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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
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Dear Sir/Madam,

Sub: Transcript of Earning Conference Call for the Un-audited Financial Results of Capital Small Finance Bank Limited for period ended December 31, 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 Friday, January 30, 2026 for the Un-audited Financial Results of Capital Small Finance Bank Limited for the period ended December 31, 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
Company Secretary & Compliance Officer
Membership No. F10888

“Capital Small Finance Bank Limited
Q3 & 9 Months FY '26 Earnings Conference Call”
January 30, 2026

“E&OE - The transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 30th January 2026 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 the Capital Small Finance Bank Limited Q3 and 9M FY '26 Earnings Conference Call. As a reminder, all participant lines will remain 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 the operator by pressing star then zero on your touchtone telephone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Sarvjit Samra from Capital Small Finance Bank Limited for opening remarks. Thank you, and over to you.

Sarvjit Samra: Thank you, Ryan. Good afternoon, everybody, and thank you for joining Capital Small Finance Bank Limited earnings call. Our financial results and the investor presentation have been filed with the stock exchanges and are available in the public domain.

We trust you have had an opportunity to review them. Joining me today are Mr. Munish Jain, Executive Director; Aseem Mahajan, Chief Financial Officer; Raghav Aggarwal, Chief Risk Officer; Sahil Vijay, Head of Treasury and Investor Relations; Bharti Babutta from our Investor Relations team; and our IR Advisors, SGA.

I will begin by sharing our perspective on the operating environment and macroeconomic backdrop during the quarter 3 financial year '26, after which we will discuss the bank's performance and outlook in greater detail.

During quarter 3 financial year '26, India's economic conditions continue to demonstrate stability and momentum with real GDP growth at 7%. Economic activity during the quarter was aided by reforms and consistent domestic consumption, a gradual recovery in rural demand. High frequency indicators across manufacturing and services reflected steady trends, reinforcing the underlying strength of the economy.

Inflation during the quarter 3 financial year '26 remained benign and well within the Reserve Bank of India's comfort range. Headline CPI moderated significantly during the quarter, supported by easing food prices, the impact of GST rate rationalization and relatively stable input costs. While inflation edged up modestly towards the end of the quarter, overall price pressure remains subdued, helping preserve household purchasing power and support consumption demand. This benign inflation environment also contributed to stable business sentiment, particularly across semi-urban and rural markets, which form a key part of our operating footprint.

On the policy front, the Reserve Bank of India reduced the repo rate to 5.25%, reinforcing its intent to support growth while maintaining macro stability. While lending rates have largely adjusted on the asset side, the transmission on deposit is evolving more gradually, reflecting the lag inherent in liability repricing amid intense competition for deposits.

Banks across the sectors continue to prioritize deposit growth to fund credit expansion, resulting in persistent pricing pressure, particularly on term deposits. In this environment, institutions like us with a well-diversified retail deposit base and strong customer relationships are better positioned to manage funding costs in a measured manner.

At the system level, liquidity conditions were broadly balanced during the quarter, supported by the Reserve Bank of India's liquidity operations. Banking system liquidity buffers and LCRs remained comfortably above regulatory requirements.

The banking sector witnessed healthy growth in advances during the third quarter of FY '26 compared to the same period last year, supported by improving economic activity and full impact of GST rate rationalization. During the quarter, credit demand was led by secured retail, MSME and Agriculture segments, aided by festive season spending and post-harvest cash flows in the rural markets. As a result, credit growth for most lenders continue to outpace deposit growth, reflecting sustained demand across key lending segments.

For Capital Small Finance Bank, these conditions align well with our business model. Our strong presence in semi-urban and rural markets, a predominantly secured and retail-focused loan book and granular relationship-led deposit franchise position us favourably to participate in the ongoing economic recovery while maintaining disciplined growth and robust risk management.

Coming to our Q3FY '26 performance. The quarter saw steady deposit mobilization, balanced credit growth and stable margins, supported by disciplined execution across our core business.

- Total deposits stood at INR9,931 crores, growing 18.5% year-on-year with CASA at 35.9%, underlining the strength of our retail deposit franchise. Gross advances grew to INR8,164 crores, up 19.8% year-on-year, supported by robust disbursement across MSME, mortgage and Agriculture segments.
- Quarterly disbursements rose to ₹919 crores, up 25% year-on-year, aided by festive demand and strong rural cash flows.
- Asset quality remains stable with gross NPAs at 2.68% and net NPAs at 1.35%, supported by prudent credit practices.

Our strategy continues to focus on secure profitable growth, productivity improvement at the branch level and measured geographic expansion with focus on attractive semi-urban markets.

With that, I would now like to 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. Let me begin by sharing the highlights for the quarter and 9 months ending December 2025.

As of December 31, 2025, our gross advances stood at INR8,164 crores, reflecting strong and consistent credit expansion. This translates into a year-on-year growth of 19.8% and quarter-on-quarter growth of 3.3%, fully aligned with our stated guidance of 20% plus advance growth for FY '26.

The growth in advance continued to be driven predominantly by our secured lending products and around 99% of the loan book being secured with around 90% of our non-corporate portfolio is collateralized by immovable properties/bank FDRs. The average ticket size of our portfolio stood at ₹17.8 lakhs against ₹17.1 lakhs at the end of Q2 FY '26, reflecting our granular retail focused and risk-conscious approach. Our continued emphasis on well-collateralized asset reinforces the quality, resilience and risk-mitigated credit portfolio.

