JANA SMALL FINANCE BANK
(A Scheduled Commercial Bank)

JSFB/SEC/2025-26/61

28th July, 2025

National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (East),
Mumbai 400051.

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400001.

Sub: Transcript of earnings call for the quarter ended 30th June 2025

Ref: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

Please find attached transcript of earnings call for the quarter ended 30th June 2025. The same will also be uploaded in the website of the Bank at www.janabank.com.

You are requested to kindly take the same on your record and oblige.

Thank you
Yours faithfully
For Jana Small Finance Bank Limited

LAKSHMI RAJA NARAYANAMURTHY
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Company Secretary & Compliance Officer

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"Jana Small Finance Bank Limited Q1 FY26 Earnings Conference Call"

July 22, 2025

MANAGEMENT:	**MR. AJAY KANWAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, JANA SMALL FINANCE BANK LIMITED** **MR. KS RAMAN – EXECUTIVE DIRECTOR AND HEAD – RETAIL FINANCIAL SERVICES** **SHRINIVAS MURTY – PRESIDENT & HEAD – BRANCH BANKING & MARKETING**

	RINCOO VACHHA – HEAD – AFFORDABLE HOUSING (AHL) AND MICRO HOUSING LOAN (MHL)
	MR. ABHILASH SANDUR – CHIEF FINANCIAL OFFICER, JANA SMALL FINANCE BANK LIMITED
MODERATOR:	**MR. CHINTAN SHAH – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Jana Small Finance Bank Q1 of FY '26 Earnings Conference Call.

As a reminder, all participants' 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 '*', then '0' on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Chintan Shah from ICICI Securities. Thank you and over to you, sir.

Chintan Shah: Thank you. Good evening, everyone, and welcome to the Q1 FY26 Results Conference Call for Jana Small Finance Bank. First of all, I would like to thank Jana Small Finance Bank management for giving us the opportunity to host their quarterly earnings conference call.

From the Management, we have with us Mr. Ajay Kanwal - Managing Director and Chief Executive Officer; Mr. Abhilash Sandur - Chief Financial Officer and other team members from the senior management.

So now, without further delay, I would now like to hand over the floor to the Management. Thank you and over to you, Ajay sir.

Ajay Kanwal: Thank you, Chintan, and good evening to all of you. I will make reference to the Investor Presentation that we have uploaded. I will even refer to the page numbers.

Let me start with our 1st Page of the presentation, our application to Universal Bank, was filed on the 9th of June, and that is a very important step for us as we broad-base our both product and customer base.

I swiftly move to Page #3, which State has how many branches and also to give you the information that we have added 8 new branches in Quarter 1. We plan to open 70 branches this year. We are conscious on cost, so 30 of these will be new branches and the balance 40 will be relocations of existing branches, so it can serve a wider customer base. First quarter, we have seen 3 product focuses from us, which you can see on the right-hand side. One is our ASBA launch, second is a Solitaire Savings Account for women, and third is a digital offering called iVanii, which essentially is a sound box for all the merchants and traders that they can use on their phones. So you really don't need a soundbox, you just use our app and our app converts your phone into a soundbox at 0 cost. So overall, we are continuing to see growth in customers. We are ensuring that we are on track to launch our strategic products and we are increasing our branch network on very specific locations, conscious that it has to give us fastest value.

I go to Page #4, and I want to talk a bit about Quarter 1:

It has been a tough quarter because what we did think originally that the MFI stress was a bump in a hole, unfortunately, the bump was followed by a pothole. But we are more than determined to make sure that we cross this very swiftly and let me talk about that. So first is on secured assets. As you know, when we finished March, we were on 70% of secured assets. Secured assets, touchwood is firing very well. When I say firing very well, it means that we will expect 35%-40% growth this year, as we have been doing in secured assets for some time. Our margins in the 1st Quarter are steady, so there is no drop in margins. In fact, there is no drop in gross yield for the bank. It continues to be 16.5% and we will talk about that.

Our credit costs in 1st Quarter on the secured side and slippages are pretty much in line with expectations, very close to Q4, which is on the better quarters. Importantly, we did inform that we had invested in increasing our headcount in secured business last year, mainly in Micro Housing, Affordable Housing where we had added roughly about 1,400 people fresh last year. We had hired supply chain people, we had increased some more on the two-wheeler side. So the focus on the entire hiring that we did last year is on improving their productivity. We will see nominal cost growth in secured only when we are hiring in used car and marginal increase of about 150-200 people in gold.

So big news on secured side is it is running well. We are very comfortable with what we see in terms of what is coming through in credit cost, our gaining share and cost will pretty much done and dusted for the year. On Unsecured, we had all three lines working against us for the last 12 months. And if you add this quarter, it has now been roughly 15 months. First for the revenue challenge where we saw a drop in unsecured book last year, roughly about 10%. Our book has dropped by another 2.5% this quarter, but we do see, given that we are in the midst of July, that we should see a flat to slight increase in this quarter. So I feel at least one side of revenue, which is seeing the book drop in revenue go down, we will see some improvement in the coming quarter, which is Q2. Our criterias are extremely tight of onboarding. So that is one of the reasons we are not able to grow faster. But to our mind, this tight criteria is a short-term pain. We do think that the industry has not completely cleared up. We would like to make sure that we are very on the tight end of our credit criteria for new onboarding.

