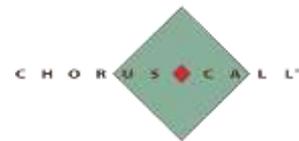




“ESAF Small Finance Bank Limited
Q2 FY '24 Earnings Conference Call”

November 20, 2023



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MODERATOR: **MR. NIKUNJ JAIN – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to ESAF's Small Finance Bank Limited Q2 and H1-FY24 Earnings Conference Call. 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 and zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nikunj Jain from Orient Capital. Thank you and over to you Mr. Jain.

Nikunj Jain: Thank you Neerav. Good evening ladies and gentlemen. I welcome you for the Q2 and H1-FY24 Earnings Conference Call of ESAF's Small Finance Bank Limited. To discuss this quarter's business 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, IT & Operations, Mr. Hari Velloor, Executive Vice President, Network 1.

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 risk 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 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 Nikunj. Good evening everyone. On behalf of ESAF's Small Finance Bank Ltd, I extend a warm welcome to all the participants on our first Earnings Call to discuss the Q2 and H1-FY24 business performance. I appreciate everyone's presence and want to extend my gratitude for the tremendous success of our IPO. Today, on this call, I am accompanied by my colleague, Mr. Gireesh C.P., our Chief Financial Officer, Mr. George K. John, Executive Vice President, and Mr. Hari Velloor, Executive Vice President.

I hope everyone had an opportunity to go through our quarterly results and investor presentation that has been uploaded on the stock exchanges and on the company's website. Since this is our first earnings call, I would like to take this opportunity to formally introduce the company to all the participants before providing the business update.

It all began in 1992 when we established ESAF Foundation. Our focus was clear to foster the development of micro-enterprises, contribute to community development and enhance community health. In 2006, we acquired our corporate promoter, ESAF Financial Holdings Pvt. Ltd., originally incorporated as Pinnai Finance and Investment Pvt. Ltd., which marked the turning point in our pursuit of creating a positive impact on society. ESAF Foundation, having laid the groundwork in microfinance, transferred its business undertaking to our corporate promoter in 2008, setting the stage for a new era of growth and service.

Fast forward to 2014, our corporate promoter earned the prestigious NBFC MFI status from the RBI and in 2015, we were granted the RBI in-principle approval to establish a small finance bank. On May 5, 2016, the bank was officially incorporated as ESAF Small Finance Bank Ltd. The subsequent years saw significant milestones as we received the RBI's final approval to operate as a small finance bank in November 2016 and in March 2017, ESAF SFB commenced its operations, ushering a new era of banking with a heart.

In 2017, our corporate promoter, ESAF Financial Holdings Pvt. Ltd., transferred its business undertaking, including lending and financing activities, to the bank in 2017. This strategic move solidified our commitment to providing inclusive financial services to all.

Our journey not only signifies the transformation of a financial institution, but also serves as evidence of this trend derived from a shared vision and dedication. The bank has continuously worked towards improving its customers' experience by introducing various digital initiatives. Notable initiatives include cashless disbursement, a digitized central credit processing unit, a 24x7 call center with multilingual agents offering vernacular support, and a streamlined account opening and loan underwriting process facilitated by tablet usage, leading to reduced turnaround times.

In a commitment to both customer satisfaction and environmental conservation, ESAF Small Finance Bank has introduced [e-sign] for micro loan disbursements. These digital initiatives collectively underscore the bank's commitment to liberating technology for the benefit of its customers while embracing efficiency and sustainability. Before I hand over the call to Mr. Gireesh to discuss the financial performance, let me give a brief about Indian economy's performance followed by our operational performance. The Indian economy grew at 7.6% in FY23, exceeding government projections.

Moderator:

The line for the management has dropped. Ladies and gentlemen, please stay connected. The line for the management has dropped. Ladies and gentlemen, thank you for your patience. We have the line for the management reconnected. Sir, you may continue.

K. Paul Thomas:

Sorry for the disruption in between. The Indian economy grew at 7.6% in FY23, exceeding government projections. India was one of the fastest growing economies in the world and this performance underscored the country's resilience compared to the general slowdown in Europe and other parts of the world.

