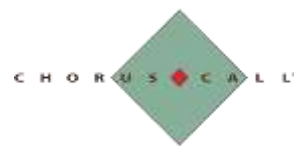




“Equitas Small Finance Bank Limited
Financial Performance Q3 FY '26
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good morning, and welcome to the earnings call of Equitas Small Finance Bank Limited Financial Performance for Q3 FY '26. We have with us today Mr. P. N. Vasudevan, M.D. and CEO; Mr. Sridharan N., CFO; Mr. Jagadesh J., Head of Assets; Mr. Murali Vaidyanathan, Senior President and Country Head, Branch Banking, Liabilities, Product and Wealth; Mr. Gopalakrishnan G., Head Treasury; Mr. Suresh, Head Strategy and Business Intelligence; Mr. Sundararaman D., Head, Investor Relations; and Mr. Abeshek, Specialist Investor Relations.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

P.N. Vasudevan: Thank you. Good morning to all of you and thank you for taking your time out to attend this call. I'm happy to start off by saying that many of the initiatives we had talked about a couple of quarters back have started yielding results.

In Microfinance initiatives such as rolling out the monthly repayment mode with EMIs till the 15th of the month, which forms around 63% of the book today, focus on acquiring new-to-credit and new-to-bank customers who have lower leverage and reducing caseload per staff, combined with improved lending discipline in the industry and the strict implementation of MFIN guardrails by all the players have resulted in significant improvement in performance of this book. The X Bucket collection efficiency on a POS basis, has moved up to 99.4% in December.

And the percentage of book slipping into NPA over the last few months has seen a sharp reversal. Microfinance today contributes about 8.5% of the total advances, excluding the direct assignment purchase of MFI Agri pool that we did in Q3.

And we keep -- we aim to keep this Microfinance at around 10% of the advances level on an ongoing basis. All other businesses have shown continued improvement. Small business loans, which showed some stress in Karnataka specifically, maybe about 2 to 3 quarters back, has seen a significant improvement.

Overall delinquency in SBL has come back to near normal. Disbursement also has been picking up and portfolio quality across all parameters have shown good improvement over the last quarter. This enables us to continue growing this book strongly on an ongoing basis. Other businesses are also doing well, and Jagadesh will cover those more in detail. On liability, we had 18% growth in deposits in Q1.

We had to take the pedal off the deposit growth to prevent excess liquidity in the system. But we ended up with just 7% growth in deposit in Q3 and now need to increase the momentum on deposit growth to support the increased advances growth. Murali would cover steps being taken to bring the deposit growth back to the earlier levels. The cost of funds has been coming down

and presently stands at about 7.13%. It's expected to go further down before stabilizing as more of the old deposit gets replaced with lower-priced new deposits.

In terms of capital adequacy, we are placed comfortably at about 20.47% capital adequacy ratio. During Q3, we took some initiatives to conserve capital, such as increasing the IBPC outstanding from INR1,250 crores to INR2,000 crores as well as getting about INR1,690 crores of vehicle finance covered under CGTMSE guarantee scheme.

This not only supports us in terms of credit cost in the future but also releases capital to the extent of the guaranteed portion of the principal. With these initiatives continuing into the subsequent quarters, along with better internal accruals that we expect to generate going forward, we do not expect a capital expansion requirement in the first half of the next financial year. We will review the situation in the second half and take a call at an appropriate time.

We have delivered a better-than-expected ROA of 0.65% for Q3 after taking into account around INR29 crores of impact due to the new labour code implementation. But for this onetime impact, the ROA would have been in the range of around 0.8% and cost to income would have been at about 70% level.

We have guided for a 1% exit ROA for the fourth quarter, and we believe that we are in line for delivering that. On advances growth, we have guided for a 15% growth for the year against 12% growth in Q3. That is, I'm talking of without taking into account the DA purchase in Q3.

Along with the DA purchase, the advances growth has been 16% in Q3. But if you remove the DA purchase, it is 12% in Q3, and we have guided for a 15% full year growth, and we believe that we should be in line to deliver that.

Overall, with the impact -- we had a big impact in the income in the last 2 years because the MFI portfolio mix, which was 20% in March '24 was dropping over the last 2 years to reach 8.5% now. So, there has been a drop in income impact that we have seen over the last maybe 6 quarters or so.

But with that kind of coming to an end and the microfinance 8.5% expected to stabilize around the 10% contribution level and the rest of the portfolio seeing all-round improvement, we believe that we are well positioned to deliver consistent and improving performance going forward. Thank you.

And with this, I hand over to Sridhar.

Sridharan N.:

Thanks, Vasu. Good morning, everyone. Thank you for joining us today for the Q3 FY '26 earnings call of our bank. I appreciate your continued interest and support. Let me take a few minutes to walk you through the financial performance for the quarter.

Most of these details are also available in our investor presentation. We reported a net interest income of INR852 crores and other income of INR285 crores, bringing our total net income to INR1,137 crores for the quarter.

Total net income grew by 8% Y-o-Y and 14% Q-on-Q. NIM has significantly improved by 43 bps Q-on-Q basis to 6.72% in Q3 FY '26 as compared to 6.29% in Q2 FY '26. The bank reported a PAT of INR90 crores, a growth of 36% Y-on-Y and 273% Q-on-Q. This is after making a onetime incremental provision of INR29.5 crores due to the implementation of new labour law codes in Q3 FY '26. Return on assets and return on equity for Q3 FY '26 were at 0.65% and 6.1%, respectively.

