



“Equitas Small Finance Bank Limited
Q2 FY26 Earnings Conference Call”

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Moderator:

Ladies and gentlemen, good morning and welcome to Earnings Call of Equitas Small Finance Bank Limited, financial performance of Q2 FY26. We have with us today Mr. P. N. Vasudevan, MD and CEO; Mr. Sridharan N., CFO; Mr. Jagadesh J., Head of Assets; Mr. Murali Vaidyanathan, Senior President and Country Head - Branch Banking, Liabilities, Product and Wealth; Mr. Gopalakrishnan G., Head Treasury; Mr. Suresh, Head Strategy and Business Intelligence; Mr. Sundararaman D, Head, Investor Relations; Mr. Abeshek, Specialist, Investor Relations.

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

P. N. Vasudevan:

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. Dheeraj, who was handling our Investor Relations and Strategy is moving on after about 10 years stint with the bank. A big thank to you -- thanks to you, Dheeraj 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 Strategy and Business Intelligence. Suresh has been with the bank for over 9 years. Initially, he was handling strategy for assets and for the past 7 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.

And Sundararaman, who is supporting Dheeraj in Investor Relations will now head the same supported by Abeshek. I'm 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.

Second part of our -- 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's 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, MLAP, specifically in Karnataka, adding to the stress in the last few quarters. In microfinance, at the industry level, we see many positive trends like, one, the overall loan outstanding at the sector, which was about INR4.4 lakh crores in March '24, came down to about INR3.75 lakhs in March '25 and further down to INR3.5 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 quality of lending over the last 1.5 years. The second indicator I see is that the percentage of customers at the sector level who had 4 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. While these are positive trends at the sector level, at Equitas level also, we see many positive trends. While our X bucket collection efficiency has been consistently moving up, other parameters such as slippage from X to OD bucket and the 1-90 bucket size has been consistently coming down.

Jagadesh, 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 MLAP is concerned, it was a 2-quarter issue that we saw largely coming in Karnataka as a fallout of certain localized events. We now see the trend reversing in October month -- sorry, we now see the trend reversing with October month seeing the best collection efficiency.

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 loan is practically nil, given that our recovery from GNPA from small business loans is about 105% of the principal.

Now I move on to the second part 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 3 years ending March '25 is about 23% and deposits, the CAGR for the last 3 years is about 30%.

Over the last 20 years of Equitas in existence, we have recorded an over 20% growth in almost all the years, except for a few years, which had some black swan events during that time. In terms of drivers, our product range in the asset side is fully in place, be it small business loans, vehicle finance or affordable housing 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. Jagadesh would again give you 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 INR400 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, giving a -- finally giving a flip to our gold loan book.

On deposits, over the past 9 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. 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 INR32 lakh crores.

This is as of March '25. Out of this, the banking sector's disbursement, I'm saying disbursement to new-to-credit, NTC, MSMEs for the last year, which is the year '24-'25 is about INR1.7 lakh crores. Okay. I repeat that. The overall banking credit exposure to the MSME sector in the country is about INR32 lakh crores.

And last financial year, the disbursement to NTC MSME units by the entire sector put together was INR1.7 lakh crores. 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 5% 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 INR30 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 above, has a very high level of unmet demand and potential. 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 these segments.

Combining the 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 over the coming years. With this, I would now like to hand over to Sridharan, CFO.

Sridharan N.:

Good morning, everyone. Thank you for joining us today for the Q2 FY '26 earnings calls 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 INR774 crores and other income of INR224 crores, bringing the total net income to INR998 crores for the quarter. The yield on advances adjusted for IBPC declined by 33 basis points on quarter-on-quarter to 15.73%, primarily due to a 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 INR24 crores for Q2 FY '26 as against a loss of INR224 crores in Q1 FY '26. Return on assets and return on equity were 0.18% and 1.65%, respectively.

On the cost front, operating costs remained flat sequentially, supported by a 5% decline in other operating expenses. In terms of asset quality, gross NPA remained stable at 2.82% and net NPA 0.95% and credit cost has significantly improved to 2.16% in Q2 FY '26 from 6.48% in Q1 FY '26 and 3.72% in Q2 FY '25.

Our provision coverage ratio remains healthy at 66.93%, and we expect the credit cost to taper down by Q4 FY '26. During the quarter, we have sold INR216 crores of NPA assets from our secured portfolio to an ARC, Asset Reconstruction Company. Moving to the advances book. Gross advances grew 9% year-on-year to INR39,123 crores.