The GDP growth outlook for 2024 is currently expected to be more than 6%. The manufacturing sector is also experiencing robust expansion with the IIP reaching a 14-month high of 10.3% in August. Despite the global geopolitical uncertainty, the economy seems to be resilient and showing signs of gaining momentum.

In June, retail inflation surged to 7.4% and has corrected to 5% in the month of September. Moving on to our operational performance, as on September 30, 2023, we proudly served over

7.51 million customers, with a significant majority being women. Our extensive reach and spans across 21 states and two union territories, notably our gross advances to customers outside of Kerala amounted to INR8,998 crores, constituting 59.5% of total gross advances. The top five states outside our home state of Kerala for gross advances, including Tamil Nadu, Maharashtra, Madhya Pradesh, Karnataka and Chhattisgarh, collectively accounted for INR7,244 crores, representing 47.9% of total advance.

Our advances under management surged from INR12,764 crores in Q2 FY '23 to INR17,490 crores in Q2 FY '24, marking a growth of 37% on a Y-o-Y basis. Moreover, our commitment to accessibility is evident with 700 banking outlets and 579 ATMs, which are strategically located in these areas.

In addition to this, we have 854 customer service centres operated by 25 institutional business correspondents and 2,332 banking agents. To conclude, I would like to express my appreciation for your continuous 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 on to Mr Gireesh C P, CFO, to present the financial performance.

Gireesh C.P:

Thank you, sir, and good evening to everyone. I sincerely appreciate your presence on this conference call today. Please allow me to provide you with an overview of financial performance for Q2 and H1 of FY '24. We as a bank are focused on the unbanked and underbanked, particularly in rural and semi-urban areas.

As of September '23, approximately 61% of our growth advances cater to customers in these regions, with 72% of our banking outlets strategically placed there. Our key offerings include micro loans, retail loans encompassing gold, mortgages, personal, vehicle loans, MSME loans, 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 INR15,123 crores in Q2 FY '24, as compared to INR11,856 crores in Q2 FY '23, marking a growth of 28% on a Y-o-Y basis. In Q2 FY '24, the disbursement stood at INR3,345 crores, as compared to INR2,291 crores in Q2 FY '23, marking a growth of 46% on a Y-o-Y basis.

In terms of deposits, we witnessed substantial growth, climbing from INR13,520 crores in Q2 FY '23 to INR17,416 crores in Q2 FY '24, marking a growth of 29% 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 INR15,485 crores in Q2 FY '24, showcasing a 16% increase.

Highlighting the significance of current and savings accounts, CASA stood at INR3,142 crores in Q2 FY '24, as compared to INR3,239 crores in Q2 FY '23. Net interest income for Q2 FY '24 stood at INR597 crores, as compared to INR437 crores in Q2 FY '23, showcasing an increase

of 36.4% on a Y-o-Y basis. Net interest margin for Q2 FY '24 stood at 11%, as compared to 9.7% in Q2 FY '23. GNPA for Q2 FY '24 stood at 2.6%, as compared to 8.1% in Q2 FY '23. Net NPA stood at 1.2%, as compared to 4.3% in Q2 FY '23.

Provision coverage ratio for the quarter remained stable at 70.5%. ROA for Q2 FY '24 stood at 2.6%, as compared to 1.3% in Q2 FY '23. Return on equity for Q2 FY '24 stood at 29.4%, as compared to 14.94% in Q2 FY '23. Profit after tax for Q2 FY '24 stood at INR140 crores, as compared to INR58 crores in Q2 FY '23, showcasing an increase of 143% on a Y-o-Y basis.

H1 FY '24 profit stood at INR270 crores. 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 the 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 part of the 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.

Now, I hand over to the moderator to open the floor for Q&A. Thank you.

Moderator: Thank you. First question is from the line of Sagar Tanna from Alchemie Ventures. Please go ahead.

Sagar Tanna: Congratulations, sir. Fantastic sets of numbers and whatever you had outlined, I think the firm is on the right trajectory. I have only one question, sir. In the other expense items, there is a sharp jump with respect to when I look at the other line items. Is there any one-off? And also, if you can enumerate, what are the other expenses comprised of?

