Capital Small Finance Bank

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CSFB. 2025-26/359 **November 04, 2025**

To,

BSE Limited **Listing Compliance** **Phiroze Jeejeebhoy Towers** **Dalal Street** **Mumbai 400 001** **Maharashtra** **Scrip Code: 544120, 951995 & 953739**	**National Stock Exchange of India Limited** **The Listing Department,** **Exchange Plaza,** **Bandra Kurla Complex,** **Mumbai - 400 051** **Maharashtra** **Symbol: CAPITALSFB**

Dear Sir/Madam,

Sub: Transcript of Earning Conference Call for the Un-audited Financial Results of Capital Small Finance Bank Limited for the quarter and half year ended September 30, 2025

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

We submit herewith the transcript of the conference call held on Thursday, October 30, 2025 for the Un - audited Financial Results of Capital Small Finance Bank Limited for the quarter and half year ended September 30, 2025.

In compliance of Regulation 46 of the Listing Regulations, the transcript is also made available on the Bank's website at https://www.capital.bank.in/investors/financial-results

This is for your information and records.

Thanking you,
Yours faithfully

For Capital Small Finance Bank Limited

AMIT SHARMA

Digitally signed by AMIT SHARMA
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Amit Sharma
Company Secretary & Compliance Officer
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“Capital Small Finance Bank Limited

Q2 FY '26 Earnings Conference Call”

October 30, 2025

“E&OE - The transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 30th October 2025 will prevail”

MANAGEMENT: MR. SARVJIT SAMRA– MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – CAPITAL SMALL FINANCE BANK LIMITED
MR. MUNISH JAIN – EXECUTIVE DIRECTOR – CAPITAL SMALL FINANCE BANK LIMITED
MR. ASEEM MAHAJAN – CHIEF FINANCIAL OFFICER – CAPITAL SMALL FINANCE BANK LIMITED
MR. RAGHAV AGGARWAL – CHIEF RISK OFFICER – CAPITAL SMALL FINANCE BANK LIMITED
MR. SAHIL VIJAY – HEAD OF TREASURY AND INVESTOR RELATIONS – CAPITAL SMALL FINANCE BANK LIMITED
MS. BHARTI BABUTTA – INVESTOR RELATIONS – CAPITAL SMALL FINANCE BANK LIMITED
SGA – INVESTOR RELATIONS ADVISOR – CAPITAL SMALL FINANCE BANK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Capital Small Finance Bank Limited Q2 and H1 FY26 Earnings Conference Call. 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 touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Sarvjit Samra from Capital Small Finance Bank Limited. Thank you and over to you, sir.

Sarvjit Samra: Thank you, Iqra. Good morning, everyone. I am Sarvjit Samra, Managing Director and CEO of Capital Small Finance Bank. Thank you for joining the Capital Small Finance Bank Limited's earnings call. The results and investor presentation have been uploaded on the stock exchanges and I hope you have had the chance to go through the same.

Joining me today in this call are Mr. Munish Jain, our Executive Director, Aseem Mahajan, CFO, Raghav Aggarwal, Chief Risk Officer, Sahil Vijay, Head of Treasury and Investor Relations, Bharti Babutta from the Investor Relations Team and our IR Advisor, SGA. Let me begin with an overview of the operating environment before moving on to our performance highlights.

India's economy continues to expand at a healthy pace, with real GDP growth for Q1 FY26 at 7.8%, led by strong private consumption and sustained government spending. Growth momentum for the full year is now projected at around 6.8%, up from the earlier estimate of 6.5%, reaffirming India's position as one of the fastest growing major economies globally.

Inflation remains well under control, with headline CPI at 2.1% in August 25, easing significantly from last year's levels. The moderation in food prices and the recent GST rate rationalisation are expected to further support purchasing power and consumption demand, particularly in semi-urban and rural areas, which are our core operating market. We are witnessing early signs of festive season pick-up, with Diwali-related spending and improved rural cash flows, driving higher demand across retail and MSME segments.

This has directly supported credit growth and deposit mobilisation across the banking system, including for us at Capital Small Finance Bank. On the monetary front, the RBI maintained the repo rate at 5.5%, adopting a neutral stance to balance growth and inflation. Liquidity conditions have improved meaningfully over the last quarter and we expect this to support a stable to softer funding cost trajectory going forward.

System-wide credit growth has moderated slightly, but momentum is expected to pick up post-festive season, led by retail and small business lending. In this context, the broader banking system has some pressure on net interest margins as deposit repricing caught up with asset yields. However, we believe margins have largely stabilised and as funding costs begin to align with the softer rate environment in H2, the margin outlook appears more balanced.

For Capital Small Finance Banks, this environment plays to our strengths. A deep presence in the semi- and rural market, retail-oriented secured book and granular deposit base position us well to benefit from the ongoing consumption recovery and improving liquidity conditions. Turning to our Q2 FY26 performance, the quarter was marked by strong deposit mobilisation, healthy credit offtake and stable margins, reflecting the strength of our core operating model.

Total deposit reached INR9,317 crores, up around 20% year-on-year, with CASA at 33.9%, highlighting the stability of our retail deposit franchise. Gross advances stood at INR 7,907 crores, growing around 18% year-on-year, supported by healthy disbursement activity across mortgage, MSME and agriculture segments. Disbursements during the quarter rose to INR 805 crores, up 36% year-on-year, aided by festive demand, improved business sentiment and strong rural cash flows.

Asset quality remained stable, with gross NPA at 2.70% and net NPA at 1.38%, reflecting continued prudence and strong recoveries. Net interest margin was maintained at 4% and profit after tax stood at INR35 crores, up 5% year-on-year, supported by steady operating performance.

Our focus remains on profitable secured growth, strengthening our branch-level productivity and deepening relationships with existing customers while expanding our footprint across high-potential semi-urban locations beyond Punjab. We are confident that with a supportive macro backdrop, including benign inflation, GST-led consumption boost and strong festive momentum, we are well-positioned to sustain healthy growth in deposit and advances in the second half of the year.