While the microfinance portfolio contracted by 40%, our non-MFI book grew by 17% Y-o-Y, led by 17% growth in small business loans and 43% growth in used car finance. Disbursements for the quarter stood at INR5,380 crores with strong momentum in secured segment. On the liability side, total deposits grew 11% Y-o-Y to INR44,094 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 INR500 crores in Tier 2 capital, further strengthening our capital position. With this, I hand over to Mr. Jagadesh.

Jagadesh J.:

Good morning, everyone. We have closed the quarter with gross advances of INR39,123 crores, reflecting a growth of 9 percentage year-on-year and 4 percentage quarter-on-quarter, which is driven by a healthy uptick in our disbursements. Let me walk through you to some key highlights.

Microfinance disbursement have resumed this quarter, helping us to maintain the MFI book at around 10 percentage of overall advances mix. Disbursements in Q2 financial year '26 surged 156 percentage quarter- on-quarter, reaching INR682 crores, up from INR266 crores in quarter 1.

On the non-MFI front, we have delivered our highest ever quarterly disbursements totaling to INR4,700 crores in quarter 2, which is a 20 percentage growth year-on-year and 45% growth in quarter-on-quarter. Our non-MFI secured book now stands at INR35,730 crores, marking a 17 percentage year-on-year growth.

Within our small business loans, which is a flagship product, the micro LAP saw a robust 39 percentage year-on-year growth. And vehicle finance, which grew by 10 percentage year-on-year to INR9,800 crores. In that, both used commercial vehicles and new commercial vehicles shown a significant growth.

Used commercial vehicles at 25 percentage year-on-year and new commercial vehicles -- sorry, used cars at 43 percentage year-on-year. Our strategic focus remains on the used commercial vehicle and used cars. And -- coming back to housing finance, which has grew at 15 percentage year-on-year and 4 percentage quarter-on-quarter, now at INR5,066 crores.

And MSE finance, which has grown by 36 percentage year-on-year, reaching INR1,851 crores. And microfinance portfolio stands at INR3,392 crores, and it is expected to grow driven by our improved disbursements in the coming quarters.

And coming back to the yield and asset quality front. The yield on gross advances declined by 33 bps quarter-on-quarter to 15.73%. This is primarily due to the lower contribution from the MFI mix. On the non-MFI yield, it remained stable at 15 percentage, underscoring the strength of our secured portfolio.

Our asset quality continues to improve. The Net Slippages reduced to 3.78 percentage in quarter 2, down from 4.77% in quarter 1. In value terms, the Net Slippages reduced to INR355 crores, down from INR453 crores from Q1. The Credit Cost saw a sharp improvement to 2.16% compared to 6.48% in Q1 and 3.72% in quarter 2 financial year '25. On non-MFI Credit Cost, which stands at 1.01%.

And coming back to the microfinance, where the stress what we have been seeing in the past 3 to 4 quarters, which is coming to the normalcy, where I would like to point out certain trends on the microfinance performance. Our X Bucket resolution in Q1 is at 98 percentages. And as on September, it has improved to 98.6 percentage.

And the last 6 months' disbursements, if you look at our X Bucket resolution, is at 99.52%. And the book of the last 6 months disbursement is close to 27 percentage. The most -- more important indicator is on the fresh over dues, which has been flowing into the delinquency bucket. In the month of April, we have a fresh OD of INR97 crores. But in the month of September, our fresh OD flow is only INR30 crores.

And in the month of October, it drops down to further to INR24 crores. So these are the indicators which shows that in the coming quarters, we can see the normalcy in microfinance. In addition to that, we also covered CGFMU of 27 percentage on our overall book, which will increase to 50 percentage by Q3.

And we are looking at a growth rate of -- growth of close to 15 to 16 percentage in the current financial year and looking forward for a growth of 20 percentage on the next financial year. And there are certain strategic initiatives which we have taken on various products, which I'll give you a brief description.

In vehicle finance, the used car segment, which has been growing at 43 percentage, we further want to grow at a higher rate by focusing on 100 high potential existing branches with ensuring focused execution and accelerated growth. And AHF, the affordable housing, currently, we are operating at only at 70 branches.

