Please proceed.

Shalesh Kanani - Centrum Broking: Good morning, sir.

Operator: Shalesh, your line is breaking.

Shalesh Kanani - Centrum Broking: Is this better now?

Operator: Yes, yes.

Shalesh Kanani - Centrum Broking: Yeah, thanks. My first question is with respect to net slippages. We have seen a quarter-on-quarter improvement. But going ahead, how are we seeing the trends over there?

Management: Shalesh, this is Jagdish. If you look at the net slippages, it is going down, and even in Q3, we can see that further slippages will come down both in MFI as well as on the non-MFI. And we might expect normalcy both in MF and non-MF from Q4 onwards. But compared to Q2, Q3 net slippages will be further reduced.

Shalesh Kanani - Centrum Broking: That is interesting.

Management: Yeah, please.

Shalesh Kanani - Centrum Broking: Yeah, please continue, please continue.

Management: Because the trends which I have clearly indicated on the ex-bucket efficiency and the fresh OD; even in the MF, if you look at, in the month of September, our fresh OD flow is only something like around 30 crores. We used to have a resolution of close to 40% on the delinquency, but a 60% flow will be there. Whereas, in the month of October, it is only some 24, 25 crores. So on a whole, maybe even if you look at the stress, in Q4 or in the next financial year, the annualized credit cost will not be more than 170 to 180 crores, which is closer to something like a 4% credit cost for microfinance. And non-MFI, if you look at the trend itself, the Tamil Nadu ex-bucket efficiency, whether in in the major book of SBL, is always at 99.2% to 99.3%, and even Karnataka, which has started to reverse the trend, almost came closer to 99%. So the net slippages in even in the non-MF book will further get reduced.

Shalesh Kanani - Centrum Broking: Just to extend on that, the reason I was wondering is that because is there any tariff implementation in the MFI book what we are seeing, and our concentration in that region? So, any impact what we are seeing on our asset quality?

Management: No, nothing major. We do not see any kind of impact due to the tariffs or anything, because the slippages is majorly on our small business loans, majorly from the Karnataka state because the small business loan is basically the customers who are NTC and NTB, which do not have any effect related to tariff.

Shalesh Kanani - Centrum Broking: Alright. Sir, my second question with respect to if you can provide this breakup of the gross slippage in terms of MFI and non-MFI.

Management: See, this time we have not given the gross slippage. We have not put that because there is so much confusion in the way people are doing that, and it is become so difficult to make inter-firm comparison. So that is why we have taken it off and given the net one.

Shalesh Kanani - Centrum Broking: Okay. And so, if you can throw some light on the ARC sale, this secured book which you have sold. It was provided. What is the impact on P&L; of that and in terms of other details of it?

Management: Yes, this is Sridharan. See, we have sold to an ARC NPA advances amounting to 216.46 crores. And the provisions held against it was 184.53 crores. And the excess provision, you know, 40 crores have been reversed back to the P&L; account.

Shalesh Kanani - Centrum Broking: Alright.

Management: Yeah.

Shalesh Kanani - Centrum Broking: Okay, okay. Thanks for that, sir. And thanks, best of luck.

Management: Thank you. Thank you, Shalesh.

Operator: Thank you. The next question is from the line of Rajiv Mehta from Yes Securities. Please proceed.

Rajiv Mehta - Yes Securities: Yeah, sir, hi. Congrats on improved performance. Sir, firstly, a clarification with regard to that additional standard asset provision of 185 crores which we created in the previous quarter. How much was the utilization in this quarter?

Management: It is about 58 crores. Basically, when we did the provision in the first quarter, we analyzed our book, including the X-bucket MF book, and took out a certain segment of customers who are having more than three lenders as potential stressed borrowers, and we made an additional one-time standard asset provisioning of 75% on that. Now that book is being monitored separately and some of that book will obviously flow into NPA. And even if that flows into NPA, then we will start making a regular provision. And some of the customers might have closed their account, so obviously that stress is gone out. And for the remaining customers, the loan outstanding would come down based on the repayments, and to that extent, the stress again comes down. So based on this, we calculate what is the amount of provision that is not required for that portfolio, and that turned out to be 58 crores for the second quarter.

Rajiv Mehta - Yes Securities: Got it. So it is meant for utilization so when you earmark the pool of MFI loans, it will run down, or either it will flow forward. You will keep on utilizing this pool of 185 crore in the coming three quarters, right? It will not be held back.

