“Equitas Small Finance Bank Limited

Q3 FY'23 Earnings Call”

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Moderator: Ladies and gentlemen, good morning, and welcome to the Earnings Call of Equitas Small Finance Bank Limited's Financial Performance for Q3FY '23. We have with us today, Mr. P. N. Vasudevan, MD and CEO; Mr. Sridharan N, CFO; Mr. Murali Vaidyanathan, Senior President and Country Head, Branch Banking, Liabilities, Product and Wealth; Mr. Rohit Phadke, Senior President and Head Assets; Mr. Natarajan M, President and Head Treasury; Mr. Dheeraj Mohan, Head Strategy and IR; and Mr. Rahul Rajagopalan, DVP, Strategy and IR.

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

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

P.N. Vasudevan: Thank you. Good morning to all of you. Hope you all had a great beginning in the New Year. On the macro level, India's GDP growth has been resilient despite global uncertainty. GST collections and other high-frequency indicators all point to an increase in the economic activity. The financial system has remained stable, and although inflation is still high, it has moderated from its peak.

As per RBI's estimate, the next year inflation is expected to further moderate to around 5.3%, combined with a fairly strong robust GDP growth expected of around 6.4%. The strong growth in system credit has intensified the competition for deposits, which has led to an increase in deposit rates for all commercial banks in the third quarter. As systemic liquidity continues to reduce, interest rates remain a key variable and our ability to optimize cost of funds remains a key priority.

Murali and Natarajan will speak in detail on the bank's liability and treasury strategy. The credit demand in our areas of operations like small business loans, commercial vehicle finance, microfinance and affordable housing finance remains strong. Rohit will speak in detail on our asset performance, followed by Sridhar commenting on the financials. Our focus over the years has been to build a stable sustainable and scalable bank. Towards this, we have taken many initiatives, with most of them falling into place, the bank is seeing the result and benefits.

I would like to highlight one fact to show the resilience that we have built in the bank. During demonetization, 53% of our advances representing microfinance was impacted while the rest of the book had no impact. Our ROA went down to the lowest level of 0.3% for the year ended March '18. During COVID, the entire advances book of the bank was impacted and yet the lowest level that our ROA went down to was 1.1% for the year ended March '22.

Further, after demonetization impact, it took us 7 quarters to get to the over 2% annualized ROA for the quarter. But after COVID-19 impact, it has just taken us 3 quarters to get to that over 2% ROA. Having built a resilient base, our focus now is to build more around specific segments and leverage digital, both for efficiency improvement and creating new digital business models. As you know, lending to small businesses in the informal economy space is one of the focus areas of the bank. Let me first provide some sense of the industry size. The addressable market for the residential property-backed small business loan is estimated to be around INR 22 lakh crores. We have given some data around this in our slides number 10, 11, 12 of our investor presentation.

This segment continues to remain significantly underserved by the banks. We at Equitas started this business in 2013 as an upsell to our eligible microfinance customers with a INR 50,000 to INR 5 lakh ticket size product and gradually expanded. And today, we offer loans up to INR 25 lakh to this segment. As you know, Equitas is among the few banks who operate in this segment. Today, our book size stands at over INR 9,300 crores with over 5 lakh customers, and we have grown at a CAGR of 48% from FY '15 to FY '22. Over the years, the institutional knowledge in credit assessment that we have built has helped keep the GNPAs below 4% despite being hit by 2 Black Swan events.

Apart from term loans to merchants, recently, we introduced the working capital in the form of overdraft facility to merchants. The response has been very encouraging with the book size, which has already crossed INR 150 crores. We are the sole banker to all these merchants and the data that we are gathering on their cash flow through our current accounts is going to be of immense help in profiling and offering further products and services to them. In order to cement our position further among the merchants, we are building a tech-led merchant ecosystem that will connect merchants, distributors, payment solutions, customers, and other players in the bank.

The merchant app to be launched shortly will enable us to achieve this. The end-to-end digital current account opening process slated for launch this quarter is going to be one more element of this seamless ecosystem. We are confident that with our continued investment in the merchant space, Equitas will be able to create a niche in serving this segment. And over the next few quarters, we will give some updates in our progress. The second strategic initiative is revamping our various tech platforms and creating digital assets.

Some of this like the LOS, loan origination system for lending, which have gone live in phases, and the InsurTech platform, which will go live this quarter, should help improve team productivity, while others like the revamped CRM system or the new IBM the native app is going to enrich customer experience. The digital customer self-onboarding and acquisition app is also under progress. We will update you on the roll-outs over the next few quarters.

Given that our products and service offerings have found a good resonance with the mass affluent and NRI segments, we would be opening a few marquee branches in major towns to enable us to give them a differentiated experience and also further improve the branding of the bank in that town. On the amalgamation of the holding company with the bank, you may be aware that the record date was 3rd of February, and yesterday, the Board met for allotment and it was done. We should be completing the corporate action during this month, and we would be happy to welcome the shareholders of the holding company to the bank.