During the quarter, fresh disbursements stood at ₹919 crores, registering a robust 25% year-on-year growth. For YTD, i.e. for 9 months up to December 31, 2025, total disbursement stood at ₹2,590 crores, reflecting 24% growth.

The growth driver for the quarter is MSME/business segment, grew by 10% on quarter-on-quarter and 42% on a year-on-year basis and LAP, which grew 3% on quarter-on-quarter and 18% on a year-on-year basis. This sustained momentum underscores the continued strength in demand across our key lending segments and the effectiveness of our focused business approach.

From a portfolio mix perspective, business loan increased to 25%, up from 23% in Q2 FY '26. The agriculture segment moderated marginally to 28% from 30% in Q2 FY '26, while the mortgage and the corporate segment remained stable at 26% and 14%, respectively, during Q3 and Q2 FY '26. Within the mortgage, LAP accounts for 15% and housing loan accounts for another 11%. Overall, the portfolio remains well diversified across sectors that have demonstrated resilience across credit cycles, supporting stability and balanced growth.

Geographically, growth outside our home state of Punjab continued to outpace the overall bank growth. Advances, out of Punjab grew at more than twice the bank growth rate on a year-on-year basis, demonstrating the deepening strength and increasing traction across our newer operating geographies. Out of Punjab, advanced portfolio constituting 24% as on December 31, 2025, compared to 21% at the end of Q3 FY '25 and 23% at the end of Q2 FY '26.

During the quarter, yield on advances stabilized at 11%. The same was also 11% in Q2 FY '26.

Asset quality showed marginal improvement during Q3 FY '26. Gross NPA and net NPA stood at 2.68% and 1.35%, respectively, improving sequentially by 2 basis points and 3 basis points from September 30, 2025, levels. The slippage ratio improved to 1.21% against 1.73% in Q2 FY '26, while write-off remained almost nil during the quarter. Credit cost for the quarter remained stable at 0.2%. The same was also 0.2% in Q2 FY '26, in line with our historical levels. This highlights our prudent credit risk management, effective recovery efforts, consistent portfolio performance and reaffirming the quality and resilience of our portfolio.

On the liability side, our total deposit base crossed ₹9,931 crores, registering a strong 18.5% year-on-year and 7% quarter-on-quarter growth, reflecting the growing strength of our retail franchise. The growth continued to be granular, core and of retail-centric deposits and retail deposit constituting more than 90% of the total deposits, reflecting strong retail liability franchise.

The CASA ratio improved and remained healthy at 35.9% against 33.9% in the last quarter.

The cost of deposit has begun to trend downward, declining to 5.86% against 5.92% in Q2 FY '26. This reduction reflects the initial impact of the term deposit repricing. We expect the benefit of repricing to accrue more meaningfully over the next 6 months. Additionally, the saving bank rate was optimized to 3.1% in November 2025 and the benefit of it will also flow through in the subsequent periods.

The average CD ratio stood at 80.4% in Q3 against 81.5% in Q2 FY '26, with outstanding CD ratio being 82.2%, reflecting efficient fund deployment, balanced growth across advances and deposits.

Moving to profitability:

- During the quarter, the impact of earlier interest rate reduction seems to be fully reflected in the advance portfolio with yield on advances stabilizing at 11% during Q3 FY '26 and Q2 FY '26, while the benefit of deposit repricing is still in the early stages and yet to be completely realized. The cost of deposit during the quarter has marginally declined to 5.86% against 5.92% a quarter back, and the NIM for Q3 FY '26 remained stable and stood at 4% in Q3 and Q2 FY '26.
- Net interest income grew by 11% year-on-year to ₹119 crores. The same was ₹107 crores in Q3 FY '25 and non-interest income grew by 46% year-on-year to ₹27 crores against ₹18 crores in Q3 FY '25. Non-interest income remained strong at 0.9% calculated as a percentage of average total assets during Q3 FY '26.
- Opex as a percentage to average assets stood at 3%. This is excluding the onetime charge against 3.1% in Q3 FY '25. opex growth during Q3/9 months FY '26 is consequent to onetime charge for past employee services valuing INR5.13 crores consequent to New Labour Code implementation. We're referring it as exceptional item. The cost to income stood at 60.9% against 61.7% in Q2 FY '26 and 62.1% in Q3 FY '27. The same reflects our sustained focus on cost optimization, process effectiveness and operational discipline. The cost-to-income ratio with exceptional item is 64.4%.
- Pre-provision operating profit rose to ₹57 crores without the exceptional item against INR48 crores in Q3 FY '25, marking a 20% growth on a year-on-year basis and 21% on a sequential basis. The PPOP with exceptional item is ₹52 crores. Profit after tax (PAT) stood at INR38 crores without the exceptional item, up 12% year-on-year, supported by healthy operating performance and disciplined cost management. With exceptional item, the same being ₹34 crores.
- Return on assets remained stable at 1.3% without the exceptional item. During Q3 and Q2 FY '26, the same works out to be 1.2% with exceptional item.
- Our capital adequacy ratio remained strong at 21.6% with average LCR for the quarter stood at 215.8%, reaffirming our strong capital and liquidity position and providing ample headroom for future growth. As of December '25, our branch network stood at 203 branches spread over 5 states and 2 union territories, further strengthening our presence, particularly in rural and semi-urban markets, which continue to be our key growth driver.

The SURU branches accounts for 76% of the total branch network and contributing 75% to the deposit base. During the quarter, we had initiated partnership-led lending with FLDDG framework and appropriate risk guards with a couple of our partner NBFCs, targeting high-yielding secured lending opportunities.

To sum up, Q3 FY '26 reflects a period of disciplined execution, steady business momentum and resilience amid temporary margin pressures, positioning the bank well for stronger performance in the periods ahead.

