"Equitas Small Finance Bank Limited
Q1 FY'25 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to the Earnings Conference Call of Equitas Small Finance Bank Limited Financial Performance for Q1 FY'25.

We have with us today Mr. P. N. Vasudevan, Managing Director and Chief Executive Officer; Mr. Sridharan N., Chief Financial Officer; 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.

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

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

P. N. Vasudevan: Thank you. Good evening to all of you. I'm sorry, we are a little bit behind schedule due to some technology glitch. I hope you can hear me loud and clear. I hope you had the time to go through our results. First, let me start talking about what went well during the quarter. Our deposit growth has been good. Retail deposits continued to perform well, and our retail term deposit book is growing strong. Retail term deposits grew 47% year-on-year and CASA has been able to hold steady for the quarter compared to the previous quarter.

Product segments like housing and used cars have grown well at 35% and 59%, respectively. We continue to invest in these products. Our flagship product, small business loan, which is now over INR13,700 crores has grown by about 27% year-on-year. Microfinance growth remains muted at 6% for the year-on-year, which is more or less aligned to our overall strategy of reducing the microfinance weightage over a period of time.

Small business loans continue to do well in all parameters, and we hope to accelerate the growth in the coming quarters. This good performance has also given us a headroom to grow our micro LAP portfolio, that small business loans up to value of INR7.5 lakhs, which was a little bit controlled during the COVID period. The bank remains healthy on liquidity with our CD ratio at around 86.75%, and we aim to hold this CD ratio at this level and maybe marginally reduce it over the rest of the year.

Our investments in technology to help build more customer stickiness through apps and launch of products like credit cards, personal loans and AD1 products are progressing well. In the next few months, we should be seeing these apps and products getting rolled out.

Another large investment we have been making in the last one year is our new CRM app being built on the Microsoft Dynamics platform. This is progressing well and should get rolled out shortly. Our Selfie Loan app for borrowers is seeing strong adoption with about 1.5 lakh downloads in the last quarter. The app has already started generating leads as we popularize this app amongst our target segment, and it has a good potential to become a good source for generating leads.

Now I'll talk about what did not go well in the quarter. The first quarter disbursement was quite low. April, in particular, was really bad. And the rest of the months, though saw some improvement was not really still strong. Loan growth was slow also due to factors that we have been hearing from everybody else, whether it is in terms of elections, heat wave, etcetera.

Our microfinance portfolio loan growth was just about 6%, while the non-microfinance was about 21%. July looks good, though, and we are confident that the loan growth momentum will pick up as the month go by. The second thing, which did not go well during the quarter was credit cost. Now credit cost for the quarter has spiked up due to two factors. One is that we have done one-time correction in our PCR ratio, provision coverage ratio, and taken it from about 55-and-odd percent to 70%.

This was done basically because of the new guidelines that RBI has come out with in the month of April for SFBs to convert into universal banks and the requirement there is that the net NPA should be less than 1%. And our net NPA as of March was slightly over 1%. So we have done a one-time correction in our PCR to bring it down to less than 1% and also take PCR to a more reasonable level of about 70%, so that, that goes behind us at one stroke.

The second factor is that even minus the PCR -- minus the 70% one-time correction of PCR, our credit cost has still come out on the higher side for the first quarter. This is because of weaker collections and generally Q1, as we all know, is a seasonally weaker quarter for collections. We are focused on this and expect that the coming quarters should be better.

In microfinance, we have to really see how the second quarter trend shapes up before being able to predict the way forward on microfinance. Our slippages during the quarter were 4.49%, which is above the comfort level of 4% for someone like our bank. The leading contributors to the higher slippages are microfinance and commercial vehicles, which are both elevated during the quarter.

On microfinance, the slippage last year first quarter was INR35 crores whereas this year that INR35 crores has actually moved to nearly INR85 crores. Similarly, on CV, last year first quarter, the slippage was about INR90 crores which has moved to INR155 crores this quarter. So you can see that these two products really contributed seriously to that slippage.

While we are confident that the CV slippage should come back to some level of control going forward, on microfinance is something that we have to really wait and watch how the second quarter progresses before we are able to come with some kind of a prediction. In the current environment, we slowed down the disbursements in microfinance, which also led to a sequential decline in NIMs and deals.

However, the disbursement deal across the products are actually stay steady while in some products, they showed even a marginal improvement. In terms of guidance, the Q1 credit cost, excluding the floating provision is about 1.44%. For the rest of the year, on credit cost guidance, we are going to wait for 1 more quarter. And we hope that by end of second quarter, we should be able to come and give a better guidance for the credit costs for the full year. This, of course, depends on the - basically the momentum that we are going to be looking at on the microfinance part of the book.

Loan growth wise, we had guided for a 25% growth for the current year. The first quarter has been around 17%, 18%. But however, this is something that I think should come back, and we should end the year at the guided level of around 25%.