On the credit cost, while we did know that every April is a negative, we continue to see fresh flows. We had seen a pickup of fresh flow to NPA in the quarter 4. We did see a marginal increase in Quarter 1. Now that wasn't a good thing for us purely because Q4 was not a low flow. So Q1 this year has similar. The way we look at it is Q2 the flow will come down, but in Q3, we see a significant slowdown. So for the second line, which is credit cost to meaningfully reduce, it will be quarter 3. We continue putting our portfolio under the guarantee program and 36% of the unsecured portfolio is under the guarantee program.

The third lever here was the cost, because when NPA started rising and so did delinquency, we had to add people in collections. Those costs have plateaued. So if you look at secured or unsecured, we don't see any cost increase following what we see as a current run rate. On the deposit side, we took our time in pushing the deposit out as we did see an interest rate cut coming.

Our growth has picked up from May. We have also done pricing cuts on deposits. Exactly, it is 8.25% in March is now at 7.75%. So we have done a 50 basis point cut. We do expect to certainly meet our 20% target on deposit growth with CASA at 20% and we would see the cost of deposit pricing getting positively impacted from Q2 onwards.

We have already spoken about our branches and about the segment launches. I will move on to Slide #5, which shows the PAT of the bank. Our regulatory provision is Rs. 46 crore. It is lower than last quarter of Rs. 76 crore. We have increased our accelerated provision to Rs. 150 crore. This ensures that both gross NPA remains below 3%, net NPA remains below 1%, and we are well capitalized. It is fair to assume that the regulatory provision is lower because we did have accelerated provision done last year, which has been used up. So our PAT is at Rs. 102 crore. If you add back the accelerated provision, it should look at Rs. 250 crore. Our gross NPA at 2.8%, net NPA remains at 0.9% with PCR, which is at 69.1% for the secured, which is on the higher side. But as you do accelerated provision, there are little choices left. You have to provision secured because secured is the biggest portion of our balance sheet. So naturally, when you really want to keep gross NPA, net NPA below 1%, you have no choice but to increase more secured PCR. Then unsecured continues at 89.7%, very similar to what it was in quarter 4.

So overall, if you look at the numbers, it has been 2-3 key challenges here. One has been, of course, the NPA, which has forced us to put some more accelerated provision. It has been the revenue shortfall from a negative unsecured book. Other than those two parameters, which are largely industry specific, though we did think we will get out of this position faster. Raman, who is with me and looks after our Microfinance business, will talk more about when we go into Q&A. Those are really the two challenges that we see in Quarter 1. Not new challenges, but we didn't think that Quarter 1 would not resolve it. We continue to put more effort behind it. We would say from quarter 2 now that we would start seeing a drop and the book stabilizing and unsecured.

I will swiftly move to Page #7. That is the important page we talk of every time. Our Affordable Housing, Micro LAP book is at Rs. 12,000 crore. If you take our secured book, we did have exit on ODFD roughly about Rs. 600 odd crore. If you take secured growth, excluding this ODFD, we are at 6%. So we are very steady in our growth. Our big businesses of Affordable Housing, two-wheeler loans, gold loans, are doing very well.

I just want on this page just give a clear expectation what we should anticipate when we finish the first half. The total secured advances now show that in Q1 we have done 3%. This should show up to 12%-13% minimum when we finish this quarter. There is a small blip in MSME, which has nothing to do with the business. The planned exits happened and one or two of the larger supply chain customers' onboarding got a bit delayed. In MSME loans, which shows a quarter-on-quarter of -1.3%, you will probably see a 10%-12% growth as we finish the first half. So overall, very important on these pages, our secured business, which is now 71%, most likely will be in the 72%-73% range when we finish first half. Our secured business, which shows a 3% 1st Quarter growth, will show most likely a 12%-13% growth. And if our plans and what we see currently works the way we are working, our unsecured advances growth, which is -2.5%, should at least become 0 when we finish the first half. So by giving you the expectation, the first half, which is very near and very obvious, I really want to reiterate that the guidance given on 20% asset growth, we are certainly on track to meet that in the shape that we have always talked of, which is moving secured to 80%, while we would like unsecured to remain at 20%, which is our plan for some time.

I will move on to an important slide we always talk of, which is Slide #10, while we talk a lot of products, our competitive advantage, our operating leverage always has been more business with the same customer. And as you can see very clearly from page 10 that whether it is CASA or pre-approved business loans or gold penetration, on every single parameter, there is more and more absorption of multiple products by customers across the bank.

I want to now talk of Page #11. This is the one we show each time. We have added a new important box on page 11. You can see that Rs. 2,535 crore of our portfolio was guaranteed till March 2025. The NPA in this book is about Rs. 6.6 crore of the guaranteed portfolio and we should be seeing some recovery from this starting August 25 and the balance, which is a bigger book of CGMFU from July 2026. But I do want to flag this off that as we look ahead, we do expect unsecured book to grow, we do expect NPA to get better, we do expect our own recoveries to improve and we also expect the guarantee to start giving a minor benefit this year and bigger benefits in the following year. We continue providing or submitting our books for guarantee program and right now, we have reached 36% of our total unsecured book under the guarantee programs. Our run rate shows that we should be closer to 45%-50% of the book under the guarantee program by end of this quarter.