With that, I will now hand it over to Mr. Munish Jain, who will take you through our quarterly financial and operational highlights in detail. Thank you.

Munish Jain: Thank you, Mr. Samra and a warm welcome to all of you. Let me now share the highlights for the quarter and six-month ending September 2025. As of September 30, 2025, our gross advances stood at INR 7,907 crores, reflecting strong and consistent credit expansion, translating into a year-to-year growth of 17.7%, sequential growth of 6.3% and YTD i.e. a six-month growth of 10.1%.

The same is in line with our growth guidance of 20% plus for FY26. Advanced growth continues to be primarily driven by the secured segment, with 99.2% of the loan book secured, in line with our retail-focused and risk-conscious strategy. Notably, 89% plus of our loan portfolio, excluding the corporate loan, is collateralised by immovable property or bank FDRs, demonstrating our continued emphasis on maintaining a high-quality, well-collateralised and risk-mitigated credit portfolio.

The average ticket size of our portfolio stands at INR 17.1 lakhs, reflecting our continued focus on granular and well-secured lending. Our loan book remains well-diversified across sectors that have demonstrated resilience across multiple credit cycles, ensuring stability and balanced growth.

As of September 30, 2025, the agriculture sector remains stable at 30% of our portfolio. Mortgage segment constituted 26% against 27% at the end of Q1 FY26. MSME and business loan increased to 23% from 22% at the end of Q1 FY26. Corporate loan remains stable at 14% as of September 30, 2025. The same is in line with our prudent and risk-optimised growth strategy.

Importantly, excluding the home state of Punjab, our growth trajectory remains even stronger, with advanced growth at more than twice the overall bank growth rate at year-on-year basis, demonstrating the deepening strength and increasing traction across our newer operating geographies. Out-of-Punjab, advance portfolio constituting 23% as on September 30, 2025.

Fresh disbursement for the quarter stood at INR805 crore, registering a robust 36% year-on-year growth. For year-to-date i.e. for the six months up to September 30, 2025, the total disbursement stood at INR1,671 crore, reflecting 24% growth. This sustained momentum underscores the continued strength in demand across our key lending segments and effectiveness of our focused business approach.

The MSME and the business segment remain the primary growth driver, grew by 11% on quarter-on-quarter and 33% on year-on-year basis, followed by LAP within the mortgage, which grew by 6% on quarter-on-quarter and 22% on year-on-year basis. The overall mortgage book grew by 4% on quarter-on-quarter and 16% on year-on-year basis.

Despite challenging operating environment marked by floods impacting the northern part of the country, asset quality improved though marginally during the quarter. Gross advances stood at 2.70% as of September 30, 2025, down by 5 basis points from June 30, 2025. Net NPA stood at 1.38% compared to 1.39% a quarter back.

The SMA 1 and 2, as on September 30, 2025, stood at 4.42% against 5.47% a quarter back and 4.96% a year back, highlighting our prudent credit risk management, effective recovery efforts indicating stable portfolio performance. The write-offs remained almost NIL during the quarter. Credit costs for the quarter stood at 0.2% broadly in line with our historical levels, reaffirming the quality and resilience of our portfolio.

Our deposit base crossed INR9,317 crore, registering a strong 20% year-on-year growth, underscoring the continued trust of our customers and the strength of our retail deposit franchise. The bank was calibrated deposit growth owing to the low CD ratio and high leverage ratio. Following the rate cuts earlier this year, we have accelerated the deposit mobilisation and has grown deposit by 12% during H1 FY26. The focus remained on granular, core and retail centric deposits.

CASA ratio remained healthy at 33.9%, with average daily CASA for the quarter was 34.8%. We believe that the marginal decline in the outstanding CASA is temporary and primarily attributed to emergent cash withdrawals following the flood situation in the north part of the country. Notably, the average ticket size of the savings bank account has increased to 47,000 against 42,000 a year back, indicating a stronger retail liability franchise.

Additionally, deposits outside the home state of Punjab grew at three times the overall deposit growth rate of the bank on a year-on-year basis, reflecting the deepening liability franchise and increasing traction across our newer operating geographies.

The average credit-to-deposit ratio improved to 81.5% in Q2 FY26 from 80.9% in Q1 FY26 with outstanding CD ratio as on September 30, 2025 being 84.9%, reflecting efficient fund deployment and balanced growth across advances and deposits.

Now moving to profitability; during the quarter, the impact of interest rate decline has been fully reflected on the advance portfolio, while the benefit of deposit repricing is yet to be completely realized. The NIM for Q2 FY26 stood at with a two decimal points, 4.04% against 4.1% in Q1 FY26. NIM is expected to show some improvement in H2 FY26, aided by CRR reduction and more significant improvements in FY27 with a continued decline in our deposit costs. The average deposit tenure of us is 12 months to 15 months.

Non-interest income remains strong at 0.9% of average total assets during Q2 FY26. Operating efficiency has started improvement trend with opex as percentage-to-average asset improved to 3% against 3.3% in Q2 FY25. The cost-to-income ratio stood at 61.7% in Q2 FY26. The same reflects our sustained focus on cost optimization, process efficiencies, and operational discipline.

Pre-provision operating profit rose to INR51 crores in Q2 FY26, making a 6% growth on year-on-year basis. Profit after tax stood at INR35 crores, up 5% year-on-year, supported by healthy operating performance and disciplined cost management. Return on assets improved to 1.3% during Q2 FY26 against 1.2% in Q1 FY26. The ROA was 1.4% in Q2 FY25. The growth is supported by consistent profitability trends and prudent balance sheet management.

Our capital adequacy ratio remained strong at 24.2%, with average liquidity coverage ratio for the quarter stood at 234%, reaffirming our strong liability position and providing ample headroom for our future growth.

As of September 2025, our branch-wide network stood at 199 across five states and two union territories, further strengthening our presence, particularly in rural and semi-urban markets, which continue to be our key growth driver. The SURU branches accounted for 77% of the total branch network and contributing 74% to the deposit base.