In terms of asset quality, gross NPA reduced by 20 bps Q-on-Q at 2.62% in Q3 FY '26 as compared to 2.82% in Q2 FY '26. Net NPA reduced by 7 bps Q-on-Q to 0.88% in Q3 FY '26 as compared to 0.95% in Q2 FY '26. Credit cost also has reduced to 1.88% in Q3 FY '26 as compared to 2.16% in Q2 FY '26 and 2.65% in Q3 FY '25. Our provision coverage ratio remains healthy at 67.10% (Corrected), and we expect credit costs to taper down by Q4 FY '26. Moving to the advances book.

Gross advances grew by 16% year-on-year to INR43,268 crores, driven by robust disbursement. The disbursement for the quarter stood at INR6,557 crores with a strong momentum across all verticals. On the liability side, total deposits grew 7% year-on-year to INR43,668 crores, and our CASA ratio remained stable at 30% and retail deposits now constitute 73% of the total deposit base. As of December 31, 2025, our capital adequacy ratio stood at 20.47%.

With this handing over to Jagadesh.

Jagadesh J.:

Good morning to you all. On the asset business, for the quarter 3, we have demonstrated a notable improvement compared to the performance in the preceding 2 quarters. This positive momentum was predominantly driven by the growth in non-Microfinance segments and the strategy of risk calibrated expansion. And also, the shift towards the certain product segment contributed significantly to the overall better results for the quarter. Let me walk you through some key highlights.

On the advances front, we have grown 16% year-on-year and 11% quarter-on-quarter. This is primarily driven by the healthy uptick in disbursements. Microfinance and Micro Loan advances includes purchase of Agri assets under direct assignment deal of INR1,343 crores.

Excluding this direct assignment deal, overall bank advances grew by 12% year-on-year and 7% quarter-on-quarter. On the disbursement front, we have delivered the highest ever quarterly overall disbursement of INR6,557 crores, which is a growth of 28% year-on-year and 22% quarter-on-quarter.

And Microfinance disbursement have surged 72% quarter-on-quarter to INR1,173 crores in this quarter, helping us to maintain MFI portfolio at around 9% of our overall advances mix. On the non-MFI front, we have delivered our highest ever quarterly disbursements of INR5,385 crores in quarter 3, which is a growth of 35% year-on-year and 15% quarter-on-quarter.

Our non-MFI, which is a secured book now stands at INR38,108 crores, marking a 19% year-on-year growth. Our small business loans, which continues to be our largest contributor, growing

at 14% year-on-year. And notably, the secured business loans saw a robust 22% year-on-year growth.

And on the vehicle finance, our strategic focus remains on the used CVs and used cars. Our used commercial vehicles grew at 23% year-on-year and used cars posted a strong 36% year-on-year growth. And on the affordable housing, we grew at 17% year-on-year and 6% quarter-on-quarter at INR5,360 crores. On the MSE book, we grew at 35% year-on-year and crossing INR2,000 crores. Microfinance portfolio, excluding DA stands at INR3,800 crores and is expected to grow driven by the improved disbursements.

On the yield and asset quality front, the yield on gross advances declined by 10 bps quarter-on-quarter to 15.63%, primarily due to the lower contribution from the MFI mix. On the non-MFI yields, it's declined by 9 bps quarter-on-quarter to 14.97%, mainly due to the portfolio recalibration. On the asset quality, net slippages significantly reduced to 2.52% in quarter 3, down from 3.78% in quarter 2. We reported the lowest net slippages for the bank in the last 6 quarters.

Credit costs saw a sharp decline to 1.88% compared to 2.16% in quarter 2 of the financial year '26. In Microfinance, 1 to 90 DPD improved significantly to 2.14%, down from 5.40% in quarter 2. This is driven by the enhanced collection efficiency. As stated earlier for the current financial year, we are in line with our stated advances growth of about 15% year-on-year. This is excluding the DA driven by the improved disbursements.

Thank you, and I will now hand over to Mr. Murali.

Murali Vaidyanathan:

Good morning. Thanks to you all for joining this call. While the numbers are there, let me take you through some numbers, which is very important for all of us to get a grip of things. Last quarter, we did rate tweaking strategically because that was the opportunity available for us as we strengthen the proposition across mass affluent, affluent and HNI as a segment. So, our cost efficiency in terms of interest pay-out came through 3 different things.

One is on savings rate. Second is on TD rate and then duration shifting from 444 to 888 as an opportunity. So that has helped us to bring the overall cost of funds down. That is one side. But absolute SA, which was at 6.08% as we started the year on April is today somewhere at 5.1% as we exited quarter 3 and TD, which was at 8.48% today is at 7.3%, which means close to 95 bps on TD on repriced book of 65% of the portfolio.

And importantly, shifting the consumer from 444 to 888. Last quarter, we did close to 110,000 customers who had 444 in last 6 months to be very precise month-on-month migrating into 888. So, there's a conscious effort to build the quality in terms of duration, bringing down the price, enhancing the proposition has been our core driver.

And our family banking proposition, which we spoke about, we have now close to 30,000 families of Elite and to expand that Elite to next level, we are creating a product for mass affluent, which is called Elite Lite, which has gone live. And we are also getting into HNI program called ARTHA, which should go live today, tomorrow.

So, the important message, what we want to tell is we want to strengthen our relationship management. We want to move from only rate-conscious approach to value proposition. And third important thing is how -- what more can I do to the consumer. So, as a proposition, we are strengthening the product, distribution and relationship and focused on 3 clear specific segments. On NR, our FCNR has gone live.