Gireesh C.P.: Other expenses in P&L comprises of all expenditures other than employee expenditure. The main expenditure which comes is the BC cost, which, depending upon the collection efficiency increases, the collection cost also goes up. There are no one-offs in these items, but on a Y-o-Y basis, in line with the business expansion, the branches expansion, and the normal employee cost expansion because of addition to outlets and HR headcount, these are the normal kind of expenditure increase only.

Sagar Tanna: Got it. Thank you.

Moderator: Thank you. Next question is from Madhuchanda Dey from MC Pro. Please go ahead.

Madhuchanda Dey: Hi. Good evening. Congratulations on a good listing and good numbers. I have a couple of questions. The first is, if you could provide the slippage number on a quarterly basis and what is the portfolio at risk?

Gireesh C.P: Yes. The net slippage during Q2 FY '24 is INR161 crores.

Madhuchanda Dey: That is gross or net?

Gireesh C.P: This is net.

Madhuchanda Dey: If you could give us the gross slippage and then upgrades, the recovery, that would be really nice?

Gireesh C.P: This is INR192 crores, that is INR31 crores.

Madhuchanda Dey: And INR31 crores is the upgrade?

Gireesh C.P: Recovery and upgrade, yes.

Madhuchanda Dey: Okay. And what was the figure in Q1 and the corresponding period?

Gireesh C.P: Readily, I don't have it. We can provide it later.

Madhuchanda Dey: Okay. So, from Q3, from next earnings, if you can put it as a part of your deck, that would be really nice. And my other question was on the portfolio at risk?

Gireesh C.P: Portfolio?

Madhuchanda Dey: You know, basically, portfolio at risk, par zero. I mean, what is the overdue?

Gireesh C.P: Yes. You are asking for par one day, isn't it?

Madhuchanda Dey: Yes.

Gireesh C.P: INR711 crores.

Madhuchanda Dey: INR711 crores. Okay. And what was this figure in the year ago quarter, last Q2 of '23?

Gireesh C.P: Which quarter? '23?

Madhuchanda Dey: '23 same quarter?

Gireesh C.P: '23 same quarter?

Madhuchanda Dey: Yes?

Gireesh C.P: INR595 crores. September '22.

Madhuchanda Dey: Okay. So, there is a, of course, the actual overdue beyond 90 days that looks higher at that point in time. But between zero and 90 days, this particular figure has actually increased Y-o-Y. So, if you can throw some light on this?

Hari Velloor: This is Hari here. Just to be clear on what you asked, between September 22 and 23, you are asking for the reason why it has gone up. Am I correct?

Madhuchanda Dey: Yes. Yes. Which is basically the overdue, which is not an NPA?

Hari Velloor: Right. So, you know, you are asking between one and 90 days. Am I correct?

Madhuchanda Dey: Right. Right. Right.

Hari Velloor: So, let me try to give you a little more color on this. In the sense, you know, we prefer to split it into three, which is 1 to 30, 30 to 31 to 60, and then to 90, etc.. If you see in microfinance, and especially with us, which I'll tell you the reasons why, 1 to 30, you will see a bigger amount in the region of INR300 odd crores, etc.. Some of the reasons why this would be happening is, for instance, in the past quarter, you know, about 50% is actually a little higher, 50% of our book is on a weekly repayment mode.

So, every month, there will be four instalments to be paid. If you go by the past quarter, to give you an example only, we had the monsoons, and you know, about 40% today, at that time, maybe it was closer to 42%, 43% of our book is Kerala based. So, definitely, you know, in terms of the season, monsoon does play a bit of a role in terms of income, livelihood.

Second, during the month of July, June, July, end of July, end of June to sometime like September, you know, the government doesn't allow fishing activities to happen. For 45 days, there is something called a ban on trolley, essentially to allow the ocean to replenish, you know, the fish stock, so to say. So, 45 days later, then the boats are allowed to go and start fishing again, etc.

Again, this will impact on livelihoods, on income, all along the coastline, and these are some of our biggest branches. So, there is an amount of seasonality, coupled with the fact that about 42%, 43% of the book is in Kerala, and the fact that almost 100% of the repayments in the Kerala book is on a weekly basis. So, generally, what we see is that during the second quarter, there is a bit of a, you know, what do you say, movement in terms of higher building up of 1 to 30 days. And the buildup generally is at least 50% to 60% of that buildup is in the 1 to 30 days.

