



“ESAF Small Finance Bank Limited
Q4 FY '24 Earnings Conference Call”

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MODERATOR: **MR. VIRAL SANKLECHA - ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 and FY24 Earnings Conference Call of ESAF Small Finance Bank Limited. As a reminder, all participants' lines will be on listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Viral Sanklecha from Orient Capital. Thank you and over to you, sir.

Viral Sanklecha: Thank you, Manuja. Good afternoon, ladies and gentlemen. I welcome you for the Q4 and FY24 Earnings Conference Call of ESAF Small Finance Bank Limited. To discuss this quarter's performance, we have from the management, Mr. K Paul Thomas, Managing Director and Chief Executive Officer, Mr. Gireesh C.P., Chief Financial Officer, Mr. George K. John, Executive Vice President, and Mr. Hari Velloor, Executive Vice President.

Before we proceed with this call, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainty. For more details, kindly refer to the investor presentation and other filings that can be found on the company's website. Without further ado, I would like to hand over the call to the management for their opening comments and then we will open the floor for Q&A. Thank you and over to you, sir.

K. Paul Thomas: Thank you. Thank you, Viralji. Good afternoon. On behalf of ESAF Small Finance Bank Limited, I extend a warm welcome to all the participants on our Earnings Call to discuss the Q4 and full year FY24 business performance. Thanks to all of you who made time to be here and support us. With me today are some of my colleagues, Mr. Gireesh C.P., our Chief Financial Officer, Mr. George K. John, Executive Vice President, and Mr. Hari Velloor, Executive Vice President.

I hope you all had a chance to check out our quarterly results and investor presentation that has been uploaded on the Stock Exchange and on the company website. With a dedication to predominantly serve the low income and middle income segments, ESAF continues to contribute to livelihoods and economic development, embodying empowerment, inclusivity, and positive transformation in every financial interaction.

ESAF Small Finance Bank, along with its promoters, has over 28 years of experience in the Indian BFSI space, primarily serving the unserved and underserved. Before diving into our business updates, let's touch upon the macroeconomic factors of last quarter. The Indian economy has been on a positive trajectory, followed by increased government spending and growth in manufacturing and services.

GST collection saw a notable 111.7% increase in FY23-24. While both manufacturing and services PMI remained in the growth trajectory, consumer demand has been robust, driving growth across sectors. The RBI maintains its interest rate at 6.5%, which has focused on withdrawing support while slightly revising its inflation forecast. Looking ahead, India's GDP growth for FY25 has been revised upward to 6.8%, solidifying its position as one of the fastest-

growing major economies globally. The national economy stayed strong and steady, thanks to solid investments by the government, especially in things like building infrastructure and boosting local manufacturing, along with a steady growth of service industries. This quarter, economic activity kept moving steadily forward, driven by strong demand in cities and a gradual recovery in rural areas.

Public sector investment stayed strong, giving a solid boost to investment efforts overall. Microfinance business continues to witness strong ground-level trends, being an under-penetrated segment still. We believe the business in this industry has more room to grow, mainly due to the increasing number of customers coming in the purview of lending, along with a growing appetite for credit among existing customers.

Moving on to our operational performance, as on 31 March 2024, we proudly served our 83.7 lakh customers, with a significant majority being women. Our extensive reach and spans across 22 states and two Union Territories. Not only our gross advances to customers outside of Kerala amounted to INR12,503 crores, constituting 63.6% of our total gross advances, we topped five states outside our home state of Kerala for gross advances, including Tamil Nadu, Maharashtra, Madhya Pradesh, Karnataka and Chhattisgarh.

Collectively, we account for INR9,830 crores, representing 50% of total advances. Our advances under management stretched from INR16,331 crores in Q4-FY23 to INR19,659 crores in Q4-FY24, a growth of 20.4% on year-on-year basis. Moreover, our commitment to accessibility is evident in 755 banking outlets and 614 ATMs, which are strategically located in these areas. In addition to this, we have 930 customer service centres operated by 35 institutional business correspondents and 5,024 banking agents. To conclude, I would like to express my appreciation for your continued support.