We have achieved the branch milestone of 200 count as on date. Further, we have initiated partnership-led lending with FLDG framework and appropriate risk guards, targeting high-yielding secured lending opportunities with the selected NBFC partners.

To sum up, H1 FY26 reflects business growth trajectory, a period of discipline, consistent execution, and the ability to withstand temporary margin pressures and natural calamity impact, while setting the stage for stronger performance in the period ahead.

As we look ahead, we plan to organically grow our secured loan book at the rate of 20% plus for FY26 and double our advance book over next three to three and a half years, that is by FY29.

We aim to expand our footprints from 199 branches by deepening presence in contiguous states and intensifying penetration within the existing markets. With a goal, with a medium-term goal to grow our branch network by 1.5x in next three to three and a half years, that is by FY29. We expect NIM expansion, supported by continued decline in deposit cost on repricing, coupled with acceleration of the CD ratio.

We intend to continue improving operating efficiencies to continue improving the ROTA in each of the coming period, and ROTA expansion in the coming year with a target to make it 1.6% plus with ROE of 15% plus by next three years, that is FY29.

Saying all this, we being a banking company and growth is contingent with the macroeconomic outcomes. We continue to stay deeply committed to create long-term value for our stakeholders, while contributing meaningfully to India's growth story through responsible banking, customer-centric innovation, and sustainable financial inclusion.

With that, I would now request the operator to open the floor for Q&A session. Thanks a lot.

Moderator: The first question is from the line of Shubham Selvadia from Tikri Investments. Please go ahead.

Shubham Selvadia: Good morning, sir. First of all, congratulations on a good set of number. Sir, I have a couple of questions. One is regarding the recent floods in Punjab. Sir, since we have a 30% of exposure in agricultural loans, do we expect bad loans or losses in loan recovery due to floods? And the second question is regarding the NIM guidance. Sir, how much NIM are we expecting to maintain by FY25 -- sorry, FY26?

Munish Jain: Shubham, if we pick up the question number one about the flood situation, yes, the Q2 is marked by flood situations in the north part of the country, and some of the segments/some of the geographies in Punjab got affected. We, being a prudent banker and a lender in the agriculture from last more than two decades, we understand this type of scenarios, and accordingly, if I share, our lending to the geographies which are near to the riversides are very marginal. The impact of the flood on our asset quality was very muted, which is visible through the numbers that despite the flood situation in the north part, which has affected around 25% to 35% of the geographies within Punjab, or particularly three to four districts within Punjab, our asset quality continues to remain strong. We improved the GNPA, though marginally, from 2.75% a quarter back to 2.7%. We just not only improved the GNPA, there is no write-off during the quarter.

We have also improved SMA1 and SMA2, sizably to the previous SMA1 and SMA2. So, this istypically in line with the portfolio strength which we are trying to demonstrate. Going ahead, we are not expecting to witnessing any credit quality constraint, given this flood-like situation, and we look forward for better outcomes on the credit quality as we move forward.

As far as the NIM is concerned, as we were just discussing about the fact that in Q2, the complete impact of the interest rate decline has been reflected on the advanced portfolio, whereas the benefit of the deposit repricing is yet to come. Since our average maturity period of our term deposit is 12 months to 15 months, so the repricing benefit will be visibly, started coming from the H2, and more particularly Q4, and with the higher benefits coming in the next FY27. We are also expecting some benefit coming up from the CRR reduction, which will be fully implemented in H2.

Our NIM was 4.2% in FY25. We believe we have a reduction, and I believe if we quote-unquote, if we are not seeing any further rate cuts or the rate cuts remain muted, so we believe that the NIM, which is 4.04, for Q2, we are looking to see an upward trajectory now on in the NIM. We expect in H2, we are looking to see an improvement in the NIM to the Q4 FY25 number, that is 4.1%, and maybe slightly around 4.1%, and years to come, we looking forward for a continued expansion towards 4.2%, and then taking it above to the 4.2% to 4.3% levels. So, going ahead, we are presently seeing NIM expansion to be panning out with the deposit repricing benefit on the deposit repricing when getting matured.

Shubham Selvadia: Okay, sir. Thanks for answering the questions.

Munish Jain: Yeah. Thank you, Shubham.

Moderator: Thank you. The next question is from the line of Aditya Mundra from Mytemple Capital. Please go ahead.

Aditya Mundra: Good morning, sir. Are you able to hear me?

Munish Jain: Yes, Aditya, you are fully audible.

Aditya Mundra: Yes, sir. Sir, thank you for the opportunity. Sir, what will be our ROA guidance for this year? I think it was around 1.4% till last quarter, so does that remain intact?

Munish Jain: In the last quarter, we were giving a guidance that it will be 1.4% in Q4.

Aditya Mundra: Q4, , , ROA.

Munish Jain: Q4. We are talking about the ROA. We said that was the guidance which I recalled as per the last word. So, we have improved the ROA from 1.2% to 1.3% in Q2. And we look forward, we are sticking to the guidance of around 1.4 in exit ROA for the last quarter . So, we are expecting ROA to further improve from present level of 1.3% from Q2. More growth will be coming in Q4.

Q3, we will be seeing a muted growth in the ROA, but yes, there may be slight since our ROA is around 1.3% and we measure it typically with a single decimal. So, in a single decimal, so the full impact is not getting visible each of the quarter. So, but yes, we will be seeing a slight improvement in Q3, but more better improvement we will start seeing from Q4 FY26 and FY27 onwards.

Aditya Mundra: Okay. Sir, second question is, sir, I think this time again that there is some muted growth in the agriculture side as well as mortgage loan side. And NBFC is, I think the corporate loan side, especially the NBFC continues to grow. So, how can, how do we see that? Like, how do you expect the agriculture or when do you expect the agriculture loan and mortgage loan to come back on? Because those are our core business advances. So, how should one target for that?

