"Equitas Small Finance Bank Limited

Q4 FY '25 Financial Performance 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's financial performance for Q4 FY '25. We have with us today Mr. P.N. Vasudevan, MD and CEO; Mr. Balaji Nuthalapadi, Executive Director, Technology and Operations; 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. Jagadesh J., Head of Assets; Mr. Natarajan M., President and Head of Treasury; Mr. Dheeraj Mohan, Head, Strategy.

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 this conference call, please signal an operator by pressing star then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand this conference over to Mr. P.N. Vasudevan. Thank you, and over to you, Mr. Vasudevan.

P.N. Vasudevan: Thank you. Good afternoon to all of you, and thank you for taking the time out to dial into our investor call. The last financial year '25 opened with no indication of what was coming. The first quarter was marginally weaker than normal, but it was laid down to heatwaves, general elections, etcetera. However, the reality hit us in the second quarter of last year when the weakness further deepened. Last year turned out to be a tough year. We had credit cost in Microfinance portfolio moving up from 2.3% in FY '24 to 11.37% in FY '25, wiping away about INR630 crores of profit of the bank.

In response to these headwinds, the bank slowed down its fresh disbursements in Microfinance, leading to a drop in the MFI advances from INR6,265 crores in March '24 to just around INR4,500 crores in March '25. This had the double impact of high credit costs and lower income, reflected in the rather unimpressive RoA of 0.32% for the financial year '25.

If we step outside of Microfinance, the rest of the advances grew by 19% for the year. Credit cost remains very comfortable at just about 1%. Very importantly, our yield on advances have remained steady during the year, around 16.3%, in spite of reduction in the Microfinance book.

The cost of funds for the bank remained more or less steady at around the 7.5% level for the full year. The NIMs went down for the year from 8.36% to 7.51%, largely contributed by the mix change in the loan book. In the last year, we also stopped giving our normal guidance in view of the evolving crisis in Microfinance.

Coming to FY '26, we believe we have many things under better control. To highlight a few, collection efficiencies in Microfinance has come back to near normal and expected credit costs should settle down to normal levels by third quarter of this year. Size of the Microfinance book is expected to reduce from the around INR4,500 crores of March '25 to about INR3,000 crores by March '26, as we strictly implement the guardrails and originate fresh loans largely from existing clients.

The contribution of MFI to total advances is expected to reduce from 12% in March '25 to mid-single digit by March '26. This is expected to reduce the impact of any further unexpected headwinds in the MFI sector on the bank. Small business loans, used cars and used CV finance continues to grow profitably with credit costs under control. Affordable Housing and MSE finance is expected to turn profitable this year.

Major parts of the large project such as CRM, the native IBMB app, credit cards and AD-I projects, investments in these large projects. Most of the investments are behind us, and additional investments in these should be nominal. Cost of funds is stable and expected to come down after a few quarters as repricing of deposits at lower rates take effect.

We remain focused on accelerating growth and improving the bank's RoA and RoE, as this is a top priority in the coming year. We expect to exit the fourth quarter of this year with an RoA greater than 1% on the way to reaching an improved RoA of around 1.5% to 1.75% over the next few quarters running into FY '27.

Lastly, before we move into Q&A., I'm happy to welcome and introduce Balaji Nuthalapadi, who joined us recently as an Executive Director for Tech and Ops. Balaji is an alumnus of the Indian Institute of Management, Ahmedabad, and joins us from Citi where he worked for over 28 years across 5 countries.

At Citi, he was a Head of Citicorp Services India Private Limited, employing about 31,000 people and constituting the largest talent base for Citi outside the U.S.A. Also, Balaji served as Head of Ops and Techs for the Citibank South Asia subcluster from '21 to '24. He is also a member of the Tamil Nadu Fintech Governing Council and a member of the Strategic Advisory Group of Indian Institute of Information Technology, Andhra Pradesh. I would once again like to welcome Balaji on Board.

Rohit Phadke, who heads our assets, is retiring by June '25. Jagadesh, whom we call as Jagi, will be taking over from him. Jagi has been with the bank for 15 years and joined us as an area manager. Over the years, he has built our Microfinance and our flagship product, SBL, into what it is today.

He has been the business head in managing this product for over 5 years now. I'm sure some of you might have met him earlier. After he completed his MBA from Bharathidasan Institute of Management, Trichy, he had worked in companies like HLL, Apollo Tyres, ICICI Lombard before joining Equitas. He will be taking over from Rohit as Business Head of Assets, and Rohit will be spending the next couple of months mentoring him into this position before he retires.

So that's it from my side. And to sum up, we can say that last year, as I mentioned, was really a bad year. And we are hoping that this year will be a much better year basically because lots of the fundamentals have been strengthened. And with Microfinance portfolio coming down, the headwinds, if any unexpected headwinds do come also, the impact should be hopefully much lesser. And we, as a management, remain committed to ensuring that our RoAs and RoEs reach the normal level as early as possible.