Lastly, as we continue to invest in our various product technology initiative, our cost to income will remain at more or less similar levels of last year. And in the meanwhile, as I mentioned earlier, we are progressing well on our long-term strategy of building a retail bank that offers relatively attractive rates of interest to depositors, in addition to extending a technology like customer experience for them.

And the money is so collected by us, we are using to lend to the borrowers in the informal and formalizing economy through a very well diversified loan platform. And this, we hope, as a combination should help us creating a very sustainable financial performance as we go forward.

Thank you so much. Now I hand it over to Rohit.

Rohit Phadke: Thank you, Vasu sir, and good evening, everybody. Advances have grown by 18% year-on-year and 2% quarter-on-quarter. SBL advances, which contributed 45% of the book, have grown 27% year-on-year and 4% quarter-on-quarter. X bucket collection efficiency in SBL continues to be at 99.3%. The merchant overdraft advances have crossed INR1,000 crores, and we will continue to scale up the product.

Micro LAP in the SBL portfolio has grown 78% year-on-year. We intend to scale up this product this year. Vehicle finance advances have grown by 15% year-on-year and 2% quarter-on-quarter. The used car book has grown by 59% year-on-year and 9% quarter-on-quarter, and the book now stands at INR1,339 crores. X bucket collection efficiency in VF continues to be at 96.4%. Credit costs in VF is slightly elevated. CV sales were flat in comparison to same period last year and 8% down over the quarter.

The AHL book has grown by -- the affordable housing loan book has grown by 35% year-on-year and 4% quarter-on-quarter. X bucket collection efficiency here continues to be at 99.2%. MF advances have grown by 6% year-on-year, but degrown by 5% quarter-on-quarter. The MF book has seen elevated -- the second quarter is the beginning of the festival season and the consumer cycle does see an upswing from the second quarter. I do hope that things improve from hereon. Thank you. Handing over to Murali.

Murali Vaidyanathan: Thank you, Rohit. Good evening all. Just to give you a perspective of what we got it right. As a team, we were focusing on Mass banking as a crucial thing to garner deposits and mass affluent to get product holding and relationship value right. I think this quarter was 1 quarter where we can stand up and say that our existing customer and new-to-bank customer through retail TD has been a big welcome change in our approach.

So we have got that aspect very right. In the first quarter, we had close to 1.2 lakh customers actually contributing towards TV. So our approach of segmentation, diversification and product management is helping to garner deposits on one side. Second thing is expansion of consumer from saver to actually investor as well as three in one that is trader is helping us on the other side.

Last quarter, we could see, like recently, we saw an article money chasing alternative assets. Our SIP growth as well as mutual fund segment, that is our wealth management unit, is performing through our RM's very well. And second thing is ASBA contributing to a significant chunk of retaining SA too.

Third important parameters are NR book. NR and AD segment is showing good sign. NR now we have crossed INR2,000 crores, and we are almost presented in 140-plus countries shows our deepening and relationship and differentiated VRM approach. And overall on fee-based activity too, we could see on protection side, health actually coming back into limelight and we are able to actually penetrate more and more.

So on our 4-point strategy that is getting our family banking, right, our journey has started. First quarter has been encouraging. And mass banking is very encouraging. And now we will see a new development on STP process for end-to-end solution through selfe. And third important thing, transaction banking, while we are building up, it will take some more time. And fourth important thing, NR where we have gotten and with AD1 seeing the light at the end of the tunnel maybe in 1, 2 quarters should help us to garner. So overall, all it was very hard and very tough and relatively satisfying quarter. We hope to continue that in coming days. Thank you, Sridhar. Sridhar, please.

Sridharan Nanuiyer: Good evening, everyone. I'll quickly give an overview of our financial performance for the quarter. All of these are already covered in our presentation. Our net interest income for the quarter came at INR801 crores registering a growth of 8% Y-o-Y. Other income for the quarter came in at INR192 crores, registering a growth of 28%, resulting in a net income growth of 11% year-on-year. Our yield on advances adjusting for securitization and other off-book items dropped marginally -- sorry, the call got disconnected. We are continuing now. This is Sridharan here.

Credit costs came in at INR305 crores as we created an additional floating provision of INR180 crores. Excluding this, our credit costs would have been at INR125 crores equal to 1.44%. Out of the INR125 crores, microfinance credit costs alone has been at INR 62 crores, while our SBL portfolio continues to behave very well, and the credit cost has remained stable over the last quarter.

During the quarter, the bank has made a technical write-off of INR114 crores. In that INR98 crores pertaining to microfinance book. The bank carries a total GNPA of INR889 crores and

NPA provision of INR625 crores. Our PCR now stands at 70.29%, up from 56.06% in the previous quarter.