On the guidance front, we guided on 2 counts, loan growth of about 25% and credit cost of 1.5%. We remain confident of meeting both of this for the year. As I wrap up, the momentum is quite strong. I believe we have all the required things in place to support sustainable growth, and we look forward to your continued support in this exciting journey. Thank you once again. I now hand over the call to Rohit.

Rohit Phadke: Good morning to you, all. On the asset side, our advances grew 27% year-on-year and 9% quarter-on-quarter. Our quarterly disbursements grew 68% year-on-year to INR 4,797 crores. This marks the highest ever disbursements in a quarter. Strong disbursement was witnessed across all product segments with the bank's flagship product, SBL, clocking a year-on-year disbursement growth of 73%. We continue to see strong demand across segments. Disbursements in new products that is affordable home loans, used car loans, and merchant overdraft stood at 12% for this quarter. Small business loans, the bank's flagship product at 37% of the advances continues to be the largest business for the bank.

As Vasu mentioned, we are one of the largest lenders in this segment, and we want to maintain our dominance in the small business lending space. We have launched a new loan origination system for the business, which we are piloting in 15 branches and hope to adopt it across the country in the next 3 months to 6 months. This will help in both productivity improvement and cost reduction. In small business loans, we see a strong demand for retail loans as indicated by the increased number of logins.

The vehicle finance business has come back strongly, riding on the back of the growth in CVs. Overall, operator economics are working fine with freight demand remaining good and improvement in the availability of return load. Collection efficiency continues to be stable and back to pre-pandemic levels. We have seen an increase in the prices of used vehicles, indicated by the reduction in loss on sale of repossessed vehicles. Loss on sale of repossessed vehicles declined from 48% in Q4 of FY '22, that is last year, to 31% in Q3 of FY23, that's the last quarter.

Equitas has grown this business steadily over the years and now we are witnessing disbursement growth pick up. As I had highlighted in the last quarter, our revamped LOS went live and average monthly disbursements have grown by 50%. The newly entered states of Kerala and Uttar Pradesh have started to contribute well. We'll continue to deepen our existing geographies and enter geographies of strategic importance. CVs have grown at 46% year-on-year for the period April to December. CV goods have grown by 40% and CV passengers have grown by 177%. Even in January, last one, the Jan '23, sales have grown by 16% over Jan '22.

The affordable home loan business that we launched initially in Gujarat and Maharashtra has now expanded its presence in southern states of TN, AP, TL, and Karnataka. We are now present in 5 states. On the affordable housing piece, ICRA estimates a portfolio growth of 10% to 12% for the full year FY '23.

The microfinance business is seeing good traction on all fronts across the country. Collection efficiencies across have seen a marked improvement. The overall overdues declined to 10.9%

in Q3 from 12.66% in the previous quarter. MF has also seen microfinance has also seen a very strong growth in collections.

The X bucket collection efficiency for microfinance has increased to 99.5% from 98.9% in the previous quarter. Small business loans and vehicle finance has also seen strong growth in collection efficiencies, X bucket wise. Small business loans was at 99.6% and for vehicle finance was at 97.9%, up from 99.3% for SBL and 97% for VF in the previous quarter. Generally, the last quarter of a financial year is better than the earlier quarters, coupled with the strong growth indicators, the probability of churning out good numbers definitely exists. I see a strong possibility of continuing the 25% advances growth and the strong momentum in collections. Thank you. I'm handing it over to Murali.

Murali Vaidyanathan: Thanks, Rohit. Good morning, all. I think like Vasu mentioned clearly, there are headwinds and tailwinds, which we are seeing at the mobilization of deposit, but good sign is our mass affluent segment, which we keep saying as Elite as a program for HNI is showing a growth. And that actually complements our relationship management structure, which we have put in at branches through relationship management and virtual RM, which we have kept, I think combined effort of relationship management, branding and the sustained innovation in the product is helping us and now it is Rs. 11,600 crores of relationship value at this point of time.

Adding to this is the middle class-focused and salary class-focused approach, which we have taken wings as a high-end product has now reached INR 3,000 crores. So in totality, it is the retail customers who are contributing towards 84% of the SA book. And very important part is now we have hit 30% to 40% of customers holding a product holding of 2 and above. This shows 2 things, one is the strength in the proposition, and two, our continued investments and efforts that is going towards the relationship management structure. The second thing is NR as a segment is showing a lot of hope and a lot of sign, and NR book has crossed close to Rs. 1,200 crores.

And here again, the expansion of market that is spread of markets is key, and now we can comfortably say we are present in almost 20 countries. And we are using aggressively digital more to actually reach out to consumer and then doing face-to-face execution, and here again, relationship management plays a very key role. The third important thing what I want to highlight is current account with a dedicated focus on supply chain management, what we are doing at this point of time at the lower and mid-end of corporates as well as traders has started yielding good results, and current account, we are seeing some, lot of good green shoots across and predominantly playing in MCA segment is definitely helping us. So our solution-centric approach of current account is giving us a technical edge at this point of time.

We have innovated and improvised and implemented, WhatsApp Banking at this point of time. So consumers can use WhatsApp Banking actually for service, which is one quantum leap. And this shows our dedicated presence on not only digital sourcing and virtual RM also on continued service. So on digital sourcing, it is complemented by VKYC and full KYC. And now our ability to maintain long tail management and most importantly, getting value out of digital accounts is enhanced considerably.