And in Q3, we are expanding to the 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 MD pointed out, gold loan, we are going to offer in our 50 asset branches in H2 financial year '26 and another 150 branches, we'll be adding in the next financial year from our existing set of asset branches. So with all these initiatives, we can look at a growth of 20- plus year-on-year growth from the next financial year. Thank you. I will hand it over to Mr. Murali.

Murali Vaidyanathan:

Good morning all. Just to give you a snapshot of what happened, we have grown deposits at 11% and RTD grew by 11% year-on-year. And CASA compared to last quarter, we gained more or less flat, but we gained still 1%. Our primary driver is how do we enhance customer stickiness through relationship management so that as our MD mentioned, over a period of time, the differential between us and the bigger banks in terms of cost of funds, how do we bridge it?

That's the journey which we are into it. This year, during quarter 1 and quarter 2, we have done 3 rate changes on SA and TD. And this will be on a continuous basis because our proposition in terms of household segments today, we believe we have investment account, we have ASBA, we have trading account, and we are enhancing our relationship channel.

Just to give you all a snapshot, 60% of the book is into the premium or HNI segment, which is Elite proposition. So we are strengthening that proposition in two tier mode, Elite being the mid-level, we are going to launch something called Elite Lite, which is going to be anything between mass affluent and HNI. And for HNI, we are going to have Elite as a proposition. And in coming quarter end, we can see Elite Plus as a model, which is going to cater to the HNI plus category. Now why we are going in this direction because we have seen in our book at this point of time, we have 35,000 ASBA customers and 35,000 SIP customers, and we have 20,000 broking accounts, which is actually when engaged properly, is giving us a much better ATS, RV and most importantly, the relationship part getting the deepening.

And we are also going into the family banking as a route. We have been on this journey for last 6 months, last quarter also. So now we have crossed 25,000 families who are banking with us, and we are seeing close to INR4,000 crores of RV coming from there, which means it's 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 account, we are going to have family banking as a key proposition. With Elite Plus and Elite Lite 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 through the relationship management and virtual RM is given. This is one approach.

Second approach, if you've seen in our presentation is NR segment. Now that AD-1, FCNR and inward remittance, which has gone live, outward and prepaid forex should be in next 3 months gap. We will have the entire suite of products for NR. So to make NR proposition and NR affluent customer coming in, we have launched already EPIC, which is an NR Elite equivalent program.

And we are targeting specific segments in NR as an opportunity. For example, seafarer as a segment is our key segment, and we would have read in recent thing also 1 in 5 seafarer is going to be from India. So NR is going to be one proposition where a combination of rupee deposit FCNR and FCNR, 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 and 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, less than 1 year, NR cannot book any FD. So which means a good proposition backed by SA, backed by FCNR, backed by investment account, and that's going to be the journey in NR.

Third is the institutional segment, what we have mentioned. We 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 this three is going to be a very major approach along with our current account as a proposition.

When coming to ASBA, this quarter, I think we did something close to INR6,000 crores of block 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 lakhs download. And importantly, 90% of our ASBA customers are using mobile banking as a route. I think this is one significant inch up. And we will strengthen the ASBA in coming days because our work in progress backed by current account, we will have AIFs 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 third thing is, as we move on, the differential, what we have mentioned in our investor presentation, it should be not 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 insights.

G. Gopalakrishnan:

Thanks, Murali. Good morning, everyone. The quarter went by with respect to the market was very volatile, driven by overnight global news flow and big ticket announcements by the union government. U.S. Fed recently cut rates in line with expectations. However, the uncertainty as to the future rate cuts has seen U.S. treasury yields rise post the FOMC decision.

For equities, rupee and broader markets, the trade tariffs continue to be a source of concern with India actively seeking to diversify export markets. Domestic CPA is expected to remain within MPC's inflation target. Government bonds saw the benchmark 10-year yield hardening by roughly 25 bps during the quarter, peaking towards 6.65%, mainly attributed to change in RBMPC stance and announcement of GST 2.0., causing the market to initially price in a larger fiscal burden, coupled with 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 near term. Coming to Equitas, our treasury income stood around INR34 crores during Q2 FY '26. Thank you. Back to the Operator:

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Renish from ICICI Securities. Please proceed.

Renish:

First of all, congrats on showing improving trends in such a challenging time. Sir, just two things. One on the NIM side, right? So obviously, we have been changing the AUM mix more towards secured book and now cost of fund benefit has also started kicking in. So where do you see the entire NIM trajectory settling over the next two to three quarters given going ahead, I mean,

AUM mix more or less is going to remain same. So where do you see NIM settling ultimately over the next two to three quarters?