We aim to keep a PCR around these levels going forward. PAT for the quarter came at INR26 crores due to an additional floating provision of INR180 crores. As of June 30, 2024, the total CRAR stood at 20.55% with a Tier 1 at 19.59% on the Tier 2 at 0.96%. Thank you.

With this, I'm handing over the call to Mr. Natarajan, our Head of Treasury.

Natarajan M.: Good evening. Q1 FY'25 has been a good quarter in the market front. Our treasury made a revenue of INR29 crores on sale of investments. India tenure is outperformed U.S. tenure. USD rendered flat on a quarter-on-quarter basis, while the Indian tenure trended lower and dose the 7% mark.

Indian banks a good demand on the back of announcement of inclusion in global JPMorgan index. Although our markets are expected announcement and the preposition to large extent, good demand for Indian bonds continue to come through largely thanks to resilient economic activity and favourable macroeconomic conditions in India.

The U.S. spread continues to be data driven, but the latest comments from Jerome Powell regarding moderating inflation led the markets to believe that the U.S. could start cutting rates as early as September. Markets are anticipating India leads to head lower mirroring yields in the U.S. in that eventuality.

Equities were volatile for a better part of the quarter, but ultimately grows higher as the market captured in the outcome of national elections. With the big event out of the way, we expect markets to stabilize and continue to outperform global peers. A recently concluded Budget has provided areas of focus and target for new government, which comes with a new world of opportunities.

Globally, geopolitics continues to be an issue as war continued to wage Ukraine and Gaza. This is something to pay close attention to from the market perspective due to impact on supply chains. We continue to remain positive on the India growth story over the medium to long term as demonstrated economic activity continues to be resilient and is expected to further pick up as manufacturing and focus on agriculture continues to be the twin pillars of India economic growth and progress.

With that, I'm handing over to Vasu.

P. N. Vasudevan: This is Vasudevan again here. I take pleasure in welcoming our new Chairman, Mr. Anil Kumar Sharma. He has taken out from the previous Chairman, who retired on 25th of April this year. Mr. Anil Kumar Sharma has retired recently from RBI as Executive Director, and we are the honour of his presence in this con call. Thank you, Anil sir.

We hand it over back to the operator now.

Moderator: The first question is from the line of Darshan Deora from Indvest Group.

Darshan Deora: So my question was regarding Slide #14 of the presentation, I see the yield on gross advances seem to have gone up by 10 bps or 11 bps. The cost of funds has gone up by 2 bps. But the NIM we have reported in Q1 versus Q4 has dropped by 20 bps. So just wanted to understand the math where am I getting it wrong.

Dheeraj Mohan: Dheeraj here. Just to get you on the page on NIM.-- so the NIM drop, if I have to attribute it to the change in yield of the portfolio, that's about 11 bps. Now this drop is largely because of the composition of the portfolio. So microfinance portfolio is now a lower weightage than what it was before. So from a NIM perspective, the denominator as earning assets. The yield on the portfolio has dropped by about 11 basis points.

Darshan Deora: Okay. We are showing 16.45% versus 16.34%?

Dheeraj Mohan: Yes, this is on the whole book, on the gross advances. So we have securitization also.

Darshan Deora: What's on the book, Okay, right, got it. And the second question was regarding the housing finance business. If you look at, I think, Slide 19, the average ticket size at time of disbursement is around INR10 lakhs versus the portfolio is INR15 lakhs. So what explains that?

Dheeraj Mohan: So in housing finance, in particular, as you know, the disbursement happens in transit because it's linked to the construction, so which is why disbursement, let say, a INR25 lakh loan, the first disbursement may be 5 lakhs. And as the construction progresses, you see the tranche wise disbursement, which is why the anomaly is there in housing finance.

Darshan Deora: Got it. And what would be the average yield on advances for the housing finance business? .

Dheeraj Mohan: Average yield on advances in housing finance is close to now it's gone up, it should be close to about 12%.

Moderator: The next question is from the line of Arora from SOIC Research LLP.

Arora: This question was like now as PCR has gone to 70% and cost to income is also sticky. What do you think this happens to return ratios going forward over the next few years?

Dheeraj Mohan: This is Dheeraj here. I hope I got the question right. So if you're looking from a 2-year perspective, like we said, we are trying to build a bank, which has a sustainable ROAs of 2.25% and a high-teen ROE. So that's the objective.

From a timeframe, we've also mentioned that we are in the process of building out a bank. We are about 8 years in. We've got another 3 to 4 years left for us to emerge as a bank where most of the investments would have happened. So now those are 2 time lines we have. Objective is to treat it as early as possible and just give it to Vasu for some more colour.

P. N. Vasudevan: Okay. So that is a general direction in which we have been going and which we should continue to be growing. In terms of the specific question that you asked that in terms of PCR going to 70% and our desire to hold it at this level going forward, what could be the potential impact on the bottom line.

