"Equitas Small Finance Bank Limited Q4 FY24 Earnings Conference Call"

April 24, 2024

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Moderator: Ladies and gentlemen, good evening and welcome to the Earnings Call of Equitas Small Finance Bank Limited's Financial Performance for Q4 FY24.

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 & 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 "*" then "0" on your touchtone 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 evening and thank you for joining the call on what is a very busy week of Results.

The year has been a good year for us. We have been able to continue our investments in technology, products and people to help us grow sustainably and create a robust banking platform. The bank has been able to navigate well during the rising interest rate cycle and kept our margins, yields and profitability reasonably protected. With about 85% of our loan book being fixed rate loans, we had a high impact on our NIMs over the last few quarters. As you may have noticed on the loan side, we took a call to defocus from lending to NBFCs as well as slowdown on low margin products like new commercial vehicle loans.

On deposits, we had increased our focus on retail TD given the customers propensity to move money to TD to lock it in at higher rates of interest. We have also been able to pass on some of the interest rate increases to borrowers in the form of improved our lending rates to ensure our margins are reasonably healthy. Parallelly, we also worked on improving the CD ratio, improving it from 103% as of March '23 to bring it down to around 87% by March 24. We had written to RBI and received a clarification that in case of Co-borrowers, say an account with borrower A and Co-borrower B going into an NPA, then an account with B as borrower and C as Co-borrower and if they have an account with C as borrower and D as Co-borrower and an account with D as borrower, etc., all of them will need to be marked as NPA, even if individually these accounts are standard. We also received an advice from RBI that in case of ESOP given to staff who are not covered under that guideline of material risk takers also against the current practice of accounting for them by way of intrinsic value, we should account for them under the basis of fair value method using Black-Scholes model. After accounting for all of this, we were still able to deliver a decent bottom line for the quarter.

Technology has been a key focus area for the bank all the while, while the LoS was rolled out for vehicle finance last year. During the fourth quarter, we were able to roll out the LoS for small business loans and home loans. Implementation of state-of-the-art CRM is underway, revamped mobile and Internet banking platform is also soon to be launched. We have also upgraded our core banking and other technological infrastructure. We have also introduced a few innovations like banker on wheel, which is being piloted currently. We are confident all of these investments will help the bank in its quest to give a differentiated experience to customers. While we have been using digital effectively to enhance customer acquisition, we are also focusing on how to harness technology to bring about enhanced controls over critical processes in the bank. We have committed to a certain level of resources to give focus to these action plans. These initiatives would further add to the bank's ability to sustainably grow.

In this quarter's presentation, we also tried to provide some direction on what the bank's long-term strategies around technology and liabilities are. We are strongly committed to putting in place key enablers to help us become more competitive in the next 3 to 5 years. Our strategy continues to build a well-diversified new age bank, delivering consistent returns over a long period of time and showing resilience across market cycles. We also stay committed to giving back to society through our two trusts, Equitas Development Initiatives Trust and Equitas Healthcare Foundation. While the Equitas Gurukul Schools continue to do well and help produce good quality students from economically weaker section, our cancer hospital has started operations effective November 23 and that has been progressing well. We have completed over 165 surgeries in the last 3-4 months. We also treated more than 4000 people in those few months.

So, with that, I hand it over to Rohit to talk about assets.

Rohit Phadke: Good evening everybody. Advances have grown by 23% year-on-year, SBL advances have grown by 30%, Microfinance by 20%, Vehicle Finance are 19%, and Affordable Home Loans by 60%. X-bucket collection efficiencies have been stable at 99.5% in SBL and Microfinance and 99.7% in Home Loans and 99.1% in Vehicle Finance. In SBL, small business loans, the merchant OD product has scaled up very well with 39,000 plus customers and advances of Rs. 950 crores. We intend to keep growing these volumes.

Other than merchant OD, the focus in the coming year will be growing the micro LAP book. Microfinance has gone fully digital with 100% adoption of e-KYC and e-Sign. We continue to maintain that the unsecured book will not exceed 20% of advances.

In Vehicle Finance, used car advances have grown by 71% year-on-year with advances at Rs. 1,224 crores. The focus in the coming year will be on the growth of the used car and the used CV book. We will defocus on NCV, but we will continue to run the product.

Affordable Home loan portfolio has scaled up well with advances growth of 60% year-on-year at Rs. 2,500 crores and the GNPA of 0.5%.

On digital initiatives, new-gen LoS has gone live for both small business loans and affordable housing. We have also launched a customer app called a Selfe Loan, which will serve as a one-point contact for our existing and new customers. We have been able to increase disbursement yields by more than 1% from 17.43% in March '23 to 18.74% in March 24. Demand at the field level continues to be strong and I am hopeful of a good year ahead.

Thank you. I am handing it over to Murali.

Murali Vaidyanathana: Good evening, friends. Let me take you through a few of the snapshots other than the figures which is available there for yourself.