Management: That is right, that is right. It was made on a one-time basis based on a formula, and that formula will be applied consistently on every quarter. And what will be the resultant outcome will be taken into account.

Rajiv Mehta - Yes Securities: Correct. Correct.

Management: For example, just to give you an idea: in the second quarter, about totally about 78 crores principal did not require the provision standard asset provision. But out of that, what happened is 38 crore had moved to NPA, so it changed into NPA provision. And the remaining was the run down. So that was actually the one which flows back to the reversal.

Rajiv Mehta - Yes Securities: Okay. Can just, sir, this excess provision of 40 odd crore which you reversed regarding ARC sale, did you receive cash for the remaining amount or was it SR, and which may have been provided in?

Management: We have received cash also actually. See, the thing is that we have received a cash of 62 crores and 10 crores. 72 crores we have received the cash actually, against the valuation of 176 crores.

Rajiv Mehta - Yes Securities: Sorry, can you just repeat the amount, sir? Cash?

Management: Cash of 62 crores and 72 crores we have received, that is 62 crores CDC and Series B of 10 crores.

Rajiv Mehta - Yes Securities: Okay, okay. And just one last thing with regard to net slippages in the non-MFI book, which has come down from 223 crore to 177 crore. Is it possible to share product-level breakup, specifically how the M-LAP net slippages came down, how the UCV net slippages came down?

Management: Do we have it now?

Management: We have it. We can share it right? Okay, so we do not have that just right now, but what we will do is that next quarter when we make this presentation, we will keep this in mind and try and give you the breakup.

Rajiv Mehta - Yes Securities: Perfect, sir. Thank you and best of luck.

Management: Sure, sure. Thank you. Thank you.

Operator: The next question is from the line of Disha Doshi from Equirius. Please proceed.

Disha Doshi - Equirius: Hi, sir. I wanted to ask you just one question. The credit cost has improved sharply to 2.16%. So can you guide on the medium-term credit cost what you expect?

Management: Our overall strategy as far as the MFI book is concerned, we want to keep it at around between 8% to 10%. So we will be only moving towards that. It is not that we will be increasing further on the overall composition. We are comfortable keeping it at 10% on the overall mix because the overall advances book also will be growing.

Disha Doshi - Equirius: Okay. Okay. Got it. The second question was about the used commercial vehicle (UCV) category. That segment for us has seen a recent growth of almost 24% on a year-on-year basis. The base is low, but still the growth is there. Are we expecting any impact of this revised GST rate on our incremental growth for the segment and sanction?

Management: No, if you look at our normal used CV funding, we fund vehicles with a vintage of at least five years old, more than five years old vehicles. Even our book stands at close to six years and above, which would be close to 75% of the book, okay? So the GST impact will not be applicable mostly in the vehicles which are at the earlier stages. After five to six years, there will not be that much of an impact on the vehicle base. So we do not see much of an impact. Even in the October month disbursement, we have not seen any kind of impact as such due to GST.

Disha Doshi - Equirius: So then in that case, when you say it will not be there after five years, the impact, what sort of an impact do you see? Will it be like for the, let us say, below five years category? Will it be in the range of 8% to 10% based upon your understanding?

Management: It is basically on the maybe less than three years, it will be around some 3% to 4% kind of impact on the prices, not more than that.

Disha Doshi - Equirius: Okay, okay. Got it, sir. Thank you so much for answering.

Management: Thank you.

Operator: Thank you. The next question is from the line of Path Gupta from BNK Securities. Please proceed.

Path Gupta - BNK Securities: Yeah, hi, sir. Thanks a lot for the opportunity. First, you have mentioned that disbursements in Karnataka are really done with more conservative guardrails. Can you just elaborate on that? And my second question is, you have changed the repayment cycle to the monthly repayment in MFI. So what proportion of the portfolio has been changed, and what was it earlier? Thank you.

Management: Related to the first factor on the guardrails, the guardrails for Equitas are for the client to have Equitas plus two other lenders. That is one of the parameters. The other parameter is the indebtness should not exceed more than 2 lakh when we fund, okay? As far as Karnataka is concerned, what we have done is people can have only one lender loan and Equitas—1 plus 1. Beyond that, we will not be funding it; we will be rejecting those customers. Similarly, we kept the indebtness to 1.5 lakh. So these are the additional norms which we have considered in Karnataka, and we are looking cautiously at that particular book. That book is close to only 7% of our overall advances and on the MFI part, okay? Can you repeat the second question? Yeah, monthly repayment, okay? So we just started in the month of August. Currently, 41% of the book has been changed from the 28 days to the monthly repayment frequency mode. And this will help us to improve our expected collections because the monthly repayment cycle means the demand will complete before the 15th of that particular month, so the team will have further time for any delay in collections for a day or two, which will give us sufficient time to improve our ex-bucket resolution.