Munish Jain: Aditya, if I talk statistically, in Q2 FY26, our business loan grew 11% quarter-on-quarter. Our agriculture loan grew 6% quarter-on-quarter. Our mortgage grown 4% and within the mortgage, LAP grown 6% quarter-on-quarter, whereas corporate loan grew 5% on quarter-on-quarter.

So, our growth both from MSME, LAP, agriculture, during this quarter, has beaten the corporate loan growth. Our consumption loan has grown 4%. Typically I can see during the quarter, we got a contribution from the core pillars, that is the MSME, LAP within the mortgage and agriculture. The growth rate for the quarter is quite balanced. Accordingly, if you look into the composition, MSME and business loan composition has improved.

Aditya Mundra: So, sir, year-on-year, the corporate loan growth was much higher because that was the last year's -- last quarter contribution?

Munish Jain: Yes. That is the last year's growth. So, but if you look into the Q2 performance, Aditya, the growth is typically coming more from MSME, AGRI, LAP than the growth from the corporate loans.

Aditya Mundra: And we are seeing this trajectory to be maintained going forward. Like the agriculture, MSME, LAP should outperform the corporate?

Munish Jain: Yes. But, we need to be mindful that Q3 may not be a high agriculture growth period since it is a cash flow period for this. But overall, from here -if we talk about the year position, it will be the same position that we are mentioning.

Aditya Mundra: Okay. And sir, are we planning to get into co-lending with other NBFCs? With some kind of FLDG cover?

Munish Jain: Aditya, co-lending is not an opportunity which is available with the small finance banks under the regulatory framework, but we are looking forward/ We have already initiated partnership led NBFCs arrangements under the FLDG and with the respective guards for the secured lending opportunities with the selected NBFC partners. We just initiated in the current quarter, that is the Q3 FY26,co-lending is the opportunity which is presently not available to the small finance banks.

Aditya Mundra: Yeah, I meant the partnership led lending only. I mean, I use the wrong word, but the partnership lending with other NBFCs in the secured segment, which would essentially mean the mortgage loan as well as MSME trading and other business loans. Am I correct?

Munish Jain: Yes, that's right, We have already initiated and we have inked up with a few of the NBFCs already and looking forward for starting the same in the current quarter.

Aditya Mundra: Sir, so till now, I think all our sourcing was done in-house only, if I'm not wrong. So, any particular reason we are seeing the need to do that? What is the thought behind it? And what will be the exact model? Like how will the NBFC give us the loan? They will source it and how will we pay them? What would be that structure?

Munish Jain: So typically, the basic objective of getting into the NBFC led lending is to explore more in the new geographies, specifically the geographies in which we have not a thick presence, but a thin presence. To target the same set of customers which we are targeting. Here, we will be having a control on the underwriting.

Our partner will be helping us in sourcing and identifying the right target. Within the policy framework, which is our credit policy framework, we will underwrite, but that partner will be responsible for the credit risk. Both his payouts as well as we will be getting an FLDG cover for any eventualities. The model is typically targeting the new geographies where we have not a thick, but a thin presence and to target our MSME set of customers and mortgage set of customers.

Aditya Mundra: And ultimately, they will source it. The entire loan will be in our books. The FLDG cover will be guaranteed by them. That's how it will be?

Munish Jain: Yes, yes,. It will be in our book.. It will be in Capital Bank book.

Aditya Mundra: And we'll be taking some security deposits from them for the FLDG cover?

Munish Jain: Yes, yes,. That will be the case.

Aditya Mundra: Okay. All right, sir. I'll fall in the queue. Thank you so much.

Munish Jain: Yeah. Thank you, Aditya.

Moderator: Thank you. The next question is from the line of Pritesh Bumb from Dam Capital Advisors. Please go ahead.

Pritesh Bumb: Hi, sir. Good afternoon. Just two questions from my side. One is on other income and one is on opex. So our other income intensity was slightly lower if I look at trends and what happened in Q2. How do you see that going ahead? And on the opex as well, looks like a tight control despite some of the branch openings which are there. How do you see that as well, shaping up in 6 months and FY27?

Munish Jain: Hi, Pritesh. Pritesh, if I pick up the first question, that is the other income. Our other income during Q2 remained at 0.9%, which is our total assets outstanding basis, which was also 0.9 in last quarter Q1. Despite the fact there was complete absence of the treasury earnings. If you look into Slide number 17 on our presentation, you will see Q2 FY26, Our other income, there was no contribution of the treasury earnings.

And despite that fact, on value term, our other income was INR23.7 crores against INR23.4 crores, a quarterback, which have around INR1 crores of the treasury contribution. So we are continuing to improve the other income over the period to come. And this is showing the core strength that we have our other income is typically in a permanent nature type of incomes, which are sustainable incomes.

If we compare it with the Q2 last year, so all the income segments have been growing except the one segment that is the Banca. That is typically because of the re-pricing which happened last year, October quarter, because of the changes in the insurance industry segment, specifically in the life insurance. But over value basis, we continue to have a growth.

So other income, we are seeing a comforting growth and we are confident of carrying forward what we are targeting as we move forward. On opex is concerned, during the quarter, our opex as a ratio of the asset were 3%, which was 3.3% a last year Q2, despite the fact the branches are getting opened. So we are discussing, and now we are reiterating .that with increase in our scale and since over systems are in place, that is middle management our processes had already been placed and those investment has been done to support the current year and maybe next year and a half growth. So we believe that our opex, with a branch opening, the opex increase will be limited to the specific branch expenses that it expands rather than the cross the system expense.

With the growth in the business, with the top line growth, we are anticipating over a medium-term basis, there will be a further improvement which will be visible in opex as a ratio to the total assets. These are the two points I like to mention and the current quarter, that particular trend has started getting visible. Despite the fact over net interest income has not grown rapidly, given our NII, NIM impact because of the asset re-pricing versus deposit re-pricing lag. Our cost to income ratio, we continue to maintain at a similar level of 61%.