I think this has been a very testing year not only for us but across the industry I think overall in terms of retail focus, which we have been talking about till this point of time, building a scalable and sustainable franchise, so that we can leverage over a period of time. So, we are deriving 2 phases to it. What has happened and what is going to happen, we will cover it in two chapters.

- The first thing is through the year few significant milestones which we want to say is this year, while TD growth has been phenomenal we have got into the triple-four days as a unique proposition. The good part is the number of new to bank customers entering the stream. We could add close to 1.2-1.3 lakhs of new to bank customers who have come in through this as an option and then migrating into a savings account is one distinctive edge which we could get into this customers.
- Second part is our NR book has crossed Rs. 2,000 crores and we are now present in 110 countries that is customers across. So, that is a significant thing with AD-1 projects being on the anvil. I think this is going to grow further and our time zone-based CRM is actually helping us to deepen further and further.
- Third important thing is our relationship management structure what we have put in at this point of time is yielding good dividends because despite being a tough year, if you could see as we end the quarter 4, our growth on SA, our growth on CA, our growth on RTD and importantly, retail mix of what we are maintaining 72 and 28 on bulk, we could hold that and so this is helping us to go deeper and deeper into these families.
- And the fourth important thing is the most important thing which I want to say that digital book has crossed Rs. 1,500 crores which we have acquired through digital and full KYC account, so these four is on the liability side. On the TPP side and the fee-based revenue, thanks to InsurTech where we like Vasu Sir was saying that we are using technology not for only disruption, sometimes technology as a facilitator. InsurTech is going to be one sort of a thing which has helped us to garner general insurance and health insurance totally through the same platform. Now life is also integrated. As we move along, I think this will be the biggest productivity enhancer.

Adding to the TPP, we have a range of AUM growth in the form of mutual fund. Predominantly we focus on SIP. We have added close to 18,000 active SIPs in the last year who are now doing continuous investment through us. The third important proposition which has helped us to build size of ASBA what we discussed in the last call, we have now close to 20,000 customers whom we have mentioned in the presentation also who have ability to use and block and then it is their allotment. But the good part is now from a saver to investor we are getting into the trader segment also. So, all these three segments we have a proposition, and all can be done digitally is one unique proposition that had happened.

- And last but not the least as we keep expanding now, we are philosophically moving towards a situation what we have mentioned in the presentation that is moving from unitary sourcing to family sourcing as one key vertical, which means going deeper at a family level, having a family level proposition, one.
- Second is focusing on mass only for SA as a segment through digital sourcing.
- And third getting AD1 and NR as a proposition. This three is going to be one of the key forefront drivers as we get into the coming years because only through that we believe that our cost of funds can be managed and fourth and last thing is transaction banking and current account which we will touch.

So, overall, it has been a very encouraging year. Overall, I think the patronage of customers as well as employee productivity has been good, and I wish we will sustain this momentum in coming year.

Thank you. I will hand it over to Nat.

Natarajan M.: Good evening, friends. Q4 of FY24 has been a relatively good quarter in the market front.

On quarter-on-quarter basis, Indian tenure is centered lower and closed just above the 7% mark as the US rate cut expectations and anticipation of inclusion of Indian bonds in global Morgan Stanley Bond index triggered a risk on rally in India bonds. However, the US Fed continues to be data-driven, but ongoing geopolitics has slightly tempered expectations of earlier and faster than expected rate cuts and market is divided on the horizon of the US Fed's attempt to bring inflation below the targeted level of 2%.

It is a good quarter for Equities globally. Dow Jones gained almost 6%. Indian Equities also continue to see a run up, but more modest in Q4 FY24 with gains of almost 2.8 for the Frontline NIFTY 50 index, which continue to rise above 30,000 levels. For the upcoming quarter, short-term volatility is not ruled out as we approach national elections straight as price in the likely outcome of elections and barring any negative surprises we expect both equity and bond markets to stabilize towards the second-half of the quarter.

Supply lines can be an issue, especially for oil in situation in Israel and Gaza worsens and result in higher inflation. Escalation by Iran continues to stoke fires. As such, geopolitics could be a slightly more pressing issue as we move ahead. Despite India's economy continue to stabilize, consolidate and grow considering the global nature of trade and supply chain, we can expect volatility going ahead despite a strong local economy. Hence, we view the market as cautiously optimistic. We continue to remain positive on the Indian growth story over the medium term to long term as domestic economic activity continues to be resilient and is expected to further pick up in the new financial year as governments install is spending along with private CAPEX are expected to accelerate. We will await the budget post elections for further clarity on focus areas for the new government.

Thank you and I will hand it over to Sridharan.

Sridharan N.: Good evening to everyone.

Our net interest income for the quarter came at Rs. 786 crores as compared to Rs. 707 crores during the same quarter last year, reaching a growth of 11% Y-on-Y. Other income for the quarter came in at Rs. 222 crores as compared to Rs. 215 crores during the same quarter last year, reaching a growth of 3%, resulting in a net income growth of 9% year-on-year. The total operating expenditure came at Rs. 634 crores and remained stable with an increase of 4% sequentially. Pre-provisioning operating profit PPoP grew 4% Q-on-Q to Rs. 375 crores and PPoP to assets remains stable at 3.45% for the quarter. PAT for the quarter came at Rs. 208 crores as against Rs. 190 crores during the same period last year, reaching a growth of 9% Y-on-Y. ROA and RoE for Q4 FY24 stand at 1.91% and 14.22% respectively.