We have crossed \$20 million, \$22 million worth of dollar, and we'll be launching our pound-based FCNR next week. And we are seeing a good trajectory at this point of time. And we predominantly at this point of time, we are only focused on giving it to our existing customers. And so is our inward remittance gone live. So AD1 almost through in terms of that.

And we specifically launched a product for seafarers, and this is meant for only shippies and which has started well, last quarter end we launched it. And this quarter, we have launched a program for NR also, which is specifically Elite. So Elite as a proposition is going to be, what we want to call as House of Elite, entry for mass affluent, affluent and then HNI. This is going to be our approach in terms of our specific focus on SA. CA, we have some distance to cover.

We are coming out with a merchant program as well as asset-centric approach, which we will elaborate later on next quarter. Now last but not the least, gold loans from the branches, signs are very encouraging in line with markets. I think we are disbursing close to INR100 crores to INR120 crores a month on a steady state basis. This should only go up. Presently, we are focused as a cross-sell activity.

And at some point, of time, in the next year, we will have it as a focused activity in terms of new-to-bank sourcing also. With this, I hand over the phone to Gopi, who will give some treasury insights to us. Thank you all.

Gopalakrishnan G.:

Thank you, Murali. Good morning, everyone. Markets remain extremely volatile, dominated by global trade and geopolitical uncertainty. Indian equities and rupee markets have underperformed versus global pace. This has mainly been caused by foreign investors exiting equity investments with a further pressure on account of returns being impacted by rupee depreciation.

Domestic CPI is expected to remain within the MPC inflation target. Upcoming budget will be closely watched with the market seeking further queues for government stimulus to strengthen growth. Government bonds market saw the benchmark 10-year yields stay roughly flat during the last quarter and closed at 660.

With the overall system liquidity remaining tight and pricing in no further rate cuts, benchmark yields further went up during current month. More recently, RBI has announced steps to infuse system liquidity with borrowing rates for banks and corporates spiking in the past few weeks.

We continue to be watchful in the near term with heightened volatility becoming the new normal. Coming to Equitas specific, treasury income stood at INR34 crores in Q3 FY '26. Thank you. Back to operator.

- Moderator:** The first question is from the line of Chetan Gindodia from Mahindra Manulife Mutual Funds.
- Chetan Gindodia:** My question is in the other income line item, do we have any income from sale of ARC -- sale to ARC or any other one-off income could be there because sequentially, it has jumped quite a bit.
- Sridharan N.:** This is Sridharan here. Yes, other income includes a onetime sort of ARC income of INR31.52 crores.
- Chetan Gindodia:** And with respect to credit cost, if it is possible to share any sort of guidance, how do you look at credit cost for us in Q4 and the year ahead because the slippages and most of the book for us, including SBL and MFI have started performing in line with your expectations. So, any light you can share on that?
- Jagadesh J:** As we clearly stated, the net slippages was the lowest among the last 6 quarters, and it was on the downward trend. So, it clearly indicates that even the credit cost will be on the downward trajectory for Q4.
- Chetan Gindodia:** Okay. Okay. Got it. And TD -- lastly, with respect to TD repricing, so how much of our total book would have repriced as of now? And what quantum of book is left to reprice and how much in terms of cost of fund one can further expect and sort of decline from here.
- Murali Vaidyanathan:** 60% of the existing book has got repriced. And another 20% is due for this quarter, balance will slip into the next quarter. And we are going with -- already, as I said, we have tweaked the rates in line with better than market. And at the same time, in line with RBI, we are 1 cycle behind. As of now, we have saved 98 bps, as I said earlier, on the new price book of the existing portfolio.
- Moderator:** The next question is from the line of Rahul Kumar from Vaikarya Fund.
- Rahul Kumar:** Just one question. What is the PCR coverage ratio, which you are comfortable with? And what is the trajectory of NIM over the next few quarters?
- P.N. Vasudevan:** PCR ratio, it's around 67% today. We are reasonably comfortable at those levels. Around that level is something that we are fairly comfortable with. As far as the NIMs are concerned, we did have a sharp jump in the NIM basically because microfinance has stopped degrowing. And for the first time, I think actually it grew quarter-on-quarter from a portfolio perspective. But now microfinance is about 8.5% or 9% of the total book. We expect that to remain at that 9% to 10% level. That's our stated objective. And because of that, we do not expect a downward pressure on NIM any longer because of MFI going down. And the rest of the book continues to grow well. So, we should expect our NIM to be -- I mean, I think our NIM is more or less where it will be. Maybe it may marginally tick up a little bit, but somewhere around this range is where we expect it to be.
- Rahul Kumar:** Okay. Okay. And other expense in this quarter has increased pretty sharply versus last quarter. So, what has driven that?