Pritesh Bumb: Sure. And lastly, just wanted to check in the next six months or the next two quarters, how much cost of funds benefit you envisage , basically looking at your re-pricing which can happen?

Munish Jain: Pritesh maturity period of our term deposit is typically 12 months to 15 months and deposit rate decline come around February to May, when the actually rate cuts which has actually happened. So our majority of the benefit will be flowing to some portion in Q4 FY 26 and majority will be in FY27.

So in H2, we will be seeing some benefit coming in cost of deposit, not very, very significant, maybe 5 basis points to 10 basis points, that is the maximum benefit we can estimate in H2. But we will be seeing a larger benefit which will be coming in FY27, when our deposit re-pricing will be coming on a larger base. Reiterating, our maturity period of our term deposit is 12 months to 15 months. So that was the basis of that particular guidance. But we will be getting some benefit from the CRR reduction and also this deposit re-pricing, maybe in a smaller portion of the portfolio. On advance side, it has already been done.

Pritesh Bumb: Sure, sir. That is very clear. All the best. Thank you.

Munish Jain: Yes. Thank you, Pritesh.

Moderator: Thank you. The next question is from the line of Gaurav Purohit from Systematix Group. Please go ahead.

Gaurav Purohit: Congratulations on the good set of numbers, sir, despite the challenging environment. I just had one question. So third quarter typically is a seasonally weak quarter for your loan growth and you are retaining your loan growth guidance of 20% plus. So does this imply that your fourth quarter number will be somewhere across like around 8% to 9% based on my calculation.

Munish Jain: Gaurav, if we look into the present situation, in H1, that is H1 FY26, over FY25, six months growth is 10.1%, we have given guidance of 20% plus, which means we need to grow 10% on FY25 for Q3 and Q4. The growth number is completely in line or rather we can see positively biased on upward side from 20%.

Q3 historically is always a lower advance growth period for us. Over the last couple of years, we are working hard to bring down the seasonality trend and to have a growth in each of the quarter. Giving a complete split between Q3 versus Q4 is difficult task at this point of time since we will be bisecting a lot of things.

But our endeavor is to have a minimal delta between Q3 and Q4. We are very confident to maintain and rather surpassing over 20% growth target, which we have given and we are maintaining our growth target of 20% plus for FY26 and we are completely in line to take it further.

Gaurav Purohit: Perfect, sir. This is very comforting. One question on the NBFC account that slipped in the last quarter, any update you have on that, you want to say anything on that?

Munish Jain: Gaurav, this quarter, if you look into over percentiles. However, despite the fact our NBFC MFI portfolio has reduced from INR72 crores to INR62 crores outstanding. Now it is almost 0.6% of the total portfolio. Our net NPA has reduced. We are able to have a good amount of cash recovery in those NPA accounts.

We are confident that we will be able to get more recoveries in Q3 and Q4. I believe the pain point, majority of the pain point from that event has already been passed through. Now we are looking forward to recover as move forward. Q2, we have actually recovered those NPA accounts of more than INR50 lakh.

Gaurav Purohit: Perfect, sir. Thank you so much for the answer.

Moderator: Thank you. The next question is from the line of Shreyas Pimple from Nomura. Please go ahead.

Shreyas Pimple: Hello. Good afternoon, sir. Thank you so much for the opportunity. I wanted to ask that the corporate book, the share of corporate book and total loans has grown and we have seen that MFI book has not grown. I wanted to understand this NBFC book under corporate that we have grown. What are the sectors that we have seen a lot of traction in?

Munish Jain: Shreyas, , I am reiterating, our corporate book share during the quarter remains static at 14%. In the beginning of this quarter and end of this quarter, this remain at 14%. So we have not increased the corporate book growth. The corporate book growth 5% quarter-on-quarter against 6.1% of the overall portfolio growth.

And if we look into the split of the corporate loan book, our corporate loan book is primarily to the NBFCs who are in a secured lending products. And if we talk about the rating cut, our rating cut of this particular portfolio, A and above ratings of the NBFCs are constituting around 50% of the portfolio , A minus and above constituting 70% of the portfolio. And we have only 7% of the portfolio, which is BBB minus and below. We are conscious about the quality of the NBFC in which we are lending. These landings are typically to those NBFC partners who are in onward lending for the secured books,it may be a mortgage, MSME, gold, or sort of landings.

Shreyas Pimple: Understood, sir. Thank you. Thank you so much. The second question was on understanding the situation in Punjab. Because of the floods, can you highlight what has been the understanding currently? And what were the difficulties that you faced? How much was the affected region and what were your affected portfolios?

Munish Jain: Shreyas, last quarter Q2, we seen a flood situation in the North part of the country and Punjab being also being an affected state. Within the Punjab, if we look into the affected districts were the few districts like district of Firozpur, district of Gurdaspur, Tarn Taran, some portion of Amritsar and slight portion of Patiala. These are the typically more affected districts or I can say the districts which are on the sides of the riverbanks. So those were the affected geographies. And we as a lender are being in a landing in agriculture for now more than two decades.

We understand this risk and our portfolio on the riverbank landing is miniscule . On percentile basis, it may be less that is, will be in a single digit or a lower single digit. So and also those particular farmers, we are typically having the two type of land holding, one near the riverbed and then one will be away from the riverbed.

So that we have a diversity available within our portfolio. So consequently despite the impact the flood had, if you look into our portfolio, gross NPA has reduced, SMA1 and SMA2 has reduced. This flood has affected certain parts of the Punjab and our whole sympathy with the affected families.

But given our historical learnings and with our historical experiences, being an agri lender we are always conscious about this particular type of eventualities, since we have seen the natural calamities of 2018, earlier also. So we are very conscious and we make our best effort to ring fence from these eventualities as we move forward. So our portfolio, affected portfolio is in a lower single digit and that's the reason it is not giving us such a worry, but just again reiterating our full support and sympathy to the affected families.