We are committed to sustaining our focus on growth, the quality of our portfolio and operational efficiency with a strong financial foundation and strategic initiatives in place. We are well positioned for a prosperous and profitable future. With that, I will now pass on the call to Mr. Gireesh CP, CFO to present the financial performance.

Gireesh CP:

Thank you, sir, and good afternoon to all of you I sincerely appreciate your presence for this conference call today. Let me provide you with an overview of financial performance for Q4 FY'24 as well as for the financial year '24.

We, as a bank, are focused on the unbanked and underbanked, particularly in rural and semi-urban areas. As of March '24, approximately 70 percentage of our growth advances cater to customers in these regions, with 62 percentage of our banking outlets strategically located there. Our key offerings include microloans, retail loans, encompassing gold, mortgages, personal loans, vehicle loans, MSMEs, financial institution loans, and agricultural loans.

We take pride in serving these diverse segments with a commitment to financial inclusion and community development. Our gross advances reached INR18,772 crores in Q4 FY'24 as compared to INR14,118 crores in Q4 FY'23, making a growth of 33% on a Y-o-Y basis.

In Q4 FY'24, the disbursement stood at INR5,266 crores as compared to INR6,043 crores in Q4 FY'23. In terms of deposits, we witnessed substantial growth, ranging from INR14,666 crores in Q4 FY'23 to INR19,868 crores in Q4 FY'24, marking a growth of 35 percentage on a Y-o-Y basis.

We have strategically prioritized the expansion of our retail deposits, witnessing a rise from INR13,346 crores in FY'23 to INR18,368 crores in Q4 FY'24, showcasing a growth of 38 percentage. Highlighting the significance of current and savings bank accounts, CASA stood at INR4,502 crores in Q4 FY'24 as compared to INR3,138 crores in Q4 FY'23.

The net interest income for Q4 FY'24 stood at INR591 crores as compared to INR499 crores in Q4 FY'23, showcasing an increase of 18.4 percentage on a Y-o-Y basis. The net interest margin for Q4 FY'24 stood at 10 percentage as compared to 10.4 percentage in Q4 FY'23. GNPA for Q4 FY'24 stood at 4.8 percentage as compared to 2.5 percentage in Q4 FY'23. The net NPA stood at 2.3 percentage as compared to 1.1 percentage in Q4 FY'23. Provision coverage ratio for the quarter remained at 65.2 percentage. ROA for Q4 FY'24 stood at 1.9 percentage as compared to 1.6 percentage in Q4 FY'23.

Return on equity for Q4 FY'24 stood at 20.3 percentage as compared to 19.4 percentage in Q4 FY'23. Profit after tax for Q4 FY'24 stood at INR43 crores as compared to INR101 crores in Q4 FY'23, mainly because setting aside an additional portion for INR82 crores in Q4 FY'24. For the full year FY'24, profit stood at INR426 crores as compared to INR302 crores in FY'23.

Our comprehensive services extend beyond traditional banking, offering safe deposit lockers, foreign currency exchange, access to Bharat Bill Payment System, money transfer services, and Aadhaar Seva Kendra services. Additionally, we take pride in providing our customers with a diverse range of offerings, including distribution of third party life and non-life general insurance policies and government pension products.

In conclusion, ESAF Small Finance Bank is well-poised for a bright future. Our commitment to serving the unbanked and underbanked parts of Indian demography remains unwavering. We will continue to invest in technology, expand our reach in the chosen geographies and maintain a strong financial position to serve our customers better. We are excited about the progress we intend to make and we appreciate your continued support.

Thank you all and we will go forward with question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Akshat Kumar from Klay Group. Please go ahead.

Akshat Kumar: Yes. Thank you so much for the opportunity and a very good afternoon. Just wanted to understand, sir, whether it's possible to share any data or as far as the collection efficiency is concerned for the quarter?

Management: Yes. For the last quarter, the collection efficiency is 94.92%.