Now I hand it over to Sridhar.

Sridharan N.: Good evening to everyone. I shall quickly give you an overview of our financial performance for the quarter as well as for the year. Most of this is already covered in our presentation. Our net interest income and other income for the year was INR3,252 crores and INR871 crores, respectively.

The total treasury income for the year stood at INR142 crores, registering a growth of 36%. Net income for the year stands at INR4,123 crores, registering a growth of 9%. Our yield on advances for the quarter stood at 16.30% and the yield on disbursement dropped by 140 bps on a Q-on-Q basis to 16.76%. The drop was largely due to slowdown in Microfinance. Microfinance disbursement stood at 8.32% of the overall disbursement in Q4 FY '25 vis-a-vis 29% in Q4 FY '24.

On the cost side, operating expenditure for the quarter came at INR736 crores, clocking a growth of 16% over the last year same quarter. During the quarter, the bank purchased PSLC certificate incurring a cost of INR11.04 crores. And for the entire year, the cost was INR16 crores. For the whole year, the total operating expenditure went up by 15%, as the bank invested in technology, people and new products.

Cost to income for the entire year increased to 67.64% vis-a-vis 63.74% last year. PPoP remained flat for the year at INR1,334 crores. Credit cost for the quarter came in at INR258 crores, majorly contributed by MFI with INR185 crores. The bank made an additional NPA provision of INR33 crores in Microfinance and Vehicle Finance. The total credit cost for the year stood at INR1,135 crores.

The bank's GNPA stood at INR1,068 crores and NPA provision of INR714 crores. Our PCR now stands at 66.83% and including technical write-offs stands at 82.01%. PCR for individual product segments are already given in the PPT. As of March 31, 2025, the total CRAR stood at 20.6% with Tier I at 17.84% and Tier II at 2.76%.

With this, I hand over to Rohit.

Rohit Phadke: Thank you, Sridhar. Good evening, everybody. Advances at INR37,986 crores grew by 11% year-on-year. SBL advances, SBL has grown by 25% year-on-year. The collection efficiencies in SBL are very stable. Across the year collection X Bucket collection efficiency was more than 99%. In the last quarter 2, it was 99.2%. The merchant overdraft book in SBL has grown very well. It's now an INR1,400 crore book with about 51,000 customers.

We believe that this is a product which fulfils a dire need for small and informal customers. Our intent will be to grow this book this year. The Selfe Loans app was launched last year. It is primarily a lead sourcing app, and we have sourced about INR1,247 crores of loans. These loans were sourced from the -- these loans were disbursed from the leads that were sourced through the Selfe Loans app.

In the CV segment, we have grown by 14%, but this 14% is a misnomer. The growth in Used Car was 53%, and the growth in Used CV was 24%. We chose to degrow the New CV book by 13%, and hence, the overall CV growth dropped to 14%. The focus in Vehicle Finance is to grow both the UCV and Used Car books.

Collection efficiencies in Vehicle Finance have been looking up last quarter. The old overdue book, which was 16% in the previous quarter, has now come down to 14.5%. The X Bucket collection efficiency has also moved to about 99%. We will continue to grow the Used Car and the UCV books.

The Housing book, also the Affordable Housing book also continues to grow well. It's now -- it's grown 14% year-on-year. The MSME portfolio has also grown at 41% year-on-year. So this is also a segment that we are seeing good growth. The Microfinance degrew by 28%, and this is by choice. The book stands at about 12% of the overall mix.

The entire Microfinance team has been trained to now do a Micro LAP. And as we -- our intent is to keep degrowing Microfinance and keep growing the Micro LAP book. In the coming months, as the Microfinance book degrows and the Micro LAP book grows, we see that an era of uncertainty will disappear, and I see a very glorious future for the bank.

Thank you so much. Over to Mr. Murali, please.

Murali Vaidyanathan: Good evening, friends. As you would have gone through the presentation, our segmented approach, what we have been discussing, has been yielding good traction in terms of quality customers. If you see the Elite book, which is our focus between middle class plus to HNI is showing a very steady growth, and we are seeing close to 25% to 26% of growth in Elite as a key segment.

And as we are talking about liabilities, too, as a strategy in the last as well as previous presentations, our focus on NR as well as transaction-centric banking is helping us to expand, a, the footprint, and b, the spread of customers. And today, I think in NR book, we have customers who are present across 140-plus countries, and we have close to INR3,000 crores of book coming from NR, which is the first step, which is -- augment our next initiative of AD-I, which should go live very soon.

Third part of in terms of business banking, that is current account, our focus on retail merchant is helping us to acquire lower-end spectrum of current account with intelligent solutions, which we will try to offer through QR as well as POS in coming months should help us to grow the current account also.

B, in terms of transaction banking, our important focus is how do we get the active savings account in coming days, so the new Mobile Banking and Internet Banking app, which we have come up. And today, we are learning both the apps together, and we are happy to say that new app, despite being there, have -- download of close to 1 lakh now at this point of time. So I think that user interface and user experience is going to help us to move ahead.