I want to then swiftly move on to our deposit page, Page #13. We are very liquid. Liquidity is not our concern. We are able to grow very fast. We really put more growth, more focus on growing deposits effective May when we did cut the rates. We first cut from 8.25% to 8.05% and the second cut we did from 8.05% to 7.75%, which is in vogue now. CASA quarter-on-quarter is not grown, it is flattish. But we do expect to see a double digit number before when we finish the first half. And I can say that with great amount of confidence, because most of that growth we already seen in our numbers as we sit here in July. So as we sit here on nearly the last week of July coming up, we would see a double digit CASA growth for the first half by itself.

Term deposits, we can clearly see the pricing is coming lower. So two things you can expect. In quarter 2, when you finish the first half, our cost of deposit should show a drop, our CASA should show a double digit and we would like to reiterate our guidance for 20% growth on the liability business side.

I want to do a quick stop on Page #15. Again, on the digital, there is clear focus. We are doing everything digital that comes in our mind and iVanii is a classical example where we have innovated for our customers where they don't have to spend on soundboxes and can use their mobile phones and there are a lot of other features which are very valuable on it.

I want to move next to Page #19, which is the financials page. Here, you can see on the right hand side, yield and NIMs. The yield of the book continues to be 16.5%. However, NIMs are lower because a portion of our book, which we have sold at OMO, were at higher yield, our investment book, and the yield has come down. Because obviously, when you reinvested, the same yield doesn't exist. But the customer yield hasn't shifted. As we go into Q2, we will see a drop in cost of deposits and cost of funding that should add to this number. And of course, with unsecured, gaining back the 2.5% loss of portfolio that should also make the NIM better and we should, if all goes well, certainly cross the 7% in a very decisive way in terms of net interest margins.

I want to talk of Page #20, and this talks about our credit cost. We have shown it earlier, which is Rs. 46 crore is a regulatory provision, we have done an accelerated provision of Rs. 150 crore before declaring a PAT of Rs. 100 crore. After considering our recoveries under other income of Rs. 31 crore, and of course, reducing Rs. 150 crore, which is for a variety of reasons, the net credit cost looks at Rs. 50 crore. Explanation of gross NPA and net NPA given below, I must say that of the Rs. 196 crore of credit cost, 90% is used for unsecured assets. Only a very small portion has gone towards secured because the book on the secured side in the 1st Quarter was literally as good as quarter 4, marginal drop. You can see our gross NPA and net NPA numbers on this page, and how we have arrived at the number. Clearly, the big addition is coming from the unsecured change in Quarter 1.

I will move to Page #21. Here you can see net NPA of secured is at Rs. 165 crore. It has dropped from last quarter. It used to be Rs. 176 crore. So like I said, secured is really working very well for us. Unsecured is well provisioned, and we continue to hope and we are working towards a drop in Q2, though we will see a significant drop in Q3. You can see our P&L page very clearly here. We have seen an increase of other income in Quarter 1. We normally have better income in Quarter 1. There has been a change in accounting policy, normally on a PSLC, when we sell, we, till last year, were using the entire income in the 1st Quarter. From this year onwards, we are amortizing it into 4 quarters. So, there is another Rs. 50 odd crores of PSLC sale, which will come in quarter 2, quarter 3, quarter 4, roughly about Rs. 18 crore each. That is the only change. And other than that, we have had a very good other income, which actually helped us improve our accelerated provisioning further.

As we move on to the balance sheet page, which is Page #19, we continue to have good cash balances, so we are very liquid. For folks who have noticed it earlier on the deposit page, our LCR is at 171%. We did speak in the last few investor calls that we would like to normalize our LCR below 200% as the liquidity position improves. We are doing so. Slide#23 of the presentation which is on the Balance Sheet. We continue getting long-term financing from SIDBI, NABARD, and NHB and we do take small amounts because, as you know, we are very liquid, so we don't really need to take too much borrowings any longer, though, given the cost of deposit and the length of deposit, which helps our ALM, we do take small amounts every now and then. That is the guidance page. I think AUM and deposits are very confident.

PAT, let us give a quarter. We will talk more about when we reach there, and that will directly impact the ROEs and ROEs. There is nothing significant change beyond that on which I would like to mention. So I really would like to close now, so that we can open ourselves to questions and answers. In closing, I can only tell you that it has been a tough quarter purely because of the MFI stress. Other than that, we have had a good execution, very clear of growing our strategic path on secure. That hasn't changed. Customer path hasn't changed. The digital path hasn't changed. And we finally see light at the end of the tunnel with Q2 being better in MFI versus Q1 and Q3 being significantly different.

With that, I will stop and open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manish Ostwal from Nirmal Bang Securities. Please proceed.

Manish Ostwal: Thank you. Good evening. Thank you for the opportunity. My question on the margin side, you talked about in your commentary, the margin has not declined, but it has declined from 7.4% to 6.9%. And in this quarter, we continue to see pressure on your unsecured book, which has declined by 2.4%. And today only there is a company in the sector declared numbers and they are both in terms of book that is flat in terms of NII growth is 7%. And there is a decline in the addition to the growth NPA. So when I look at Jana Small Finance Bank's performance, industry showing some improvement in the metrics, but in Jana, there is no improvement in the metrics, whether it is NII, whether it is margin, whether it is asset quality. So what is your comment on that? There is some green shoot in the industry, some peers in the industry, but we are not seeing in Jana. And so what is your comment on that thing?