As we look forward, we plan to organically grow our secured loan book at the rate of 20% plus for FY '26 and further accelerated the growth rate to achieve an advanced book of over INR16,000 crores by FY '29. We aim to expand our footprints by deepening presence in contiguous states and intensifying penetration within the existing market with a target of 300plus branches by FY '29.

We expect NIM expansion supported by continued moderation in the deposit cost from repricing and improving CD ratio. During the quarter, the impact of the earlier rate decline seems to be fully reflected on the advance portfolio and yield on advance got stabilized at 11%. The same was 11% for Q3 and Q2 FY '26.

However, the benefit of deposit repricing has started showing initial signs and yet to be realized. Cost of deposit during the quarter has declined to 5.86% in Q3 FY '26 from 5.92% in Q2 FY '26. The reduction reflects the initial impact of the term deposit repricing. We expect the benefit of repricing to accrue more meaningful over the next 6 months.

We intend to continue to improve operating efficiencies and cost-to-income ratio stood at 60.9% without exceptional item against 61.7%, and we expect continued improvement thereof to achieve ROTA expansion in the coming year with a target to make it 1.6% plus by FY '29 with ROE expansion of 15% plus.

We remain deeply committed to creating long-term value for our stakeholders while contributing meaningfully to Indian growth story through responsible banking, customer-centric innovations and sustainable financial inclusion. With this, I would now request the operator to open the floor for Q&A. Thank you.

Moderator:

We take the first question from the line of Avnish Tiwari from Vaikarya Investment Management.

Avnish Tiwari:

This NBFC book you have the corporate loans. It seems that this quarter, I'm seeing some growth as well in the third quarter over second quarter for non-MFI business. So maybe what are you observing there in terms of your quality of the demand?

Are you comfortable there? And second, the NBFC MFI account, which sort of gave you some credit cost in Q1. Is there any development in terms of recovery from there or any either positive or negative development on that account?

Munish Jain: Yes. If I pick up the first part, i.e. NBFC non-MFI, during the quarter, we've seen a small traction and to clarify, we are presently targeting high rated, adequately leveraged, I mean to say, highly capitalized and low leveraged NBFC for our lending, who are more in a secured lending franchise. Statistically, 72.1% of our NBFC clients are A rated and above.

So, we are a high-rated NBFC lender. We are seeing a quality perspective from the outcome; we are getting comfort from this particular portfolio and no early signs and rather no signs of any asset quality constraint coming from NBFC non-MFI segment.

And if we talk about NBFC MFI segment, the segment is now remaining with only INR48 crores, which is around 0.58% of the portfolio. Out of this, the net NPA, which in value basis is INR7 crores. The portfolio, which had given challenges in the Q1, the recovery has started.

We are able to get commitment/ understanding with the clients. And as per the understanding, we have recovered a decent amount in the Q3, and we are expecting the recovery as we move forward in the Q4 and the coming period also. So that particular pain, which we have seen in Q1, we strongly believe is over, and we are looking forward for the moving ahead of this and coming out of this very, very shortly. Almost we are out of it with no material amount left within this portfolio as well as of the net NPA book.

Avnish Tiwari: Got it. And this one is regarding credit supply, let's first cover the non-MFI piece. Are you seeing the other, let's say, banks or other larger institutions also being comfortable lending to the smaller NBFCs, non-MFI or you are the early ones who are taking that leap?

Munish Jain: We are a lender not to a small or early age NBFC lender. We are a lender to a mid-sized and a mid-aged NBFC. So, we are not a starter lender to any of the NBFC. So, we are being lender to those set of NBFC in which there are a lot of other lenders available and that NBFCs of a particular size. So, we are preferring presently a good rated NBFCs only in our portfolio.

Avnish Tiwari: Got it. On this MFI account, how much was the original amount, let's say INR100 crores. How much did you provide for and how much is left now?

Munish Jain: So, the original amount we have -- if you can just hold for a second, I think we recovered good amount and the pending net NPA is only INR7 crores.

Avnish Tiwari: Right. And what was the original loan outstanding with that company?

Munish Jain: I trust that should be something around INR21 crores or INR22-odd crores.

Avnish Tiwari: Got it. And how much provisions you have to take on this?

Munish Jain: So, we have provided for certain number of provisions and certain recovery. And the pending value, which is left in the shape of the net recoverable for is around INR7 crores to INR7.5 crores.

Avnish Tiwari: Great. And last one question I can ask is this SMA-1 and SMA-2 pool. If you look at it has increased quarter-over-quarter, even compared to Q1, it is at a higher level. Although your

slippages are down, your trends are positive. So here, how are you interpreting this? Can you help us understand this pool, SMA-1 and SMA-2, why is it increasing? Is there some lag before it improves or something else, we should interpret?

Munish Jain: So, SMA 1 and 2 for this particular period ending is around 6.46%. This is basically due to seasonal factors. If you look into the December last year, this number was 6.05% driven by Punjab, Haryana and North India, economic activity is significantly influenced by agriculture cash flow, during the harvesting season, proceeds from agriculture produce start to get credited in November end and December. The subsequent flow of these funds to the MSME clients account and other self-employed borrowers, typically involves a time lag, which results into temporary uptick in SMA. It is not the first time, but this pattern observed in the past as well. And as per the internal assessment, we remain confident of normalising to below 5% level by March 31, 2026.

Avnish Tiwari: Great. Why your fiscal '26 quarters typically have a lower level of SMA 1 and 2 compared to fiscal '25 quarters?