Shreyas Pimple: Right. Thank you, sir. Another question was on a hypothetical question, sir. Let's say RBI cuts 25 basis points in the next monetary policy meeting. What could be the potential impact on the margins, if you can highlight, please?

Munish Jain: Shreyas, after the last 100 basis point cuts by the Reserve Bank of India, we have worked to minimize that particular impact. If you look into our portfolio, if you look into the Slide 8 of our presentation, you will see our home loan book is around 12%, which was typically 14 percent. Home loan is directly related with the floating rate.

On the other way, if I said, our fixed loan book, which was 39% in 2024 is now constituting 48% of our total portfolio. We are trying to minimizing impact of interest rate environmental change. Our fixed rate book is now 48% of the total book, with the interest rate cuts coming, the biggest impact which comes immediately implementation is on the housing loan.

Our housing loan book now constituting around 10% to 12% of the portfolio, which was around 14 to 15, with that conscious choice. Just till the time we are not seeing any upward interest rate regime coming or the stable upward interest rate regime coming, we are conscious about this.

With the next interest rate cuts, so we will be seeing a lesser impact on us, on our margins, since our deposit re-pricing is 12 to 15 months from the last period. So even if a cut comes in the Q3, our deposit will be re-priced, on maturities and re-pricing will be at the revised deposit rates. The impact will be muted if any cut coming in Q3 current year or even Q4 current year.

Shreyas Pimple: Understood, sir. Another follow-up on that was, what is the portion of our MCLR book and can a bank like us, can we control the MCLR going down? That is, cuts in MCLR, can we control that or is it formula-based that it has to go down?

Munish Jain: Firstly, I will take your second question, that is what is the MCLR calculation methodology. MCLR is typically dependent upon the variables, which is called the cost of funds, which is formula-driven, but it has an element of cost of equity, which is dependent upon each of the participant's equity bidders. There is that leverage available, which will be different from different entities, maybe different for UCBs and different for SFBs.

So there is one lever, which is available for entities like us within the cost of funds. Another two levers are typically the opex. on the opex, which is other than the non-allocable opex. So that is another lever available within that, but that is internal policy and structure-based and also our expected return. So what is that return on equity you are expecting or return on assets or internal return on equity you are expecting?

So there are some levers available in MCLR, but it is purely formula-driven and that is the way it has typically happened. And if I come back to the first point, as I said earlier, we are typically having 52% floating rate. Within this, over majority of the loans, majority of the thing now is MCLR-linked.

Our EBR-linked, within this 52%, if I talk about the total portfolio, it happens to be around 12% to 13-odd%,. Out of 52%, 13% is EBR and 39% to 40% is MCLR, which is giving us a better comfort now as we move forward, because with the last rate cuts, MCLR has also come down. With the present rate cuts, there are certain cushions available, which will be helping us to maintain it.

Shreyas Pimple: That is really helpful, sir. Thank you. Also, just one data-keeping question, the slippages that we have seen in quarter 2 of INR31 crores, can you give the bifurcation among segments where these slippages are coming from?

Munish Jain: If I talk about firstly the slippages, the slippage during the Q2 is 1.84% on a percentile basis with an upgrade ratio of 1.2%. So, in Q2, we have 1.9% slippage in Q1 with an upgrade of 0.76% in Q1 current year. So, we have reduced the slippage percentage and improved the upgrade number.

And this particular slippage, the lion's share of this slippage has come from the agriculture, given the flood-like situation, but that value is not significant since as I said our affected portfolio is low. So, out of a total slippage of INR31 crores, my more than 50% of slippage has come from the agriculture piece. Yes, that is the way it has happened in the Q2.

Shreyas Pimple: Right, sir. And lastly on the expansion strategy out of Punjab area, how on track are we about that? Can you explain a little bit?

Sarvjit Samra: Sir, presently we are at 200 branches, out of which if I say 164 branches are in Punjab and 24 are in Haryana and 4 are in Rajasthan. But going ahead, the 28-branch expansion which are in the pipeline, we will be taking this Haryana number from 24 to 33 branches and from 4 branches in Rajasthan to 9 branches. This is I am talking about the present expansion which is going on.

But going ahead, we have planned for the next three financial years that more than 30% of the branches are going to be out of Punjab and where we want to take our number of 200 to 1.5x of the number, that is 1.5x by 2029. So, the branch count we expect to grow to 300 by financial year 29 with 30% branches out of Punjab. And we will add more states to our kitty also. UP is already in the pipeline and the next, in the medium term, we will be adding other states as well.

Shreyas Pimple: Okay. Yes, that is all from my side. Thank you so much, sir.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Demeter Advisors LLP. Please go ahead.

Ashwini Agarwal: Good afternoon to the team. A quick question. This partnership model of lending that we are trying to follow outside of the core operating area and targeting similar type of loans that you currently do. Could you tell us a little bit more about it? What geographies are you looking at? And if you can share the names of the partner, lender partners that you expect to work with?

Munish Jain: Ashwini, first of all, if I take the point number one of the question, we are presently targeting more of the Rajasthan and some portion from Gujarat. So, these are the two geographies, maybe some portion from Madhya Pradesh. So, these are the three geographies which we are planning to target through this partnership-led model.

I just tell you the structure of the model. It will be, we will be, the credit policy will be ours and what sort of customer segment we want to target, what sort of the collection, collateral efficiencies we want and what sort of the -- how the credit assessment will be done. That is the need of the credit will be assessed.

The partner will be responsible for origination, servicing and recovery. We will be responsible for underwriting and also for ensuring the hygiene of that particular customer with overall technological integrations. Partner's payouts will be dependent upon the quality of the portfolio in addition to the quantum ,his variables, payouts will be purely linked with the performance of the portfolio he sourced.

In addition to the payouts linked with the quality of the portfolio, there will be additionally, we will be taking for each of the bucket, say we identified for the first six months, one, a partner who want to build up N value for us, we will be taking a fixed percentage share as FLDG, which will be used against that whole of the portfolio-related risk which will be remaining with us till the maturity of that particular segment of the portfolio.