We have launched very critical UI/UX-based initiatives, what we have mentioned in terms of Banker on Wheels as well as service-centric approach, which we will discuss it later. And RTD has been a good year last year, we could add close to 1.2 lakh customers, who have actually come in and used our new retail TD proposition. So that has helped us to create the retail ratio also close to 69%, 70%.

And I think increasingly, we have to hold and grow that base and see how best we can penetrate more on product holding. So overall, it was a challenging year. The future, what we are seeing through version 2, what we have liabilities, too, which we have mentioned, should give you the perspective on where we stand in terms of individuals to other as a deposit categories. So retail mix is one healthy mix, which we will continue to focus with segmented approach.

P.N. Vasudevan: We will open for Q&A now.

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

Renish: A couple of things from my side, one on this SBL book, right, so sort of you are sounding quite confident about scaling this book in FY '26. But when I look at the slippage ratio, sort of it is increasing quarter by quarter, impacting Q4 of this year as well, it has gone up. So what is giving you the confidence to grow this book when delinquencies are also going up sequentially?

P.N. Vasudevan: Yes. So basically, in the SBL book, the MLAP has really grown strongly last year, and MLAP typically has a loan size ranging from INR2 lakhs to INR7.5 lakhs. That's what we internally classify as Micro LAP. Typically, the Micro LAP does have a higher level of GNPA. But because it's a secured product, the ultimate credit cost actually turns out to be quite low. So I'm going to request Rohit to answer what's the typical GNPA of MLAP and what's the credit cost that we have seen in MLAP over the past so many years. .

But what I can say beyond data is that over the last, maybe what, 12 years that we have been doing Micro LAP, we have gone through the demonetization period, we have gone through the GST period, we have gone through the Corona period and we have gone through the last year Microfinance stress. And through all this period, the credit cost of Micro LAP in particular and SBL in general has been extremely comfortable. So I'm just going to leave it to Rohit to give the data in terms of credit cost and GNPA for MLAP.

Rohit Phadke: So we've been seeing Micro LAP now for quite a few years now. I think 2 cycles we have seen it. It's nearly an INR2,600 crore book. And the GNPAs hover around between 4% and 4.5%. The credit cost is only 0.4%. And if you look at the overall credit cost for SBL, it's just 0.3% and MLAP is just 0.4%.

Also, what we have seen is a lot of these -- we don't have to really go and repurchase properties, a lot of these properties, they come off a settlement as the customer does not want to lose his only property. So overall, we do think that Micro LAP is a very good product, and we should really increase it.

Renish: So, again, just -- sorry to follow up on the issue. Micro LAP, I mean, of total INR16,000-odd crores of book, as you said Micro LAP is roughly INR3,000-odd crores. So I'm sure the bulk of increasing slippages over last 4 quarters is actually coming from a legacy book. So is there anything -- let's say, any of the geography or any events, which are happening in some pockets and that is leading to this blip, which might be temporary? And hence, you are confident that going into FY '26, the slippage ratio will sort of come like to normal and that's why we are confident on growing SBL book.

P.N. Vasudevan: Is there any particular geography we see any stress?

Rohit Phadke: So we have not seen any stress in any particular geography. So I see a good future. I have not seen any particular stress in any specific geography for this.

P.N. Vasudevan: Slippage has been higher in the last...

Rohit Phadke: Slippage has been higher.

P.N. Vasudevan: I think that...

Renish: Okay. Maybe I will take it offline. I know...

P.N. Vasudevan: Yes, actually, we don't see any underlying stress. And this is a product that will continue to remain a key focus for the bank.

Renish: Got it. And sir, my second question on the Vehicle Finance book, right, so you did mention that New CV, we chose not to grow maybe because of the lower OEM sales this year, and we are equally confident on growing this CV book. So I just wanted to get a sense -- this entire TN issue, which is there because of the bill. Do you expect any impact of this bill on any of our product segments, I mean, apart from MFI?

P.N. Vasudevan: Not really. We don't. I mean we have gone through a similar thing in Karnataka a few months back, and there's really no impact on anything else.

Renish: Got it. Got it. And would you like to guide us on credit costs in FY '26?

P.N. Vasudevan: The credit cost for FY '25 was 3.15%, correct? 3.14%, credit cost, but that included a one-time INR180 crores of floating provision that we created in the first quarter of last year. But if you remove that INR180 crores, the credit cost would come to around 2.6% for last year.

Now the question is that, do we want to guide for credit cost this year? We will want to definitely guide, but we are going to just wait for this 1 quarter to go by because first quarter and second quarter of this year, we expect the credit cost to remain at a higher level, basically, because of the lag effect of slippage of X bucket Microfinance in the last 2 quarters.

They will all hit us in the credit cost with a lag of around 2 quarters. So that way, we are going to have some amount of credit cost coming up in the first and second quarter of this year. But from third quarter onwards, we expect that to actually go down and get into more normal levels. So I think we'll start giving our guidance on that. At the end of this quarter, we should be able to guide for the full year.