Munish Jain: SMAs are always, you will see slightly elevated in June quarter and December quarter. Reason being in that particular period, transition of the Agri cash flow to the full economy is not completed. So that is getting completed with some lag that is typically July, August and January, February. So that's why there is a temporary increase in SMA-1 levels in that particular period, June and December, which gets solved very quickly, and we come back again to the rightful levels whenever you see the September and March.

Avnish Tiwari: I meant to ask you is third quarter of '26 is lower than third quarter '25 SMA pools. Second quarter of '26 is lower than second quarter of fiscal '25. Is there some there's a positive development year-over-year although there was a stress in the system. So, is there a reason for this to be lower? Can you explain that year-over-year basis?

Munish Jain: If we look into the number, the number is almost identical. Just there may be some marginal difference, that is 6.46% versus 6.05%. So that gap is very, very marginal. So even if you look into any of such number, the number, the gap is very, very marginal. So that's not the scenario which we are seeing even for the June 2025 versus June 2024. Margin gap is almost the thing, and we are continuously improving rather.

Moderator: We take the next question from the line of Parth Kotak from Plus91 Asset Management.

Parth Kotak: Sir, just one conceptual understanding, a majority of our loan AUM is to Agricultural loans. So how do we secure these loans considering majority of our loan book is secured loans?

Munish Jain: Let me just clarify Parth. Agriculture accounts for 28% of the portfolio. So, our majority of the loans are not Agriculture. We are 28% Agriculture and 72% non-Agriculture.

That is one clarification I'd like to place on the record. Point number two, Agriculture is secured by mortgage of the land. We are not making any Agriculture loans without mortgage physical land, that is the land and with the bank name being recorded in the revenue records. That's a

mutation being recorded in the revenue records. So, we collateralized the agriculture lending with the real asset that is the land.

So that is what we typically do with the LTV of downward of 50%. That is, we look forward for twice the value of the land and that too valued at the collateral rate, not at the market price. So that is the safety Cushion we have had as a collateralization for the agriculture, and we are lender to the agriculture, who is a middle-income group borrower, i.e. whose financial need is anything between INR5 lakh to INR25 lakh and being our ATS also being INR12 lakh in Agriculture. So, these are the few points I'd like to mention that the agriculture being 28%, and we are primarily now in non-Agriculture lender with MSME book of around 25% mortgage, including housing on a LAP book of around 26%.

Parth Kotak: Perfect, sir. Just I think you would be better aware than I am, but taking charge of an agricultural land is not an issue if the loan goes bad, right? I mean, from an understanding.

Munish Jain: There is always a process being followed, and we are a lender now for more than 26 years in Agriculture. Over the last 26 years, we have never had any material write-off in Agriculture portfolio and the present book, which is purely recovery effort based. Yes, I'm not saying it is a cakewalk to recover the land.

It is not a cakewalk for any of the lending. But since you are collateralized and your name is mortgaged and LTV is in your favour, the initial LTV on the collateral rate is less than 50% with a market price around 30% to 35%. And with the repayment, this LTV is going to improve further. So, with the LTV within your favour and you have a full legal right available.

So, we -- in our 26-year history and with the lending for the purpose, with the right underwriting practices to the farmer who is a middle-income group farmer, (not a below poverty line that is a politically sensitive segment), neither to the large farmer. So, with the identified size, with the identified niche and with the safety cushions we put in place, so we are able to demonstrate a consistency in the quality of the book within Agriculture as well.

Parth Kotak: Just one last question in the same stream of question is the new geographies that we are expanding, would it be correct to understand that these would be primarily non-Agricultural loans or we would be doing Agricultural loans also in the new geographies?

Munish Jain: We are a multiproduct organization. We are having Agriculture, we are having mortgage, we have within mortgage, we have housing loan, we have a LAP, we have MSME, we have a consumption. So, depending upon the geography, whatever is the potential available in that geography, we are pushing that. Like Delhi is MSME market. Haryana being an MSME and mortgage market, Punjab being an Agriculture market, Rajasthan being a mortgage as well as MSME market.

So, depending upon the potentiality of that geography, that product push is there. It is not that everywhere we want to go and lend Agriculture. And within Punjab and on some portion of Haryana. It is not Agriculture is done from all the branches. Rural branches may be doing the agriculture, urban branches maybe having a 0% Agriculture. So being a benefit of a multiproduct

organization. So, whatever is the potential available or the opportunity available in that marketplace is what we try to capture and take it in our portfolio.

Moderator: We take the next question from the line of Krish Mehta from Enam Holdings.

Krish Mehta: I just have two questions. The first is on the deposit front. We've shown very strong ability to kind of increase our CASA this quarter at 36%. So, I wanted to understand more on the point you mentioned on the lag in repricing on the deposit book. If you could provide some sense on the bridge to where you see like a cost of deposit settling eventually and where you can maintain the CASA level?

Munish Jain: Yes. Krish, I divide the question into 2 parts. Firstly, the biggest component, we strongly believe our liabilities are one of our biggest assets, so which we are demonstrating and increasing the deposit with retail centricity in a consistently manner with a good growth rate. We're having a CAGR of 19% since inception, in the current year also, we grew by 19%, with continue to be at a cost of deposit over the last couple of years, sub-6 level. Yes, we look forward for an optimization of the cost of deposit.

Current quarter, we start seeing the early signs of correction that our cost of deposit has reduced from 5.92% to 5.86%. Now if I talk statistically, our total term deposit consists of presently 64% of our present term deposits are the term deposits, which are our earlier term deposits, which repricing shall give us a benefit of interest rates.