Today, we have close to INR 1,100 crores of our book coming in from digitally sourced account, and this is end-to-end we want to back it up by digital solution.

We focused on bulk TD in the last quarter, as we are aware, there is a fundamental shift of savings account to TD happening at the retail end, but good part with bulk TD is 95% of our bulk TD is non-callable, which means, these are LCR-friendly. So we are able to manage despite all these things at cost of fund, which is within our striking distance.

We continue to improvise and innovate, just to share with you, like Vasu was saying; we wanted to enter into InsurTech piece, InsurTech is a self do-it-yourself and assisted mode platform, we are creating it for consumers to consume the range of insurance companies, which we are in tie-up with and where we are going to tie up with to enable fair and transparent mode of getting codes and selecting by itself. And premium liability branches is one thing, which we will launch at 18 to 20 branches. And most important thing is on the merchant app, where merchants there we are having current account as well as we are also doing already present in acquiring space of merchant. And where I think as per last RBI listing, we're in top 16 in terms of merchant acquirers, and that will help us to strengthen the proposition in terms of payment transaction solution-centric.

I think that coupled with digital card will be a very interesting proposition for the front-end traders. Overall, yes, situations are challenging, but the money will shift from one pocket, but there is enough optimism and enough work going around to get the phygital, digital and new products right. Let me hand it over to Nat to give us the view on treasury.

Natarajan M: Hi, good morning, everyone. The calendar 2022 has been a challenging one with the steep and consistent interest rate hikes by global central banks. Current year, hopefully, with the peak of inflation behind us, we are now seeing slower rate hikes by central banks, although in the smaller quantum as well. And optimistic section of the market is also expecting a possible rate cut by Fed later this year. As per IMF report, the global growth is projected to fall from an estimated 3.4% in '22 to 2.9% in 2023 with possible rise back to 3.1% in '24. With China also opening up, recovery is expected to be faster than anticipated earlier.

On Indian economy, it's relatively better placed with respect to global backroom as far as inflation and the growth projections are concerned. IMF predicts India's growth is set to decline to 6.1% in '23 before picking up again to 6.8% in '24 with a resilient domestic demand despite external headwinds. RBI is also penciling an growth forecast of 6.4% for next fiscal. Domestic tax collections have been robust with both direct taxes and GST collections showing very strong upticks throughout the year. Domestically with 25 basis points hike yesterday, RBI continued to demonstrate that they will not fall behind the curve.

The stance continue to remain withdrawal of accommodation. I think that's more because system still has surplus liquidity, while the base cases for RBI to begin a long pause from April MPC, which will largely hinge on global trends and inflation trajectory as well. RBI's decision and commentary were on expected lines. So this gave comfort to bond markets. Yields are steady around 7.30% to 7.35% range.

Coming now to Equitas treasury performance for last quarter. This has been another stable performance. Profit on sale of investments of Rs. 7 crores with low MTM depreciation in this quarter. With bond yields nearing peak levels, our treasury used the opportunity to fill our HTM portfolio. RBI has given a dispensation of 23%, we can keep in HTM. So bank utilized the opportunity to fill that gap. We were able to make some profits out of IPOs during the first half of Q3 as well, then the market turned back, so we stayed away. Our liquidity position is adequate with strong and steady deposit growth. Our funding profile is stable with opportunities available to raise funds in the form of both refinance as well as IBPC as a backstop. With this, I hand it over to Sridhar.

Sridharan N.: Thank you, Nat. Good morning to everyone. Our net interest income came at INR 647 crores as compared to INR 541 crores during the same quarter last year, registering a growth of 20% YoY. Other income came at INR 127 crores as compared to INR 95 crores in the same quarter last year, a growth of 34% YoY. Net income grew at 22% YoY and came at INR 774 crores for the quarter as compared to INR 636 crores during the same quarter last year. On the operating expenditure, the total operating expenditure came at INR 495 crores as compared to INR 411 crores during the same quarter previous year, a growth of 20% YoY.

The employee expense increased by 21% YoY, and 90% of the employee additions in FY 23 have been in business team as the bank is investing for the future. Other operating expenditure decreased QoQ basis by INR 5 crores. On PPoP, came at INR 279 crores as compared to INR 225 crores during the same quarter previous year, registering a growth of 24% YoY. PPOP as a percentage of average assets expanded YoY to 3.62% from 3.52%. PAT for the quarter came at INR 170 crores as against INR 108 crores during the same period last year, registering a growth of 57% YoY.

Now moving on to asset quality and provisions. The bank carries a total provision of INR 580 crores with NPA provision of INR 438 crores and standard provision of INR 142 crores. The bank in this quarter has utilized INR 36 crores of COVID restructured loan standard provision during this quarter, and continues to hold INR 60 crores in standard restructured loan provision, which may be utilized in the following quarters as and when it gets released.