Moderator: The next question is from the line of Mr. Rajiv from Yes Securities.

Rajiv: Sir, can you share an outlook on loan growth? Because see, you've given some color on the RoA. So there is an underlying growth assumption in that RoA outlook also. So what is that growth that you're looking in the overall book? Because see different pieces are moving in different direction because MFI as you have communicated is going to come down further.

Affordable housing is actually growing slowly versus your peers. And in UCV, you are defocusing, even there the book is shrinking. So how should we look at the bank level growth in FY '26? And what is beneath your RoA assumption of maybe exiting the year with 1% plus RoA?

P.N. Vasudevan: Yes. So Microfinance will degrow. As I mentioned, from around INR4,500 crores, we expect it to land at around INR3,000 crores by end of this year. But in spite of that, we expect an overall credit growth for the year, which should be in the range of late teens. That's what we expect for the full year. Late teens is the credit growth that we should be looking at. And that's what we have factored in for the guidance of more than 1% RoA by the fourth quarter of this year.

Rajiv: Okay. Okay. And sir, when I look at your non-MFI SMA pool on a Q-on-Q basis, there's not much improvement. So -- I mean -- and so is the new flow persistently coming from the X bucket into the SMA pool across products? And is that a challenge that the new flow rate is not improving? Or are the rollbacks not happening in the SMA bucket, the resolution is not happening? Is that a problem?

P.N. Vasudevan: If you look at the SMA non-MFI book, we are talking of -- SMA-2 was 1.69% in Q3, it's come marginally down to 1.5%. Now SMA-1, which is 2.7%, has gone to 2.8%. And SMA-0, which was 3.9%, has come down to 3.65%. So -- I mean, you can -- I don't see that the SMA...

Rajiv: No, it's stable, sir. I agree with you. It's pretty stable. It's not deteriorating for sure. But from an improvement point of view, since -- if you want to kind of go down on the credit cost, even on the non-MFI book from where we are so that bucket -- these buckets will also have to improve.

P.N. Vasudevan: See, as far as the credit cost for the non-MFI book is concerned, it is around 1% last year, and we expect it to be at -- I mean, that 1% is more like a normal level. We do not really expect that to go further down. I mean, it may marginally go down by a few basis points, up or down, but it will not be dramatically lower than that.

That's a very normalized level of credit cost. So this SMA book also, you see the 0 to 90 or whatever, SMA-0 to 3 -- 0 to 2, it will be at these levels. We don't expect that to really come down. And credit cost is also at reasonably normalized levels, around that 1% level. And these products are priced for that level of credit cost. So the profitability should not be an issue because the pricing takes care of that level of credit cost.

And these are -- we must understand that these are customers where our average ticket size is just about INR7 lakh. If I remove Microfinance, that is assuming I don't count Microfinance, I just look at the rest of the book, our average ticket size on lending is just INR7 lakh. So we are really addressing the seriously low-income profile who are from the informal economy and some level of delinquency and some level of behaviour in terms of on-dot repayment will be a given. And these are very normal levels. I don't see that this should be an issue.

Rajiv: Okay. And just one clarification about that stress sector provisioning of INR100 crores we did in Q2, which was essentially on the Microfinance SMA pool, I believe. Now how do we look at that number? What is the corresponding number now? Do we still hold that provisioning on the MFI SMA book? Or has that got utilized and now it is a part of the PCR?

P.N. Vasudevan: Okay. So we had created INR100 crore provision in the third quarter -- or in the second quarter of last year on the SMA-1 and 2 books. Basically, we have some internal parameter. Out of SMA-1 and 2, we took some parameter like how many of them have loans beyond a certain number from different lenders and how many of them have beyond a certain level of exposure as a borrowing.

So we took some profile of those customers who are in that SMA-1 and 2 bucket in September, and we said these are the stressed customers, and so we made that advance provision of INR100 crores. Now that profile is continuing to be used on this SMA book in the month of December and in the month of March.

And since that profile of that segment of stressed customers as per that profiling has been coming down, from September to December to March, it's been coming down, so in December quarter, we used the provisions of approximately INR38-or-so crores out of that INR100 crores because the amount of stressed customers within that segment had come down.

And further, in the quarter ending March, we have utilized another about INR23 crores, we have reversed back, because the level of stressed customers has further come down. So that's how it is. So currently, we are carrying about -- INR38 crores we are carrying still in the books out of that INR100 crores.

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

Nidhesh: Sir, first question is that what is the steady-state RoA that you think our bank can deliver from, let's say, next 2 to 3-year perspective when the entire product mix stabilizes? What is the steady-state RoA that bank can deliver? And what is the long-term thought on Microfinance, whether we will take it to 0?