Madhuchanda Dey: Yes. So, since we were talking about the same quarter over these two years, is there anything to read from this increase? Because we were comparing apple to apple, Q2 of last fiscal with Q2 of this fiscal...

Hari Velloor: Are you asking me if there is something adverse or an event or something?

Madhuchanda Dey: Yes. Is there anything which is...

- Hari Velloor:** Out of the ordinary, so to say?
- Madhuchanda Dey:** Yes.
- Hari Velloor:** Yes. No, I can't say that there is anything out of the ordinary. For us, as far as it is concerned, it is in the normal course of business.
- Madhuchanda Dey:** Okay. So, from next quarter, if you could also disclose this number on a quarterly basis...
- Hari Velloor:** Yes, we will do it. We will do that.
- Moderator:** Thank you. Next question is from one of Amit Mantri from 2Point2 Capital. Please go ahead.
- Amit Mantri:** So, my first question is, what's the impact of the recent increase in risk weights announced by RBI? How much of our book will be impacted by that? And what will be the reduction capital adequacy ratio because of that measure?
- Gireesh C.P.:** As far as the recent RBI circular is concerned, that speaks about pure unsecured loan like credit card receivable, personal loan, and that sort and consumer credit. In our portfolio, the general unsecured loan is fully in the nature of microfinance loan, which is primarily not affected by the RBI. But there is a small portion where the consumption loan is there in the non-MFI portfolio. And that is very, very negligible. So, it will not have any major impact on the capital adequacy. If at all it is there, it will be 5 to 10 basis points.
- Amit Mantri:** Sure. Thank you. Second question, and this is related to this earlier question that you're answering. So, you mentioned in Q2, there is an increase in a bit of delinquency, and that's largely the 1 to 30 bucket. But even when we look at the GNPA numbers that have been reported, there has been a big increase quarter-on- quarter. GNPA has gone up from almost 100 basis points. So, can you explain what's driving this increase?
- Hari Velloor:** This is Hari again. Come back. Largely, the second quarter reflects, I mean, this is the trend that we have. If you see over the previous year, previous year, of course, the figures were much more. But generally, that's the trend we see from ESAF Bank point of view. Last year, in fact, the figures were far, far more, and the slippages were more.
- So, as far as I can say, from a net point of view, I think it's about 0.45 or so increase is what we have shown. I can't say that there is any remarkable difference in the figures that we have shown.
- Amit Mantri:** So, this 1.65% to 2.64% increase in GNPA that has happened, that is largely because of this Kerala book that you have?
- Hari Velloor:** Most of it is. There will be in other places also. If we are talking of microfinance per se, you know, places, I mean, the business tends to get affected by, you know, Kerala, of course, because it is big, I brought it out. If there is a flood situation in a big district where we have presence, we immediately see that, you know, for a week or two, or if there is some other event. So, you know,

for us, it is not, what do you say, it is part of the normal run of business, that is what I would put it.

Amit Mantri: No, but if it's only for a few weeks, then that will not get impacted GNPA number, because, you know, that will only impact your early delinquency numbers. So, this GNPA number, why is that going up substantially?

Management: Yes, these specific incidents maybe last for a few weeks, but the impact will take some time. So, for example, in the Kerala coastal, among the fishermen issues we have raised, it will start normally from June to the end of August, till it goes. So, it started partially, it will be coming. So, some of those accounts will stick to NPA, and over a period of time, we will be able to recover that. That is the past trend we have seen.

Amit Mantri: So, in Q3 onwards, in Q4 onwards, we will again start seeing the reversal of this seasonality.

Hari Velloor: Yes, that is correct. Yes.

Moderator: The next question is from the line of Pritesh, from DAM Capital Advisors. Please go ahead.

Pritesh: Hi, sir. Good afternoon. So, a couple of questions. First is on the cost of funds side. So, we have seen a slightly higher cost of funds this quarter, which is similar to the industry, but just wanted to check from here on, what is the outlook on cost of funds and the margin?