- P.N. Vasudevan:** Is it labour code stuff? So, there are 2 things. One is that there's been an increased disbursement happening in the quarter, which there is a certain amount of cost associated with the disbursement. And second is INR29 crores of onetime impact because of the labour code. Yes. So, if you see the cost to income is 72%. But if that labour code impact is kind of netted out, it would have been 70% actually. So that was a big impact in the quarter.
- Moderator:** The next question is from the line of Parth M. from 360 One Capital.
- Parth M.:** Sir, my question is again on margins. Given that the cost of funds should trend downward from here on because we have repriced our term deposits and also rationalized our SA rates. So -- and just in your previous comment, you guided that...
- P.N. Vasudevan:** The voice is unclear. Can you please repeat? The voice was not clear.
- Parth M.:** Yes, Sir, my question was on margin. Given that we have rationalized our term deposit rates, shouldn't the margins expand from here at least in FY '27 because we'll still have the cost of funds benefit? That was my first question. And my second question was in terms of SBL, when you say that it has normalized. So, should we expect the slippages around these levels within the SBL portfolio? Yes, those are my two questions.
- P.N. Vasudevan:** Okay. Okay. So, on the first point, let me take that. Yes, I mean, there are certain drivers in place for expansion of NIM. One is that the cost of funds is expected to trend down a little bit more over the next 2 to 3 quarters because of the repricing of old deposit to the new deposit.
- So, the cost is definitely expected to go down, which could be one driver for NIM expansion. The second driver for NIM expansion is that microfinance is 8.5%, but we want it to be around the 10% level. So that 1.5% increase in the MFI portfolio mix could be another contributor to NIM expansion.
- But on the other hand, NIM contraction perspective, if you look at it, our lending yields, the disbursement yield is likely to come down a bit given the overall interest rate scenario in the market. So, we may also have to fall in line with that, and there may be some little bit of disbursement yield drop. So that will be the negative side from a NIM perspective.
- So, if you combine all of this, that's what I said in the earlier question asked that from 6.7% that we are in currently, we may expect it to move marginally up a little bit. But right now, we are not actually in a position to guide exactly where it will go and where it will stop. But definitely, we don't see it going down. That's for sure. It might marginally go up in the next few quarters. On the SBL, I'll as Jaggi to.
- Jagadesh J.:** Yes. So, on the net slippages for SBL, if you look at between Q2 and Q3 itself, it has gone down from 2.49% to 1.46% in Q3, okay? So, the net slippages is an indication of both the X Bucket and 1-90 DPDs. If you look at the X Bucket efficiency of SBL we are at 99.3%, which has improved from 99% from Q2 to Q3. Similarly, on the 1-90 DPDs, also almost close to INR100 crores, we have reduced in actual value.

And in terms of the percentage, it has gone down from 7.53% to around 7.3%. So based on the combining both these factors, the net slippages will go down in Q4.

Parth M.: And just my last question, the SBL portfolio, your PCR is around 27%. How comfortable are you with that PCR?

Sridharan N.: We are very comfortable with this one because the substandard is one thing actually. And we did some ARC sales. And because of that, it has come down actually, okay?

Jagadesh J.: And in addition to that, we are not only in terms of the comfortable...We are not even putting the provision based on IRAC norms. We have even -- let's say, an example, in certain DPDs between -- up to 455, we just require a 25% PCR coverage, whereas we are putting almost close to 75% if it is 455. So, we are comfortable with that being a secured book.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Yes. Sir, I missed one number you mentioned. So, in the third quarter, what was the ARC income you mentioned?

Sridharan N.: INR31.52 crores.

Deepak Poddar: It's included in which line item?

Suresh G.: Slide number 34, asset fee income. It is included in that.

Deepak Poddar: Come again?

Suresh G.: Slide number 34, asset fee income.

Deepak Poddar: No, no, I'm saying which P&L line item. I mean it's a part of other income?

Suresh G.: Yes, yes, yes.

Deepak Poddar: Okay. Okay. Understood. And you mentioned INR31.5 crores, right? INR31.52 crores?

Suresh G.: INR31.52 crores, yes.

Deepak Poddar: Okay. Understood. And on the PSLC, I think this quarter, we were close to around INR34 crores, right, PSLC income. So how should one look at going into fourth quarter? Generally, in fourth quarter, PSLC income is generally higher.

Suresh G.: That is treasury and PSLC fee income. So, it's largely. No PSLC income there during the quarter.

P.N. Vasudevan: We have not done any PSLC sale.

Deepak Poddar: So, there was...

P.N. Vasudevan: Only treasury income.

- Deepak Poddar:** Okay. And fourth quarter, any PSLC income we are expecting?
- P.N. Vasudevan:** Doubtful because Q3, we actually had to buy Agri portfolio from some of the MFIs to meet our PSL Agri requirement. So, we had to actually buy because we are a shortfall. But with microfinance disbursement picking up, we expect that in Q4, our own internal business generation should be enough to meet our PSL requirements. Doubtful that we may have excess, which we will be able to sell, doubtful.
- Deepak Poddar:** Okay. I understand. And in terms of your deposits, I mean, 100% of your deposit, the transmission has been done on your cost of funds? Or is there anything left?
- Suresh G.:** See, we are close to 65% in terms of repricing of deposits as a book as of December. And maybe Q4 exit will be close to 85% level. So that's the outlook.
- Deepak Poddar:** 85% in Q4. So that's the reason you're mentioning that there can be an upward bias on your NIMs?
- Suresh G.:** Yes, slight. So, it's one of the levers.
- Deepak Poddar:** Okay. Okay. Understood. And given -- I mean, the market is doing well and even improvement in MFI. So, anything on FY '27, how should one look at your growth and ROA?
- P.N. Vasudevan:** Yes. So, as we mentioned, we should end up with about a 15% growth for this year. And again, I'm asking, I'm excluding the DA, right? If I add the DA part of it, it might be about 17%, 18% growth. But for the minute, I'm taking the DA out because it's just a onetime one-off transaction. So, without that, we should be ending up this year at about a 15% growth. But historically, we have generally grown between 20% and 25% growth on a yearly basis. So going forward, next year, we should look at anything between 20% and 25%.
- Deepak Poddar:** 20% and 25%. And ROA, you are talking about exit ROA of 1%. So how about FY '27 ROA?
- P.N. Vasudevan:** So, we should expect the next year fourth quarter exit ROA at 1.5%...
- Deepak Poddar:** Fourth quarter exit.
- Moderator:** The next question is from Ashish Agarwal, an individual investor.
- Ashish Agarwal:** Okay. So, one was regarding this -- our bank looking at the universal bank license, what is our outlook on that?
- P.N. Vasudevan:** Well, we have mentioned this in the past also. By March '26, we hope to be meeting all the requirements of the guidelines of RBI for that conversion. So based on the March '26 financials, once we know that we are in compliance with the guidelines, then subsequent to that, we may probably end up applying.
- Ashish Agarwal:** Okay. The other thing is that our -- still our 90% plus of loan book is concentrated to the South India. So, what is the plan to geographically diversify, any timelines for that?