P.N. Vasudevan: So on the Microfinance, we will be applying the guardrails very strictly. And also a large part of the sourcing is restricted to existing clients. So we are not really out there to try and grow the market share or grow the disbursement, so we will only disburse to well-performing existing clients and which means that the percentage of Microfinance and the quantum of Microfinance book also should be coming down over the next few years.

Whether it will go to zero, I'm not going to be able to say that. It may not go to zero because ultimately, there will still be certain customers who are very good and continuing to be with us and performing very well. So it may never go down to zero, but it will keep going down as a percentage. As far as steady-state RoA is concerned, Dheeraj?

Dheeraj Mohan: So Nidhesh, what visibility we have right now, if you look at FY '27, and from that perspective, we've given a range of 1.5% to 1.7%. I think let us first hit that for a few quarters and then see what more we can expand our RoAs. But at this point in time, let's focus at FY '27. And we'll then discover what steady state is.

Nidhesh: Sure. And that is for FY '27 or exit FY '27...

Dheeraj Mohan: I think FY '27, at least in a few quarters, we should be between that 1.5% to 1.7% RoA.

Nidhesh: Sure. Sure. And in which segment we have bought PSL?

P.N. Vasudevan: We bought PSL in the small and marginal farmer category. Actually, what happened is that we were looking to be a little short on that. So we didn't want to take a risk, so we bought it. But end of the period, by March, our incremental asset PSL category itself was actually sufficient. But by then, we had already bought because we didn't want to take a risk, but it was in the SF/MF category.

Nidhesh: Sir, with the Microfinance further coming down, let's say, over the next 2 to 3 years, how do we plan to get SMF category fulfilled on PSL?

P.N. Vasudevan: Yes. So that's the challenge for the team, and that's what the MLAP product that the Microfinance team -- I think we mentioned that in the last con call, the Microfinance team because they will not be totally tied up in terms of disbursements on new Microfinance loans. And so that bandwidth is being allocated for them to enable them to do Micro LAP.

And Micro LAP, as you know, is typically a semi-urban to rural product. And so the end use of the customer, the end profile of the customer borrower quite often does come as an agricultural profile. So most of the reductions in SFMF categories from Microfinance should be compensated by the MLAP.

Nidhesh: Sure. And sir, can you share the liability OpEx number for FY '25? What is the OpEx of liability franchise for FY '25?

Dheeraj Mohan: Yes. One second, Nidhesh. So their direct -- their cost after allocating common costs all together is about INR750 crores. From this, they have -- we have given the income they generate from third party and other products. So -- but the direct OpEx is INR750 crores. This includes allocated costs also.

P.N. Vasudevan: What allocated?

Dheeraj Mohan: Yes. There is a head office cost allocated, there is a technology cost allocated, there are some common resources like us, which gets allocated. All of those costs are added to this when I say INR750 crores.

P.N. Vasudevan: And what will be the direct cost?

Dheeraj Mohan: Sorry, sorry, direct cost is INR750 crores, and the allocated is about another INR120 crores above that.

P.N. Vasudevan: Okay.

Nidhesh: So we have been trying to reduce our landed cost of liabilities vis-a-vis large banks. So is there any update on that, how that is progressing? It seems like our landed cost of liability has gone up sharply in FY '25.

P.N. Vasudevan: Yes. Because landed cost of money has gone up in FY '25, principally because the cost of funds went up from 6.5% to 7.5% in the year. So 1% increase in cost of funds really resulted in the landed cost of money going up in FY '25, whereas the other elements of the landed cost, which is the cost of raising the money actually went down because, basically, we are not increasing the -- I mean, the deposit is growing at a rate higher than the operating cost of liability team. So obviously, the leveraging is continuously kicking in.

So the cost of raising the money, that percentage went down from '24 to '25 -- I mean, FY '24 to FY '25. But the interest cost itself went up by 1%. So the overall landed cost of money had gone up. What we will do is I don't want to give you any ad hoc number at this point in time. Next quarter presentation, I'll request Dheeraj to put out a slide on this so that we can trace the trends and also look at how it is progressing towards this year.

Nidhesh: Sure. And last question, sir, have you seen any impact of the TN ordinance as of now in terms of collection behaviour in Microfinance?

P.N. Vasudevan: No, no, nothing as of now. There is a difference between what happened in Karnataka and what happened in Tamil Nadu. In Karnataka, there was a lot of disturbance in the market, a lot of articles, newspaper reports and TV reports about various kinds of practices and all that going on for about a couple of 3 months and the ordinance came at the end of that. Whereas in Tamil Nadu, the situation is very different.

I mean, there's absolutely no news reports or anything at this point in time. This ordinance is something probably the government is looking to do on a proactive basis and not as reactive to something which is happening on the ground. So I think that's a major difference. So as of now, no, we don't see any difference.

Moderator: The next question is from the line of Vibhav Khandelwal from Laburnum Capital.

Vibhav Khandelwal: I wanted to understand in the MFI book, how do we see the impact of the incoming guardrails?

P.N. Vasudevan: Of what?