Next is on the one-time P&L impact items in Q4 FY24:

- The first, based on the bank's proactive clarification obtained from RBI pertaining to classification of loans of co-borrowers when the primary borrower's loan account becomes an NPA, the bank also classify the Co-borrower's loans as an NPA. The bank has classified Rs. 38.45 crores worth of loans as NPAs during the quarter and Rs. 15.17 crores have been provided the provision on account of this classification.
- Second one, due to change in accounting policy as per the RBI advisory, the bank has expensed Rs. 29.21 crores additionally as an ESOP cost in respect of the grants issued after first April 2021 in respect of non-material risk takers and control staff.
- Third one is a benefit which is of Rs. 11.89 crores on account of the excess provision per gratuity and leave encashment as per the actual valuation. We estimate that our PAT, ROA & RoE adjusting for these would have come in at Rs. 233 crores, 2.15% and 15.93% respectively for the quarter. On the one-time impact cumulative for the year, we have taken a hit of approximately Rs. 75 crores towards additional provisions and employee cost on account of ESOP. The recurring costs on these items will be marginal.

During Q4 FY24, the bank has securitized and assigned advances worth of Rs. 584 cores pertaining to HF and VF advances. The total provision for Q4 FY24 is Rs. 107 crores, which also includes the provision of Rs. 15.17 cores pertaining to provision under the Co-borrower accounts, which has been explained even though they were standard on a DPD basis. GNPA improved by 8 bps Y-on-Y to 2.52% in Q4 FY24 as compared to 2.6% in Q4 FY23; including the securitization book, GNPA would stand at 2.39% and NNPA improved by 2 bps Y-on-Y to 1.12% in Q4 FY24 as compared to 1.14% in Q4 FY23.

Based on the current advances mix, the bank is maintaining a healthy PCR of 56.06% and it continues to follow stringent provisioning norms across all asset segments. On a full year basis, the bank has registered a balance sheet growth of 30%, PAT growth of 39%, ROA of 2% and RoE of 14.43%. Our Networth now stands at Rs. 5,969 crores with a book value at Rs. 52.60 per share and earnings per share of Rs. 7.12. As of March 31, 2024, the total CRAR are at 21.7% with the Tier 1 at 20.71 and Tier 2 at 0.99%. The Board of Directors has proposed a dividend of Re.1 per share, subject to the approval of AGM. With this, I would like to hand over to operator and we will be happy to take over the questions from your end. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Shreepal Doshi from Equirius. Please go ahead.

Shreepal Doshi: So, the first question was pertaining to the RBI clarification impact on the P&L, so like which segment of loan book was this coming from and just wanted an update on the Tamil Nadu flood related impact on each of the segment for us?

Rohit Phadke: Shreepal, Rohit here. Most of the co-borrower impact is coming from the SBL portfolio. And Tamil Nadu flood impact has now more or less gone away, it is very minor stuff which is remaining, which will get eased. As of now, there is no future on this thing if you get evened out.

Shreepal Doshi: And sir, on the MFI front, like in the deck, it is mentioned that it is doing well, and we are seeing improved loyalty from the customers as well, but if you look at the GNPAs for that segment has been inching up in the last 2-3 quarters, so what explains that, if you can throw some light on that?

Rohit Phadke: Sure, Shreepal. So, in Microfinance, if you look at the industry, everybody has written-off a large amount of a book, some amount of book every year. We have not written-off a single rupee this year. Secondly, if you look at the data which is released by MFI Association, they have given data on the PAR 90 to 180. On the PAR 90 to 180, the industry is at 1%. Small finance banks are at 1.1% and Equitas is at 0.9%. Third, post COVID we realized that some of these customers do come back when you go to collect, and we have beefed up our collection to ensure that we go and collect that money. Otherwise earlier the trend was the moment (+90) happens the industry would simply try to write it off, but I think post-COVID we have seen that and that is why **beefed up** our collection. I think Microfinance GNPAs will be range bound between 3.5% and 4.5%. Does it answer your question?

Shreepal Doshi: Yes. So, that will be the new normal for us or for the industry also you feel like it will be an elevated number?

Rohit Phadke: Yes, for industry also it will be an elevated number is what I feel?

Shreepal Doshi: So, one last question was on the cost of fund side, do you feel like are we nearing to picking out on the cost of fund and then just how do you see the trajectory on the NIM side because of the cost of fund implication?

Murali Vaidyanathan: See with regard to cost of funds, I think more or less interest rates have peaked and as we keep on repricing another 10 to 12 bps is what is seen as on the higher side, so which means present position plus 12 bps is what seen for this quarter or for this half year. Now this will be because of two reasons. Now it is directly related to what is going to be the rate cuts post the second quarter. So, till that point of time our maturities which were supposed to be repriced at a higher level almost 80% to 82% is already through and incremental deposits are almost frozen as a rate for last 2-2.5 quarters. So, I think another 10 to 12 bps is what we are seeing as a cost of fund on NIM.