Ajay Kanwal: So Manish, fortunately for us, our unsecured book is only 30%. So if you are comparing the green shoots of somebody who is probably 100% MFI, it could be different. Because at the end of the day, our customer yield is at 16.5%, that hasn't changed. Our book is down 2.5%. And it is possible some dedicated MFI player has seen an increase. But like I said, it is different strokes for different folks because listen, if I want to grow the book, I have to reduce the credit norms a bit and I can grow the book faster. I have chosen not to do that because I don't think so we are ready for that right now. As you know that if growth is an objective, it certainly can be achieved, but it could be a bit expensive later and that is not where we would like to be. So I would suggest Manish that we should look at a comparison for like to like players. So if you go to our slide and see that the customer yield is 16.5% is still the same, it does show you that all the pricing is holding up. Green shoots, absolutely, we should expect green shoots, Manish. It will come from as unsecured book grows. This should happen in Q2. We should see Q2 certainly NPA getting lower and like I said, significant drop in Q3. And very importantly for us, like I mentioned, our secured growth rate in absolute terms at 12%-13% when we finish first half are the real green shoots because they are more sustainable in longer term and certainly a safer business that we would like to bank on.

Manish Ostwal: Second question on the cost increase, so like 26.4% growth in the employee expenses and 7.3% quarter to quarter. So this cost is a mainly annual appraisal, salary revision, or there is a further increase of the collection team for the effort because the volume growth is not that high. The cost on employee side is a bit higher side compared to, even other expenses growth is 4.7%. It is also when you look at the balance sheet growth 2.3% only?

Ajay Kanwal: Yes. So I think it is a fair question on cost, which is why Manish when we started the first slide itself, I said, our cost is going to be plateaued here or nominal increase in secured side because we are kind of fully loaded for the year. Yes, the first cost increase on the people side is the hiring we did in Q4 for collections and Q3 for collections last year. So they are flowing through into our cost into this year. There is a salary increase, which we normally expect. But other than that, there is no other specific cost. On cost increase on the other side, we did have to buy some PSL certificate, which if you see the sale of the PSL comes on the income line, but if you buy anything, it goes on the cost line, so that is a bit of one off in the 1st Quarter.

Abhilash Sandur: Other OPEX, there is no increase. As Ajay mentioned, that is the only OPEX increase over the last quarter. Main increase is coming from the payroll, which is directly linked to the appraisal cycle.

Ajay Kanwal: So other OPEX is really flat Rs. 214 crore to Rs. 215 crore. So that hasn't changed from the numbers and the numbers Abhilash has put in front of me. So there is no real change there. It is basically payroll and like I mentioned earlier, because we had obviously accelerated our hiring, both in collections and our secured business, we are kind of full capacity now, which is why you can see like, for example, Affordable Housing has seen a very strong 1st Quarter growth. If you probably look at a peer group, which has 6.5% growth in Affordable Housing in Quarter 1 itself? So you can see the results of higher people equal to higher volume in Q1. And you will see as we go ahead, when the cost is flattish, slightly negative, as we go into the various quarters, what we anticipate.

Manish Ostwal: The last question I have is a bit of strategic in nature. So there are three banks have applied Universal Bank license, including you, so my question to the management team is. We all understand the Universal Bank license is a long term benefit. But the point is, the current focus should be to shape the business more profitable, because we are growing the balance sheet, but the profit is not coming. I am not talking about the PAT level, I am talking about even NI is not increasing at all for last so many quarters, it is quite flattish from quarter 2 onwards, Rs. 593 crore was the Q2 FY25, now it is Rs. 595 crore. So growth without increasing profit, how can you justify that? Thank you.

Ajay Kanwal: So, Manish, I think we should not mix it up, by which I mean, if you listen, from last quarter, when MFI stress has begun, we have seen the book drop by 10%. And when you see 10% drop in book, roughly about Rs. 1,000 crore at 25% yield, it is unlikely that we will be able to recover that in the short term from a secured growth of assets. So I want to assure you that none of us are growing for the sake of growing. But at the same time, if there is stress in MFI, there is a little chance that we will make that up in a 9 month or 12 month time frame from secured growth, where the margins are, of course, smaller. But as you know very well, this is the right business to grow. As far as Universal Bank is concerned, it doesn't change our focus on our business at all. Universal Bank application, as you are aware, Manish, is based on a few criteria decided by RBI, which frankly are pretty much BAU, whether it is gross NPA, net NPA, diversification of asset, net worth, or capital adequacy. So just to make sure that you should not feel that our application of Universal Bank has caused us any reason to do anything different than what we would have done normally. Second, Universal Bank is not a long-term benefit. I would say it to be a very immediate benefit moment you get it, it should certainly improve the velocity of CASA and deposit into the bank. It should very immediately change the cost of deposit that we get as a bank. There are some benefits I will not put a number to, whether it is employees or investors or customers at large, or what they think about the bank and its brand, which will have indirect benefits. So I really want to clarify two things to you, because if you see our numbers, you can see very clearly that the secured NIMs haven't dropped. The secured business has grown. The only impact on NII is unsecured negative growth. So I do not think we should misassume NII growth as anything else. And second, on Universal, I do think it is very valuable as a license to be a Universal Bank, and it is not defocusing us and the benefits would be from the day that we are awarded that license.

Manish Ostwal: Thank you very much for answering all my questions. Thank you.

Ajay Kanwal: Thank you, Manish.

Moderator: Thank you. The next question is from the line of Ganesh Nagarsekar from Bharat Bet Research. Please proceed.