Path Gupta - BNK Securities: Sure, sir. Thank you.

Operator: Thank you. The next question is from the line of Disha from Motilal Oswal. Please proceed.

Disha - Motilal Oswal: Hi, sir. I wanted to ask you just one question. Credit cost has improved sharply to 2.16%. So can you guide on the medium-term credit cost what you expect and

Operator: What would be the impact due to ECL on the credit cost?

Management: So, the credit cost on the short to medium term what we are looking at is something close to between 1.5% to 1.7% going forward.

Management: Because the maximum impact, which is in the current credit cost on MFI, is close to something like 13%. As I said, the forward flow from the ratio has come down drastically. So, considering that even at Q3, we are looking at slippages in MF would be much lower, okay? And non-MFI also, as we said, the major impact due to Karnataka is getting improved. So, the slippages, once they come down even in Q3, compared to that, so we are looking at a credit cost of close to between 1.5% to 1.7% in the short to medium term.

Management: Second question on the ECL. See, the draft guidelines have been issued by the Reserve Bank of India. As of now, it is not applicable to Small Finance Banks (SFB). But however, in case we apply for a Universal Bank license and it becomes applicable, we have worked out on the basis of the September 30 figures. In fact, our present NPA provision is much higher than the ECL provision, and it has a positive impact actually, okay?

Disha - Motilal Oswal: Okay, sir.

Operator: Thank you. The next question is from the line of Bhavik Shah from Inred Capitals. Please proceed.

Bhavik Shah - Inred Capital: Hi, sir, thank you for the opportunity. I wanted to check, have we taken any price action like the disbursement in UCB, used car, SBL, M-LAP this quarter versus the last quarter or quarter earlier?

Management: Can you repeat the question? We are not clear.

Bhavik Shah - Inred Capital: Sir, have we taken any price actions? That is, how have the disbursement yields stood out this quarter versus last quarter in UCB, used car, SBL, and M-LAP segments?

Management: We have not changed. We have just maintained that. And maybe it might go up in certain segments, maybe in Micro LAP segments as well as on the used CV in Q3. But Q1 and Q2, we did not make any changes on the disbursement yield.

Bhavik Shah - Inred Capital: And we are not even expecting any competitive intensity pressures there, or how is it?

Management: As the MD clearly said, the unmet demand is clearly huge, okay? So we have our major distribution network has been primarily focused on the Tier 2 to Tier 5 locations. And basically we cater to the NTC. So we do not see much of the competitive intensity in that particular market.

Bhavik Shah - Inred Capital: Okay, sir. So thank you for the opportunity. Thank you, good luck for the future.

Management: Thank you, Bhavik.

Operator: Thank you. The next question is from the line of Abhishek from HSBC Securities. Please proceed.

Abhishek - HSBC Securities: Hi, good morning Basu and team. My question is on disbursements, and I think it makes a lot of sense that as growth comes back, you will get operating leverage and all of that. So what kind of disbursement run rate are you targeting now in microfinance? If you can share what is the run rate in October, how you see it building up, and also in non-microfinance. Is this likely to accelerate because some of the segments are already doing pretty well. Are you looking to increase? If you can share some targets, maybe medium-term or near-term, whichever way you think it.

Management: We have clearly mentioned that regarding the non-MFI segment, we have done the highest disbursement of 4,700 crores in Q2, okay? And including MFI, we are at something like 5,300 crores. So we are looking at an increase in non-MFI disbursements, and MFI will be in the range of maybe in Q3 will be in the range of around 1,000 crores, from the current level of 682 crores.

Abhishek - HSBC Securities: Okay, and the comfort to increase it to 1,000 crores is in Tamil Nadu, Karnataka both, right? Maharashtra? All?

Management: Yeah, because of the trends that we have seen. Because of the trends that we have already shown, not only for Equitas but also for the industry trends which the MD pointed out in his opening remarks.

Abhishek - HSBC Securities: Okay. So, there is that comfort. And non-microfinance, from 4,700, what levels could it reach say in 3Q or 4Q?