P. N. Vasudevan:

See, actually, we had a drop in NIM in the second quarter. It's 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 Q-o-Q basis.

And as you 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 so from there on, we expect the NIM to actually strengthen. Maybe between 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, which 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:

No, I get it, sir. Actually, my question is slightly from a medium-term perspective. So if you look at historically, our NIM used to be in the range of 8.5% to 9%. But obviously, at that point in time, our FY20 used to be significantly higher, which will not be the case going ahead. So how do you see the steady-state NIM settling? I mean, whether it will settle at 7%, 7.5%, what is your internal assessment about that?

P. N. Vasudevan:

See, currently, the NIM is 6.3%. I guess -- I mean, it's very difficult to give you an exact point by which it will move up. But by 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:

Okay. Got it. So again, I mean, related to that, I mean, if you now work on the ROE, it's 6.5% to 7% NIM with the cost to asset at 5.5% or even if, let's say, it improves to 5%, the operating profit run rate will be significantly lower than what it used to be. So I mean, what are the strategies in place to take this PPOP to ROE to at least about 2%, 2.5%, which is not the case currently. So what is your thought on that, sir?

P. N. Vasudevan:

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

Renish:

Got it. And would you like to share any initiative around that or...

P. N. Vasudevan:

Yes. I mean all the various factors that we have mentioned in the opening remarks should all aid that in terms of asset growth. Fundamentally, it's all down to a question of growth because our operating cost, if you can see, I think we have mentioned this in the past also, our operating cost is kind of fixed in nature. It's not that variable in nature. So even when we don't 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 costs that we are incurring. And the growth -- 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 PPOP levels. And credit cost, I think, as Jagadesh mentioned, we should settle down at 1.5% to 1.7% level. So the combination of these two is where we expect a steady state 1.5% kind of ROA.

Moderator: The next question is from the line of Shailesh Kanani from Centrum Broking. Mr. Shailesh, your line is breaking.

Shailesh Kanani: Is this better now?

P. N. Vasudevan: Yes. Now it is clear.

Shailesh Kanani: Yes. So my first question is with respect to Net Slippages. We have seen a Q-on-Q improvement. But going ahead, how are we seeing the trends over there?

Jagadesh J.: Shailesh, this is Jagadesh. If you look at the Net Slippages, it's going down. And even in Q3, we can see the further Net Slippages will come down both in MFI as well as on the non-MFI. And we might expect our normalcy both in MF and non-MF from Q4 onwards. But compared to Q3 -- Q2, Q3 slippages will be further reduced.

Because the trends which I have clearly indicated on the X bucket efficiency and the fresh OD because even in the MF, if you look at -- in the month of September, our fresh OD flow is only something like around INR30 crores. We used to have a resolution of close to 40 percentage on the delinquency bucket, 60% flow will be there. Whereas in the month of October, it's only some INR24 crores, INR25 crores. So on a whole, maybe even if you look at the worst state maybe in the Q4 or in the next financial year, annualized will not be more than INR170 crores to INR180 crores, which is closer to something like a 4 percentage Credit Cost for the microfinance.

And non-MFI, if you look at the trend itself, the Tamil Nadu X bucket efficiency, whether in -- if you look at in the major book of SBL, which is always at 99.2% to 99.3% and even Karnataka, which has started to reverse the trend and almost came closer to 99 percentage. So the Net Slippages even in the non-MFI book will further get reduced.

Shailesh Kanani: Yes. Just to extend on that, the reason I was wondering is that because is there any impact on the non-MFI book what we are seeing in -- with respect to US tariffs and our concentration in that region. So any impact what we are seeing that on our asset quality?

Jagadesh J.: No, nothing major -- we don't see any kind of impact due to the tariffs or anything because the slippages is majorly on our small business loans from the -- majorly from the Karnataka state because small business loans is basically the customers who are NTC and NTB, which do not have any effect related to tariffs.

Shailesh Kanani: Okay. Fair enough. Sir, my second question with respect to if you can provide the breakup of the gross slippage in terms of MFI, non- MFI?

P. N. Vasudevan: See, this time, we have not given the gross slippage, right? We have not put that because there's so much of confusion in the way people are doing that and it becomes so difficult to make inter firm comparison. So that's why we've taken it off and given the net one.