Out of this, 23% are getting due in Q4 FY '26 for repricing, 46% are getting due in Q1 FY '27 and 27% being in Q2 FY '27. So the deposits, which are presently our present term deposit book, 64%, which are old pre-interest rate cuts or with a higher pricing are there, which are getting due for repricing over the next 3 quarters in '23, 46% and 27%, respectively, on a data perspective, which as per the assessment, we shall be able to see the NIM expansion of around maybe 3 to 5 basis points in Q4 from the present level, of around 10 basis points in Q1 and around 15 basis points in Q2 FY '27. I'm talking, from the deposit repricing benefit.

Second point, presently, we just optimized on SB rate also from November. So that SB repricing and also going to accrue will helping us in improving our NIM. So, with the repricing benefit, which we have just started, which we're always saying in our last calls also, the bigger benefit we will see in Q1FY27. And Q1 is constituting 46% repricing as we are seeing on statistically. So, with that thing in sight, so that is the guiding path I can show you for the cost of deposit and consequent improvement in the NIM over the next 3 quarters.

Krish Mehta: That's very helpful. And the second question I had was on the loan book. We've shown an impressive yield on advances being maintained at 11% during this quarter with the interest rate decline. So how do you think about the competitive intensity in the geographies that we're operating in and our ability to kind of hold on to this 11% going forward?

Munish Jain: Krish, so as far as the competitiveness is concerned, so we are well competitive and keeping an eye on the competition and the present run rate, if you talk about the MSME, MSME is the

flavour for the quarter, we are able to grow it on a year-on-year 42%, which is quite decent from any standpoint. And also, we are able to improve LAP, which is a high-yielding product by 18%.

So competitive landscape, we are well placed to take the competition with our outreach programs with our customer connects and also the rightful pricing. As far as carrying forward this 11%, it all depends upon how the monetary policy will take shape. But we have one advantage I'm seeing, even if whatever the view, the monetary policy take, since our repricing is coming of the deposit post that period, that is February.

So, any repricing, there will be auto correction in the deposit rate. So automatically, renewal will also do at a further reduced price. So, yield on advances versus the cost of deposit, my target is to see how the NIM can look forward for upward trajectory. So, I believe Q4, we will see some NIM improvement, very, very, I will say, directional. It will not be a big in count.

A directional NIM improvement, we will witness in Q4, a good NIM improvement visible in Q1, followed by a decent NIM improvement in Q2. So, whatever the way the monetary policy moves, now balance sheet seems to be in the right position to capture that even if some surprise comes on the rate cuts in the February monetary policy review since the repricing is getting due of our deposits post that particular date.

Moderator:

We take the next question from the line of Shreepal Doshi from Equirus Securities.

Shreepal Doshi:

My question was pertaining to the geographical expansion that we're doing. So, while we are entering in states like Rajasthan, Himachal as well as J&K, what segments are here, which are seeing higher growth in terms of the product portfolio that we have? So, I understand that, of course, in Rajasthan, it would be more of MSME and trading.

But in states like J&K, NCR, Himachal, which products are doing well? And also, if you could throw some light on -- particularly in Rajasthan, how are you seeing the rejection rates or which customer profiles are we not targeting and which customer profiles we are targeting from our learning perspective?

Munish Jain:

Firstly, the first question. If we look into the geographically, that is Delhi NCR, we are looking a better traction coming from the business book, that's MSME followed by the mortgage. And similar is the situation for Rajasthan. Rajasthan also, we are seeing a good traction from the mortgage -- sorry, MSME and business loan followed by the mortgage LAP. So as far as that is what we are seeing in all the 3 states you mentioned, Jammu, Rajasthan as well as the Delhi.

So, we are seeing a higher traction in MSME and followed by the mortgage -- LAP within the mortgage book. That is the traction we are seeing in all the 3 states, which is a common between all the 3 states together. Now as far as the Rajasthan is concerned, Rajasthan is a market in which we just had our a branch in the headquarter of the Rajasthan in the last year. And we are starting to penetrate about that particular centre. It will be too early to me to comment upon the customer segment.

We are in advanced stage of customer sensitization. But presently, we are seeing a reasonable traction from the business community from the Rajasthan, and that is what we are targeting there. But it will be too premature to comment what profile we are saying yes or no. Just -- we are always conscious that rather than writing anything and everything which is coming on the table, we -- understand that geography well, which we internally call it a sensitization area, sensitization period.

So, we are in the last stages of the sensitization period in Rajasthan, which will take some more time to give the precise answer. Yes, we are quite ambitious for Rajasthan. And I believe Rajasthan, specifically business loan, middle income group business loan and LAP portfolio in Rajasthan is going to give us a very good outcomes.

Shreepal Doshi: Got it. Sir, just a feedback, if you could start giving state-wise loan mix, that should help. While I understand that these new states are having significantly lower share but just helps from how we are seeing the growth coming in those states from product portfolio point of view as well.

Munish Jain: Shreepal, we have started giving basis the feedback, the split between the Punjab and out of Punjab. As we move forward, we try to make it more extensive.

Shreepal Doshi: Got it. Got it, sir. Sir, the second question or rather more on guidance front is pertaining to how are we seeing, let's say, while you have indicated INR16,000 crore advances book by FY '29. But what is the kind of, let's say, loan book mix that we are aiming at by FY '29 since that's the year that you are looking at? So, what is the kind of, let's say, loan CAGR we aspire over the years to FY '29 as well as the loan book mix?