Dheeraj Mohan: Impacts on NIM, just to recap, FY24, the impacts on NIM were largely because of one interest rate going up, second enhanced liquidity in the balance sheet because of improvement in CD ratio. Today, where we are, we don't think these two are driving forces for FY25. So, NIM should largely be where it is and only have an impact of the portfolio mix changing over a period of time. So, you should expect NIMs where it is right now.

Shreepal Doshi: Well, I mean, there is no likelihood of portfolio mix changing because I think what we had guided or what we said is that we have broadly achieved our targeted mix, so is there a thought process to tweak that mix as well?

Dheeraj Mohan: Yes, so we have what we've also said is in the medium term and in the long term, our secured to unsecured ratio will remain 80 to 20 while microfinance as a portfolio will continue to reduce in terms of portfolio mix. So, to that extent there will be some impact on the NIMs.

Moderator: Thank you. The next question is from the line of Sudharsan Nachimuthu from Prosperity Wealth Management. Please go ahead.

Sudharsan Nachimuthu: So, my question is on your CD ratio. So, you have guided to close the year with 90% CD ratio. However, we have closed with 87% as of this quarter. So, what was the reason for bringing down CD a bit more bps more than the guided range?

P. N. Vasudevan: So, we had been working towards bringing the CD ratio down over the last year and again, the plan of 90, it has come down to about 87. So, this year our plan is to bring it down further to about 85 by March 25. So, this 2% is something that we will be working on over the rest of the year.

Sudharsan Nachimuthu: And you have mentioned you securitized vehicle finance and housing finance portfolio of Q-on-Q Rs. 500 Cr this quarter, however, the yield drop of around 40 bps is mainly from this Rs. 500 Cr securitization?

P. N. Vasudevan: Yes.

Sudharsan Nachimuthu: given the quantum of securitization and 50 basis points often yield, can you explain a bit more further on?

Dheeraj Mohan: So, yield as the portfolio level have dropped largely due to securitization. So, about Rs. 1,700 crores of loans and that is about Rs. 1,100 odd of vehicle finance and the rest is housing finance. So, that interest income is roughly about Rs. 60 to Rs. 70 crores for the quarter. So, that is what has led to the portfolio yield drop. We accounted EIS in the other income. In the presentation, you will see it under other income and asset fees.

Sudharsan Nachimuthu: And your incremental disbursements during this quarter, those yields have also dropped, so couldn't we focus more on high yielding products and what was the reason for it?

Dheeraj Mohan: Yes, like we said, we are slowing down on loans to NBFCs and new commercial vehicle loans, which are typically lower yield loan. So, that is one direction which we have taken. We have done it for the last couple of quarters and also going forward we have given that as guidance. So, that should ensure that yields also at a portfolio level stay at these levels.

Sudharsan Nachimuthu: So, your Q4 yields would be stable yields?

Dheeraj Mohan: That is too fine to actually look at this Q4 stable yield, but I think you should look at it from portfolio mix and from the guidance you have told you how products will be slowing down and what you are accelerating. So, don't hold us to Q4 as a number for the full year, but I think rather try to focus on NIMs and we try to keep NIMs stable for the year.

Sudharsan Nachimuthu: What is the current outstanding write off pool remaining with your bank during two or three years you have just written off amount of loan?

Dheeraj Mohan: No, we have not written off anything this year.

Sudharsan Nachimuthu: Just a follow-up question on your co-borrowing classification, as you mentioned it is for small business loan. So, is it also going to affect the microfinance loans given?

Dheeraj Mohan: No, just to correct you see this is at a customer level at the bank. So, it is not specific to one product, you do it. NPA is at the customer level at the bank where the Co-bo, where the NPA of Rs. 38 crores have come from what we said is largely from small business loans like microfinance doesn't have co-applicants. Co-applicants are largely in the other books, but this norm is applicable at the bank level for all products because it is at a customer level, not at the loan level.

Moderator: Thank you. The next question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: First question is, what will be the share for 440 day and 880-day deposit product in the stock and in incremental TD process?

Murali Vaidyanathan: In incremental TD process today it is close to 60% to 65% of the incremental sourcing.

Rajiv Mehta: Both the product?

Murali Vaidyanathan: Yes.

Rajiv Mehta: And just one clarification, when you report Yield on gross advances and Yield on advances, these Yield on loan gross advances will be included in the securitized book, right?

Dheeraj Mohan: No, yield on advances does not include that is on balance sheet what you see. That is why we have added a new line, yield on gross advances.

Rajiv Mehta: So, that is what I was checking, so when I look at yield on gross advances, which is including the securitized book that has been coming down for the past two quarters, wherein disbursement has materially increased.

Dheeraj Mohan: Correct.

Rajiv Mehta: So, why would this happen?