Management: We do not want to get into monthly projections and all that, right? But definitely, all the businesses should be able to increase their disbursements, because there is a lot of scope to go up. The demand clearly is out there in the market, and from Q1 onwards, we have been strengthening our distribution, both in terms of frontline sales staff in existing branches and taking some of these products to more and more of the other branches. So there is a lot of distribution strengthening that is happening. And gold loan, which is something I mentioned in my comments, we have been at it for about now nearly one and a half years or so, and our entire process, systems, everything is in place now. We know how to handle gold loan now, and we have not had any kind of mishap in the gold loan business. Our GNPA in gold loan is hardly anything. And there have been a few frauds reported here and there, but they are of very negligible size and value. So we have got the comfort of knowing that we can handle gold loan in a very effective manner, and now not only the liability, the asset branches also are now getting into that product. And so there is a lot of drivers for growth in the bank, and so we should expect, as I mentioned, 20% plus advances growth is something that we should be comfortably looking at from the next financial year onwards.

Abhishek - HSBC Securities: And disbursement growth should be what level next year for this 20% advances?

Management: At least 15% plus. Yeah, I guess so, but offhand I am not able to comment because, you know, microfinance disbursement growth will be at a very different level compared to affordable housing finance, and gold loan disbursement will be very high compared to the advances growth. So it is a little bit of a combination of so many product tenures and all that. So offhand I am not able to comment whether it is a 15% disbursement growth that will lead to 20% advanced growth. I am not able to really comment on that.

Abhishek - HSBC Securities: Sure, sure, sure. No worries. The second question was, you know, the branch addition. So some of the branch additions... Sorry.

Abhishek - HSBC Securities: Is it better?

Management: Yeah, yeah.

Abhishek - HSBC Securities: So some of the branch additions that you have planned; it will take time to stabilize those branches, right? So would it just lead to slightly more stubborn cost because you are adding branches, and growth will take time to pick up and show up in terms of operating leverage?

Management: What we have mentioned is we are not adding new standalone branches. We would be using the existing leverage of certain products and adding the products into our existing branches. Let us take an example: Affordable Housing Finance. We have only 70 branches, whereas Small Business Loans in Tier 3, Tier 4 have close to some 350 branches, and overall they are operating at 500 branches, okay? So we will be getting our AHF products in those particular segments. It is just maybe the only the manpower resource cost will get added, nothing else, plus we can rationalize our other supporting functions. So the incremental cost will not be that much compared to the income that we will be generating by getting into those branches. Similarly, the Vehicle Finance also will get operated in the same setup of branches. The only thing is we will put up a dedicated team for the used car.

Abhishek - HSBC Securities: Got it, got it, got it. Thank you so much and all the best.

Management: Thank you. Thank you Abhishek.

Operator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to two per participant. The next question is from the line of Darshan from Invent Group. Please proceed.

Darshan - Invent Group: Yeah. Thank you for the opportunity. Firstly, I appreciate the management commentary; it is very positive. Regarding the gold loan product that you are launching from the asset branches, just wanted to know what is the yield on that product?

Management: What is the average yield? It will be around 15%.

Darshan - Invent Group: Around 15%, okay. So that is lower than what the NBFC gold loan companies would be operating at, right?

Management: The NBFC gold loan, I mean, obviously, we cannot comment on their lending rate and all that. So I think we will have to keep that response off the table. But our current lending rate in gold loan is about 15%. It is an average rate. It is not 15% flat for all customers. It also depends on the size of the loan and also the profile of the borrower, but on an average, we are currently getting 15%.

Darshan - Invent Group: No, so this 15% is only for the asset side, right? Not including the liability side. The liability rate I am assuming would be on the lower side; the asset branch would be on the higher side, right?

Management: See, presently, we are offering it predominantly only to liability customers. That is why the yield is 15% because our Average Ticket Size (ATS) is 2.5 lakhs. If you see as the multiple divisions and departments start selling, there will be multiple bracketed customers. Less than, say, 50,000 to 1 lakh is a different yield, 1 lakh to 2 lakh is different, and greater than 2.5 lakh is different. So, ATS today is 2.5 lakh because it is sold as a cross-sale to our liability customer, and that is where this yield is at 15%. So, as we open up, we will have a bracketed approach at the portfolio level.