Gireesh C.P.: Yes, as far as cost of fund is concerned, you know, we have substantially taken the hit of cost of funds till date. And there could be, some more hike in the cost of funds, maybe 15 to 20 basis points we are expecting by the year end. And this will not impact the margin per se.

Even today, my margin is 11% for a standalone basis for the quarter. So, I have got enough cushion to take care of maybe another 25 to 30 basis points. But we expect that the cost of fund hike maybe another 20 basis points.

Pritesh: So, are we saying that we should settle at about 7.5% type of cost of funds by the year end?

Gireesh C.P.: 20 basis points I was talking about.

Pritesh: Yes, so today we are at 7.3. So, we'll go to about 7.5, is it?

Gireesh C.P.: For a standalone basis, it is, yes, it is 7%.

Management: Today it is 7%. It can go up to 7.3...

Gireesh C.P.: Yes. 7.2, 7.3, it can go.

Pritesh: Okay. Sir, just wanted to check, what is the yield charge right now on the microloan book?

Gireesh C.P.: Microloan yield is, you know, somewhere around 22% to 26% we are charging max.

Pritesh: So, will this number go up? I mean, why I'm asking this is that you said that there is some room for pass on. So, will this number go up?

Gireesh C.P: We don't expect that, you know, it can go up further because whatever cost of fund we have already, you know, we have already factored in. So, this is the maximum rate at which we will be able to charge going forward.

Pritesh: Sure, sir. And second question was on your CASA. This quarter, we've seen quarter on quarter a bit of better CASA, relatively in terms of growth perspective. What is your stance in the second half? In the sense, do you see further improvement in the growth?

Hari Velloor: Yes, that's right. This is Pritesh again, right? Yes. Hi, Pritesh. Hari Velloor here. So, as you correctly said, we do expect CASA to improve. If you see the figures that we've sent, you know, in the first quarter, CASA had slipped quite a bit. And in September, we brought it back to what it was sometime in the month of March. You know, roughly, that's the way figures that would be available with.

The fact is that the term deposit book has been growing pretty quickly, and which is why the CASA percentages look so low. Going forward, definitely, the plan is to increase the CASA share of the book and to show a far healthier CASA. Having said that, and this is not part of the, in terms of the bank's results per se, couple of things which I've noticed, recently is one, apart from the high interest rates and fixed deposits that are prevailing, I could see a few news articles also that have been published recently, questioning this concept of CASA per se.

I'm not saying that we should not look at CASA and things like that. But when banks are offering CASA at 6.5%, 7%, 7.5%, then we have to really see, the CASA thing itself is, what do you say, um, has the way we look at it, should it be changed? And this is only an aside, I'm saying, but from the bank's point of view, definitely, we are looking at a much healthier CASA ratio.

Pritesh: Sure, sir, that helps. Last question from my side is basically on the credit cost. And so what I can see is the slippage ratio is up, annualized at about 5%. Credit cost is down quarter-on-quarter. Despite higher slippages, the provisions are down. So any reason, particular reason for that to happen? Last quarter, I understand there was some write-off. So the provisions would have been higher last quarter. But on a INR192 crores slippage, our provision is only INR100 crores?

Gireesh C.P: On a cumulative basis, my credit cost is somewhere around 1.59 percentage as of today. So we hope that Q3 and Q4, the delinquency will moderate. And we will be moderating the credit cost as well in these coming quarters.

Pritesh: Okay, sir. Sure. Thank you.

Moderator: Thank you. The next question is from the line of Marutinandan Sarda, an investor. Please go ahead.

Marutinandan Sarda: Hi. Yes. Hello, sir. Congratulations for a great set of numbers. My question is, gross and net NPA numbers. So based on your explanation of the previous participants, can we expect this GNPA numbers by the end of next quarter 3 and quarter 4 to come down to the normal, maybe between 1%, 1.5%? I'm talking about GNPA?

Hari Velloor: If you're asking if GNPA will come down to 1.5% or so, I don't think I can give you that kind of a confirmation. What we expect is that by March, we should be back to where we were in the previous March. I think that is the stance we can take.

Marutinandan Sarda: Okay. So, so basically the increase in the overdue as well as this GNPA and NNPA is, is we can say that this is related to seasonal pressure basically. So it will be normalized by end of March.