In order to strengthen the PCR, the bank made additional provision of INR 27 crores towards COVID restructured retail LAP loans that have become NPA. GNPA improved by 93 bps YoY and came in at 3.46% in Q3 FY '23 as compared to 3.82% in Q2 FY '23 and 4.39% in Q3 FY '22. NNPA came at 1.73% in Q3 FY '23 as compared to 1.93% in Q2 FY '23 and 2.38% in Q3 FY '22. The provision coverage ratio stands at 50.84%.

As of December 31, 2022, the total CRAR is at 24.28% comprising of Tier 1 at 23.74% and Tier 2 at 0.54%. With this, I would like to hand over to operator, and we'll be happy to take questions from your end. Thank you.

Moderator: The first question is from the line of Jai Mundhra from B&K Securities.

Jai Mundhra: Congratulations on a great set of numbers and on your reappointment also. Firstly, sir, if you would like to share any key changes in your terms of employment or remuneration detail, if any, you would like to sort of shed some light there?

P.N. Vasudevan: See, the Board has recommended a 3-year renewal of my term and that has been given to RBI. So we will be awaiting RBI approval for that 3-year extension. In terms of the terms of appointment and all that, all these terms are subject to RBI approval, and there is no significant change in the terms of appointment. So whatever was there earlier or whatever is there currently, it will be on similar lines with only the normal marginal increases that normally happens in compensations year-on-year.

Jai Mundhra: Right, okay. Secondly, sir, on your cost of deposit, and I saw your SA deposit cost is 6.25% and TD is 6.6%, right? So what is the thought process of the bank in terms of now the business has become -- I mean the business growth should become, let's say, normalized at about 25%. How do you want to -- what is your strategy on the funding mobilization? Where would you look more incrementally between TD and SA because the cost is not that -- the cost differential is not that significant? So how should one look at your relative importance on SA versus TD?

P.N. Vasudevan: See, basically, the focus of the bank would continue to be to mobilize CASA as much as we can as a first priority because of not just the fact that it may be at a lower rate of interest, but also because it also gives you a lot of other relationship with the depositor, and so you always look for that.

But then in a scenario like today where the interest rates on deposits is increasingly getting further away from the interest that's available on our saving, so people are bound to put their money from savings to deposits. So we'll have to live with that reality for some time to come now. So what we should see is that we are currently 46% CASA, and we'll have to see how much we can try to retain it at anything in the range of 45%. I think that will be a great achievement if we can do that with the remaining coming in the form of deposits.

Jai Mundhra: Right. No, so what I was trying to understand, sir, now if you have to increase the deposit rate because your growth should also be reasonably strong, would you be tempted to increase the SA rate also from here onwards or the SA rate is more or less similar, they will not be too much tinkering and then you may look at raising TD to fund incremental growth?

P.N. Vasudevan: Yes. I mean I think there's no particular plan today to touch the SA rates at this point in time. So largely, the rate changes will be on the TD part of it.

Jai Mundhra: Sure, sir. And last 2 questions. On the restructuring, sir, now we have given the entire 1 plus DPD book. But if you can quantify the restructured book as of December? I think last quarter, it was INR 700 crores something?

Rohit Phadke: The restructured book stands at INR 730 crores with INR 244 crores in GNPA and only INR 76 crores in 61 DPD to 90 DPD.

Jai Mundhra: Okay, understood. And any provision -- this INR 60 crores provision is the outstanding against the INR 730 crores minus INR 244 crores of standard assets -- standard restructured book?

Rohit Phadke: Yes.

Jai Mundhra: Right. And last question, sir, on your this corporate structuring, when do the -- when do people get the shares of the holding company in the demat account, I mean, rough indication?

P.N. Vasudevan: See, yesterday, the allotment has been completed by the Board for the shareholders. So the -- we have to now do the credit of the calc -- the demat account of calc. I've been told that it might happen in the next about 10 days or so. After that, we will apply for listing and it should get listed. So I think in about a couple of weeks, I think the whole action should be completed, subject of course to lot of processes that need to be completed with the MCA as well as with the stock exchanges. Subject to all of that, I think in about a couple of weeks, the share should be available for trading.

Moderator: The next question is from the line of Deepan Shankar from Trustline PMS.

Deepan Shankar: Congrats for great set of numbers. So firstly, I wanted to understand this microfinance disbursement has grown substantially well during the quarter after many quarters. So are we seeing -- started seeing profitable growth visibility in microfinance segment? And do we expect this growth run rate to continue in the coming years?

Rohit Phadke: Deepan, Rohit here. So yes, microfinance is profitable. It was profitable last quarter also. We will continue to see the growth, but we have always said that as a part of the total advances, we will keep the microfinance book restricted between 15% to 20%. So that remains our stand.

Deepan Shankar: So now with microfinance, vehicle finance and SBL picking up in disbursement growth, so do we foresee strong credit growth in excess of 30% over next 3 years, 5 years?

Rohit Phadke: Yes. So, see, we have always said that we'll grow at 25% and we'll maintain at that. If more comes, good. I mean aspiration is definitely more than 25% is something that we stick to our guidance.

Moderator: The next question is from the line of Renish Bhuva from ICICI Securities.