Ganesh Nagarsekar: Sir, my first question is regarding our two-wheeler book. So, that is one part of the business that we are growing quite aggressively and historically, in some of the other peers that operate in this segment, credit costs, etc., could be a challenge, right? So, I wanted to check how we are trying to ensure that the kind of lending that we are doing here is kind of quite secure. And I think in one of our earlier interactions, you had mentioned that a lot of these loans are kind of processed to the housing clients as well. So is the collateral for the housing used for this as well, or how do you typically think about that?

Ajay Kanwal: Yes. So thanks for the question. Let me first clarify the two-wheeler piece. We operate roughly in 185 cities as a bank. And when we launched two-wheeler, we began with the first 30 cities, then we took it to 60 cities. I think the last I remember, we have put a stop around 120. We have not even reached the 180 cities that we are available in. So when you see growth, it is not about us being aggressive. It is us about going to new cities where the bank exists and we are introducing a new product. I am saying this because when you grow fast, you can assume that somebody is either over-aggressive or taking some light decisions on credit, which is why gross NPA has been holding up very well. But we have been pacing our growth based on number of cities here, not because we took any credit, which is extra. Second is, do we give two-wheeler loans to our good customers, whether they are Micro LAP or Affordable Housing, or they are even our good MFI customers, our good gold loan customers, savings account, of course, we do. Roughly, 15%-20% of the book is there and that book is, of course, advantage because we obviously have more insight into the customer than somebody who walks in as a fresh customer to us. So my takeaway for you is, listen, we have seen this book. This business was launched after wave 1 of COVID. So we did see some not-so-good numbers post wave 2. It has been a few years. Our scorecard, which we use in addition to the Bureau for two-wheeler is a second-generation scorecard. So we have had a first scorecard. We have remodified it, made it better, we are on number 2 now. So nothing that we can see in our two-wheeler business is stopping us to say it will grow. It will continue growing purely because we will expand geographically and we should continue to see good numbers. Nothing should make us feel very differently about it.

Ganesh Nagarsekar: Understood. Got it, sir. Sir, my second question is regarding our CASA. So that I noticed is kind of growing a bit slowly and that has been a challenge for us for a few quarters now, despite us having relatively good open branches, etc. And I think you had also mentioned that you are not kind of looking to just grow that by kind of giving higher rates, etc. So broadly, how are you thinking about the CASA piece and I think you mentioned growth starting Q2-Q3, the CASA book will kind of start growing quite well, so incrementally, what are you doing that will kind of change the rate of growth in CASA? And how do you think we should think about that a few quarters down?

Ajay Kanwal: Good. So listen, first, you are very generous. Our CASA growth is 0% in the 1st Quarter. So every reason for us to feel not so delighted about it. But see, first is CASA growth was through affluent segments and to attract the affluent segments, we launched a series of segmental offers. The last one was Solitaire, which was the specific segment for women. Prior to that, we have launched Legend for senior citizens. We have launched premium banking and before that, we have launched Exclusive. We have also done NR, where we have to do a full launch, but that is the last piece that will go in. So a series of segmental offers, some specific branch opening, which is why I said we will open 30 new branches this year. We have done similar numbers last year for new locations and of course, more work. We are well endowed in mobile banking, internet banking. So I will give you some numbers. I will give you a sense of why it will be different this year. See, last year, we grew the deposit book by 32%. This is term deposit. We grew CASA by 18% last year. But the deposit book grew much faster than CASA book. So CASA percentage came down. Here, we want to do a slight reversal, which is we would like to grow CASA at least 25%. And we would like to see term deposit to grow less than 25%, so there are percentage changes. Like I said, we are now in nearly end of July. I would think we can see that we will at least add 10% to CASA growth for first half. I think that will give all of us enough confidence that we will grow at the 25% range on CASA for this year. Now that the money market is liquid and there is no need for us to be conservative on deposit side, we would not increase our term deposit growth at that pace as we did last year. And we can also see that the LCR, which was around 250% odd last year is down to 170%. So clearly, the change in the market liquidity has prompted us to make sure that we try and now save some basis points on callable versus non-callable deposits, which we have also done for the 1st Quarter. So all in all, I would give you comfort saying we are liquid. We are in the right environment to grow because it is a low cost environment starting. Hopefully, we will get probably a bit more lower cost if at all, but we are happy where we are and we would like to see some CASA and time deposit growth and you will certainly see it by end of September.

Ganesh Nagarsekar: Understood. Perfect. And if we could just squeeze in one last question, so I think it has just been a month or so since we applied for the Universal Bank license, but any comments from the regulator till now about any challenges that they have, any issues that they have, or any comments that you have heard back from the regulator on the Universal license front?

Ajay Kanwal: There is very active engagement. There is nothing that we have heard the problem. As you know, they have given a hurdle of who can apply. We have met the hurdle we have applied. We put a 5-year plan. There is active engagement and there is nothing which tells us now that there is anything different than what we knew 2 months back.

Ganesh Nagarsekar: Understood. That is it from my side, sir. Thank you so much.

Ajay Kanwal: Thank you.

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

Shailesh Kanani: Sir, my question was with respect to BC book. I believe there is a rundown in the book quarter-on-quarter. Still, the NNPA or the GNPA keeps on adding. So how are we placed over there? And can you throw some color on that?