And pertaining to ROA, we've been highlighting that we would want to reach anywhere between 1.5% to 1.6% ROA. So, when is that timeline in terms of quarter, if you can give us some indication there? These are the broader questions I had as a second question.

Munish Jain: Firstly, if I talk about the mix and the CAGR, current year, we've given a CAGR of 20% growth for the advance. Next year, we want to accelerate this growth rate. We've given a guidance of INR16,000 crores, which translate into 23% to 24% CAGR. Next year number for the precise number for FY '27, we will announce in the first earnings call after getting the requisite internal approvals. This overall basis, we've given a guidance that we look forward for doubling down by 2029.

As far as the mix is concerned, Shreepal ji, we are quite confident, and we intend continue to be middle income group secured lending franchise. And these three products or within the 3, call it 4 products, Agriculture, housing loan, LAP, business loan are going to be 75% to 80% of the portfolio.

Within these three, depending upon the economic conditions like post GST 2.0, post direct tax benefit, so we're seeing a traction in the middle-income group MSME, we try to capture that. Similarly, some opportunities coming and knocking for the mortgage portfolio at the right ROTA profiling, we will be going to capture that. So, our overall principally, we will continue to be secured middle income group-based lender.

Looking at the situation as on date, for next 12 months, I believe business loan is going to lead the pack. Business loan book will continue to grow at the elevated levels, which will be supporting our growth for the next 12 months. So, we are keeping an eye on the present macro environment and the operating environment.

So, depending upon the opportunities, we don't want to miss any opportunity coming on the site and like to capture it. So overall, principally, we want to maintain these 3 sectors put together to be 75% plus levels. Within this, for next 12 months, MSME is going to lead the pack.

Shreepal Doshi:

Got it. And sir, with respect to the ROA trajectory?

Munish Jain:

Yes. ROA trajectory, this current quarter, if I exclude the exceptional item, we are typically around 1.3% with exceptional 1.2%. So, for the debate, I'm taking 1.3% because that is one of the item. So, from Q1 next year, we will intend to see. Firstly, we want to take this towards 1.4% in the next fiscal.

That is the FY next fiscal, that is FY '27. We want to take it to the 1.4% level. And you will start seeing, I believe, around 5-basis points improvement from Q1 and another 5 from Q2. So that is the what we strongly believe.

This is what I strongly believe keeping in with the present environment since the interest rate environment is in the hand of monetary policy. So, if I talk about the today's interest rate environment without any further cuts, so that is what we envisage. So, we look forward as a first stage, improvement from 1.3% to 1.4% in the Q2/Q3 FY '27 is visible. It's quite visible. Then we'd like to improve it towards 1.6% level by FY '29.

Moderator:

We take the next question from the line of Gaurav Purohit from Systematix Group.

Gaurav Purohit:

I have two questions. First one is on the partnership that you mentioned in your opening remarks. So, can you please give us a flavour of how the economics would work in this partnership? And will it be margin accretive to you? Or will it be neutral?

Is it just to push growth? So that is one. And maybe some colour on how you have selected the partners that you're working with? Second question is on the credit cost. The credit cost has slightly inched up in this quarter. Any specific reason for that or any particular segment that is leading to it and what would be the normalized level in Q4? These are the 2 questions.

Munish Jain:

Thank you, Gaurav. Gaurav, if I take the first one, that's a partnership. The partnership, the objective is to look forward for a secured lending opportunities in the geography where we don't have a very, very thick branch presence, say, Rajasthan. And we want to capitalize that opportunity through the partnership-led model. And these are the partners who are banking with us for a while now. Like to whom we have landed in book. So, we have got a sufficient time period to observe their portfolio behaviour, how their portfolio was behaving over a longer period of time with the various events happening. So, which is -- they are our portfolio companies within which we picked up some for our partnership-led lending also.

So, this partnership-led lending is with an FLDG framework that is with the credit risk with the partner as per the permissible under the law. So, we are FLDG driven and plus their variable -- their incentives or their commission is linked with the quality of the portfolio.

So, we have a two line of defence. One, payout is purely linked with the quality of the portfolio. Secondly, in addition to that, we are having FLDG. So, we are making ourselves well-guarded both in selection and their portfolio performance over a long period, very deep portfolio as our portfolio company and then also guarding legally and within FLDG framework. This particular book, we intend -- I'm not saying that it's going to be very, very significant in our distribution.

But yes, they will be making some impact in our distribution, and it will be P&L positive since it will be a high ROTA business with the credit cost with the partner. So, this particular -- current quarter is the first quarter in which we start distribution. We signed off with a couple of our partner NBFCs.

Now we are in the process of watching it more closely at the ground for the quarter 4, then we'd like to -- basis our feedback, basis our experience, we want to accelerate it to the more partners as we move forward in Q1 or Q2 next fiscal. So, this is going to be a P&L positive booster and also a growth booster in the geographies in which we have not a very, very thick branch presence.

That is the point number one. And point number two, regarding the credit cost. Just to clarify, Gaurav ji, our credit cost for the quarter being 0.2%, it was also 0.2% last year. If you compare with -- optically with the last year Q3, you can see it was 0.1%. That is the reason because at that time, there was not a good decent growth in the advances.

So, with the growth in advances, the provision for the standard loans also come into the place. So, which is also being there. So, I strongly -- I believe...

Gaurav Purohit: Munish ji, I'm comparing on advances, not on EBITDA.

Munish Jain: So, the similar number I'm telling. If you look into the advances, overall credit cost for this particular period is 0.2%. If you look into the -- any of the period, even if you look into the last quarter, Q2, it was 0.2%. In the Q3 last year, it is 0.1%. And we always intend to keep it range bound between 0.15% to 0.25%. And we are confident to keeping it range bound between 0.15% to 0.25% as we move forward over the period to come.