- Shailesh Kanani:** Okay. And sir, 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?
- Sridharan N.:** This is Sridharan. See we have sold to ARC, NPA advances amounting to INR216.46 crores. And the provisions held against was INR184.53 crores. And the excess provision of INR40 crores have been reversed back to the P&L account.
- Moderator:** The next question is from the line of Rajiv Mehta from Yes Securities.
- Rajiv Mehta:** Congrats on improved performance. Sir, firstly, a clarification with regard to that additional standard asset provision of INR185 crores, which we created in the previous quarter. How much was the utilization in this quarter?
- P. N. Vasudevan:** It's about INR58 crores. Basically, when we did that provision in the first quarter, we analyzed our book, including the X bucket MFI book and took out a certain segment of customers who are having more than three lenders as a potential stress borrowers. And we made an additional onetime 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 when that flows into NPA, then we'll start making a regular provision. And some of the customers might have closed their account. So obviously, that stress has 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 INR58 crores for the second quarter.
- Rajiv Mehta:** Got it. So it is meant for utilization. So when the earmarked pool of MFI loans will run down or either will flow forward, you will keep on utilizing this full INR125 crores in the coming 2, 3 quarters, right? It will not be held back?
- P. N. Vasudevan:** That's right. It was made on a onetime basis based on a formula, and that formula will be applied consistently on every quarter. And what will be the result and the outcome will be taken into account. For example, just to give you an idea, in the second quarter, about -- totally about INR78 crores. INR78 crores did not require the provision -- standard as a provision. But out of that, what happened is INR38 crores had moved in NPA. So it changed into NPA provision. And the remaining was rundown. So that was actually the one which flows back to the reversal.
- Rajiv Mehta:** Okay. And sir, this excess provision of INR40-odd crores, which you reversed regarding ARC sale. But did you receive cash for the remaining amount or was it SR and which may have to then get provided in the...
- Sridharan N.:** We received cash also actually. See, the thing is that we have received a cash of Series A of INR62 crores and INR10 crores -- INR72 crores, we have received the cash actually against the valuation of INR176 crores.
- Rajiv Mehta:** Sorry, can you repeat the amount, sir, cash?

- Sridharan N.:** Cash of INR62 crores -- INR72 crores, we have received. That is INR62 crores Series A and Series B of INR10 crores.
- Rajiv Mehta:** Okay. Yes. And just one last thing with regard to Net Slippages in the non-MFI book which has come down from INR223 crores to INR177 crores. Possible to share product level breakup, specifically how the MLAP Net Slippages came down, how the used CV Net Slippages came down?
- P. N. Vasudevan:** Do we have it now? If you have it, you can share it right now, I think. Okay. So we don't have that just right now. But what we'll do is that next quarter when we make this presentation, we'll keep this in mind and try and give you the breakup.
- Moderator:** The next question is from the line of Shreepal Doshi from Equirus.
- Shreepal Doshi:** My question is pertaining to MFI space. So since the MFI landscape is now stabilizing and also seeing disbursements reviving as a strategy, will we also look forward to increasing the share in the overall loan book, which earlier we were anticipating at like 7%, 8% or 8% to 9% with the sector seeing revival or stabilizing at least. So should we also expect that we will also see some increase in the share or will it still be capped at 10%?
- Jagadesh J.:** Our overall strategy as far as the MFI book, we want to keep it at around between 8 to 10 percentage. So we'll be only moving towards that. It's not that we'll be increasing further on the overall composition. We are comfortable to keeping at 10 percentage on the overall mix because the book also will be -- overall advances book also will be growing.
- Shreepal Doshi:** Okay. Got it. The second question was on the used CV category. So that segment for us has seen a decent growth of almost 24% on a Y-o-Y basis. Of course, may be small, but still the growth is decent. Are we expecting any impact of this revised GST rate on our incremental growth for the segment at large?
- Jagadesh J.:** No. If you look at normally our used CV where we used to fund close to at least vehicles with a vintage of at least 5 -- more than 5-year-old vehicle. Even our book stands at close to above 6 years would be close to 75 percentage of the book, okay? So the GST impact will be applicable mostly in the vehicles which are at the earlier stages. After 5 to 6 years, there will not be that much of impact on the vehicle rate. So we don't see much of impact. Even in the October month disbursements, we haven't seen any kind of impact as such due to GST.
- Shreepal Doshi:** Got it. So sir, then in that case, when you say it will not be there after 5 years, the impact, what sort of an impact do you see? Will it be like for the, let's say, below 5 years sort of a category? Will it be in the range of 8% to 10% or based upon your sort of understanding what it will be?
- Jagadesh J.:** It's basically on the -- maybe less than 3 years, it will be around some 3 to 4 percentage kind of impact on the prices, not more than that.
- Moderator:** Thank you. The next question is from the line of Parth Gutka from B&K Securities.