Akshat Kumar: Okay. Thank you so much.

- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Okay, great. Thank you very much, sir, for the opportunity. So, first up, I just wanted to understand, I mean, in terms of even last quarter, you mentioned about the stress in Kerala and Tamil Nadu, which largely forms about 60%-61% of our loan book. So, how do we see the problem there right now? Or have we taken all the provisions in terms of regulatory requirements? So, how do we see that going forward?
- Management:** Yes. If you recall, the last time when we discussed this, we had said that over two quarters or so, we should be able to bring it back into some kind of shape. So that work is ongoing. If you see in terms of, what do you say, if you're asking in terms of stress, etcetera, the situation, you know, the stress in Tamil Nadu and Kerala, because of that, we had brought down our fresh loans, We had stopped fresh lending in some areas, etcetera. Those restrictions continue to be in place.
- Management:** We have also taken all regulatory steps, provisions that are being done. And over and above the regulatory requirements, there is an additional provision provided, INR82 crores is provided.
- Deepak Poddar:** So, INR82 crores is additional provisioning as compared to regulatory requirement?
- Management:** Yes.
- Deepak Poddar:** Okay. Now, we have brought down. What would be our current share as of FY24? Would that be 60% Kerala and Tamil Nadu?
- Management:** Kerala is about totally if you see, it's about 36%. Tamil Nadu will be around 21% or so.
- Deepak Poddar:** So, it has reduced from third quarter it was close to 61%. Fourth quarter it has gone down to 57%, 58%?
- Management:** If you recall we have been giving some very long-term rough plans etc where we had said we would bring down Kerala to 25% and things like that. So, we are very much on target in terms of those timelines.
- Deepak Poddar:** You had mentioned in 2 years, 3 years?
- Management:** Yes till FY26-27.
- Deepak Poddar:** Okay, understood. And how do we see the credit cost now I mean given the current situation for coming quarters or for the entire year FY25 what sort of credit costs we might be looking at?
- Management:** As Mr. Hari has highlighted the stress is expected to come down after one or two quarters. So, at this moment we are unable to give a precise number about that. The current level of credit cost may continue for another one or two quarters.
- Deepak Poddar:** So, current level of credit cost may continue for one or two quarters?

Management: Yes.

Deepak Poddar: Okay, understood. And I think we have given a statement earlier as a minimum 25% growth we are looking at. So, that we are still holding on to?

Management: We are still holding on to that. We haven't said 30%. What we have committed is a minimum of 25% and that continues. Even this past quarter we have exceeded that.

Deepak Poddar: And just one final thing on the ROA front. Is there any range we might be looking at this year or from current I think what we did about 1.8% in this year FY24 as a whole?

Management: Yes, we continue to have that trend of ROA.

Deepak Poddar: So, we will still be targeting in spite of elevated credit cost expectation over next two quarters, we will still be targeting ROA of 1.8% this year itself?

Management: As we stand today, even in Q4 the credit cost was on the higher side. And since the cost side, the peak rates have already happened, we don't expect that much change from that level will be there even credit cost is at elevated level as of now.

Deepak Poddar: So, entire year 1.8%, we might be looking at?

Management: Yes that is our expectation.

Management: Couple of other things also which we'd like to highlight. One is that we've been saying that we've reduced the concentration risk in terms of microfinance and we had said that again by FY 26,-27 or so we will bring down to about 60% of the book. Those things are still very much on course on the planned manner. I think in the previous quarter just finished, we would be in the region of 67% or something like that., 67% or so.

The other thing which used to be raised with us is the CASA ratio which has gone down to about 17%, 18% because of the huge term deposit interest rates that were available in the market. So, we've been saying that this will come back and we have plans and we are on course. So, if you see we have closed at about 22.6% or so CASA for the financial year.

Deepak Poddar: So, in terms of NIMs you expect a stable NIMs going forward?

Management: Currently, the NIM is around 10% we don't see any significant change from that level. The marginal here and there change may happen.