Hari Velloor: Yes. That is what we see. That's what, yes. I mean, I agree with you. That's what we are looking at.

Marutinandan Sarda: Okay. Secondly, I have one more question. The second question is regarding the growth. So, I'm looking at maybe three year perspective, what's your vision as a bank to grow in terms of profitability and top line? What you are looking at in terms of growth for next three years?

Hari Velloor: See, as you know, we can't give too much of a forward guidance. I can only point to what we have done in the previous years. And in the previous years, we've been comfortably about 25% on a steady basis. So I can say that, that will be what we will be doing also. And that's what we propose to do. Let me put it that way. That is the kind of growth we propose to do, in the coming three years. So it will be comfortably over 25%. I can say, put it that way.

Marutinandan Sarda: Okay. Great. Best of luck for the future.

Hari Velloor: Thank you.

Moderator: Thank you. Next question is from the line of Pranav Singh, an investor. Please go ahead.

Pranav Singh: Hello, sir. Congratulations on good set of numbers. My question, first question is about yields. So the yield on the retail and MSME loans, they were between 10% to 12% in FY '23. So have they improved by September this year? And do we expect an improvement, let's say, I mean, higher yields in retail and MSME loans by end of FY '24 or FY '25?

Hari Velloor: To give you a little more understanding about what our retail book is about, close to INR2,400-odd crores in gold loans and the gold loans, the yield we get is something in the region of 13.3%, 13% to 13.4% or so. And that is the bulk of the retail book. Those yields will continue. And we don't see too much of a -- what do you say, opportunity to increase that rate because the biggest players in the gold loan industry is, are the nationalized banks who get heavily subsidized for those loans and things like that. So they price it very low. And the NBFC's price is a little higher than us.

We found a mid-kind of a point where the product is attractive and we are able to grow the book. And that is largely the retail book. We do have about INR800 crores of agriculture also, which

brings in a return of about 17%, something in the region of 17%. We have a small book, which is about INR450-odd crores, which are mortgages and mobility loans.

Mobility loans, largely two wheelers, again, priced in the region of 16% to 17%, whereas mortgages are far lower. So if you look at the overall retail book, I would not say that there is too much of a scope to increase the yield there, but we should be able to continue with what we have.

Pranav Singh:

Yes, sure. And the next question is sir, this quarter, it seems that, we have given a lot of micro loans in our total other micro loans, about half of the disbursement, I think in Q1 was other micro loans and half was micro finance, which is higher than previous year. So first, when I look at the list of other micro loans and micro finance loans, I see similar products, which you could tell us how they are different? And second, is there a strategy of focusing on them more now?

Hari Velloor:

Yes. So, back in October 22, the Reserve Bank has changed the guidelines regarding micro finance. They had brought in a FOIR concept and also household income of INR3 lakhs. So based on that, when we implemented this in October as guided by the regulator, post that, what we see is that quite a few of our customers have graduated beyond this INR3 lakh income, limit. Whereas they are customers who've been with us for quite a long time. We know their credit history very well.

We are comfortable with them. And the fact that these people have graduated out of micro finance. So the other micro loans, which you see are largely these graduated micro customers. So going forward, I mean, I can't say this is a strategy in terms of a strategy. It is that, having nurtured these customers, we are certainly not going to let them go. We'll stay with them throughout their lifecycle needs.

And so as and when these people migrate out of the micro finance definition, we will continue to lend to them in the particular sector they are interested in and classify them as other micro. Of course, they tend, they continue to be part of the joint liability groups. So micro finance on one side, there's a Reserve Bank of India definition on the other, it is a segment that we are looking at and that segment is not necessarily restricted to a INR3 lakh income.

Pranav Singh:

Thank you. That's very helpful, sir. And the last question was FY'23, I saw, I estimated the count of borrowers seems to have declined a little bit, maybe 10% and for MSME, by about 50%. So I was wondering, but in quarter one FY'24, both of them, both the counts of loans given increased. I was wondering whether there was a thinking of maybe, giving larger size MSME loans going forward, or maybe something about shifting from micro loans to maybe, or was it just a blip?