That's why I said that we are not guiding the credit cost for the year right now. We want to guide for that maybe at the end of the second quarter. Because one is the impact of keeping the PCR at 70% on an ongoing basis, second is the trend in microfinance collections. That's something that is very crucial and something that we are really concentrating on right now.

So once we get some handle on that also by the end of second quarter, we'll have a much better idea from a credit cost perspective, from the short-term perspective. I'm talking out short term, long term, Dheeraj just explained. And really talking of the short term and short term for the year, so to say. So we should be able to guide that much better by end of second quarter. Yes, we'll have to see whether the credit cost of that 1.25%, which we have guided in the beginning of the year is something we'll be able to manage for the rest of the year. That picture will be cleared by the end of second quarter. And I think that will determine our ability to deliver the consistent -- I mean we have been fairly consistent in our bottom line over the last 4 or 5 quarters and our ability to get back to those levels really depends on how the credit costs will shape up over the next few months, that will determine that. And we'll be able to guide you that by the end of this quarter.

Arora: And sir, just a second question. When do you think the cost of funds start falling because some of your peers have already started putting lower cost of fund quarter-on-quarter?

Murali Vaidyanathan: See, the cost of funds has 2 sides to it. One is cost of savings account, which is more or less stable between 6.16 and 6.18. Second is the quantum of replacement deposits, what we do over a period of time. So if you see last year, we had close to 65% to 70% of the book came in for renewal, and so that it got repriced at a higher rate along with the high rate NTB sourcing.

So this year, we have prefixed and the quantum which we have now to go is only maybe 20%, 22%. That's it, balance all either reprice it or that money has gone up. So that's the reason why cost of fund impact is only 2 bps compared to the last quarter.

Dheeraj Mohan: Dheeraj here. We've also reduced in 1 bucket in our savings accounts.

Murali Vaidyanathan: That is starting July, yes.

Dheeraj Mohan: We reduced our interest by about 200 basis points. So that's something which has already been actioned.

Moderator: The next question is from the line of Rajiv Mehta from YES Securities.

Rajiv Mehta: My question is on the SMA bucket, which is fell from 3% to 3.8%, which is 30 to 90 DPD bucket. What are the efforts that we have taken recently in terms of strengthening collections and not allowing them to forward flow and become slippages or trying to roll them back in the coming quarters?

Rohit Phadke: See, usually, what happens is -- usually, what happens is whenever we have a collection risk, you move people into collections to add some people into collections. So that is the first thing that you do. You also separate the bucket-wise focus. So we have done that. We have separated bucket-wise focus. We have put people -- more people into specific buckets, I think that will yield results. And basically, our SBL buckets are very good. It's only the Vehicle Finance, which we have to address. Does that answer your question?

Rajiv Mehta: Yes. Sir, you -- I think we also mentioned about X bucket collection efficiency in our mainstay products of SBL, Vehicle Finance and affordable housing. But I believe that was for the quarter. In July, have we seen improvement in X bucket collection efficiency?

Rohit Phadke: See, in July, we've seen X bucket collection efficiency, stable in SBL, our home loans, even in VF also. See, VF, if you look at the trend, it always holds between 95% and 99%. March is always at 99%. And then between months, it goes up from 95% to 97%. We are at about 96.4%, which is in line with our past data.

Rajiv Mehta: Okay. Okay. And next question is yield. So how should we look at our portfolio yield or loan book yield moving from your ex of portfolio mix change. I know the portfolio mix will keep on changing. But otherwise, my question is even at the product level, how do you see the portfolio yields moving and catching up with the disbursement because the reported disbursement yield have been way higher. So when do we see that catch-up happening?

Rohit Phadke: Over of the past data, so that -- I mean that probably might answer your question. Now if I look at ID product wise, for instance, SBL, in March '24 was at -- in March '23, it was 16.29%, in March '24, it was 16.75%. And in June, it has gone up to 17.49%. And in VF, March '24 was 17.23% and June '23, 16.69%. The simple reason is because the product mix, we've done some -- sincere apologies, the connection was disconnected.

So I'll restart. I don't know how much of it you heard. So I was going through the yield. So SBL, if you look at March '23 was at 16.29%, in March '24, it improved to 16.75%. And in June '24, it is at 17.49%. If you look at housing loans, it was 11.73% in March '23, which has gone up to 12.13% in June '24. So this is the direction that the yields will take. I hope that answers your question.

Rajiv Mehta: Yes. And just last question. So at this moment in time, we are refraining from confirming our credit cost guidance for the year because of uncertainty. So then why did we still retain our growth guidance? Because generally, we respond from a growth standpoint, we respond to how the collections and how the asset quality moves. So -- but we are maintaining the 25% growth guidance?