Gaurav Purohit: Okay. Fair enough. One last question, if I can squeeze in.

Munish Jain: Please go ahead, Gaurav ji.

Gaurav Purohit: So, on the margin side, while I understand that you have drivers in the form of cost of deposits, Agri mix is also expected to go up, right, in Q4. So how much of the benefit do you see from the yield side? I understand that there is competitive pressure and also RBI can take further rate action. But with the information you have currently, how much benefit you expect on the yield side primarily from the Agri book going up?

Munish Jain: Agri book statistically, yes, will be improving in Q4. So, there will be some benefit of that coming flowing in. But I believe the leader in this pack will be the deposit cost. So, there will be some benefit we can get it from the agriculture book growth, but the leader of this pack is that. Since in the loan advances, we are yet to be absorbing one rate cut, which is done in December.

So, we are also to absorb that in quarter, Q4. So, with that thing in sight, Q4, I still believe we will be seeing some positive change in NIM, but not a very, very significant. That will be a directional change. But we will start seeing a good NIM change in Q1, but we will be optimizing in Q2 on the NIM in which our majority of the repricing happened. Again, I'd just like to reiterate our repricing of the deposits, which is 63% high cost is slated to be done in Q4, Q1 and Q2, which is 23%, 46% and 27%, respectively.

So -- and in Q4, the majority of this is happening in the month of March. So, I'm not going to see much benefit. That will be a very, very limited benefit. So Q4, we will be seeing a directional change in the NIM, not a very, very large, directional change only. But Q1/Q2, we will see -- as per my assessment, my calculation, we can see a 10-basis point uplift in the NIM.

Gaurav Purohit: Got it. And when do you think your LDR will start to move up meaningfully towards that 85% margin I think it has come down this quarter again.

Munish Jain: When we are seeing the current quarter, , we've seen a good opportunity on the retail CASA franchise when we start increasing our SURU branch-based transaction and the customer engagement practices to get ourselves more penetrated, so which give us a better deposit growth and CASA growth, which is what we always look forward for a retail-centric and a price efficient.

So, at that point of time, we were not worried about just the CD ratio and like to take that deposit growth, which is of a good quality deposit growth. So overall, I believe we will be seeing some meaningful upward direction towards 85% or 87% in a medium-term basis.

Next year, you will see -- on a yearly basis, I will not be giving any quarter for this. On a yearly basis, you will see the LDR ratio improvement in the next fiscal on both on an average and outstanding basis, which will be pouring in towards the NIM and the ROTA also.

Moderator: We take the next question from the line of Chinmay Nema from Prescient Capital.

Chinmay Nema: Sir, could you share the gross NPA numbers on the Agri book and the MFI book?

Munish Jain: Agri and?

Chinmay Nema: MFI.

Munish Jain: MFI is presently just split down. And our MFI book is just INR48 crores. So, there may be a gross portfolio out there. If you can just hold for a second, I'll just try to give you the gross NPA number for that. Agri, our gross NPA is around 4.7% types. And in MFI, it will be 28%.

Chinmay Nema: And also, if you could give some colour on the broader health of the Agri book because if I look at growth of the book for the last five, six quarter, it has been sub-5% and the trend in NPA has been upwards. So, what are you seeing on that book, if you could share that?

Munish Jain: Agriculture book is typically just we are not very, very aggressive on the agriculture for some time now, but we have started looking at this book in a more favourable way. Quarter 3, the growth was not there for genuine reasons because the flows of the funds are coming in Agriculture. So, despite the disbursement have been done in this book, but there has been a natural decline because of the recovery basis, the cash flow in that particular portfolio.

Going forward, Agricultural book, if you look into the slippage, if I talk about the gross slippage, our gross slippage in the agriculture book is always 50% of our overall gross slippages. So, we are always having a subdued or sub muted gross slippages ratio.

But we typically follow a strategy of recovery and not writing it off. So, the Agriculture loan book, so we typically -- and since the growth is not coming in Agriculture book, so optically, you will see some gross increase in the gross NPA. But even if you look into the comparison period now, so there is not any significant increase in the value of the NPA.

But since the Agriculture outstanding has declined, this number look optically higher. So -- and the yields on this particular portfolio is also better than my overall yield, overall yield being 11% and yield on the agriculture being 12.62%.

So, we are in control of the things and this particular book, the slippages are well in control. And with the momentum in the agriculture, we were just a bit cautious in the lending earlier because of the flood-like condition in Punjab and for the current year we were not that aggressive in Agriculture lending, which we intend to started, but we're just holding on the guards.

Now situation is normalizing. So, we -- I'm not saying very aggressive on Agriculture, but yes, we want to increase this book. This book is not showing any sign of weaknesses or weaknesses on the quality side. On the contrary, gross basis ROTA driven, this portfolio is giving a better ROTA business. But just we want to make an optimum outcome of the same.

Chinmay Nema: Got it. And the quarterly provisions, are they also in proportion to the slippages? So, 50% to 60% of provisions do they come from Agri book? Would that be a fair assumption?

Munish Jain: No, because there is no growth, similar growth in Agri NPA. So, it will be on the incremental NPA. We follow a simple provision coverage ratio policy of keeping it upward of 50%. Current quarter, we slightly improved our PCR ratio. The PCR is now 50.46% against, which was a 49.5% around a quarter back. So, we improved our PCR also. So, we can't say that the increase in this is towards Agriculture. So that is as part of our principal strategy of maintaining a PCR of upward of 50%.