- Suresh G.:** Sorry, our TN as a geography meaning 90%. So, what is that? South?
- Ashish Agarwal:** So, all the states in South India, right, you have mostly concentration in Tamil Nadu, Karnataka, AP, Telangana. So that -- and we wanted to expand it across India. So, any strategy and timelines around that?
- Jagadesh J.:** If you look at the past 2 years, we have reduced our contribution from TN, okay, which was at around close to more than 50%. It has now come down to 44%. Even we have a clear strategy to reduce further. Maybe in the next 3 to 4 years, it will come down to around 36%. And south, we don't have a 90% book.
- If you see only Tamil Nadu, we have 44%, okay? And South is around 62%, okay? And Maharashtra is the third biggest state for us in terms of the contribution. So, it's not 90%, it's around 60%. That will further come down.
- Ashish Agarwal:** Okay. And this MFI book that we have got, will it be covered by the upcoming central government INR8, 000 crore MFI credit guarantee scheme that they are talking about to be coming in April, I believe.
- P.N. Vasudevan:** See, we are already covering our Microfinance portfolio under the CGFMU credit guarantee scheme of the central government. And currently, what percentage? Around 50% of our existing Microfinance book is already covered under the guarantee. And this 50% is the one which is generated after we signed up with the guarantee trust. And going forward, we will continue to be getting the incremental disbursements in microfinance guaranteed under that scheme.
- As far as this INR8, 000 crore scheme is concerned, of course, the details are not in public space just now. They have not released it. So, we'll have to wait for the details. But in our view, it is not meant for guaranteeing the individual transactions. It's actually a guarantee cover provided to the banks for lending to NBFC MFIs. I think that's what people talk about. Anyway, we'll have more details as the government publishes it. But that is not meant for individual MFI transaction guarantee. That's already available under the CGFMU scheme.
- Ashish Agarwal:** Okay. And in the commercial vehicle space, do you see -- what is your foresight about increase in this segment because of the signs of tailwinds coming in the CV space?
- Jagadesh J.:** We don't see any kind of tailwinds. Even if you look at the current quarter, we have shown a good amount of traction in our used segment, which is our prime focus. So, we'll be growing on that, even the asset quality have been better compared to the previous quarter.
- Moderator:** The next question is from the line of Shreepal Doshi from Equirus.
- Shreepal Doshi:** My first question was on the MFI portfolio. So, with the headwinds behind, we've seen disbursements ramping up. However, we were looking at capping it at 8% to 9%, whereas it has already reached 12%. So, will we be a little practical here and look at maybe it expanding to 15%, 16% given the kind of momentum that we are seeing or the credit demand that we are seeing in that segment?

P.N. Vasudevan: See, 12% is because of the addition of the direct assignment purchase of Agri pool. So, we'll have to, for all our purposes, keep that on the side because obviously, that comes at a lower rate. And it's supposed to be a onetime, we just did it because we had a shortfall in the Agri PSL. And hopefully, we should be able to generate our own PSL going forward. So, we may not do DA further. So that's just a one-off transaction. So, if you, for a minute, remove that, our Microfinance contribution is about 8.5% -- 8.8% of the total advances. And we want to keep it around the 10% level. So, it may marginally go up in the next few quarters to reach the 10% level. As far as the thought of increasing it to 14%, 15% or anything above that, we do not have a thought on those lines fundamentally because we -- microfinance does come with its own plus and minus. And every time it comes with a minus, it has an impact, which is quite disproportionate to its contribution. And so, we are basically wanting to build a bank which is a lot more stable and steady in terms of its financial returns and not having too much of volatility around that. A 10%, we believe, is something where we get the benefit of better yield.

But at the same time, if there should be any further trouble in the future, the impact should not be too high on the bank. And the rest of the book, which is 90% of the book, which is non-microfinance, actually, most of our products -- practically all our products are quite old in the system. They are not really new products. And so, either they are now fully profitable or they are on the way to being fully profitable in the next few quarters. So that way, we don't see any issue as far as profitability is concerned because almost all the products are now quite mature in the system.

Shreepal Doshi: Got it. And so, sir, since you highlighted about the profitability, so even the housing vertical is profitable, let's say housing and used car vertical that we have, which is contributing almost 10% of the overall portfolio, summing up the 2 segments.

P.N. Vasudevan: Yes, yes. Used car is quite profitable. And affordable housing, which is actually one of the newer products, it's about 4 years, 5 years old, but it went through the corona phase of non-small growth. So, it's practically a 3-year-old product now, you can say, post corona. And affordable housing was loss-making last year.

This year, it has turned the corner and it is now contributing profit to the bank. And maybe next year and thereafter, it should become fully contributing from an ROI perspective.

Shreepal Doshi: Got it. Sir, the second question was on the vehicle finance segment. So there, our strategy is to scale up the used CV segment and used car and not do new commercial vehicle broadly. However, if you look at that segment was going through turbulence in terms of asset quality trends. How are you seeing that shaping up in the coming quarters with respect to asset quality trend as well as on the business momentum from our end?