Ajay Kanwal: So Shailesh, the BC book is dropping because the BC book uses the same credit criteria as the bank uses, which is if you have more than Rs. 50,000 unsecured outstanding with any player outside of us, then we are not giving the person unsecured loans, which makes us very conservative with the 2 lakh guardrail put up by the MFIN. And because that is the norm that the bank would like to use so that we really don't build again an over-leveraged book for the sake of growth, we do see the book, the BC books not growing. The second reason the BC books are not growing is, the larger BCs who had NPA challenges are still focused on collections. And it will be unfair for us to kind of push them for growth when we know that the collection cycle for them hasn't bottomed there. And I can see that should bottom out for them also. At least one of them has already bottomed in Q1. The other two I would expect in Q2. And then we will see an overall growth. I must tell you that having learned from the BC experience, we are still continuing with the BC growth. And we have the extra guardrails that we have to put around BCs, which are not credit guardrails, but slowing down their growth, not letting BCs grow faster than an X amount. That is the additional guardrail that we put going from here on. I must also tell you that every BC who was our BC before the crisis had NPA challenges, continues to be our BC, which means that they would like to get their money back or what they have lost from customers and they would like to continue the partnership and we are very fully supportive of it. So none of the BCs have said my FLD is busted, so thank you very much. It is your problem now. They are very actively working on solving the issues.

Shailesh Kanani: But just on the quality front, 18% GNPA, because I understand even if it is a rundown still the amount is kind of increasing quarter-on-quarter. How, what do you think when this increase in GNPA would kind of press and how is the **PAR** book over there? Because quarter-on-quarter there is consistent increase still?

Ajay Kanwal: Yes, see, BC book has run down much faster than our book. As you can see, their book was around Rs. 2,500 crore is down to Rs. 1,500 crore. So Shailesh, they have dropped 30%, we dropped 10%. So their book has dropped much faster. And which is why they are, so that is one of the main reasons of gross NPA increase. Like I said, there were only three BCs challenged. One has stabilized, which means he is not adding to gross NPA. Second, the other two need to stabilize. Once they do, then you will see the change. Our anticipation is by Q2, you will see the change. And we will hopefully see some growth in BC book along with ours. I think they have also got used to a different credit criteria than they were used to in the past. It means the realignment of what is the amount of rejection rate and where do you focus and whom do you say yes, whom do you say no. Because all of us are used to a much easier criteria, credit criteria, which was applied last year. So that adjustment factor to my mind is over. And you should see Q2 as a BC different answer.

Shailesh Kanani: And just to conclude this part, what gives us the confidence that second quarter would be better? Are we seeing any uptick? Because I remember 4th quarter also, the commentary was in general than the 1st Quarter or the month ending to the quarter was kind of good in terms of pickup and general macro commentary was kind of positive. Any quantitative numbers you can provide which gives us this confidence that the 2nd quarter should be better?

Ajay Kanwal: So Shailesh, I will give you April B0 MFI collections around 96.4%. May was about 98.9% and June is 98.8% or 98.7%. So if you just see the April 3% odd drop in the B0 that has kind of been a challenge, which is why we say the significant drop of NPA will only happen in Q3. We will see a drop in Q2 though, but not as significant as what we will see in Q3. And B0 numbers give us that confidence. On the disbursal side, as we sit here finishing July, this will be the highest disbursal month we have had this year. So it is higher than what we had in April, May and June. So that gives us confidence that the book will start turning positive. And Shailesh, I must say even now we are going to remain conservative in the credit criteria we do to onboard customers. I did hear from the other analysts that people are probably showing more growth or faster growth but we will still be more cautious here.

Shailesh Kanani: Just a last question from my side. One, I have seen a huge uptick in terms of term loans to NBFCs on quarter-on-quarter basis. Still it is small in terms of overall scheme of things, but still Rs. 2,000 crore is the NBFC book now. What is the yield what we get over there? And also on Micro LAP, there are certain pockets which are showing stress. Any color if you can throw on that?

Ajay Kanwal: So first NBFC roughly around Rs. 1987 crore is like 6%-7% of our total book. Second NBFC has been not a single day delinquent, forget NPA in the last 7 years. So we are very mindful. If you watch our 1st Quarter last year also, see 1st Quarter is normally slow growth of assets and we tend to pick up the NBFC lending in the 1st Quarter, 2nd quarter, and then we slow down Q3, Q4, certainly because our own lending picks up a lot. So there is no other reason except that we have liquidity, we have good clients, the yield is around 12% on the NBFC book. We know our NBFCs because we are in the same business, so we know exactly what our clients are doing because we always compete with all of them in the market. Comfortable doing that and purely, we have always said this, we still would say that it is a more tactical answer to the balance sheet rather than a strategic answer. So that view on NBFCs hasn't changed because we have got enough of our own business to grow. So it is more a timing issue. On Micro LAP, listen, we don't see any generic issue and I would say some people did ask me last time also, MFIs are becoming Micro LAP customers, do you see stress, etc., no, we did not see that in the past, we did not see it in the 1st Quarter also and we are very happy with what we have seen in the unsecured delinquency in the 1st Quarter. So nothing is, in fact, we were happy with the way what numbers we did see. We always have some geographies which bother us a bit more than other geographies. We are in 25 states, so not all states perform similarly. There is a lot to do with some execution on the ground. So states where we have a challenge, then we tighten the credit criteria, we look at our processes, we look at our leadership, we make changes. We have done that to a few geographies last year. I will give you the specific names. We did have a small challenge in Odisha, for example, which we now see is behind us. We had a minor blip in a few districts in Gujarat. It is now behind us. And we certainly did go slow in Karnataka in Q1, given all the external factors that were happening. We did see a small blip in the smaller loans in Karnataka. Again, we have addressed that, but nothing which is a larger Micro LAP issue of something that should cause us to be cautious or change criteria or be anything harder. I must also tell you that our third generation scorecard for Affordable Housing and Micro LAP, that is the scorecard which is used in addition to using Credit Bureau, will go live next month. So if at all, we would have a even better book going forward, because our new scorecard is obviously much better than the last scorecard too.