Deepak Poddar: Okay, and just one final query on the, I mean in terms of election because it's there in this quarter do you see any kind of slowdown or, I mean, lower disbursement overall in any particular area or any particular or as on a Pan India basis?

Management: Yes, in terms of election on the collection front we have not come across any major challenges on that, but because of the cash movement restrictions and all the disbursement has little bit come down, but otherwise, business as usual is happening across India. So, that shows the maturity of Indian democracy what we are seeing. And also, the formalization of the

microfinance. So, everyone understood the importance of financial inclusion and the microfinance. So, there is no disruption at all from any level.

Management: The thing is there have been no waiver announcements also.

Management: Yes, that also.

Deepak Poddar: Great. So, overall no disruption because of the election as such?

Management: Not much, actually. Here and there because of the climate change and all some places the disbursement has been a little bit slow down.

Deepak Poddar: Great, great. I think that would be it from my side. All the very best to you.

Management: Thank you. Thank you, Deepakji. Thank you, thank you.

Moderator: Thank you. The next question is from the line of Ravindra Patil an Investor. Please go ahead.

Ravindra Patil: Many players in NBFC space have been guiding at weaker asset quality. And specifically in the rural space leading them to create higher provisions than normal. So, like since the majority of our advances profile is a bit rural focused, so what has been our experience with both these loans and is it also linked to the provisioning for this quarter?

Management: Mr. Patil we are not very clear. Could you be a little more louder?

Ravindra Patil: So, what I wanted to understand is, many players in the NBFC space have been guiding at weaker asset quality in the rural space which is leading them to create higher provisions than normal. So, since the majority of our advances profile are rural focused, so what has been our experience with these loans and is this also linked to higher provisioning for this quarter?

Management: Yes. In fact, we at ESAF Bank also is considering stress as a major pain point and therefore a progressive kind of provisioning we always resort to. So, as of now, if you see from the regulatory minimum required provision level for the standard asset as well as for the NPA accounts, we are holding an additional provision to the extent of INR282 crores including the INR82 crores which I have mentioned during our speech which is provided during the quarter.

So, the additional substandard asset provision after the board approved policy. So, as a policy itself the board has prescribed for a higher level of provisioning as the substandard moves on. The substandard unsecured loan requires a 25% provisioning, but we on a quarterly basis step up the 25% to 40%, 60%, 80% and 100% when the NPA asset moves to doubtful category.

So, that is the INR158 crores provision we are holding and the INR82 crores which I spoke earlier is an identified asset we have provided that excess provision than required and apart from that around INR36 crores we have provided on the SMA advances also. So, all put together it is INR282 crores we are holding additional provision.

Ravindra Patil: Okay, got it sir. Thank you.

- Moderator:** Thank you. The next question is from the line of Rishikesh Oza from RoboCapital. Please go ahead.
- Rishikesh Oza:** Yes, hi. Thank you for the opportunity. So, my first question is in respect to the NII our NII has gone down.
- Management:** The voice is echoing, is it possible to do something.
- Rishikesh Oza:** Is it okay now?
- Management:** Yes it's very clear.
- Rishikesh Oza:** So, my first question is regarding NII. It has gone down quarter on quarter despite our loan book increasing. So, is it because of interest reversal that we have taken and if yes so what would be the quantum if you could please mention?
- Management:** Yes, if you see sequentially there are a couple of aspects about it. The cost of funds on account of repricing of the existing deposit book, the cost of fund is inching up because by around 1% there is 100 basis point it has moved on a Y-o-Y basis. So, that is one reason. Second reason is that the slippages in the recent time has required the 90 days reversal of income as well. So, these are the two aspects.
- Rishikesh Oza:** Okay. But what was the impact of that on the interest income and could you also please mention the reason behind the cost of funds going up by 1% year-on-year?
- Management:** Yes, cost of funds it has moved 1% over a one-year period. And as of now the repricing is almost completed. Now, it is 7.39 for the quarter.
- Rishikesh Oza:** So, do we expect this to remain stable the cost of funds from now on?
- Management:** Yes because almost all the repricing has already happened. And last quarter we have reduced the rate by 25 basis points. So, that way we think that this is the peak.
- Rishikesh Oza:** So, our NII growth for FY25 how would that be in line with our loan book growth? If our loan book is to grow 20% would it be fair to say NII will be growing 20%?
- Management:** Yes more or less because that will have an impact on my asset combination growth also. So, if that 25% then 20% growth is almost a good assumption.
- Rishikesh Oza:** Okay. And regarding credit cost you mentioned the previous participant the provision should be in the similar level if I have got it correct, the provision should be at similar level say around INR180, INR200 crores?
- Management:** Yes because of the elevated slippages the credit cost will moderate only after two quarters.
- Rishikesh Oza:** And what level should it normalize?
- Management:** It will be around 2.5% to 3%.