Chinmay Nema: Got it. And sir, on the MFI book, this INR6 crores to INR7 crores of outstanding -- do you see -- how should one think about recoverability on this sum? Do you see it flowing to provisions in the coming quarters?

Munish Jain: I believe as per the situation existing as on date, out of this INR7 crores, which is the present, we believe major share of it will be recovered. So bigger surprise on the provisioning is not expected. I'm saying major share going forward, this is assessment. This is the situation as on date.

Chinmay Nema: Understood. And sir, 30 bps improvement on the ROA that you've guided for in 2029, could you give some high-level colour on what the bridge should look like? So, this 30-bps structural improvement, where would this come from?

Munish Jain: If you look into the ROTA from a -- I talk about the segment, which will contribute to this particular thing. So, I believe the largest contributor here will be the NIM expansion. NIM is today at 4%. We want to take it upward of 4.2% to 4.3% levels. So that will be the largest beneficiary, which will be coming to the thing.

And the biggest thing which is available for us is the cost of deposit and the CD ratio expansion, which is going to be the drivers for the NIM expansion. Second, we will be seeing some optimization of the opex. Opex being at 60.9% cost-to-income ratio basis and 3% on the ratio to the assets.

So, these two bridges, I believe, are the largest contributor for our ROTA tree expansion. And on a time horizon basis, we are looking forward for a 30-basis point increase over the next 3 years. I strongly believe it will be very evenly split on a yearly basis also.

Chinmay Nema: Understood. Okay. And lastly, I just wanted to check the 2x growth guidance that you've given for the entire book. In the medium term, does that also hold for the Agri book? Or would the Agri book continue to grow at a more measured pace?

Munish Jain: No, we will not be talking about the Agri will be also doubling down. So, I believe that presently the lead in the pack will be done by LAP book and MSME book. Agri will be growing, not at the doubling down the pace rate, but it will be growing, but not at the equal proportionate. Since our concentration in the other states are not Agri, so the Agri will not be growing at the growth rate of the total advance book.

Moderator: We take the next question from the line of Varun Dubey from Share India Securities.

Varun Dubey: Congratulations on your strong set of numbers. Although majority of my questions have been answered but just wanted to understand a few things. First among them is what is the term deposit rate that the bank is offering? And in this quarter, how much of the reduction was the bank able to take?

Because in your initial comments, you have also said about competition and some kind of temporary margin pressure that could be witnessed. So, if you can throw some light on that? And my second question would be on the cost-to-income ratio because in this quarter, there was a one-off because of the cost income ratio...

Munish Jain: Varun, my apologies. Your voice is not audible. There seems to be some echo there. I'm not able to understand the question, please.

Varun Dubey: Can you hear me now, sir?

Munish Jain: Yes, now better.

Varun Dubey: Okay. So just wanted to understand on the term deposit rates that the bank is offering. I mean you spoke about some competitive pressures building up because of the overall pricing in the environment, and that could impact the margin pressure temporarily. So, what is the term deposit rate that the bank is offering?

And how much reduction was the bank able to take in this quarter? And also, about the cost-to-income ratio because this quarter, if you exclude the one-off, it has been around 60.9%. So, to what level do you intend to take or exit the FY '26?

Munish Jain: As far as if I take the point number two, first, cost-income ratio is 60.9%, which I believe for the current quarter is quite optimal. And I believe in the Q4, it will be range around the similar levels. Yes, we want to take cost-income ratio towards a downward level over the medium-term basis, over the 3-year basis. And over the 3-year basis, it will be showing the downward trajectory as it has been shown in the current fiscal. So that is what I see.

In the medium term, it will be showing a declining trend and a consistent declining trend each of the year. Point number two, as far as the term deposit is concerned,

If I talk the second part first, what is the present rate of we are offering, and second, what is the contractual maturity we are having contracted with us, which are running contract. Statistically, as I said earlier, and just for the sake of repetition, I'm repeating, 63% of the same is on for are-price, which is much more than the price, which is present of term deposit, which is getting repriced over the next 3 quarters.

And overall, that is going to give us a benefit on the cost of deposit as well as the NIM. Second point, we are presently offering around 7% for a 1-year contract on the term deposit and around 7.1% our higher rate on particular tenures. Current period, we have optimized it. If the current year is concerned, we started the current year when we were offering around 7.6% in 1-year maturity (400 days). Now we have done it 7%.

So, we have already cut around by 60 basis points over last 9 months. So, we are keeping an eye open on what is happening on the monetary policy front. So, basis the monetary policy outcomes, we will be reacting towards that.

But despite that particular fact, there are the opportunities available for the NIM enhancement and the -- NIM and ROTA enhancement through cost of deposit optimization basis contractual maturities on repricing. So that is the big lever available. In addition to this, the other levers will get unfolded as we move forward.

Varun Dubey: Okay, sir. But how much was the reduction in Q3? And how much more reduction in the term deposit rate do you have in Q4 as well?

Munish Jain: At this stage, answering this question is not very -- as you can say, possible for me. It all depends upon the market dynamics. In Q3, we made a reduction in the 1-year contract, I think, by 15 basis points or 20 basis points.

Moderator: Ladies and gentlemen, due to time constraint, we take that as a last question, and we conclude the question-and-answer session. I now hand the conference over to the management for their closing comments.

Sarvjit Samra: I would like to thank everyone for being part of this call. I hope we have answered your questions. If you need more information, please feel free to connect to our Investor Relations team or SGA our Investor Relations Advisors. Thank you once again and have a good day ahead. Thank you.

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