P. N. Vasudevan: Yes. You see the microfinance is the one where the concern is really high. Vehicles, there is a credit cost spike in the first quarter, but that is something that we are fairly confident of bringing it back. So we should hopefully see not much of an issue going forward. And it should be back to reasonable levels going forward. And the rest of the book is not an issue per se.

So overall, the credit growth, the advance of growth, I don't see a challenge in that. If there is a dip finally that we have to take in microfinance, we should be able to compensate in the other secured loan products. And of course, the personal loan, credit card might fill up a little bit once they get launched. So I don't think the 25% is the real challenge for us. The real challenge will be more on the credit cost to maintaining it around 1.25% and on that, as I mentioned, we shall come back to the end of this quarter.

Moderator: The next question is from the line of Vikas Sharda from NT Asset Management.

Vikas Sharda: Just following up on the question on the net interest margins and the portfolio yield. So I'm not very clear that what's the connection between this -- the yield on disbursement versus the yield on gross advances, because you always have the change in the loan mix, right? And as you guide that microfinance should taper down in the future. So that will always have a negative impact. So considering these factors, then how should 1 look at, say, the yield on advances by the end of this year as well as how should that translate into net interest margin for the full year?

Dheeraj Mohan: Okay. So I think Rohit had mentioned how yields have moved in the last year. The idea is also we are focusing on micro LAP as a product, and we've seen strong growth over the last year, which is a high-yield book. So it makes -- almost mimics microfinance in terms of yields.

So those are some of the efforts we've done. And again, Vehicle Finance, I think we commented last quarter also that we are slowing down a new commercial vehicle and NBFC loans, which are again low-yielding books and focusing on high-yielding products in good interest rate environment.

So those are some of the actions we have taken in the past, and some of them are playing out now. So you can see some of the yields are moving. But just to give you some sensitivity, if we have a 5% drop in microfinance disbursement, in the product mix. If there's a 5% drop in microfinance disbursement from a mix, you typically will see a 1.15% movement in gross yields.

So the yields of 16%, 17%, we put has that sensitivity to microfinance as a composition. So why -- and also new products we are coming into will be at a different yield. So we look at product ROAs when we launch it. From a long-term guidance, we'll have to see how banks of sizes, which are double than us and similar products, which we have got into, how those NIMs will look like, at least from the numbers we have seen, typically, they are in the range of between 7% to 7.5%. So we'll have to see how we manage our NIM's

Vikas Sharda: Understand. So what would be the microfinance yield for you as of now?

Dheeraj Mohan: 25%.

Vasudevan P N: Disbursement rate is 25%.

Dheeraj Mohan: Yield is about 22%.

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

Ashlesh Sonje: A couple of questions from my side. Firstly, on the microfinance portfolio. In your sense, what is causing these elevated delinquencies in this environment?

P. N. Vasudevan: Yes. So microfinance, last year, last financial year, it was -- begin the last financial year, microfinance was kind of okay. The delinquency trends were under reasonable control. But towards the second half of last year, it started moving up. And then it was really short of over the last, I would say, 9 to 10 months.

It's really been moving badly. And what started in some is actually spreading to more pockets now. And this is not really led by some event risk. It's not a political or it's not a flagged kind of a natural disaster-related issue. So this is something that is actually fundamental to the industry itself.

And if you look at the underlying reasons why it is so maybe because RBI had come with a uniform guideline for microfinance lending for all the players put together. And under that certain changes where to be made by all the players and if you look at the household income of around INR3 lakh and take a 50% FOIR and assume a 2-year loan, effectively, a customer might become eligible technically speaking for a loan of about INR2 lakh.

And now, when you do that mathematical calculation and arrive at INR2 lakh potential capability to lend to a person, suddenly, the market rears to that INR2 lakh. The INR2 lakh becomes like something like a buzzword or a goal for the players in the market.

And so the ticket size start going up and additional lenders coming in. and quickly, the borrowers overall indebtedness moves very quickly and very fast towards the INR2 lakh mark. And that's what I think, in my view, that's what has probably been happening in the industry. And it's a concern. It's not just an issue for us. It's a concern at the industry level. We are in discussion with the -- all the industry players. We have the three associations. We have the Sa-Dhan, we have the MFIN and we have the Association of Small Finance Banks, ASFB. And two of them, as you know, our SROs also recognized the RBI. So we have been having multiple meetings within the industry players in the last 2 months and 3 months.

And there's been a code of conduct, which has been signed off by all the players as we are voluntarily trying to curb over lending or lending to defaulting customers, etcetera. But I wouldn't say that the implementation of that code of conduct has been very effective on the ground level, and that is why we have the concern, which is felt right across the industry, right?