Sridharan N.: Guardrails.

P.N. Vasudevan: Guardrails. Okay. So I think we mentioned that in the last quarter con call also, we gave some data, 48% of our existing MFI clients are not eligible for fresh funding because of the guardrails. That's the information that we had shared last time also. So that's the impact of the guardrail implementation.

And this means any part of the guardrail. For example, if they have already borrowed from 3, then they are not eligible. If they have already borrowed more than INR2 lakhs, including other loans, not eligible. Also, they may be on X bucket with us, but they may have an overdue with some other lender. And if that overdue is more than INR3,000, then again, they are not eligible. So all parameters put together, about 47% of our customers were not eligible.

Vibhav Khandelwal: Understood. But just to get some sense, what's our overall estimate as to what the impact would be on credit cost or collection efficiency because of this?

P.N. Vasudevan: Because of what?

Vibhav Khandelwal: The guardrails, any incremental impact.

P.N. Vasudevan: We don't -- see, we don't expect anything, and we have implemented the guardrail right from January, and our collection efficiency has actually been improving between Jan to March. And even in April, it's further showing signs of improvement. So we don't see any issue between these 2.

Vibhav Khandelwal: Understood. And my second question was regarding the Used CV book. Now we've seen that we have very good growth that is coming in, in the Used CV book. I just wanted to get some sense on the competition, pricing, etcetera, that you're seeing in this particular portfolio.

P.N. Vasudevan: Right. So the competition, there are a few NBFCs who are active in this, like Sriram, Mahindra Finance and Chola and all that. Practically, we don't see much of banks in that space. The yield from used commercial vehicle typically is in the range of around 18% to 19%. That's the range. The type of products that we lend can cover both -- I mean, heavy commercial, light commercial and small commercial. However, as far as Equitas is concerned, the largest contributions come from small and light commercial. Heavy commercials contribute much less. The yield, as I mentioned, on an overall basis from Used CV will be -- normally that range is between 18% and 19%.

Vibhav Khandelwal: Understood. No, that's helpful. Also, just wanted to understand regarding the liability franchise, right? Now we're seeing those SAs or savings account growth being sort of on a lower end of -- on a year-on-year run rate basis. Just wanted to understand how do we plan to improve our cost of funds if our CASA ratios are trending downwards. I mean I understand that there's been a liquidity crunch in the system. But given that we're a small part of the overall system at the moment, just how do we see cost of funds improving given the low CASA growth?

P.N. Vasudevan: Yes. So there are 2 elements to the cost of funds. So one is, of course, just reducing the interest rate itself. That is one element. Second is, of course, improving the CASA ratio, and within the CASA ratio, improving the current account ratio will be another element of cost reduction -- cost of funds reduction. As far as the first point is concerned, which is the cost of -- the interest rate that we pay on deposits, we have been trying to consciously reduce the interest rates on deposits that we pay.

So in the month of October of last year, we reduced the peak deposit rate by 25 basis points from 8.5% to 8.25%. When it was actually, there was no change in deposit rates from the other banks, but we reduced it just to help us reduce the cost to some extent. And that will have a benefit somewhere. Another 2 quarters down the line, we should see the benefit of repricing on that.

Also, we had reduced the savings account interest rate a few slabs. We had tweaked in the last year twice.

And this year, again, in the month of April, we have reduced the peak deposit rates by 20 basis points, so 8.25% has become 8.05% as a peak rate now. And effective, I think, 1st May, we have already announced, we have communicated to our depositors, there is a further tweaking on savings account rate. The lowest slab, which was 3%, is now being -- going to be reduced to 2.75% and some marginal drop in interest rates on further buckets in the higher levels also.

So that is one element of cost of funds reduction where we are consciously trying to reduce the interest rates, which will help in reducing the cost. The second one is, of course, in terms of growing the CASA as a book, last year was difficult for us. The CASA was not -- it didn't really grow much. And as a result, CASA ratio came down from 32% to 29%. So I will just ask Murali to kind of share this year what do we plan to do to try and improve the CASA ratio from 29% to a little higher percent. So I'll ask Murali to share on that part of it.

Murali Vaidyanathan: There are three things which we discussed. One is going deeper with regard to family banking that is getting the elite segment in and getting the family banking accounts. Second is what we discussed on merchant-acquiring SFBs for current accounts and getting that differentiated solution. So CA actually brings down the cost of funds.

Third is leveraging on AD-I and getting NR as a segment. So these 3 are key to get value. And to get the mass banking and proposition right, we are going live for CorpSal D2C, which is end-to-end digital journey from origination to V-KYC, where we are going to go deeper at corporate level.

So this one should actually help us in garnering more number of accounts. It's -- actually one more thing that will happen is as the arbitrage between SA and TD keeps shrinking, the quantum of money that keeps getting into the SA will actually go up. And last year, we had hook product of ASBA and SAP helping us. We will go deeper through that route also to get the spread, depth and digital leveraging right.