Jagadesh J.: So, if you see the vehicle finance, both -- on all parameters, the Q3 has been good, and we expect the same in Q4. Even if you see the X Bucket, it has improved from 97.5% to 98.5%. And also, the DPDs, a considerable reduction has been done. And the same is with the GNPA as well as the credit cost. So, we don't see any kind of stress as far as the vehicle finance has been concerned in Q4 also.

- Shreepal Doshi:** Got it. So, will we look at increasing our disbursements in this category or like especially in the used CV and used cars?
- Jagadesh J.:** Yes, that's our main focus. So, we'll be increasing our disbursements in used commercial and used car segment.
- Shreepal Doshi:** Just one last question to add here. What is your broad range of yield in used CV and used car?
- Jagadesh J.:** Around 17%.
- Shreepal Doshi:** So that is for used CV?
- Jagadesh J.:** Used CV is 17% and used car is also in the same range.
- Moderator:** The next question is from the line of Ashlesh from Kotak Securities.
- Ashlesh Sonje:** Ashlesh here from Kotak. Sir, firstly, on your OPEX, how are you internally thinking about OPEX? What should be the drivers from here on? What are you internally budgeting for it?
- P.N. Vasudevan:** So Opex is something that we have discussed in the past. The -- most of our cost, I think we have mentioned in the past also is all of a fixed nature. There's only some small amount of the cost, which is a variable linked to the business. To that extent, yes, the cost is kind of -- it's a given. And our cost to income will come down as the business grows and the bank grows, the cost to income will come down as we leverage the existing investment in cost by doing better business.
- So, as we have mentioned, this quarter, it was around 70%, but for that INR29 crore impact of labour code, minus that, it would have been 70%. And we expect next year -- maybe by third, fourth quarter, we should expect this to go down to around 65% level. That will principally happen just as the driver will principally be basically the growth in the business of the bank. The growth should be the driver to bring down the cost.
- Ashlesh Sonje:** Understood. Secondly, on the cost of SA, cost of term deposits, just a clarification. I think you indicated that the incremental cost of SA is 5.1% and TD is 7.3%. Is that correct?
- Murali Vaidyanathan:** Correct, as of now. As of now, SA is 5.1%. We will go through one more iteration in coming February. So, it's a continuous exercise.
- Ashlesh Sonje:** Okay. But the disclosure on the presentation says cost of TD is 8.1%.
- Murali Vaidyanathan:** That is on the full book. This is on the repriced book.
- Ashlesh Sonje:** So, you expect that 8.1% to eventually decline closer to 7.3%, is it?
- Murali Vaidyanathan:** Correct as you renew the existing book. Normally, renewals happen at 60% levels, 30%, 40% move into alternate assets. So, as it reprices the same book will become at the 60% level at this pricing point.

- Ashlesh Sonje:** Understood. And lastly, this Microfinance direct assignment, which you have done? Can you just walk us through what were the evaluations which you have done at the time of the transaction? What is the quality of the book? What is the regional mix, et cetera?
- P.N. Vasudevan:** Okay. So, we did it with about 6 counterparties. Fundamentally, all the portfolio that we purchased will have to be MFIN guardrail compliant, which is all 3 lenders, INR2 lakh, all that norm, plus they should not have any overdue at the time that we purchased that asset, so it should be an X Bucket. And it should have had on 2-year loan, it should have completed at least 3 months. On a 3-year loan, it should have completed at least 6 months of term. So those were the criteria that we used for acquiring that asset. The yield on the asset, I can give you an idea on that. The yield is approximately 10.75% on that asset. I think we purchased about INR1, 350 crores or so, around INR1, 350 crores is what we purchased. The overall yield around is 10.75%. And none of the portfolio includes any exposure from Karnataka. We just ensure that we exclude Karnataka and also Gujarat, because Gujarat traditionally has been always having issues. Karnataka recently that it's been going through issues. So, these 2 states, we excluded. So, these are the parameters that we use for that.
- Ashlesh Sonje:** Understood. Just last clarification. This one, the collection responsibility does not lie with you on this book, right?
- P.N. Vasudevan:** No, it doesn't. We have a collection agreement with the originating company, and they will continue to do the collection and pay it to us.
- Moderator:** The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund.
- Vivek Ramakrishnan:** Sir, my question is partly answered. So, in terms of term deposits, we've of late seen a scramble for deposits happening across the system. So -- but your cost of deposits at 8.1%. It means even if the rates go up a little, you're still having cushions in terms of reducing deposit rates. So is my understanding correct, number one? And number two, are all your deposits non-callable when it comes to bulk deposits?
- Murali Vaidyanathan:** Close to 92% of the bulk deposit is 1-year duration and non-callable. In terms of book, see, if you see last 2 years, we have been totally going heavy on 444 days. Now we are replacing that 444 days with 888 days with a lower. As I said, total book arbitrage is 90 bps. So, this will continue in that direction only. And anyway, the projection is there is one more rate cut either it may not happen in Feb, but April. So as and when the rate cut happens, we'll follow and catch the graph.
- Vivek Ramakrishnan:** Excellent, sir. Sir, the other question is on capital. I mean, as of now, you are comfortable on -- as far as the regulations go with 16.6%. But if growth were to come and you were to maintain your credit ratings as well, you may have to raise fresh capital. So, is there any thought on timelines for that? Or is there a minimum capital adequacy that you'll go to and then have to definitely raise capital?
- P.N. Vasudevan:** See, we have an internal guideline that as soon as we touch 20%, we should start looking at how to beef up capital. Generally, we do not want our capital adequacy to go below 18% against the