And so this is something we have gone through in the past. In 2010, when the AP crisis happened, the industry went into a and then slowly, it started coming back, but the concern remained very high in the industry about the same concern that I'm raising now, except that the amounts may be lower than because of inflation and time factor. But otherwise, the issues are exactly what I'm talking today was the same issue that was there in 2010. And so all of us have been able to get together at that point in time, bring about a discipline amongst the lenders. And that discipline was reinforced at the ground level and over a 2-year period, actually from 2010 to '11, there was not much of business because banks have stopped lending but 2011 to '12, in 1 year, we were able to actually get the discipline completely back. And in 2012, the industry is back to absolute normal levels. So this is something that we have gone through together all of us in the past. And I think it's a journey that we got to do it again today. We have to get together and discipline ourselves and discipline every one of us in the system. And if we do that, I think the trend should come back.

So for a change, the crisis or it's not the word crisis, but at least a stress levels in microfinance for a change is not induced by an external one. This is the first time, I think, in the last 15 years that I know or 17 years that I have been in this business that I'm saying that it's not an external even trigger, but it's something inherently coming up from the sector itself. And this is something we got to get together and solve it, and we are at it. And I'm hoping that we guys will really be able to come and solve this.

Ashlesh Sonje: Sir, again, on the same issue, would you have any sense of how -- what is the magnitude of this issue? How long can delinquencies stay persistently high?

P. N. Vasudevan: Yes, that's very difficult to say. But I can tell you that we are concerned. Our slippages is not something we have ever seen in the past. I mean, this kind of slippage consistently month after month is not something we have seen in the past.

Demonetization, we saw a large slippage. But that slippage was maybe about 3 or 4 months, we saw a significant slippage. And after that, the slippage, we were not able to record for a long time. And after that, the remaining became normal. In COVID also, after that holiday period or whatever, that moratorium period as soon as the moratorium stopped and the life was coming back to normal, we were able to get back to reasonable levels of collection efficiency again within a few months, I would say.

This is the first time I'm seeing where an extended period of nearly 9, 10 months, we have been seeing high slippages and it's by all of us and in many markets. So it's very difficult to tell you within what time frame we expect it to come back to normalcy.

In fact, that answer depends on really how we are able to come together all of us and ensure that the code of conduct that have in place he has followed the all of us. That is something, in fact, 3 days back, we had a meeting in Bangalore and all of us pledged will go back and ensure that we all -- at least individually, we'll ensure we discipline ourselves in the market.

So that's the outcome of a three-day-old meeting. So I think the answer to your question lies in how quickly we all become discipline and follow the code of conduct. So I think give us another month or 2, and I think we should be able to come with a much better answer.

Ashlesh Sonje: One last data keeping question. Would you have done any analysis on the proportion of your borrowers or microfinance a year which would breach the MFIN guardrail threshold of either more than 2,000 exposure or more than 4 lenders?

P. N. Vasudevan: Do you know that? Customers who is more than INR2 lakhs or we are the further. We'll try and come back to you later.

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

Abhishek Murarka: So just continuing with your commentary, then is it safe to assume that disbursement could continue to remain low or declining for the next 2, 3 quarters until you see more discipline in the sector in MFI?

P. N. Vasudevan: You are speaking with reference to microfinance?

Abhishek Murarka: In microfinance, yes.

P. N. Vasudevan: Yes. So in microfinance, as I say mentioned, the slippages are really not showing any abatement at all. As of now, in the last, as I said, 9, 10 months, it's not been really showing much of abatement. And so if nothing changes, if none of us changed, if all the industry players, the practices remain exactly what it is today -- yes, Abhishek, so sorry, we keep getting disconnected. I'm very sorry. It's been a very frustrating con-call, I should say, even for me, I don't know about you guys.

Just to conclude on that question, Abhishek, the point is that, all the industry players are now kind of having their back to the world, and that's my only hope that once all of us fell the heat, I'm sure cumulatively or collectively, we should be able to bring about a change in our own approach to the market. And that's the hope that I'm living on. And I think the next 1 month, 2 months, we'll definitely see a good trend of change, and that should really help us all get our control back on the business.

Abhishek Murarka: So the question I was asking Vasu was that now from a mix perspective, we should see a bit of a sharper correction or reduction in the MFI mix in your overall AUM. Because on the one hand, you will wait to see clouds clearing off. And on the other hand, rest of the book will continue to grow. So I think that 17% could come down faster now?

P. N. Vasudevan: It's too early to predict that at this point in time because I think by next 2 months, we will have clarity on that because if microfinance does come back to reasonable normal levels of delinquencies, then our approach of reducing microfinance gradually will come back. I mean we'll kick to that original plan.

On the other hand, if the next 2 months, 3 months, we don't see all of us collectively coming together and doing something on the ground. And if slippages continue to remain at the level that it is in today, then we will naturally need to take a sharper call on reduction in microfinance. But I'm -- I have a feeling. I mean I'm just saying my assumption or my feeling that the industry players are coming together, and so that should bode well for the industry. And if that happens, then we'll stick our original plan of reducing it slowly over a period of time.