Moderator: The next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: Sir, my question was on understanding the RoA profile for SBL and Vehicle Finance. And then within SBL also, if you could give some color on Micro LAP and GLAP? That's my question, sir.

P.N. Vasudevan: So we don't share the product-wise or subcategory-wise RoAs. We don't share that publicly.

Shreepal Doshi: Okay. But just some color on SBL as a category?

P.N. Vasudevan: Dheeraj?

Dheeraj Mohan: Yes. So the easiest way to understand these businesses is to do a sum of parts. Our SBL book is very similar to some of our competitors, who are in similar geographies. So you can look at their numbers. It's very similar.

P.N. Vasudevan: They will look at anyway.

Dheeraj Mohan: So -- I'm just saying easiest way. It is very correlated to that. Similar from a Vehicle Finance, it's similar.

P.N. Vasudevan: Yield and...

Dheeraj Mohan: Yes. The yield is there on the -- so I'll give you rough yields, SBL is roughly about 16%, is the yield. Vehicle Finance currently is about 15.5%, likely to go up as New CV comes down. So those are the yields. But at this point in time, we actually don't want to give RoAs.

Management: Do we give credit costs separately...

Dheeraj Mohan: Credit costs, no...

Shreepal Doshi: Got it, sir. That is helpful. I'll maybe take it up separately. Just another question was on asset quality front. So if you look at the GNPA in HL and SBL, also highlighted by one of the earlier participant, has been increasing...

Moderator: Sorry to interrupt you, sir, the audio is not clear.

P.N. Vasudevan: No, no, we can hear.

Shreepal Doshi: Yes. Okay. So my question was on rising GNPA in HL and SBL, while these 2 segments have been growing at a decent rate for us, but the NPAs have also been inching up. So are we taking any measures to sort of contain this going ahead or be comfortable with this level of NPA, especially in HL and SBL both?

Dheeraj Mohan: So SBL, even when we do -- when we plan for SBL, these are the numbers which we take. So this is in a comfortable range given the yield and the nature of the product. So SBL, when you see the GNPA of 2.54%, it is actually within a comfortable range. It can actually go up for the yields the product offers.

For home loans, I understand that the profile of our customers are self-employed. They are not the prime segment. And increasingly, we are also growing the self-employed own construction space. So I think housing finance is where you can assume a steady-state GNPA.

SBL, as composition changes with MLAP going up, it has the room to inch up a little higher, but those are what we consider are normal levels for those products.

Shreepal Doshi: Got it, sir. And last question was on the loan book mix that we're targeting for, let's say, FY '27 sort of a time period.

P.N. Vasudevan: Loan what?

Dheeraj Mohan: Loan book mix for FY '27.

P.N. Vasudevan: Loan book mix for FY '27...

Dheeraj Mohan: We only give an indication on where Microfinance will be.

P.N. Vasudevan: Microfinance, as I mentioned, should be in the mid-single digit by FY '26, right, which means that by FY '27, Microfinance may come below the mid-single digits. That will be the contribution of MFI. But rest of the book, by and large, they will remain where they are. I mean, small business loan will be around that 45% level, affordable housing around 12% to 15%. I mean all of them may go up by 2%, 3% because our MFI book is dropping, so that will be taken up by some of the others. But there will be no major dramatic shift in the rest of the book.

Shreepal Doshi: Got it, sir. Got it. No plans of opening or of having any new products as such, right?

P.N. Vasudevan: See, the new products are two, which we have just launched, which is credit cards and personal loans, but personal loans will be strictly for the cross-sell purpose, so we are not pushing personal loan as a stand-alone product. It's significantly only meant for supporting the stickiness of deposit customers. So it may not be a much volume driver. It's more of a relationship driver and not a volume driver, so it will never be a big contributor.

Credit cards is something, again, we have launched. Again, credit card is largely meant for existing clients. Credit cards will be something which we'll offer to both asset customers and liability customers. In asset customers, so normally on a stand-alone basis, most of our asset customers may not be eligible for stand-alone credit cards from other banks. But since we have an underlying security from them, so our exposure on credit cards will be also secured by the underlying property, and that gives us the comfort of giving them a card with some limit on that.

So again, both of them are meant to be the cross-sell products. So we are not going to be pushing huge volumes on that, but principally, it will be driving cross-sell. So there's no other new product that I think we'll launch over the next 2 years. We have a complete bouquet of products, so now the challenge is only to keep growing as -- on the platform that we have.

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

Darshan: Sir, my question was regarding the Microfinance segment. If you compare the X bucket collection efficiency of Equitas' reported numbers versus that of other SFBs and -- for the March corridor -- for the March month, sorry, Equitas seems to be lagging behind both in Karnataka and rest of India. Like, for example, in Karnataka, we see that it's lagging by potentially 600 basis points compared to some of the other peers. And in Rest of India or all of India is lagging by about 100 basis points. So what, in your opinion, explains this large difference in the X bucket collection efficiency?