regulatory requirement of 15%. We really do not want it to go below 18%. Right now, it is 20.47% or so. So, as we mentioned in the presentation as well as in my opening comments, there are various ways of conserving capital other than just raising fresh capital. So, we are working on all of that like IBPC, where you shed assets in favour of other banks. And then we do the CGTMSE, especially the vehicles, we have done that we are signing -- I think we have done INR1,650 crores or so of vehicles, which we got guaranteed under the CGTMSE. Under that scheme, I think what percentage of principal gets released from capital? Almost 80% of the principal of the transactions covered under CGTMSE gets released from capital requirement. So, we did that. And going forward, we will continue to keep getting the vehicle finance incremental portfolio also covered under CGTMSE based on whatever is eligible. So that will again release a good amount of capital going forward. Our gold loan now has started to pick up. Now in fourth, in third -- in second quarter, we had a gold loan book of INR400 crores. It's almost come to INR600 crores in the third quarter. And that's something, again, we are pushing for growth by introducing it in more branches going forward. So that will come again with no capital requirement. Our affordable housing is growing. And again, that has a much lower risk weightage compared to every other business. So, there are various drivers for capital conservation, and that's something that we are focusing on. And at the end of it, in our view, first half of next year, we will not require capital. We will be comfortable with whatever we are doing. And second half, we will review it. Based on our internal accruals and what's the level of capital adequacy we are sitting on, we will do a review probably in the second half. The objective from our side clearly is to postpone capital raise as long as possible given our current market price scenario. We would like to postpone it as far as possible and try and ensure that we do not compromise on growth but manage capital through a variety of instruments available to the bank.

Vivek Ramakrishnan: Yes, sir, I can see that, sir, in fact, in the last quarter, despite the growth, your capital adequacy, CET1 ratio has just actually improved. So, in terms of the CET1 ratio, you talked about total capital adequacy. CET1, do we have any kind of guidelines in terms of where you won't go below?

P.N. Vasudevan: The regulatory requirement CET1 is 7.5%, 50% of the 15%. So that's the regulatory. But I think we'll be fairly comfortable on CET1. We'll never go anywhere near the regulatory floor.

Vivek Ramakrishnan: Right, sir. I was looking more at the rating rationale, which said 15%. One of the rating rationales which said in terms of credit rating. So that was my angle.

P.N. Vasudevan: Yes, because our internal accrual also should start coming in. Last year and the first 2 quarters of this year was very poor on internal accrual. That's also expected to start generating P&L from this quarter. I mean, the third quarter itself, we have delivered some INR90 crores. Going forward, that should also help. So overall, I think we should be comfortable on CET1 also.

Moderator: The next question is from the line of Jignesh Shial from AMBIT Capital.

Jignesh Shial: Just a couple of questions. First, as I understand it correct, we -- our deposit repricing will be gradual. So, we expect this to fall down. How do we see yields moving up? Because obviously, we are not -- we don't want to do more of MFI loans, which have been the -- I mean, high-yield

category. How do we see yields moving? Or -- I understand this time; it is also because of the buyout portfolio. But anything on the yield side, if you can guide us?

Jagadesh J.:

Yes. If you look at the advances yield because of the portfolio recalibration, you can see the small reduction in bps. But if you look at the disbursement yield, okay, which is going to be a significant factor. In Q2, our disbursement yield is at 15.78%, whereas in Q3, our disbursement yield is 16.22%, overall asset book. So overall asset book in Q2 is 15.78%, whereas in Q3 is 16.22%, even after the recalibration, whatever we have done. So, it's almost close to 43 bps increase in the disbursement yield.

Jignesh Shial:

That is also because you had seen on MFI surge, that disbursement had picked up for MFI, which we want to cap at below 10%. So incrementally, if the overall growth will be -- your disbursement growth will be in line with -- your MFI growth will be more or less in line with other businesses growing, then do we see this kind of movement happening yield again for Q4 onwards?

Jagadesh J.:

Yes. Not only on the MFI book, even if you look at VF, we had an increase of 22 bps and SBL 5 bps and AHF which has been a growing book. It has been increased by 25 bps. So fairly, I'm able to say maybe we will be maintaining or it will be on the upward side. It will not go down.

Jignesh Shial:

Okay. Understood. Secondly, on the SBL side, now if we see that sequentially, the disbursement had more or less remained flat, right, if I see it correct, Y-o-Y, there is a 1% kind of a decline. How -- and obviously, we had seen this trend happening for almost like similar number for almost like last 5 quarters, I see it in your PPT.

So how do we see -- so can you give some colour on what is this SBL loan? Which geographies are you doing it further? It is unsecured piece, right? It's not secured one. It's not LAP, right?

So how are we seeing traction happening in SBL? Can you give some colour on that? That will be helpful. And obviously, coverage remains very low on this. So, any volatility in this can impact our provisions and all? Just some clarity on SBL overall as a portfolio.

Jagadesh J.:

First, I would like to give a clarification. On the overall book, we have only that Microfinance is unsecured. Otherwise, all other books is a secured book. Small business loan, it's a 100% secured by the property. If you look at small business loans, quarter-on-quarter, if you see in the current financial year, our disbursement at Q1 is at -- on an average per month is INR440 crores, whereas in Q2 is INR575 crores, whereas in Q3, our average disbursement is INR612 crores.