Abhishek Murarka: Got it. And M-LAP, can you tell me if that is -- so what is the risk weight we use for micro LAP, is it 75%, 80%, 100%? Or is it 125? So where are we there?

P. N. Vasudevan: Risk-weighted and micro LAP is only 75%. It's part of the regulatory retail. See, it is not about micro LAP. It's about the end use of the money. It's end use of the money is for a business purpose, then it remains -- it comes out of the definition of regulatory retail, which is 75% risk weightage. On the other hand, if the end user the money is for not a business purpose for anything else other than a business purpose, not as no micro LAP. It may even be INR5 lakh, INR10 lakh, INR15 lakh or INR20 lakh loan also, which is also secured, completely secured against house property.

Even then if the end use is not business, it is classified as a personal loan under the RBI's definition of personal loan and then it goes under the 125% risk weighted. Is that right? Correct? Yes. So that's the way it is. So it's not about micro LAP. It's about the end use. In our case, would you have an idea what's the percentage of personnel loans as per RBI definition?

In our annual report, we will be giving that. So if you're interested, you can just go through our annual report, which we should be publishing shortly. We'll maybe earmarking how much of our secured LAP comes under the personal loan category to be classified under 125%. So that will be displayed in the annual report.

Abhishek Murarka: Got it. And lastly, this last quarter, we did a fair bit of securitization of high-yielding loans and we lost a bit of yield because of that. Has that also been done this quarter? And what would be the loss in revenue or interest income because of that?

P. N. Vasudevan: No. We haven't done any additional securitization or bilateral or anything this quarter.

Abhishek Murarka: Okay. So the yield drop is basically reflecting the mix change there not any one-off sale of portfolio anything like that?

P. N. Vasudevan: Yes, you want to do.

Abhishek Murarka: Okay. Okay. Got it. Just last question. So we were trending at roughly 2% ROA and, of course, we had to make adjustments for conversion into a universal bank. But now that most of the adjustments are done the plans to get back to close to 2% is a little unclear because on the one side, we are seeing a mix change related to yield drop.

On the other side, you're also guiding for flattish cost to income for the year and credit costs, export one-off also remains a little high. So where do you think we might end towards the end of the year? And what kind of recovery levers do you have to recover back to maybe 1.8%, 2% ROA on a run rate basis?

P. N. Vasudevan: See, on an immediate basis for the current financial year, as I said, the credit cost will determine the ROA, ROE and the credit cost, I'm saying that we will come back to you with some kind of a guidance by end of the second quarter. But on a little bit longer term, short, medium to longer-term basis, if you look at it, the 70% is done and dusted with so that should not be an overhang on the bottom line any longer.

And credit costs will come back to normal. I mean it's just a person of all other products, we don't have much of an issue where vehicles did have elevated costs in the first quarter, but that's really not an area of concern. For us, it should come back to our normal levels going forward. So everywhere else, we don't have any other issue. So on a slightly medium to long-term basis, we'll be back to our normal levels of credit cost and bottom line ratios.

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

Renish: This is Renish from ICICI Securities. So just two questions. One on this 200 basis point reduction in some of the pockets in deposits. So can you please elaborate a bit on this? I mean which buckets and what kind of benefit we expect in terms of reduction in cost of deposits?

Murali Vaidyanathan: This is Murali here. See, SA is a landed approach. As you know, till last quarter, we had up to INR1 lakh 3.5%, INR1 lakh to INR5 lakh, 5% and greater than INR5 lakh, it used to be to be 7%. Starting July, that is quarter 2, we have expanded the ladder that is up to INR1 lakh, 3.5

continues. INR1 lakh to INR5 lakh has become INR1 lakh to INR7 lakh. So this is seeing the demography and geography and our product proposition, we have expanded 5 to 7.

That is going to bring in incremental reduction in SA, as I said in the initial talk, we are focused on Elite, that is a mass affluent and H&I segment. And predominantly, our segment is now moving into investor as well as trading accounts. This will help us to retain the customer and grow the customers. So this is where we get SA benefit of 10 bps in coming days.

Renish: No. But Murali, if we are reducing the SA rate in buckets how does it help to retain customers?

Murali Vaidyanathan: See, we are expanding this entire favour to invest. That's way if you see in our presentation also, the quantum of SIP added in last quarter. As you see, our AUM is predominantly built on SIP, ASBA and 3-in-1 accounts. This invested trader saving community, which we are expanding and cross-selling through product holding and family banking is helping us.

P. N. Vasudevan: Renish, the point is that reducing an interest rate is not automatically meaning that customers will stay with us for longer as with more many owners. No, that's not what we are trying to communicate. What we are trying to communicate is that there has been that -- I think in the last presentation, we have put out our liability 2.0 strategy, in terms of what are the various things we are going to be doing to try and get consumers to consume more of our products and services so that the becomes more and more of a primary account for the customer, and that is where the comfort of reducing the interest rate will come to force.