Renish Bhuva: Congrats on a good set of numbers. So, sir, just 2 questions from my side. So, one is on these, the merchant acquisition strategy. So, sir, I mean what is the sourcing strategy or let's say, what are the tools we use to acquire merchants?

Rohit Phadke: So as we had said last time also, this Merchant OD product is offered to small merchants. Currently, we were offering it to our own customers. We have a huge base. We had shortlisted about 70,000 customers with CIBIL scores of more than 700. And the way we acquire SBL loans in the market through references and direct calls, so similarly the same thing is -- happens with acquisition of Merchant OD also. But we also plan to now do a digital acquisition through QR codes, but that's in the future. Currently, we are sourcing Merchant OD business as we source the current SBL.

Renish Bhuva: So basically, this is the cross-sell product for SBL?

Rohit Phadke: It's not a cross-sell product. We started off by testing it with SBL customers and now we are in the open market acquiring merchants across.

P.N. Vasudevan: And Murali, can you also elaborate on the digital acquisition part?

Murali Vaidyanathan: See there are 2 sides to it. One is what we are doing through Merchant OD, where we have existing set of customers and we go to open market and do door-to-door. Second is targeting only those set of customers who are interested in payment, transaction and settlement sort of things, which means you will give some solution of POS or QR payment gateway.

So today, through -- for getting these customers to get into the transaction mode, we use direct sourcing, that is our sales team and branch team. Then we also have a aggregator model, where we have tied up with 1 or 2 of the people, whose merchants we are going and onboarding into us and then opening their current account for settlement. Third is, we have limited opportunity on payment gateway. We have given up to 100 payment gateway solutions.

Now on QR, every current account customers if they classify as traders, the instant delivery of check book goes along with the QR. So the instant transaction mode and the settlement mode happens. So today, just to give you a rough figure, we have close to 17,000 POS machines already running, which is giving you a Equitas slip. We have 45,000 active QR in the market, where we are doing, sending, collecting, and doing transaction for these merchants through current account QR and POS machines.

And third is close to 100 customers who are our payment gateway. This is on one side where we go on debt-free customers and payment and transaction mode through digital sourcing. For existing current account customers and for existing SBL customers, we cross-sell this Merchant OD as an opportunity for traders. These are the 2 legs of merchant acquiring strategy. And now to enhance that, we are creating a merchant app, which, Vasu, sir, was saying, where by quarter end, we will go for a trial and then limited market exposure wherein a person or a trader can download the app and start transacting.

And if he want to link it to his existing account, he can and he will be given a choice to open a digital current account also. So it's a long-drawn strategy on phygital, physical, aggregator and direct-to-market through digital mode.

Renish Bhuva: Got it, sir. Got it. I think I have few more questions on this side, but I will take it offline. So, secondly, in terms of the profitability -- and thanks for sharing the few more details on the SBL side. So now, if we look at the ROA metrics for us, I mean, so as per our PPT, SBL ROA is close to 4.5%, which is 33% of the book. MFI, I'm assuming it will be similar since the cycle is normalized, and if you look at the peer's ROA would be anything more than 4%. So in nutshell, almost 50% to 55% of our AUM is generating above 4% ROA, wherein if you look at the blended ROA of 2%, essentially which means that the vehicle financing profitability metrics will be much lower. I mean, if you can just throw some light on this segment-wise profitability will be helpful, sir?

Dheeraj Mohan: Renish, this is a little early. So I think this is first time we have given indication on the SBL ROAs, mainly because it's linked to our internal transfer pricing, which is today not equal to the cost of funds which we published because we have the landed cost or the cost of mobilizing deposits, which is why we don't give segment-wise profitability. You can compare it with the industry vehicle finance, there are enough of peers to compare it. Small business loan, again, there are some NBFCs, which are in similar segments.

Microfinance anyway is a well discovered space. So you can do rough sum of parts. But I think we're not at this point in time wanting to give segment-wise ROAs. However, it's safe to assume that, yes, on the asset side, the core or the main flagship products, ROAs will look good given that the credit cycle has turned, credit demand is there.

However, the bank is also investing in future growth in new products, like we had spoken about the Merchant OD, affordable housing is in limited branches. So that's also places where the bank is investing apart from technology. And also what Murali had spoken about the plans around the premium branches, etc. So you'll have to adjust for all of that, but we are hoping that we can sustain this level of profitability and see ROE expansion.

Renish Bhuva: Yes. Okay. Got it. So again, a follow-up on that is in this quarter, our credit cost is sort of abnormally lower than what we expect to be on a steady state basis of 1.5%. So how confident we are, we'll sustain this 2% plus ROA in coming quarters?

Dheeraj Mohan: On credit cost, while you've said is abnormally low, what we would like to state is that our steady state credit costs, if you exclude the Black Swan events, were close to about 1%. And what we've said is, they would -- we would try to trend towards that. So next year, hopefully, we will have business as normal and look at credit cost, hopefully, in that range.

So, I think we are yet to give next year's guidance. But hopefully, business everything remains normal. So today we are at 0.84% is the credit cost, so the margin to revert back to normal is not that far away. So it's not that we have got an extremely abnormal credit cost. And also from a credit cost perspective, we would like the PCR to go up to about 60% hopefully, by FY '25. So there is some bit of that intent, which will start showing in terms of provisions.