P.N. Vasudevan: See, 2 things. One is that we wouldn't know what others are doing. So that's the first point. The second point is that consciously, as I mentioned before, we have been reducing our disbursement on Microfinance over the last year, leading to a 26% -- 27% drop in the book. And because of that, automatically, the X Bucket collection efficiency as a percentage for us may look a little lower compared to others because you do a large disbursement this month, for example, next month, practically, all of them are likely to pay their first EMI, and so your X bucket as a percentage may look better compared to somebody who is disbursing lesser.

So for us, what will happen is that over a period of time, as the Microfinance book keeps shrinking, we may actually start giving out the amount, and rather than the percentage, we may actually start giving the amount, X bucket collection efficiency in terms of amount rather than percentage because that may become more relevant for us. And the quantum of money which -- quantum of loans, which become delinquent, may be more relevant for us than a percentage as the book shrinks.

Darshan: Got it. I mean that explains it. My second question was again with respect to Microfinance. So obviously, we have seen a lot of pain in the Microfinance space. Excluding Microfinance, I think we've built a pretty good book on the asset side, whether it's SBL, whether it's home loans, whether it's Vehicle Finance, but now with these guardrails coming in, in terms of the cap on the number of borrowers and the cap on the amount that can be held.

And also things like CGMFU, etcetera, which sort of gives some protection in case of downside, does that change the attractiveness of Microfinance? Should we be rethinking of Microfinance, our exposure to Microfinance as in not being so negative about it? How do you think things have changed fundamentally after the guardrails?

P.N. Vasudevan: So we have been having guardrails from 2010 onwards before the AP crisis. Before the AP crisis, the MFIN was born in the month of March 2010, the AP crisis happened in October 2010 -- sorry, MFIN was born in 2009 and October 2010 is when the AP crisis happened. But before the crisis happened, MFIN had come out with its own set of guidelines for all of us, which included the cap on number of lenders, a cap on the total amount of loan to be given to a borrower, etcetera.

So these guardrails are not exactly new. This is something that we all had together and implemented long before the first major crisis, long before RBI stepped in, long before the SRO as a concept came up and was approved by RBI, long before that.

And in spite of that, we have been seeing a series of crisis in the Microfinance sector time and again for various reasons. The reasons change, but the repetitiveness of the crisis doesn't change. So I think from Equitas' side, we are very clear in our view that over time, Microfinance will continue to go down and be much smaller and smaller part of the book so that any problems in that space should not really put us into the kind of situation that we found ourselves in last year.

And our ability to deliver a sustainable performance and a sustainable return is what we are looking to build. And that is where the approach to Microfinance is very clearly for us. We are very clear on that.

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

Ashlesh: First question is on the MFI book. Firstly, what is -- what do you do with these set of borrowers who are ineligible for additional funding? And I understand you're probably cross-selling, migrating some of them to the Micro LAP book. What are the filters which you apply to determine what is the eligibility here?

P.N. Vasudevan: So those who are not eligible, of course, we don't fund them. But as I mentioned to a previous caller in this call, he asked me a question that, if you're not going to be funding again because of the guardrail, does it have an effect on your collection efficiency? I had already answered that for somebody else saying that our collection efficiencies have actually been improving in the last few months post implementation of guardrails very strictly from our side.

We are extremely strict in implementation of the guardrails. But we haven't found our efficiency actually going up, so we don't have an issue on that. Now second thing is, of course, what do we do with the customers, if they are good, can we convert them into the MLAP product? That's our whole focus.

And that is why, as I mentioned earlier, the MFI team, which is available on the ground, and they have the relation with the customers, they have knowledge of the customers, relation with the customers, all established, and they are on the ground. Now I can't do Microfinance to them because of the guardrails. I can't do that. But are they eligible for MLAP, and if they're eligible, then we can convert into that.

And for MLAP, the filters that we use are basically, it's an individual credit, cash flow based credit appraisal. That's the filter that we use. We have a full set of credit norms for MLAP, which includes a visit to the customer's place of business premise, trying to understand his cash flow from his business, expenses, etcetera, get his credit bureau reports, find out his ability to pay EMIs and back-work the loan that he is eligible to -- that he can maximum service.

So we actually back-calculate the loan eligibility. And that's how it is done. And we have a random sampling by the credit teams to confirm that everything is in order. So these are processes we have put up in place over the last 12 years. And those are the same filters that we use for moving an MFI borrower, who is not eligible under the guardrail. But if they're eligible under MLAP, we'll move them to that.

Moderator: As there are no further questions, I would now hand over the conference over to Mr. P.N. Vasudevan for closing comments.

P.N. Vasudevan: Thank you. Thanks to all of you for dialing in, and thank you for putting -- raising all your queries and keeping us on our toes. And as promised in the beginning of the call, the management is completely focused in terms of delivering a proper returns to the investors. It's a question of time, and we are also waiting for the time. But meanwhile, the effort goes on. Thank you so much, and wishing you guys all the very best.

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