Rishikesh Oza: Okay fine.

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

Pritesh Bumb: Hi, sir. Good afternoon. Just two questions from my side. One is on employee expense that has been up 17% quarter on quarter. Any particular reason for that to be up?

Management: This quarter the actuarial valuation there was an increase of around INR6 crores. So that is the only thing. And the other things are normal. The headcount also has gone up INR6 crores?

Pritesh Bumb: But sir if I adjust that INR6 crores also it still looks quite higher?

Management: There are some branch additions as well as employee additions during this quarter.

Pritesh Bumb: Okay. So it's also expansion related. Fair. Second was on yield side. So we've seen a drop in yields. Just wanted to check if we have reduced any interest rate on the MFI book?

Management: Interest rate has not undergone any major change As we were explaining, it is because of, the additional slippages required some reversal of income.

Pritesh Bumb: So that is all. Nothing from the MFI interest rate. So still, the interest rate on MFI new loans will be about 23%-24%?

Management: Yes, that is right. Around that.

Pritesh Bumb: Got it. Okay. Lastly, just wanted to check on our off-book related growth. So overall, AUM growth is doing fine. But any plans to also do a large chunk of off-book? So that liabilities can get a benefit?

Management: Yes, we will evaluate going forward.

Pritesh Bumb: Got it, sir. Okay. Thank you. Those are my questions. All the best.

Moderator: Thank you. The next question is from the line of Varun Mishra from Big4 Investment Partners. Please go ahead.

Varun Mishra: Hi, sir. Good afternoon. I just had a couple of questions. So with regards to the recent RBI directive against the cash disbursals of loans, I would like to understand what part of a disbursal is cash-based and if this directive might cause any effect in the current operations?

Management: We do not disburse loans in cash. Every loan is credited to a savings bank account of the customer. So the comment regarding the election thing was not about cash disbursals. It was a cash movement. When the elections are on, there are restrictions in the amount of cash one can carry on collections and things like that. It was in that context that this comment was made.

Varun Mishra: Okay. All right. And so we see a couple of domestic and foreign entrants in the microfinance loans recently. So how do we see them as a competition shaping for us in the near future, like in the perspective for two to three years coming ahead?

Management: So actually, we are pioneers in microfinance loans. And most of the geographies we are operating, we have got a vintage of more than 10 years. So that customer loyalty is still there. So we don't find any concerns, and as a banker, people trust the banks more because they can, as their business grows, the bank will be able to support them in their growth phase, unlike a microfinance institution. So they're seeing that difference and they're not seeing that any competition as a big challenge.

Varun Mishra: Okay, sir. All right. That's great, sir. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Shail Mishra from M&S Association. Please go ahead.

Shail Mishra: Yes. So a couple of recent reports suggest banks, especially the public sector banks have been facing crunch in deposit. And also the delta of advances and deposit growth is also widening for them. But we have experienced decent deposit growth for the financial year. So I want to understand what are the strategies we have employed to ensure deposit growth?

Management: Yes, thank you for the question. Of course, you can't really compare us with public sector banks who have far, far larger balance sheets and things like that. And we have a smaller base. So the percentage wise, that is not a comparison. But having said that, I think we did two or three things right. As you know, NR deposits have been a strength for this bank. And we've been having 25%-28% of our deposits from the NRIs. That has that continues to, go up very strongly. We have maintained that kind of a proportion.