Renish Bhuva: So just correct me, if I heard you right. So you are saying the normalized credit cost would be 1% and 1.5% what Vasu, sir, highlighted during the opening remarks is just for FY '23?

Dheeraj Mohan: Yes. Yes. We'd said that 1.5% in the beginning of the year, keeping in mind the COVID and the provisions we'll have to make.

Renish Bhuva: It's not steady state basically?

Dheeraj Mohan: No, no, no, no, it's not steady, steady state, hopefully, we will revert back to that soon.

Renish Bhuva: Got it.

Moderator: The next question is from the line of Punit Bahlani from Nomura.

Punit Bahlani: Yes. Sir, my question is on the margin bit. Firstly, like you reported stable margins QoQ, but your cost of funds increased around what 16 bps what is reported and your yields were broadly flat. So what am I missing here

Dheeraj Mohan: Yes. So the yields are on the loan book. NIMs are on interest-earning assets. So what you've missed is treasury assets. So the treasury assets as a percentage of balance sheet has roughly remained same at 20%. But like what Nat had said, the treasury yields have actually gone up in Q3 compared to Q2, with the investments or the interest-earning higher yields. So, 7-plus, I think is what they've tried to earn. So that's actually what's cushioning some bit of what you would have seen.

Punit Bahlani: Right, right. Got it. Got it. And the second bit on the -- so on the microfinance book, like compared to peers, our PCR is relatively low just on the microfinance bit that you mentioned. So like you mentioned increasing in FY '24 with a credit cost target of around 1%. So if we had -- are we planning to increase our PCR in the microfinance book? Any color on that?

Dheeraj Mohan: Yes. So one, credit cost for next year, hold on, hopefully, we'll give it next quarter. I just said 1% is generally where we revert to. PCR like I said, we want to bring it up to 60% in about 4 quarters to 6 quarters. So somewhere in FY '25. And that would, like you said, the higher-risk assets would have a higher PCR. And that's also how our current provisioning norms are. So we'll have to work towards that at a product level, you'll see it move, but at a bank level today, this is the target we have, and again, microfinance is just 18% of the book. So it is not above 50%, which will cause a lot of disturbance, so that way, we are a lot more stable.

Dheeraj Mohan: Also this year, there has been a write-off from the microfinance book, especially the book which was impacted during COVID. So when we write off, those are assets with a higher provisioning. So there is some bit of that match playing, where loans there have got a higher or close to 100% cover getting written off. So that's why the microfinance PCR looks slower.

Punit Bahlani: Right. And just one last bit, from the restructured pool, what were the slippages this quarter?

Rohit Phadke: So slippages were at INR 286 crores against INR 314 crores last quarter, and this is slippages on a daily basis. Restructured book slippages were at INR 86 crores.

Moderator: The next question is from the line of Jyoti Khatri from Arihant Capital.

Jyoti Khatri: Yes. Sir, what is our guidance for credit cost for current fiscal? I will turn to that.

Dheeraj Mohan: Yes. We've said 1.5% is for the current financial year.

Jyoti Khatri: Okay. Sir, how much has been for the first 9 months?

Dheeraj Mohan: For the first 9 months, we would be about 1.64%.

Jyoti Khatri: Okay. Now this 1.5% also includes the provision on the standard restructured assets?

Dheeraj Mohan: Yes. Yes. The total credit cost.

Jyoti Khatri: Okay. And you also mentioned that you have INR 60 crores of provisioning on the standard restructured book which you're going to utilize in Q4?

Dheeraj Mohan: Yes, sometime in the next 4 months to 6 months.

Jyoti Khatri: And how much it was utilized in the current fiscal?

Dheeraj Mohan: So, INR 36 crores in the current quarter.

Jyoti Khatri: Okay. But I just want to understand why there is a withdrawal of the provisioning on the standard restructured book? I mean, it should be the other way around. It should be increased provisioning on that book, right? And also some color, how is the asset book and the standard restructured book are performing now?

Sridharan N.: The reversal happens when actually it moves to a normal standard asset or it moves into a NPA because NPA provision gets attracted under the IRAC norms. So that's the reason there is a write-back happens actually. Yes. This is after the RBI COVID guidelines, so we do that actually. We retained the standards asset provision till that time the recovery is made and are moved to NPA, then NPA provision is applicable.

Jyoti Khatri: Yes. I'm saying, are you satisfied with the current provisioning on the standard restructured book that you're having right now?

P.N. Vasudevan: Yes. See, basically, when we restructured last year under the COVID guidelines, we were required to provide certain provisions as per the RBI guidelines on the restructured book. And now it's been almost what 12 months to 15 months of restructuring -- post restructuring, so some of them have moved into NPA and which have moved into NPA, anyway, the provisioning as per NPA norms will take over, but some of those assets have remained standard after about 12 months to 15 months of restructuring, but we continue to carry those provisions in the book of standard restructured book.