Why we couldn't be able to see the year-on-year growth, which -- the underlying reasons is because of our Karnataka and certain product segment where we have recalibrated in SBL in the -- between the Q3 and Q4 of the last financial year. Now it's almost coming back to normalcy. We can see the upsurge in the disbursement in SBL as well. And the numbers that I mentioned, if you look at, it will be on the upward trend.

- Jignesh Shial:** Okay. So, do we -- can we expect this that Q4 -- this INR600 crores quarterly, what kind of trend? So not only Q4 overall for next year, say, so what monthly trend or annualized -- I mean, when we talk about the disbursement for SBL that we will be comfortable with?
- Jagadesh J.:** So, the numbers that I mentioned, first of all, is the monthly average, okay... For the next year, we are looking at advance's growth of at least 20-plus in SBL. So automatically, the disbursement number will be on an upward movement compared to the current numbers.
- Jignesh Shial:** Understood. And this will be -- so as I understand now, this is a LAP loan. So, your -- what will be the tenure of this to overall around?
- Jagadesh J.:** Average, it would be around 7 to 8 years.
- Jignesh Shial:** Understood. Understood. Fine. That's helpful. And finally, on Opex side, as you say that either of these expenses are remaining fixed it means a very limited amount and a variable one.
- So how do you -- so you're gradually planning to bring it down from, say, 70%, which is excluding that one-off of labour code things. So, 65% is the target that your target -- I mean over what period are you targeting the 65% in of cost-to-income?
- Suresh G.:** Yes, yes. So 4Q exit next year, we should be there around 65% mark.
- Jignesh Shial:** Okay. Okay. So, this is for the year itself, we are targeting this, right, for the next year itself?
- Sridharan N.:** Next year, yes. Yes. As also MD clearly said, when the fixed actually, the income goes up, the percentage will come down.
- Jignesh Shial:** Yes, I understood. Yes, that's why I was asking. I got that point. And finally, on credit cost, what kind of trajectory are we looking for -- I mean, for next year? Because as I understand, our major ROA improvement or 1.5% exit what we are talking about 4Q, obviously, credit cost decline will be one of the major driver. So, what kind of credit cost trajectory are we looking for, say, FY '27, just broad range, if you can give some colour on that?
- Jagadesh J.:** Between 1.5% to 1.7%.
- Jignesh Shial:** And currently, we are at 1.8%, right, 1.88%?
- Jagadesh J.:** For the quarter, okay. In Q4, it will be around less than 1.5%. But what I mentioned is for the year entire year.
- Jignesh Shial:** Entire year should be somewhere in the range of 1.5% to 1.7%?
- P.N. Vasudevan:** Yes.
- Moderator:** The next question is from the line of Anand Dama from Emkay Global.

- Anand Dama:** My question was related to our CV book. A lot of players are actually talking about that there is a noise, there is a stress which is emerging into the CV portfolio. Are we seeing any signs of that in our new or maybe used CV portfolio?
- Jagadesh J.:** I've clearly indicated even in my earlier response, we are seeing an improved asset quality compared to Q2 to Q3 in all aspects, not only on the net slippages or the credit cost, but also on the 1-90 DPD as well as on the X Buckets. So, we hope the things would be better in Q4.
- Anand Dama:** So, then the players who are actually witnessing that kind of a stress operate into a different segment or a different geography altogether?
- P.N. Vasudevan:** See, in our case, as Jaggi mentioned, a large part of our book is the used commercial vehicle. I think the used commercial is doing quite well. And in our case, used commercial vehicle also, we are really -- the focus is only on the small operators. And so, I think at that level, the small commercial vehicle, light commercial vehicle, individual owner or owner with just 1 or 2 vehicles. I think that segment is doing quite well, and we are not seeing any stress on that segment.
- If you want to compare with the market and other players, their portfolio might have a lot of a different profile of borrowers. New could be a good contribution to them possibly. And maybe the heavy commercial could be again a large contribution to them possibly. I mean those might be the differences that you might probably see. But in our case, the focus is largely on the small and light commercial vehicles and in the used category. And in that segment, we see the experience is pretty good, not only now. I mean, we have been doing used commercial vehicle now for almost 15 years. And we've never really had a serious issue on the portfolio quality in the used commercial vehicle segment.
- Anand Dama:** Sir, secondly, I just wanted to understand how should we look at our overall credit growth and deposit growth for FY '27? Now that the Microfinance has also started turning positive. And I think the SBL, the vehicle financing book is delivering strong growth. So, should we get into a 20% kind of a loan growth next year?
- P.N. Vasudevan:** So next year, as we mentioned, our growth should be in the range of 20% to 25%. So, it should be definitely above 20%. That's for sure. And the deposit growth will be in line with that. Typically, it should be about 2% to 3% higher than the advances growth.
- Anand Dama:** Okay. And third, sir, any ECL impact that you have worked on? And because I think your PCR is still below 70%. You used to have 70%, and you brought it down to about 66%, 67%. So, any ECL working that you have already done, how are you going to take that impact, if you can just talk about that?
- Sridharan N.:** So, we have done ECL working based on the draft list of RBI. And most of our is secured book and other things, we will have a positive - this one on the ECL not on the negative as compared to the IRAC norms.

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

P.N. Vasudevan: Yes. So, thank you. Thanks all of you for dialling in and giving us a good insight of what's happening in the market and also asking us questions, which will help us to think as we go forward. As we sign off, I can only reiterate that I think the issues of microfinance is clearly behind not just us but the industry. And going forward, let's hope for better times for all of us. Thank you and wish you all the best. Bye.

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