Parth Gutka: So first, my question is you have mentioned that disbursement in Karnataka has been done with more conservative guardrails. So can you just elaborate on that? And my second question is you have changed the repayment rate to the monthly repayment rate within MFI. So what proportion of the portfolio has been changed and what was it earlier?

Jagadesh J.: So related to the perspective on the guardrails, the guardrails Equitas plus two other lenders where we can fund to the client. That is one of the parameter. The other parameter is the indebtedness should not exceed more than INR2 lakhs when we fund. As far as Karnataka has been concerned, what we have done is people can have only 1 lender loan and Equitas, 1 plus 1.

Beyond that, we won't be funding it, we will be rejecting those customers. Similarly, we kept the indebtedness to 1.5 lakhs. So these are the additional norms which we have considered in Karnataka and we are looking at cautiously on that particular book. That book is close to only 7 percentage of our overall advances. And -- on the MFI part. On the -- can you repeat the second question?

Parth Gutka: Monthly repayment.

Jagadesh J.: Yes, monthly repayment. Okay. So we just started in the month of August. Currently, our 41% of the book, we have changed from the 28 days to the monthly repayment frequency mode. And this will help us to improve our X bucket collections because the monthly repayment board -- the demand will complete before 15th of the particular month. So the team will have a further time to any delay in collections for a day or 2, which will give us sufficient time to improve our X bucket resolutions.

Moderator: The next question is from the line of Disha from Motilal Oswal.

Disha: I wanted to ask you just one question. So Credit Cost has improved sharply to 2.16%. So can you guide on the medium-term Credit Cost, what do you expect? And what will be the impact due to ECL on the Credit Cost?

Jagadesh J.: So Credit Cost on the short to medium term, what we are looking at something close to between 1.5% to 1.7% going forward because the maximum impact, which is in the current Credit Cost on MFI is close to something like 13 percentage. As I said, the forward flow from the fresh OD has come down drastically.

So considering that even at Q3, we are looking at slippages in MF would be much more lower, okay? And non-MFI also, as we said, that the major impact due to the Karnataka, which is getting improved. So the slippages once it comes 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.

Sridharan N.: Regarding second question on the ECL. See, the draft guidelines have been issued by Reserve Bank of India. As of now, it is not applicable to SFB. But however, in case no we apply for the universal bank license and becomes applicable, we have worked out on the basis of September 30 figure. In fact, our present NPA provision is much higher than the ECL provision, and it has a positive impact actually.

- Moderator:** Thank you. The next question is from the line of Bhavik Shah from InCred Capital.
- Bhavik Shah:** Just wanted to check, have you taken any price actions like the disbursement in UCV, used car, SBL, micro LAP this quarter versus maybe last quarter or quarter earlier?
- Jagadesh J.:** Can you repeat the question? We are not...
- Bhavik Shah:** Sir, have you taken any price actions that is disbursement yields, how have they panned out this quarter versus last quarter in UCV, used car, SBL and MLAP segment?
- Jagadesh J.:** 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 didn't made any changes on the disbursement.
- Bhavik Shah:** And sir, we are not even expecting any competitive intensity pressures there or...
- Jagadesh J.:** As 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. So -- and basically, we cater to the NTC. So we don't see much of the competitive intensity in that particular market.
- Moderator:** The next question is from the line of Abhishek from HSBC Securities.
- Abhishek:** So my question is on disbursements. And I think it makes a lot of sense that as growth comes back, you get operating leverage and all of that. So what kind of disbursement run rate are you targeting now in microfinance? So maybe if you can share what is the run rate in October, how you see it building up? And also in non-micro finance, is this likely to accelerate because some of the segments are already doing pretty well, but are you looking to increase? So if you can share some targets maybe medium term or near term, whichever way you think it?
- Jagadesh J.:** Yes. So -- even we have clearly mentioned that regarding to the non-MFI segment, we have done an highest disbursement of INR4,700 crores in the Q2, okay? And including MFI, we are at something like INR5,300 crores. So we are looking at -- yes, the non- MFI disbursements will be further -- will be increased. And the MFI will be in the range of maybe -- in Q3 will be in the range of between around INR1,000 crores from the current level of INR682 crores.
- Abhishek:** Okay. And the comfort to increase it to INR1,000 crores is in Tamil Nadu, Karnataka, both, right, Maharashtra, all three...
- Jagadesh J.:** Yes, because of the trends that we have seen -- yes, because of the trends that we have already shown not only for Equitas and also for the industry trends, which MD pointed out in his opening remarks.
- Abhishek:** Okay. So there's that comfort. And non-microfinance from INR4,700 crores, what levels could it reach, say, in 3Q or 4Q?
- P. N. Vasudevan:** We don't want to get into monthly projections and all that, right? But definitely, all the businesses should be able to increase the disbursements because there's still a lot of scope to go up. The