The second thing is, one of our biggest constituents has been senior citizens. That also has performed well. And we continue to get strong support from them. Third, we've been acquiring customers, new customers to the bank at a very good rate, 30 to 40 thousand customers per month. And that obviously also helps us to keep increasing our base of depositors. So these three things have really helped us to maintain a good rate of growth.

Another thing in this context, I would like to say is that we have brought down the share of bulk deposits in our book. What was around INR1800 crores or so, we brought down to about INR1500 crores this March. And actually switched it back into retail mode. So 91% to 92% of our base is currently retail.

So these are some of the good things which have happened. Obviously, we continue to do what we do is, those get services to customers, which I think is a big differentiator in terms of availability of service, accessibility to customers, going at the time of need and things like that. So some of these differentiators have made a difference.

Shail Mishra: Yes. Thank you. I have one other question. How do you see the yield profile going forward? Will rising retail contribution lower our future yield?

Management: Yes, as long as the retail portion is catching up, there will be a slight moderation in the yield level. But it may not be very significant.

Shail Mishra: Okay. Thank you. That's it from my end.

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

Pritesh Bumb: So one question was on the number of BCs we've added. I noticed that it is now 35. So we were somewhere around 26 or something in the last two, three quarters. So with geographies, we have added these BCs. And so is this for all MFI or any other products as well?

Management: Yes. Hi, Pritesh. So good question, because as you know, the BC strategy is a very important part of the bank's plans. And BC channel is a major channel for distribution of our products and services. So that has continued to grow very strongly in the last financial year. And the 25 is the number you had mentioned. In terms of geography, as you know, in terms of the overall bank, we have always been concentrating north of the Vindhyas, because we are fairly strong in the south, especially in Kerala and Tamil Nadu. So in terms of expansion, these BCs we've been enrolling mainly in the north of India.

So it's like Gujarat, Rajasthan, UP, Uttarakhand, West Bengal, Orissa, and Chhattisgarh. Now, the other thing is, we have never operated in Andhra, Telangana, the old Andhra Pradesh, what is now Andhra and Telangana. Last year, we started operations in that area in terms of lending.

Earlier, we had about four branches in Hyderabad and three or four branches in Andhra Pradesh. So that was basically from a liability point of view. Now we have started operations through BCs in the state of Andhra Pradesh and Telangana. We are steadily ramping up business there. So this is something which in the last 30 years, entire history of ESAF, we had never been in Andhra. But now we see that the regulator, the government, everybody is kind of aligned. And the clarification has come in terms of how their outlook is on the microfinance sector. So we have entered that state also. In terms of what is the business that these BCs do, many of them do microfinance. But there are BCs whom we are using for Agri finance, for MSME finance, a couple we are using in terms of two wheelers and used cars. So it's a fairly broad area in which BCs operate, depending on their area of specialization. So about 50%-60% is microfinance, the remaining is other areas of business.

Pritesh Bumb: Got it, sir. Thank you so much. Thank you for that answer.

Moderator: Thank you. The next question is from the line of Tushar, an Individual Investor. Please go ahead.

Tushar: Yes, good afternoon, sir. Sorry, I need your guidance on the credit cost. I want to know your guidance on credit cost for the future.

Management: Yes, since the elevated level of stress is there in the system, which we have explained earlier, in the next two quarters also we see that there will be some elevated level of credit cost continuing.

Moderator: Yes, Tushar, participant got disconnected. In the interest of time, that will be the last question. I would now like to hand the conference over to Mr. Viral Sanklecha for closing comments. Over to you, sir.

Viral Sanklecha: I would like to thank the management for taking this time out for the conference call today and also thanks to all the participants. If you have any queries, please feel free to contact us. We are Orient Capital Investor Relations Advisors to ESAF Small Finance Bank Limited. Thank you so much.

K. Paul Thomas: Thank you.

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