Dheeraj Mohan: It is actually the underlying portfolio mix like small business loans also has a range from 14%-15% all the way to 20%-24%, same again from vehicle finance. So, it got to do with some of those mix changes and also percentage of microfinance is now 18%. That has also dropped by a percent. So, it is largely linked to that.

Rajiv Mehta: Just last question, I see the momentum in housing and used CV disbursement, the momentum has been somewhat stagnating in recent quarters, so has there been any change in the approach?

Rohit Phadke: So, we have not changed focus, but the last quarter the focus was more on increasing yields. In the past six months, the focus was more on increasing yields. Now that the mindset of the field is changed, they have grown used to now lending at higher yields. I think we will get back the growth in UCV.

Rajiv Mehta: And just lastly, Dheeraj if you can spell out the X-bucket collection efficiency in MFI, SBL, Vehicle Finance and Affordable?

Rohit Phadke: Yes, so the X Bucket collection efficiency in SBL is 99.5; in Microfinance, it is 99.5; in Vehicle Finance, it is 99.1. The collection efficiency is at one point in time that is the end of March 31st March, for the month of March.

Rajiv Mehta: It is not for the whole quarter.

Rohit Phadke: No, it is not for the whole quarter. X-bucket is always calculated for the month as a whole like that month, how are you doing? What is your performance? Continuously every month, you do well, then your portfolio is good.

Moderator: Thank you so much. The next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: My first question is on CD ratio, and I am just looking at the sharp drop this quarter. Of course it was intentional, but at what level are you comfortable maintaining it? So, you are looking at 85 by the end of the year but is that level which you think the RBI is also going to be comfortable with or there is a chance that if they come back and say 80, you can go down to 80. So, how do we think about this ratio going forward?

P. N. Vasudevan: Yes. So, we will be looking to take it down as I mentioned earlier also to about 85 by March 25 and I think that should be a comfortable level because in that 85, we are really not including the impact of refinance. So, if we include the impact of refinance, obviously it will be even lower. Second thing is that unlike universal banks, small finance banks have a capital adequacy ratio requirement of 15% and because of that small finance bank tends to have a higher level of capital contribution to the balance sheet and so the CD ratio of universal banks and small finance banks in that sense are not directly comparable. So, I think we believe that 85% without including refinance is a very good comfortable position to arrive at.

Abhishek Murarka: So, if you include refinance, you have given that ratio in the PPT, so that also will go down by maybe one or two percentage points more, not anything more than that?

P. N. Vasudevan: That is right.

Abhishek Murarka: And then in that case, incrementally I think deposits and loans can grow in step right, loan growth does not have to lag deposit growth by a large amount?

P. N. Vasudevan: Except the additional SLR, CRR requirements.

Abhishek Murarka: So, what kind of loan growth are we looking at because 20 I guess is partly also because of the securitization that you did in the quarter, so if I look at the gross advances, 23% are you looking at mid-20s as a run rate where you want to be?

P. N. Vasudevan: Yes, I think our portfolio growth, advances growth on a gross basis should be around 25%. That should be our focus.

Abhishek Murarka: And finally, just this deposit, so now again you don't need a 40% kind of deposit growth, there is a lot of bulk that you have classified that 38% YTD, so that should ideally run off, which would be maybe a little higher cost, is that something we should expect that the mix should move more towards retail TD and less towards bulk?

Murali Vaidyanathan: No, in that bulk there are two segments. One is institution as a segment, financial institution as a segment and individuals. So, if you see your book, it is 72% retail and 28% is from institutions. So, depending upon the situation, bulk is dependency on the market rates and what is the requirement at the bank level. We will keep calibrating it. So, as of today, out of 35,000-36,000 crores, 7,500 to 8,000 is what bulk is all about and predominantly ours is non-callable and one year. So, we will wait and see how retail picks up a trajectory. Today we are at 72%. If we sustain 72 to 75-78, what you say is right.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Funds. Please go ahead.

Vivek Ramakrishnan: I was actually going to pick up on the deposit side in terms of concentration of deposits only, though you might qualify it as retail, there will be lot of HNI deposits and so on in the mix and we have seen in the past that those are not very stable deposits, so how many, what percentage of your deposits are non-callable that provides stability and increasingly would you look at, is there any way where you can increase the granular deposit growth, so that there is stability in your deposit base? That is my question, sir?

Murali Vaidyanathan: Ours is the most stable term deposit base. If you go to the presentation in this slide, less than Rs. 2 crores, which is categorized as retail, 62% of the book of deposit is less than Rs. 2 crores, which means these are all those sets of customers who have positioned Rs. 2 crores and individual average ticket size of 4.5 and 5 lakh. That is the amount of customers who are having it. So, it is fairly stable. Next comes the institution, we have close to 22% as I said coming from institution. Out of that 91% are non-callable with the tenure of one year. So, it is one year block and non-callable. So, our concentration risk in terms of non-callable to callable if you see into it there is callable less than 10% is the present mix and greater than Rs. 10 crores, it is 30% of the book. This is the place where you have to see the non-callable which is 90% and it is only 30% of the total book.