Shailesh Kanani: Fair enough. Thanks a lot sir, and best of luck.

Ajay Kanwal: Thank you, Shailesh.

Moderator: Thank you. The next question is from the line of Rahul Kumar from Vaikarya. Please proceed.

Rahul Kumar: Hi. Sir, for the unsecured business, what was the SMA1 and 2 for this quarter? And can you tell us the corresponding figure for the last quarter as well?

Ajay Kanwal: While the folks dig out the number, do you have a follow up question or any other question other than the unsecured book?

Rahul Kumar: Actually, I had one more data question, but I also wanted to know the split of the slippages and provisions between the secured and unsecured, which we have done for this quarter?

Ajay Kanwal: Yes, so like I said, 90% of all the provisions have gone to unsecured, 10% has gone to secured. That is an easy one. In terms of slippages, we are nearly flattish to quarter 4 on secured and unsecured, the deterioration is roughly about 15%-20% over quarter 4 and that is mainly coming out of the April B0 of 96, then flowing in. So those are the two quick points. Having said that, as you know that since we have been providing very regularly accelerated provision, well covered on the provision side, which you can see in the PCR numbers.

Rahul Kumar: And sir, do we also have this figure for the write-off between secured and unsecured?

Ajay Kanwal: Yes, give me a second. Just one second, Abhilash is here. We will just tell you the numbers.

Rahul Kumar: Meanwhile, I also wanted to understand what proportion of our book is actually repo-linked and how much have we already passed in terms of the spread?

Ajay Kanwal: Sorry, can you repeat the question?

Rahul Kumar: What portion of the book is repo-linked? And how much we have already?

Ajay Kanwal: The very marginal portion is repo-linked because we do give the customer at the end of 39 months to choose whether they want to continue fixed or they want to do a repo-linked. So 6% is repo-linked.

Abhilash Sandur: External benchmark T-Bill linked, 6% is the number. 94% is fixed. On the write-offs, roughly about Rs. 100 crore on unsecured and about Rs. 10 crore on secured.

Rahul Kumar: And sir, if you look at the NIMs for this quarter, we have seen that it has declined 50 bps while our yields are broadly flat or just 10 basis points down and the cost of fund is broadly flat, right, so why are the NIM declined 50 basis points?

Ajay Kanwal: So which is why I did try, but maybe Abhilash, you can help me. Go ahead, Abhilash.

Abhilash Sandur: So when we sold the investments this quarter, in the Quarter 1, we booked a profit of almost Rs. 49 crore as trading income. So when we sell these investments, the high yielding investment goes out and when we purchase again, the yields are low. So that will give an impact on the overall NIMs because when you calculate the NIM, it also includes the investment book. So that is the reason there is a drop in NIM, whereas we have booked Rs. 49 crore upfront income as a trading income in the other income for the last quarter.

Ajay Kanwal: So three things happened, AFS sale, HTM sale, and OMOs. That gave us an opportunity to book this Rs. 49 crore, so they are nothing else but that. Will this NIMs improve from Q2 just because of us buying different securities? No, the securities are low yield. So what should happen in Q2 really is our cost of funds should come down, our unsecured should grow, and our NPA should go lower. As you know, all these are high yield, at least unsecured is very high yield. So getting NIM back up to where it was in Q1 or rather Q4 would be very easy. The positive side is repo book roughly about 6%, secured hasn't seen any drop in yields, which is 70% of our business. So we should not see any other impact from a yield perspective. Our bias is it should improve in Q2.

Rahul Kumar: That is all. Thank you.

Ajay Kanwal: Thank you.

Moderator: Thank you. The next question is from the line of Saumil Shah from Paras Investments. Please proceed.

Saumil Shah: Hi, sir. Good evening. Sir, since last 3-4 quarters, we are doing accelerated provisions just so that our NNPAs remain below 1%. So I would like to know till when we will continue doing this. And as the accelerated provisions which we are doing, there should also be reversals for this, right, but we are not seeing any reversals

Ajay Kanwal: You are absolutely right. See, the problem is like this. Normally, if you don't have, if your slippages stop, then accelerated provision is like just helping you change the percentage. Right now, what we are facing is accelerated provision as some of it is already being used up by slippages. So once the slippages slow down, then the accelerated provision will just be a bulge. So when will it slow down? I think it will certainly slow down by Q2. It will be lower than Q1 and Q3 will be lower than Q2. For no other reason, our slippages will be lower, yes. So I think those are the real, in a normal circumstance, say there was no MFI stress, then we would need not put so much accelerated provision, then hitting the 3%, 1% mark would have been far easier. But now we are complicated with two things. One is there is an MFI slippage and we did think before the Karnataka issue began in Q4, that we have probably seen the worst. But unfortunately, it did continue in Q4, it has continued in Q1. Now, we are seeing Q2 decline and we expect Q3 then a significant drop, because then it would have covered up all of April flows. So yes, accelerated provision will decline, certainly because we will have less slippages and then we don't need to put so much money to reach the 3%, 1%.