And as per the guidelines of RBI whenever those accounts have crossed that specified period and don't ask me what is specified period, it is defined by RBI in some manner, but it's typically anything beyond 12 months, 12 months and above. If an account has remained standard, then that provision is not required any longer to be kept by the bank. So that is where the write-back comes from standard restructured book.

So for example, in the third quarter, we had INR 36 crores of provisions, which was released because those accounts that crossed have specified period and were not an NPA by that time, they are still remaining standard. So INR 36 crores got reversed. And what we did is we used INR 26 crores of that to make additional provisions on some part of the restructured book. So that's what we will do. So we have another INR 60 crores coming up like that. So if those accounts for which the INR 60 crores provision is there, continue to remain standard, a part of that might get released and then we will take a call, how much can we push back on further provisioning wherever we feel that goes well. So that's how it is done.

Moderator: The next question is from the line of Ashlesh Sonje from Kotak Securities.

Ashlesh Sonje: I hope you can hear me. First question is on the opex front. So we have seen a recent addition of about 1,000 employees over the last -- over each of the last 2 quarters. When we say that we are done with most of the employee addition? And secondly, on the same point, which segments -- which business segments are absorbing most of these new employees?

Dheeraj Mohan: Yes, before I give it to Rohit to talk on which businesses are absorbing people, no, we'll continue to add people because we -- next year's growth and all of that we have to start hiring for. So we don't see the manpower plateauing or flattening. So we will continue to add people. And most of people are getting added across businesses because we are seeing strong credit demand, and as you see, that's also translating into an increase in disbursements.

Rohit Phadke: Yes, Ashlesh, Rohit here. So as you know, as Vasu sir also mentioned that we are adding new products, and we are expanding the products of affordable home loans, used cars. So obviously, as we expand into new geographies, we will need to hire manpower, even the current small business loans, as we are deepening geographies and we are moving more into non-TN geographies, we will need to add people. So I don't think we have plateaued off on the hiring of employees. We will continue to hire people. That's it.

Ashlesh Sonje: Yes. On the gross slippages front, the numbers still seems to be slightly on the higher side. Although, I understand that we made a change in the way we look at slippages last quarter. But still how would you see this number trend going forward? And at the same time, can you give a breakup -- segmental breakup of slippages for this quarter?

Dheeraj Mohan: The segmental breakup, we can't give at this point in time. But -- so you will have to look at those numbers, I think in isolation because these are not quarterly ended numbers, these are on daily basis. So it might be causing the wrong impression. Right now, slippages are in a comfortable zone, and it will trend downwards as the restructured book starts to wind up. We still have about INR 700 crores. But otherwise, it's in a comfortable zone and there is some scope of it to improve.

The breakup of the restructured book is largely, I think -- sorry, of the slippages is more or less business as usual. So we'll try to see if we can incorporate from the next presentation onwards, but we don't see this as a practice across. So let's just rethink that and come back. But don't look at these numbers in comparison because I don't know how many of them are actually putting it the way we are. So these are daily slippages numbers.

Ashlesh Sonje: Have you made a change in the way we look at slippages this quarter as well or we are sticking to the last quarter?

Dheeraj Mohan: Yes, last quarter, last quarter. Especially from last quarter to this quarter, it has come down. If you see gross slippages and net addition, those two numbers have actually improved. So it's likely to improve in the next quarters to...

Ashlesh Sonje: Okay, perfect.

P.N. Vasudevan: See, basically, what we are doing is, our gross slippage, if an account becomes an NPA, let's say, in the beginning of the quarter, and if that NPA is resolved within that quarter, we are not netting it off. We are showing it both as a slippage and as a recovery. So that's what we are displaying. So we are not netting off the collections or recoveries out of NPA during the quarter. So to that extent, if you want to compare it with any other industry player, you will have to figure out what they do and how they do, and we have to see how to come get the similar data and then start comparing.

Ashlesh Sonje: Sir, but just, sorry to push on this point. Would you still see higher -- would you still be seeing higher slippages from the vehicle finance book even now?

P.N. Vasudevan: See, as Dheeraj said, we are not giving segmental data on that, and I don't know whether we will want to give going forward, that you raise the point, we look at it internally and then see whether we should be able to give or not. But what we can tell you is that over the next 3 quarters, 4 quarters, we should see this gross slippage also coming further down as the restructured book kind of runs off from the normal -- the rest of the non-restructured book slippages are definitely lower, and so this should anyway trend downward over the next few quarters.

Moderator: The next question is from the line of Abhishek from HSBC.

Abhishek: Yes. Congratulations for the quarter. I just have a question on opex ratios. So just if I look at cost to assets broadly 9-month versus last year, full year, it's more or less flat. But incrementally, as your growth recovers, asset quality improves, what kind of improvement do you think we could see in that metric?

Dheeraj Mohan: Yes. Cost to assets, it's about 6.4%. So as business expands and as we get into longer tenured products, like for example, housing, the more housing grows, the more the larger ticket size of SBL, that is INR 10 lakh crores to INR 15 lakh plus grows. Those are longer tenured products compared to the others. And our average assets, duration of our assets is about 2, close to about 2 years, 2.2 years. So that also will start moving higher. You will see this cost to asset trending down, so we have been at sub 6. So I think that's something which slowly will start trending for this reason.