Moderator: Thank you. Our next question is from the line of Nihar Shah from New Mark Capital. Please go ahead.

Nihar Shah: Just a couple of questions from my side. My first question is thank you for pointing out some of the investments that you are making into the new product segments of credit card and personal loans and all. If I total that number, it comes up to about Rs. 520 crores, can you give us an idea as to how you think about the timing over the next 3 years of the expenses and then how does that then play into what you think is the reasonable cost to income ratio outlook for the next 3 years as well? That is the first question?

Dheeraj Mohan: Yes. So, once this investment, this slide has come because last quarter we had a discussion around this. So, we thought we would give clarity on what the investments will look like from a three-year horizon. Just to give you the nature of some of these expenses, some of them will come in the depreciation line item and someone come as the regular OpEx line item, especially given with technology. All of this is baked into our let us say, soft guidance in terms of how cost to income, cost to assets will look like. What we can say is for this year, we think that cost to income will look a little sticky and given that range between 60% and 63% is what we think we will be in the cost to income during this investment phase. And some of those investment is what we put in the slide. We may have a few more depending on how the bank growth like we have talked about it earlier in terms of branches, in terms of brand building, etc., but these numbers from how it should span out from a cost to income is we should keep cost to income stable at where it is or in this range of 60 to 63 and still hopefully deliver consistent RoA.

Nihar Shah: My second question is, just a little bit of a clarification on, you have mentioned the Rs. 60 to Rs. 70 crores impact of the NIM of the securitization, from what I understand is that whatever the interest expense on the securitized portfolio, the interest income is sort of recognized in the interest income line and then it is only the excess that is recognized in the other income, is this Rs. 60 to Rs. 70 crores the total interest income that you want on the securitized portfolio or is it just the incremental or is it the incremental piece of it?

Sridharan: In the case of securitization, we don't take it into the interest income, I say the excess interest rate, which we call EIS, that is taken as other income. So, the 60 Cr or 70 Cr which you have mentioned is what is actually coming to us actually.

Nihar Shah: So, that is the total interest income that you want on the securitized portfolio?

Dheeraj Mohan: Yes. 15% to 20% of the interest yield of that portfolio, which is securitized, and the excess interest income comes in the other income and not part of the net interest income.

Nihar Shah: Can you quantify that excess income that is coming to the other income, is it possible for the total?

Sridharan: Rs. 22 crores will come in for this quarter, Rs. 11 crores for the last quarter.

Moderator: Thank you. The next question is from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: So, if you look at the disbursement trends in this quarter, Q4 on the Y-o-Y basis, there is a moderation and disbursement growth across most segments, whether it is microfinance or small business loans or vehicle finance, so what are the reasons for that and how should we think about disbursement growth next year?

Rohit Phadke: If advances have to grow at 25%, obviously we have to grow disbursement because there is always a foreclosure component like this, so disbursements will definitely grow across all products. We see strong demand in the field.

Nidhesh: Any particular reason why the disbursements were weak in this quarter?

Rohit Phadke: As I said, our focus was primarily on growing yields, right, because we need to change the mindset in the field and also that we need to lend at higher rates than stronger disbursements. So, the focus was more on yields, not really dropping disbursements, but disbursements will continue to grow. That is given.

Nidhesh: And from medium-term perspective, should we expect our yields on advances to trend towards yields on disbursement, so today there is a gap of around 170 basis points between disbursement yield and on book yield on advances, so over let us say couple of years, both of these should get converged, right?

Dheeraj Mohan: Yes, the entire yield on disbursement will not translate to portfolio yield, but yes, you should see it pick up.

Nidhesh: And lastly, what is the difference between yield on advances and yield on gross advances? Is the numerical the same for both of them?

Dheeraj Mohan: Numerator is not the same. We have the securitized portfolio is the difference. So, in the denominator the assets in the securitized will not show and also in the numerator that corresponding effect is given.

Nidhesh: So, in the numerator, are we including only asset interest?

Dheeraj Mohan: No, yield on advances we are not, yield on gross advances we are. So, I think for to bring clarity and because securitization can alter these numbers, I think we should all stick to yield on gross advances. So, I think over a period of time or hopefully from next quarter we will stop giving yield on advances and focus on yield on gross advances, then you won't have this disturbance which we see due to securitization.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, first, just a clarification, I mean, you mentioned that our cost of fund may increase by 10 to 12 basis point, I mean the repricing which is left, so NIMs that we are seeing falling for next for the last five quarter it has been falling on quarter-on-quarter basis, but we did mention that we expect NIM to remain stable at fourth quarter level in the short term, right?

Dheeraj Mohan: Yes.

Deepak Poddar: In spite of this 10-12 basis point increase in our?

Dheeraj Mohan: The pressure on NIMs because of improving CD ratio would have lessened. From 100% we have brought it down to 87. You won't see that pressure on NIMs going forward. So, we are adjusting to that. This is based on our calculation.