So, we are typically keeping a complete ring fencing and safeguarding to ensure the same and that will be purely in the operating geography where we have a thin presence, we have a limited presence out there.. That is the point number one.

Point number two, telling the name is as per my agreement, I am restricted to have, you can say, the name sharing, but one for assurance perspective, we are partnering with the high-rater NBFCs who are working with us and rather to whom we are working as an on-landing partner. So, we have a relationship with those entities for a period -- long period and we have seen the various cycles of the lending with them as an in-book lender for them.

So, we are very -- you can say, careful. We are very careful in selecting the partner and rather than just financials. We have been in their book as a lender for a sizable time so that we can review their performance of the portfolio in much more detailing as a lender. So, to give us a more comfort. So, which we are picking up out of our NBFC corporate loan book. So, those are the persons who will be getting eligible for us for this type of partnership opportunities.

Ashwini Agarwal: And what do you think would be the size of this sort of partnership book, let us say, in two years to three years from now as a percentage of a total loan book?

Munish Jain: Ashwini ji, this will be dependent upon, so we -- I am not saying that we will not be going to be over-dependent on this particular thing since we have a very, very strong franchise and which has a capacity to generate our own distribution.

Say, hypothetically, if I talk about FY '26 or, FY '27, say, hypothetically, I said I want to make a disbursement of say INR4,000 crores to INR5,000 odd crores. Total disbursement of INR4,000 crores to INR5,000 odd crores. I believe I will be eyeing maybe around 5% from this channel in the beginning, maybe coming here.

So, we are not looking for a high thing, we believe it has high scalable opportunities, so that we can review, put in the respective risk controls, then scale up. But overall basis, starting maybe from 4% to 5% of the distribution -- annual distribution or disbursements to taking it around 10% to 15% of the annual disbursement is what we are internally targeting for.

Moderator: The next question is from the line of Ravi Naredi from Naredi Investments.

Ravi Naredi: Sir, it is good you have zero exposure to microfinance, but still MFI is INR62 crores and NPA 14%. So, what is the reason?

Munish Jain: Sir, typically, we are typically staying away from the direct MFI, but we had a very handful of the NBFC MFIs whom we have lent. And this particular NPA, which has come from that particular piece in the last quarter. And these are not the first tranche. These are the lending to the gentleman's or the company, which maybe we have lent in a third tranche or the fourth tranche.

So, in which that become NPA because of the market scenario. But the value being very miniscule, if you look, you will appreciate out of the INR62 crores, the lion's share- more than 50% of the present outstanding portfolio is to the NBFC MFI, which is A+, A rater and above.

And excluding these NPA accounts, so we are not seeing any challenge in our NBFC MFI portfolio and that is very smaller portfolio now. So that was because of some challenges which those MFI segment has seen over last six months. But current quarter, there was no negative development and whatever happened was in the first quarter. And we have provided for that also in a significant way.

Ravi Naredi: So, according to you, we will receive 100% payment in due course, right?

Munish Jain: I believe whatever we have not provided for. We believe we have provided for whatever is anticipated loss from the NPA. What we have not provided for, we will be recovering lion or a larger portion out of the same. If I talk about from the position as we see as on date.

Ravi Naredi: Okay. Sir, our advances rises 18% year-to-year, while our profit after tax rise only 5%. So, want to know reasons of lower growth in profit?

Munish Jain: The reason is only attributable to the NIM compression. Our NIM, which was typically 4.2 because of the sudden interest rate decline of 100 basis points by the Reserve Bank of India. And in a banking, the impact of the same has completely translated to the advance portfolio, where on the deposit portfolio, the impact will be visible on the repricing. And the repricing comes from the liquidity.

Ravi Naredi: I understand. I listen your reply in earlier question also. Sir, cost to income ratio is 61.7% and we are planning 100 more branches in next two and half years. So, it is remain elevated for more, in next three years?

Munish Jain: In my view, Ravi, we will be improving it. If you look into the opex to the asset ratio, our opex to the asset ratio in Q2 is 3%, which was 3.3% last year Q2. So, rather than just looking into the cost to income, if you look into the opex to the total outstanding over the asset ratio.

So, we are targeting a 1.5x of the branches over next three, three and half years, whereas we are talking about 2x of the business. So, we are talking about more of the revenue and less of the cost centers. So, I believe we will be seeing a positive impact on over opex.

Moderator: The next question is from the line of Satinder Singh Bedi from Eon Infotech Limited.

Satinder Singh Bedi: Mr. Jain, My question was regarding this growth. So, we got all these fuels to grow faster. We are a small size bank. So, we can actually capture market share. Our capital adequacy has been high at 24. The average LCR is 234%. Your credit deposit ratio is also very healthy. So, what's holding us back from growing, let's say, 25% or thereabouts, which is what actually 5-7 larger small finance banks for example AU Small Finance Bank They are talking about a 25% growth despite about a 10x your size. So, what is it that is holding us back and how can we scale it to the next level?

Munish Jain: Satinder ji, we are a growth hungry and growth ambitious organization. If we look into our history, we were growing at a 23% CAGR despite the fact we have two muted years. That is a year in which we raised our capital because of the lack of the capital. But if you look into the going forward, as per the stated guidance, which we have presently coming up as part the presentation, we'd like to make us 2x over the next three, three and a half years.

So, current year, if we talk about the current period also, in current quarter or current H1, we grow 10.1% six months on March number. So, current year, we are on track for 20% plus growth rate and we intend to accelerate this growth percentage in each coming year. And we are understanding the opportunity available in the market, but there was a lot of noise about the asset quality if you look into the FY '25.

So, we are not that affected, but which make us caution in FY '25. Now, in FY '26, we are all out for the growth and we will continue our growth momentum. Current year, we are given a guidance of 20% plus, which we are very, very confident. Next year, we will be keep on accelerating over growth percentage in each of the year. And on a three-year trend basis, we're given a guidance of 2x. So, that is what we are targeting and we are completely in for a rightful growth.