demand clearly is there -- 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's a lot of distribution strengthening that's happening. And the gold loan, which is something I mentioned in my comments, we have been at it for about now nearly 1.5 years or so. And so 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's a lot of drivers for growth in the bank. And so we do -- we should expect, as I mentioned, 20% plus advances growth is something that we should be comfortably looking at from next financial year onwards.

Abhishek: Okay. And disbursement growth should be what level next year for this 20% advances growth? 15% plus at least...

P. N. Vasudevan: Yes, I guess so. But often, I'm not able to comment because microfinance disbursement growth will be at a very different level compared to affordable housing finance. And gold loan, the disbursement will be very high compared to the advances growth. So it's a little bit of a combination of so many product tenures and all that. So often, I'm not able to comment whether it's a 15% disbursement growth will lead to 20% advance growth. I'm not able to really comment on that.

Abhishek: Sure. No worries. The second question was is the branch addition. So some of the branch addition...

P. N. Vasudevan: We are losing you.

Abhishek: Okay. Is it better?

P. N. Vasudevan: Yes.

Abhishek: So some of the branch addition that you have planned, it will take time to spread those branches, right? So would it just lead to slightly more stubborn cost because you're adding branches and growth will take time to pick up and show up in terms of operating leverage?

Jagadesh J.: What we have mentioned is we are not adding as new stand-alone branches. We would be using the existing leverage of certain products and adding the products into our existing branches. Let's say, an example, affordable housing finance, we have only 70 branches, whereas the small business loans in the Tier 3, Tier 4, which have close to some 350 branches. And overall, they are operating at 500 branches.

So we will be getting our AHF products in those particular segments. It's just maybe only the manpower resource cost will get added, nothing else, plus we can be able to rationalize our other supporting functions. So they are not -- the incremental cost will not be that much compared to the income that we'll be generating by getting into those branches. Similarly, the vehicle finance also, it will get operated in the same set of branches. Only thing we will put up a dedicated team for the used car.

Moderator: The next question is from the line of Darshan from Indvest Group.

Darshan: Firstly, I appreciate the management commentary. It's very positive. Regarding the gold loan product that we are launching from the asset branches, I just wanted to know what is the yield on that product?

P. N. Vasudevan: What's the what?

Jagadesh J.: It would be around 15 percentage.

Darshan: Around 15%, okay. So that's lower than what the sort of the NBFC gold loan companies would be operating at, right?

P. N. Vasudevan: The NBFC gold loan, I mean, obviously, we can't comment on their lending rate and all that. So I think we'll have to keep that response off the table. But yes, our current lending rate in gold loan is about 15%. It's an average rate. It's not 15% flat for all customers. It also depends on the size of the loan and also in terms of the profile of the borrower. But on an average, we are currently getting 15%.

Darshan: No. So this 15% is only for the asset side, right, not including the liability side. The liability rate, I'm assuming would be on the lower side, the asset branch would be on the higher side, right?

Murali Vaidyanathan: See, presently, we are offering it predominantly to only liability customers. That's why the yield is 15% because our ATS is INR2.5 lakhs. If you see as the multiple divisions and departments start selling, there will be multiple bracketed customer, less than say INR50,000 to INR1 lakh is different yield, INR1 lakh to INR2 lakh is different and greater than INR2.5 lakhs is different. So our ATS today is INR2.5 lakhs because it is sold as a cross-sell to our liability customers. And that's where this yield is at 15%. So as we open up, we'll have bucketed and the portfolio level approach.