Deepak Poddar: And how much impact we see on the NIMs on the medium term which you mentioned because may come because of reduced MFI portfolio mix?

Dheeraj Mohan: We can't quantify it now. So, the way at least we are looking at this, how do we protect bottom line, how do we protect overall margins, these are very fine-tuned for us to put it all out on the call, but these are challenges which we will take up.

Deepak Poddar: And in terms of our adjusted ROA was about 2.15% for this quarter and then you did mention that our cost to income will remain sticky, so how do we see the ROA for next two years or for FY25 at least?

Dheeraj Mohan: I was also trying to point out in the presentation, we have spoken about trying to grow the small ticket, small business loan or we call micro LAP, which are higher yielding products. So, these are some of the strategies we are trying to deploy to ensure margins hold. And on ROA, so we are trying to build consistency in ROA and improve ROA as leverage picks up. That is what we are focusing on. So, hopefully we should continue to deliver this 2% ROA.

Deepak Poddar: And my last query is on your PCR, I think we have been quite vocal about improving our PCR ratio to 70% over next 1-2 years, so how do we see that trajectory? I mean, from current 56%, how do we see that going into in FY25 and FY26 and what would be the implication for the credit cost of your increasing PCR ratio?

P. N. Vasudevan: So, the PCR ratio, yes, 70% remains our long term target and I guess we don't have very specified timeline plan to achieve that, but I think in a matter of over three-year timeframe, we should be looking towards reaching that level and in terms of credit cost, including the improvement in PCR over the next few years, as I mentioned, I think we should factor in our credit cost, which is our pre-COVID levels, our pre-COVID level credit cost used to be around 1.25% on advances. More or less, our portfolio has come back to the pre-COVID levels now and I guess we are fairly on a steady state basis as far as credit cost is concerned, but I think we should factor in something in the range of 1.25% on advances as credit cost.

Deepak Poddar: 1.2% on book or the gross advances?

P. N. Vasudevan: 1.25% on gross advances.

Deepak Poddar: And this is in spite of your target to increase your PCR ratio, right?

P. N. Vasudevan: Right, including that.

Moderator: Thank you. The next question is from the line of Pritesh Bump from DAM Capital. Please go ahead.

Pritesh Bump: Just two questions from my side, somewhere in the opening remarks, we mentioned something about the unsecured mix CAP, how are we looking at it and just wanted to clarify what CAP we are looking at and what is the trajectory of that CAP?

P. N. Vasudevan: I guess this is something we have been consistently mentioning over the last few quarters. We want to have 80:20 ratio between secured and unsecured. As on date, the bank has microfinance loans which are the only unsecured product that we have today. And I guess microfinance contributes about 18% to the loan book as of March 24. We will be introducing personal loans. In fact, personal loans are going live between April and May, this month and next month it will be going live and credit card should be going live towards end of the calendar year. So, these two products will come into that unsecured portfolio mix and so all the three of them put together should continue to be within that 20% contribution.

Pritesh Bump: So, given that MFI is not that focus area right now, so if it hypothetically comes down, we could have a CAP for PL and CC as well only?

P. N. Vasudevan: See, Microfinance will continue to be a strong offering from the bank because it not only produces a direct business impact in terms of volumes and profitability, but it also enables us to cross-sell our small business loan, the lower end of the small business loan product, it enables us to cross sell. So, that is a segment that we will anyway be continuing to focus. The only thing is that microfinance as a contribution to the total advances will come down, meaning that microfinance will grow at a rate which is lower than the rest of the advanced growth, and so its contribution will come down. And as that contribution comes down, that space will be filled up between personal loans and credit cards.

Pritesh Bump: Sir, just one follow up on that, credit cards will be our own sourcing, right? We are not tying up with anyone.

P. N. Vasudevan: Yes. See, lastly, the credit cards and personal loan, both of them for that matter. Lastly, the purpose of introducing that is for offering it to the existing customers to ensure that we are able to deepen our relationship. So, a significant large part of it will be anyway cross sold to the existing customers and whatever NTB customer that we acquire will be acquired directly by us. We are not really planning to go through aggregators or through websites or through anybody like that.

Pritesh Bump: And lastly, sir, how are you thinking on the TD rates? I think we have not changed her post August 2023 and given that now we are at a healthy rate of growth and we have a decent CD ratio, what are you thinking on the TD rate side?

P. N. Vasudevan: See the TD interest rate will be to some extent a factor of what is happening in the market, right. So, currently if you see the peak difference in interest rate between our TD rates and some of the large banks in the country that peak differences is about 1.25%. The effective interest rate is 8.5, the highest interest rate of some of the largest banks in the country is 7.25. The big difference is 0.25%**.** So, if the market also moves, we are most likely to move along with the market and overtime I think we have mentioned in our presentation Liability 2.0 strategy. That is something that has been rolled out by Murali and his team and over the next 3-4 years that will be a key focus of execution for the liability team and as that strategy progresses, that strategy is nothing but basically building a deeper, stronger relationship with deposit customers and account holders by way of cross selling and ensuring that they are having many more touch points with the bank and not just one or two touch points. So, as that strategy progresses and as we feel more and more comfortable and confident in terms of the customer being associated with the bank on a longer-term basis, we will start looking at the interest rate structures.