Satinder Singh Bedi: Right. Second was regarding 1.6% ROA in FY '29. So, you've actually got three levers. You have the net interest margin lever, which you've talked of that some of the benefits will flow through anyway, because of this lag. Second is the non-interest income. Our non-interest income relatively is quite low and that probably flows out of the smaller portfolio of products and services that we have.

So, it would help to understand what is our vision in terms of rolling out more products and services, so that our non-interest income as a percentage of average assets could go up. Because if we have to reach 1.6%, then an opex is your third lever, which, okay, obviously, while you indicated you've come down, you've done a good job of it.

But since we are going to grow, cost to income ration, -- it might come down from, okay, 62% to may be 55% by FY '29. But still to achieve 1.6%, you'll have to have non-interest income go up. So, understanding what is our vision on that, okay, might be greatly helpful.

Munish Jain: If we talk about the levers for or rather the bridge between 1.3%, which is Q2 FY '26, versus 1.6% plus FY '29. So, we're looking forward for a bridge of 0.3% between these two line items or rather I will say not 0.3%, I will take it 0.35% to 0.4%. Though we are giving a 1.6%.

First of all, the bridge, if you look into the bridge available, firstly, the NIM. NIM in the Q2 is 4, whereas I believe our NIM with the 86% to 89% of the average CD ratio, which we intend to make, we want to have an 86% to 89% CD ratio over the period to come. So, there -- with that type of thing, the NIM lever should be 4.3% plus. So, we have 30 basis points lever available within the NIM segment only. Minimum 30 basis points NIM lever available. So, including the benefit, which will be benefit with the deposit repricing. So, we have a good lever available.

Second lever, which is available is the opex. Opex, if we look into the cost to income is 61%. And if we look into the opex to the assets, this is 3%. If I estimate, if I take your word only, that is 55% cost income, then it will translate into 20 basis points lever in the ROTA tree from the opex.

Satinder Singh Bedi: Yes.

Munish Jain: If I just take 55% only, if I take it maybe say 57%, there will be around 15 basis points to 17 basis points lever available from the opex to the ROTA tree. So, these two levers are typically 50 basis points lever, which we are just talking about. Just there will be a tax implication also, which will be eating up something and we are looking at 0.20 credit cost. We are projecting to be on a safer to 0.3%. So, we have to keep a buffer of 10 basis points for the additional credit cost and some tax implication.

So, with that thing in sight, so we are presently having a non-interest income of 0.9%. And just we will be keep on adding the product as we evolve. If you look into our non-interest income, , which was 0.6% in FY '23, improved to 0.8% in FY '24, improved to 0.9% in FY '25 and presently is also sitting at 0.9%. Despite the fact there was a complete absence of the treasury earnings.

So, if we had slight portion of the treasury earnings, Q2 was a special quarter in which despite the interest rate cut announcement, the yield or the fixed income, there was no earning opportunities. But now the earning opportunities seems to be coming up. So, with that thing, we believe over non-interest income on a medium-term basis shall be moving towards from 0.9 to 1 to 1.1.

To achieve this number, we will be keep on adding the products basis our target customer segment, which is the middle income group customer segment. So, we are quite open for all the products which is needed by our customer. So, the levers available are the threefold. I will say the largest lever is the NIM lever, second largest lever is the opex lever and the third lever available is the non-interest income lever.

So, if I include these three levers and subject -- and give a discount to the advanced credit cost and then make a tax implication of 25%, the arbitrage, the bridge between 1.3% to 1.6% plus is -- we will be finding that levers are much more than that value.

Satinder Singh Bedi: Yes. You are right. You are right. So, you need to increase by 34 bps from current 1.26, pre-tax income 45% and providing for the credit cost, it becomes 55%. I think you are doing a good job. So, all the best. Congratulations. And finally, any plans? Okay, I understand till '29, no, but any plans to be a universal bank five years, seven years down the line or do you intend to stay a SFB?

Munish Jain: Mr. Bedi, we are ambitious and when you see a next level available, it keeps you more on the toes. So, we intend to be and want to be a universal bank, but with a strong footing. I will not be trying to give five years. I believe it is a longer period. I believe we should be aiming for a universal bank before that, but giving it a timeline now will be too premature.

Just let us be stabilized as a small finance bank. Let us have a stronger balance sheet, a diversified and consistently and sustainable performing balance sheet. But I believe five years is a longer period. We internally are ambitious, more ambitious than this and want to achieve it earlier than this.

Satinder Singh Bedi: Congratulations, Mr. Samra and team. I think you have surprised with this quarter's results despite the floods and so on. All the best.

Moderator: The next question is from the line of Jay Mistry from Equirus.

Jay Mistry: Hello, sir.

Munish Jain: Yes.

Jay Mistry: So, I just had one data-getting question. So, could you please share the disbursement mix for 2Q FY '26?

Munish Jain: I miss Mr. Jay.

Jay Mistry: Hello. Am I audible now?

Munish Jain: Yes. The voice is a bit broken. You just come again, please.

Jay Mistry: Yes. Hi. Could you please share the disbursement mix for 2Q FY '26?

Munish Jain: Disbursement mix. I am not having it very handy. I may ask my IR team to keep it with them and share it with you. But broadly, it is typically having 30% to 45% to the MSME, around 20% each to the mortgage and the agri. So, typically, if I talk about this, I just got the number. It is 19.22% to agriculture, 30% to the MSME, 23% to the mortgage, 20% to the NBFC, large corporates and remaining to the other consumption lending.

Jay Mistry: Sure.

Moderator: Ladies and gentlemen, due to time constraint, this was the last question for today. I now hand the conference over to management for closing comments. Thank you and over to you.

Sarvjit Samra: I would like to thank everyone for being part of this call. I hope we have answered your questions. If you need some more information, please feel free to contact our investor relations team or SGA, our Investor Relation advisors. Appreciate your time. Thank you once again and have a good day.

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