Gireesh C.P:

Yes. Last year, what happened was, last quarter we have sold assets worth INR1075 crores, to an ARC, which comprises of around 5.5 lakh accounts. So that is why the number has come down.

Pranav Singh:

Okay. Thank you, sir. That was all. Thanks. Thanks so much.

- Moderator:** Thank you. Next question is from one of Amit Mantri from 2Point2 Capital. Please go ahead.
- Amit Mantri:** Yes. Just wanted to, what's your, guidance on the kind of provisions or credit costs that the business will require to take on a sustainable basis? So this quarter there have been provisions of around INR101.4 crores. So is that the sustainable number of provisions that we will be taking every quarter?
- Gireesh C.P.:** Yes. As I explained earlier, the credit cost, is so far it is 1.5% and, this year it may be somewhere around 2%. That is what our estimation is. And going forward, next year, it may still moderate from that level.
- Amit Mantri:** So the first half it's been, greater than 2.5% close to right?
- Gireesh C.P.:** Yes.
- Amit Mantri:** So you expect it to as a percentage or decline going forward?
- Gireesh C.P.:** Yes.
- Amit Mantri:** Okay. So, what's the reason now, because now, the COVID issues seem to have been long, gone past. So even now, why we are having, for example, in the first half, almost 2.5% credit costs?
- Gireesh C.P.:** As Mr. Hari was explaining, there was a higher delinquency in this quarter, which is more -- which, we experience in every second quarter because of, our concentration in Kerala and because of the monsoon related, cashflow poverty, as well as the rolling ban in coastal area and things like that. So third and fourth quarter, we don't experience, such kind of, fallout in the NPA. And this will moderate in Q3 and Q4.
- Amit Mantri:** Okay. Thank you very much.
- Moderator:** Thank you. Next question is from the line of Madhuchanda Dey from MC Pro. Please go ahead.
- Madhuchanda Dey:** Hi, thanks for the opportunity. You just mentioned that there was a INR1075 crores asset sale to ARC. Am I correct?
- Gireesh C.P.:** Yes.
- Madhuchanda Dey:** Okay. So I just wanted to check, you have to provide the aging provision for this, right?
- Gireesh C.P.:** No, these are already fully provided in my book during the COVID period.
- Madhuchanda Dey:** Okay.
- Gireesh C.P.:** So, there is no further pain has to come from that book in my P&L.
- Madhuchanda Dey:** Okay. Okay. The other question is a little broad, rather a long-term question, with a 73% unsecured book, of course that has come down steadily since inception. Where do you see it

settling in next two to three years? And, what would be the overall impact on your ROA, with this strategy going forward?

K. Paul Thomas: Yes, it's an unsecured book actually, it's a microfinance book. Even though nature is unsecured, it is being, given for, not for consumption purpose. It is being used for productive purposes. So, and, we have seen, we are in this space for the last 27 years. We are, we have been seeing this. So, on a risk basis, that is, it's only a perception. So, but, as a bank, we need to manage the, perception and the diversification is other diversification is required.

So that, we have been bringing down 4% to 5% of, microfinance book, on a year-on-year basis. So when, this year, when we started, it was 75% of it is today. It is, on September, it is, 73%. So, another three to four years, it will be settling at around 60%. So that is our plan. And, the overall, growth will be there, but on a percentage wise, because they, when the other book is, growing. So that's what we were suggesting earlier.

We already, have a gold loan book of around 13% gold loan book. So that will grow up to around 20% and affordable housing agreed, more mobility, all these, loans are also all these products are in place now. So all these products also will, replace, the, micro, segment. So that's the overall plan.

Gireesh C.P: And on the NIM perspective and the ROI perspective, we don't foresee any kind of major change from what we are today, because whatever diversification is happening also is into a similar, or, maybe a better yield kind of, asset diversification we are resorting to. So we are, planning, all the asset diversification in such a way that the ROA is minimum at 2 % we are planning.

Madhuchanda Dey: Thank you. Thank you for all the answers. Thanks.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference over to Mr. Nikunj Jain for closing comments.

Nikunj Jain: I would like to thank the management for taking the time out for this 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. Thank you all the participants. Thank you. We look forward for your support in the future also. Thank you.

Hari Velloor: Thank you, sir. Thank you all.

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