Abhishek: So, Dheeraj, for FY '24, how much of an improvement should we expect? Would it go sub 6 in FY '24 itself or is that a longer-term plan?

Dheeraj Mohan: So -- yes, so I think you have to give us a quarter. So next year's numbers, we are in the planning stage. But I wouldn't say we would hurry to sub 6 at this point in time.

Moderator: The next question is from the line of Darpin Shah from Haitong India.

Darpin Shah: Yes. Congratulations on the quarter. So, first question is on provisions. Our provisions have almost half on a sequential basis. So wouldn't it have been more prudent to make additional provisions and shore up the PCR this quarter only then we had an opportunity?

Dheeraj Mohan: So we've done that. I don't know if you heard the commentary. We've added INR 27 crores of provisions.

Darpin Shah: Yes, I heard that. So, Dheeraj, but just to add, if you could have created more additional provisions, INR 30 crores, INR 40 crores more and increase the PCR in this quarter on the -- rather than spreading it over the next 6 quarters. So I'm saying this is because we don't know about the ECL. The RBI has given a draft condition also. So even that might have some impact, if you can throw that on that as well?

Dheeraj Mohan: Yes. Before I hand it over to Sridhar to give you a sense of what that ECL impact maybe, we had a couple of quarters before given our provisioning norms across products. So if you look at that, the incremental NPAs and the provisions against that is actually provided for at a healthy rate. So we've given that, I don't know how many quarters back, but I think about 2 quarters or 3 quarters back. So directionally and as per the provisioning policy, it is quite stringent.

The question is this release can we utilize -- how much of the release can we utilize to hit PCR? Yes, which is what we have done this quarter. And like Vasu had explained, the further release we get, we will have to see how do we use that. And like we've mentioned earlier, the intent is to take PCR to 60%. And at the same time, it needs to be calibrated. So those are our intentions.

Sridharan N.: Yes. Sridharan here. See, we have been preferring the Ind AS ECL -- based on the Ind AS, ECL provisioning for the purpose of consolidation of holdco accounts. And the thing is that always we notice that our IRAC provisions are higher than the ECL provisioning under Ind AS, and we use to do a management overlay as per the RBI guidelines to keep it above the IRAC norms. And also the thing is that most of our products except the microfinance and the few products, most of the products are secured products and we are comfortable with our LGD in these products. And we do not foresee any higher provisioning or something when the Ind AS come into picture after the ECL actually.

Moderator: The next question is from the line of Shailesh Kanani from Centrum Broking.

Shailesh Kanani: Congratulations, sir. I just had only one question on the deposit front. We seem to be doing excellent on that front. But given the rise in interest in the deposit rates across the spectrum, not only from Small Finance Bank but even from the larger peers, how do we see that growth going ahead?

Murali Vaidyanathan: Two things, which is helping us is, one is our new to bank acquisition through phygital and digital. So there new to bank customers are coming in. So we operate at a retail level called pool of liabilities as a concept, which means like Vasu sir was mentioning, we would like to keep it as a CASA, but then when the arbitrage rates actually is benefiting, people will shift into one or other. So today, if you see on a savings accounts, we are having one of the best optimum rates, I can say best optimum rates.

We are in the top quartile backed by a fantastic proposition and relationship management. So acquisition and growth is happening, and we are focusing now on a family banking concept. Just to explain to you Elite, we have mentioned in our presentation, too, we have 60,000 families who are contributing to INR 12,000 crores of relationship value. Can we go deeper into it? Yes. So which means we are focusing on family banking as a concept and going deeper into it.

That is one part. On new to bank acquisition, we are specifically targeting senior citizens as a proposition to get the retail TD in. That is the second part. And now these 2 things why we will differentiate among many peer group is, a, through the ease of opening where we can do it through digital, mobile banking and relationship banking. Second thing is as the tightening happens, we are expanding that base into bulk segment also. So we will continue to focus on retail.

We'll continue to maintain the family banking concept, leverage on relationship management. And as you know, that pricing is a supply demand equation at this point of time, increasingly as the competition goes up, we have to go depth at a family level along with spread that is going to be our approach. And NR is one key opportunity for us, where the arbitrage for NRI is far and higher, even on a savings account itself with us adding to a TD.

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

P.N. Vasudevan: Thank you. Thank you all of you for dialing in. And thank you for keeping us glued to our job, and thank you for keeping us highly motivated in this journey of creating stable, sustainable and scalable bank. That's what we mentioned in our presentation, I remember about maybe 6 quarters to 8 quarters back, we said that we're on level and scalable bank. And most of what the initiatives we have taken have borne fruits. And today we are reached -- we have reached a level, where we can clearly see that we have got a bank, which is very stable and very much sustainable and definitely scalable. So in this journey, we continue to look to you and to your support as we focus on this path. Thank you so much, and wishing you all the very best. Bye-bye.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Equitas Small Finance Bank Limited, we conclude today's call. Thank you all for joining us. And you may now disconnect your lines.