And so the first step we have done is based this reduction in savings slab that Murali has mentioned and the confidence for doing that came from the early kind of comfort that we drew from some of the activities that we have undertaken in the last quarter. So some there has been some decent amount of progress on those initiatives, and we are seeing some initial good outcomes of that. And that gives the confidence that we could reduce this without affecting the growth in CASA balances.

Renish: Okay. Okay. We will take it offline. So secondly, sir, in terms of the MFI stress, right, I mean you alluded that there has been a steady increase in the over the last 10 months. So it is across pan-India? Or there are some specific states, which might have grown at a higher pace over the last 2 years...

Rohit Phadke: So Rohit here, Renish. So there are some states where the problem is absolutely significant, which is Punjab, Haryana, and Gujarat. And there are some states where it is there across branches. For instance, Maharashtra. Some branches definitely. In Tamil Nadu, if you take it, Erode is there, where there's a significant number of branches where this problem is there. And then there is -- it is sporadic in some branches in other places. But these are the main concentration of streets where it is a problem.

Renish: Okay. Okay. And in MFI, when we talk about this slippage is one part, but what is the trend in terms of collection? I mean whether your July collection is better than actually May and June or it is sort of in that level?

Rohit Phadke: No. So July, in July, it is the same as in June, but we have to see how it pans out. Now we April, May, June, the trend was not great at all, right? So this last quarter, that is why the slippages are high. The trade the slippages wouldn't be higher. See, our collection efficiency in X bucket in MF always used to be at 99.5%. And that has now come down to 98.83%, right. So that is where it stands. And that is why this is what Vasu said.

Renish: Got it. So fair to assume that July X bucket is still at 98.8%?

Rohit Phadke: It is at 98.8%. We hope -- see, we are making all our efforts to increase where it is at that range.

Moderator: The next question is from the line of Nidhesh from Investec.

Nidhesh: Sir, on the operating profit to average asset ratio has declined from 3.4% run rate to around 3%. So there is almost 40 basis point decline on that number. So how do you see this trajectory playing out through the course of the year? And any long-term aspiration on this number?

Dheeraj Mohan: Yes. Nidhesh, on PPOP, to, if you look at -- to remove seasonality, we should be at that 3.5% trending towards 4, that is how at least the bank is invested and built for. And to assume that the environment is good to lend across products.

So which is now what is being tested, but areas, hopefully, we will start to see PPOP improve just bit seasonality changing. For example, if you look at our Q1, the fee income, the drop, if you remove the fee income, which is a drop because of assets, and I just look at liability, as you know, insurance is not the season in Q1, and it ticks over the quarters. So I think when all of those starts coming in, you will start seeing that reflecting in PPOP's climbing up.

Nidhesh: Okay. Because last year, Q1 also your number was 3.4%. This year, this number has dropped to 3%.

Dheeraj Mohan: Last year Q1, we did exceptionally well, if you remember.

Nidhesh: And what is the trajectory of margins that we should expect going forward?

P. N. Vasudevan: This year, Q1 compared to last year, we were down on disbursement by nearly INR1,000 crores, and our credit cost was much higher than last year's first quarter. So for last year, first quarter was actually a very good year. This year, the normal first quarter as sluggishness, but more than that, the elections really did have its impact in collection across products. And then added to that is the microfinance slippages. Last year first quarter, we never had this kind of an issue on microfinance. So it's a combination of all of that. So the last year first quarter was very different to this year and first quarter.

Nidhesh: Okay, sure. And how should we see the trajectory on margins have come to around 8% from this year's perspective, how do you see margins trending?

P. N. Vasudevan: Yes. So sorry, I think we're having a problem with our lines. So essentially, the idea is to compensate for microfinance through Micro LAP and hold NIMs. But like I said, it's a little volatile now for us to come out and give you confidence if NIMs will hold, yes.

Nidhesh: And last question is on the -- as you, let's say, reduce the share of microfinance, what all products contribute to SMF priority sector, do you see challenges on meeting requirement on the SMF side?

P. N. Vasudevan: See, the micro LAP, as Dheeraj was mentioning, the focus has been increased on micro LAP and that is a fully PSL product. So I think we should be compensating for PSL from MFI to Micro LAP.

Nidhesh: Okay. That will be compliant for the small and marginal farmer as well?

P. N. Vasudevan: Yes. It will be partly compensating for the Small & Marginal customers also.

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

P. N. Vasudevan: Yes. So thank you so much for patiently waiting for us to join back again and again. We had a really bad telephone connection from Chennai this time around. So sorry for that. And anyway, thank you so much for joining, and I wish you all the very good and look forward to seeing you again. Bye.

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