Darshan - Invent Group: Got it. So that makes sense. So we will be—it will be market-priced basically. And the second question was, going back to a question that one of the participants asked on the CPA to assets and hence the ROA. So obviously, that has taken a knock because we have reduced our microfinance exposure. As we get more confidence on the microfinance industry bouncing back, and the various players sort of observing the rules, would we be open to perhaps increasing our microfinance exposure so that we are able to hit our NIM targets as well as our ROA targets? So, beyond the 10%, maybe to like 12% or 15%?

Management: No, currently we are not looking at it from that perspective. We would like to keep microfinance around the 10% level so that, you know, if there is any further headwind at any point in time. See what happened last year: microfinance was 20% of the book, and when the microfinance stress hit us, it kind of put the bank behind for almost four quarters now. You do not want that happening again and again, and you do not know when the next headwind will come or where it will come or how it will come. Nobody knows actually. So we do not want to do that and get into any further such kind of cycles. So currently our thinking is that we would like to retain it around the 10% level. So we get the benefit of the flip side of microfinance contribution when the times are good, and if there should be at any point, God forbid, any headwind on microfinance, the impact on the bank should be lesser, and we should not kind of be put behind for so many quarters as happened in the last year.

Darshan - Invent Group: Got it. Appreciate the response and wish the team all the best for the future. Thank you.

Management: Thank you, Darshan. And Darshan, you can also see that we have rolled out the affordable housing, you know, 30 branches are getting extended this year, and next year in Tier 2 to Tier 5, another about 100 odd branches for affordable housing will be moved out. And so some of this what we have discussed in the past and some of this initiatives being rolled out should really help us in terms of not only just growth but also profitable and quality growth.

Operator: The next question is from Sundaram Mutual Fund. Please proceed.

Analyst2: Hello, hi sir, thanks for the opportunity. A few questions have already been answered. Just a couple of questions only. On slide seven, in terms of your yield coming down on microfinance, I just wanted to check if you have taken any rate cut on the microfinance book or not. As you have mentioned, probably part of this is because of your average coming down and also part could be because your liquidities are higher, so interest reversal. So wanted to check what could be the contribution of this interest reversal in this yield coming down from say 23.7% to 22.4%.

Management: So basically, we have not reduced the lending rate in microfinance in the last quarter, but the reversal happened on NPA. And as Jagdish mentioned, the flow from X bucket to OD bucket has been coming down consistently month after month. So over time, the net slippages into NPA in microfinance should come down, and when that happens, maybe we will see some strengthening.

Analyst2: Yes, so probably the yield can go back to where it was once slippages are under control.

Management: Understood.

Analyst2: Sir, my question is on slides 23 and 26. This is because of the AR.

Management: Hello.

Analyst2: Okay. So if you are saying it is because of AR, so the next couple of quarters we will see the Provision Coverage Ratio (PCR) on that.

Management: The provision had a 85.25%, which I said in the beginning, because these have been moved out, so this has come down actually. The question is being asked is that the minimum provision in Small Business Loan for secured loans is 27% as per our provision. The minimum is 27%, but here we are having only 25%. How is that? That is what he is asking. See, the minimum bracket which is given is still on the overall portfolio in the SBL. We have sold most of the cases from D2 D1. Minimum is 27%, correct? Because the D2 D1 is more than 100%. Okay. So substandard, when we say on page number 26, when we are saying 27%, that substandard security provision is not only for SBL, it includes vehicles also. In vehicle substandard has a higher level of provision compared to SBL. So that is why it is 27% at the bank level, whereas at a product level, it will vary.

Analyst2: Okay, perfect, understood. Even I understood. The PCR was 27.9% or 28%. Again, I mean, is this because last quarter the standard asset provisioning that you created was sitting in the housing finance segment? Now this time...

Management: Right, higher DPD NPA and that is why you will see this difference.

Analyst2: Okay. So the ARC sale has been largely on the SBL and probably the Micro-LAP segment, micro housing segment, right?

Management: That is right.

Analyst2: Understood, sir. Thank you so much. That is all for myself. Thank you.

Management: Thank you.

Operator: I would now like to hand the conference over to Mr. P.N. Vasudevan for closing comments. Over to you, sir.

Management: Thank you. Thanks all of you for joining in and spending your valuable time to join us and helping us all understand better what we are doing. As we mentioned earlier, we believe that the entire stress over the last three, four quarters is behind us, and let us look forward to a good performance going forward. Thanks.

Operator: Thank you. On behalf of Equitas Small Finance Bank, that concludes today's conference. Thanks for joining us, and you may now disconnect your lines.