Darshan: Got it. No. So that makes sense. So it will be market priced basically. And the second question was going back to a question that one of the participants asked on the PPOP to assets and hence, the ROA to assets. 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 a 12% or 15%?

P. N. Vasudevan:

No. Currently, we are not looking at it from that perspective. We would like to keep microfinance around the 10% level so that if there's any further headwinds at any point in time, see, what happened last year where microfinance was 20% of the book. And when the microfinance stress hit us, it has kind of put the bank behind for almost four quarters now.

You don't want that happening again and again, and you don't know when will the next headwind come or where it will come or how it will come. Nobody knows actually. So we don't 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 shouldn't kind of be put behind for so many quarters as it happened in the last year. And Darshan, you can also see that we have rolled -- we are rolling out the affordable housing. 30 branches were getting extended this year.

And next year in Tier 2 to Tier 5, another about 100-odd branches affordable housing will be moved out. And so some of these are what we have discussed in the past. And some of these initiatives being rolled out should really help us in terms of not only just growth, but also profitable and quality growth.

Moderator:

Thank you. The next question is from the line of Suraj Das from Sundaram Mutual Fund.

Suraj Das:

Questions have already been answered. Sir, a couple of questions only. Sir, on the Slide 7, in terms of this -- your yield coming down on the 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 balances is coming down. And also part could be because your slippages are higher, so interest reversal would be higher. So I wanted to check what could be the contribution of the interest reversal in this yield coming down from, let's say, 23.7% to 22.4%?

P. N. Vasudevan:

So basically, we have not reduced the lending rate in microfinance in the last quarter, but the yield coming down marginally is largely a reflection of the slippages, the reversal of income on NPA. And as Jagadesh 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'll see the yield kind of plateauing out because on the lending rate side, there has been no change.

Suraj Das:

Sure, sir. Perfect. So it probably will go back to where it was once the slippages is under control.?

P. N. Vasudevan:

That's right.

Suraj Das:

Sir, second question is on the Slide 23 and 26. Just wanted to check on the Slide 26, it says that your minimum provision on the secured book is 27% and then it goes up as and when the NPA vintage increases. But your SBL PCR has come down below 27%. So just wanted to check if you are changing anything provision on policy side or not?

Sridharan N.: This is Sridharan here. This is because of the ARC sale.

Suraj Das: Okay. So you were saying it is because of ARC sales for next couple of quarters, we will see the PCR on the...

Sridharan N.: Yes. The provision of it had 85.25%, which I said at the beginning, which has been moved out. So this has come down actually.

P. N. Vasudevan: No. The question he is asking is that the minimum provision in small business loan for secured loans is 27% as per our IRAC provisioning, minimum is 27%. But here we are having only 25%. How is that? That's what he is asking.

Management: That's a full coverage of -- see, that's minimum, the bracket which is given is full on the overall portfolio. In the SBL, we have sold most of the cases from D2, D1 and...

P. N. Vasudevan: Minimum 27...

Management: more than 100%.

P. N. Vasudevan: Okay. So what she is saying is substandard when we say on Page number 26, when we're saying 27%, that substandard secured 27% is not only for SBL, it includes vehicles also. In vehicles, substandard has a higher level of provision compared to SBL. So that's why it is 27% at the bank level, whereas at a product level, it will vary.

Suraj Das: And sir, on the housing, I think last quarter, the PCR was 47%. This quarter, 27.9% or 28%. Again, I mean, is this because the last quarter, the standard for provisioning that you created was sitting in housing finance segment. Now this quarter, probably you have reversed it or I mean, there could be other reasons?

P. N. Vasudevan: No, there is some amount of ARC-- see, all these are an impact of the ARC sale because typically, the ARC sale includes the higher DPD NPA and that's why you will see this difference.

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

P. N. Vasudevan: That's right.

Jagadesh J.: That's right.

Suraj Das: Awesome. Understood, sir. Thank you so much. That's all from my side. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. P. N. Vasudevan for his closing comments. Over to you, sir.

P. N. Vasudevan: Thank you. Thanks all of you for joining in and taking us through all your questions and enabling us to understand better what we are doing. And as we mentioned earlier, we believe that we are -- the entire stress of the last three, four quarters is behind us and let's look forward to a good performance going forward. Thank you.

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