Moderator: Thank you. The next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Sir, I wanted to understand on the other income, even excluding the ARC which you are giving in slide 19, what would be the trajectory going ahead? We have seen a decline in Q4 versus last year Q4?

Dheeraj Mohan: Are you asking the trajectory or other income?

Pallavi Deshpande: One with the reason and then the trajectory, so Q4 over Q4 even excluding the income from sales to ARC, which you highlighted in that slide?

Dheeraj Mohan: EIS income is sitting there, the Rs. 20 odd crores that is sitting in Q4. That is the bump. And going forward, there are multiple drivers for other income, there is liability fee income, there is asset disbursement, link fee income. So, all of those are drivers and they have been growing at 30%-40%. So, you should continue to see that as the bank grows. The only exception from here was that the EIS are excess interest spread being shown in other income.

Pallavi Deshpande: Second thing would be on microfinance; I think you mentioned about the cross sell opportunity that it offers you. So, that earlier guidance in terms of reducing it to 15% or does it stand or where are we on them?

Dheeraj Mohan: Yes, that stands.

Rohit Phadke: So, yes, as just now, Vasu sir explained that the microfinance portfolio offers a length of cross sell opportunities and the biggest cross sell opportunity that microfinance offers is the micro-LAP product. The micro-LAP product is small ticket size, the customer is the same and it is a secured product, so we will definitely be focusing on the micro laps product and since these customers in the second cycle, third cycle, fourth cycle have paid us very well, it is a phenomenal opportunity. So, despite the fact that microfinance on the unsecured piece might see a slight decrease, the same customer base, the secured piece will be having for the bank.

Pallavi Deshpande: So, this micro-LAP would be classified under which, not under microfinance?

Rohit Phadke: No, it will be classified as a secured product as a micro-LAP product under SBL.

Pallavi Deshpande: Lastly on the NBFC side, we are seeing sharp, 0 disbursements kind of scenario, so what is the outlook mixture in terms of lending to that sector or are we done with the sector basically?

P. N. Vasudevan: Yes. We had started lending to NBFCs at a point in time when we were sitting on fairly high level of capital adequacy and the interest rate structure was such that it was making profitable bottom line spends to the bank. Today, what is happening is that on both fronts, it is not making sense, internet structures are moved in a different way, and so to that extent, lending to the NBFCs for at least for us is not very profitable and that is one factor. Second is that our own high capital adequacy which used to be in the past has been fairly leveraged through growth over the last 2-3 years and today our capital adequacy has come down all the way to about 21.7% and internally, we do have a target that we would really not like to see the capital adequacy going below maybe an 18%-19%. So, somewhere along the way we will keep raising equity so that it doesn't really go below 20% or 19%. To that extent at 21.7, we are not having such a high level of capital adequacy that we want to distribute that capital to low yielding products. So, we have to keep looking at the allocation of capital. So, given all this, we believe that for the next one year, we won't be really focusing on NBFCs, and we should see that running further down as we go by.

Pallavi Deshpande: Sir, you mentioned that being a low yielding product that is where I was coming from, I thought it is on the higher yielding side and that is?

P. N. Vasudevan: Lending to NBFCs doesn't give us high yield. It does give us only a low yield, but it made sense at the point in time when the interest rates were at different level and capital adequacy is very high. Today, both of them have changed, so it doesn't make sense for us and lending NBFC is not a strategic part of our business ever, for example, the other one that they mentioned that we have gone a little slow is our new commercial vehicle lending because currently the yield on that is the lowest amongst all our loan products. So, we have slowed down on that, but that is not something like NBFC will exit because that is part of our key strategic focus for the long term. So, we will continue to be in the new commercial vehicle lending phase. The only thing is we will moderate the growth at a time and then we will fill it up when the situation changes, whereas NBFC is never our strategic product. It is just a kind of an opportunistic product that we were trying to make some returns when it was available and today it is not available. So, we have no problem working out of that.

Moderator: Thank you. The next question is from the line of Anurag Mantry from Oxbow. Please go ahead.

Anurag Mantry: Just one clarification on the other income, so the liability and distribution income on slide 35 is the one which has seen a big jump of this quarter, just wanted to confirm if that EIS income is coming here or?

Murali Vaidyanathan: It is insurance, mutual fund and broking.

Anurag Mantry: So, the liability and distribution income is like the Rs. 60 crores is the most sustainable number or there is a bit of seasonality given 4Q?

Murali Vaidyanathan: Yes, quarter 4 peaks and all the other quarter, normally quarter 4 for any fee based activity is 35% to 40% of the income, so stable state will be 25% lesser.

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

P. N. Vasudevan: Thank you. Thank you so much for all of you for dialing in and peppering us with a lot of questions enabling us to learn in the process and improving our own ability to focus on the right direction for the bank. Thank you so much. Wishing you all the very best and be in touch. Bye-bye.

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