Saumil Shah: Yes, but then if we are saying this as an accelerated provision, then and if you feel that, out of these only 50% is going to come back, then this should be a normal course of provision. Why you are mentioning it as accelerated provisions? Because see, as a shareholder, even this quarter, when we are seeing your presentation, you are mentioning Rs. 252 crore of PAT if we add accelerated provisions. So as a shareholder, we feel that this accelerated provision will come back to us, maybe 2 quarters or 3 quarters down the line?

Ajay Kanwal: So two things, one is, we have to for the sake of giving transparency, have to define what is regulatory and accelerated, which is why we put them as very separate measures. Two is, when we did start accelerated provision last year, there was hardly, in our heads, it wasn't clear that we'll continue using it into this year, which is where the case has ended up being. Otherwise, we would have not need to put so much accelerated provision for sure, even in the 1st Quarter. Very difficult to predict last year, what would happen this year. Otherwise, like I said, it would not be so much. I don't know a better answer. How can I put an accelerated provision which is okay, out of this accelerated provision, so much will get used and so much will get unused. Probably, we will have much more clearer path when we see Q2 and we see it like the final MFI stress is bedded down. Then, it will be easier for us to define and say, okay, this one is like making a ratio below 1%, don't see use of it.

See, so there is no better way of us putting this as transparently as you put it. I think going forward is guarantee money coming in, less need of accelerated provision and third is more recoveries by the bank in general, because typically when delinquency improves, then people get more focused on recoveries. When you are busy trying to stop B0 from flowing, then you don't have as much time for recoveries. So I think three things would change nearly simultaneously and we should see that from Q2 onwards.

Saumil Shah: So basically, once we get the Universal Banking license, they may be 1, 2, 3 quarters down the line, so this accelerated provisions, you won't be doing it?

Ajay Kanwal: So first, accelerated provision is good in a stress environment. It shows that we have enough buffer. And I would rather build a buffer and release them later rather than start with a less buffer. So I know that we do talk of 3% and 1% for Universal Bank. But very importantly for both you as an investor and me as the CEO is good to have some buffers when there is a stress environment going on. If you don't use the buffer, we will gladly release it. So it is a timing issue, right? I don't do accelerated provision and let net NPA become 1.2%, I do recovery and bring it below 1%. That means I can declare more profits, provision less. And then I give time to solve it. What we are doing now is rather than giving it that time, we are upfront putting up the cash and then saying that time will solve it. Now, that time will be visible to all of us because we have been doing this for some time. As you know, we did Rs. 300 crore last year, we put Rs. Rs. 150 crores now so its Rs. 450 crores accelerated provision. It will be visible. We were hoping it is visible early this year, but hasn't happened. So I think we just need a bit of patience. But what I am trying to say also, suppose I get Universal Bank and there is MFI stress continues, there is no point of me not trying to give extra buffer provisions if I can see the stress in the environment. I would still do it.

Saumil Shah: And sir, my final question, so our NIMs have come down drastically, as the previous participant also asked, you said 6.9%. So what do you see? Where do you see NIMs stabilizing in this current year?

Ajay Kanwal: So we see around 7.2%-7.3% being the NIM, including the 1st Quarter 6.9%.

Saumil Shah: Because in previous call, I think you were mentioning 7.8%-8% NIMs, we can achieve for this year?

Ajay Kanwal: Can.

Saumil Shah: So are you reducing our guidance on NIMs?

Ajay Kanwal: So I have not given a guidance on NIM, though I must have stated on the call. Let me tell you this. Let us say we grow a Rs. 1,000 crore of unsecured in the next 9 months, net growth, we will be back to 7.8%. That is all it takes. So NIM is the function of how much 24% asset you are putting on there. And our NIM challenge, like I mentioned, we have been tracking it since last year, we have not seen a drop in NIMs on secured at all. All we have seen is a drop in unsecured book. And second is the interest reversal when you have NPAs. Those are the two reasons why NIMs have come down. Moment those two change, your NIMs go back up. So for us, the issue is just solving the MFI NIM issue. Nothing on the secured side, which we grow very rapidly, is telling us that there is a NIM challenge coming out of secured book. And it is very easy. You just add up Rs. 1,000 crore to my unsecured book, and you will see the NIM will just shoot up.

Saumil Shah: That is it from my side. Thank you and all the best.

Ajay Kanwal: Thank you. Bye-bye.

Moderator: Thank you very much. Due to time constraints, that was the last question. I would now like to hand the conference over to Mr. Ajay for the closing comments. Thank you and over to you, sir.

Ajay Kanwal: Thank you so much. Thanks everyone for attending and your questions. I hope we have addressed them well. In closing, I just want to tell a few things which are very important. First is, Universal Bank is very important. It is a very big change for the bank and we will continue focusing and making sure that we do everything that we can to get a positive response. Second, MFI did fox us. We didn't anticipate MFI will continue longer. We do remain conservative on MFI. We are conscious that our remaining conservative may give us a bit of less income. But I would rather have that solved today rather than for income, grow my MFI book and then regret again next year. So we as a management team think that is the best and a safer path and a more longer term path to go by. That won't shift. Third, our secured book is doing extremely well. We continue to grow that handsomely. It is performing very well. And we do think that this MFI stress is only making us feel that the faster we move to an 80% secured with the balance unsecured book as guaranteed, I think we will be in the best position as a bank. It does mean that we will have a few tough questions from you folks, which we have had in this quarter and the last quarter. But rest assured, we are very determined to make sure that we do build a very strong and resilient bank. Thank you so much.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.