



“ESAF Small Finance Bank Limited  
Q1 FY '25 Earnings Conference Call”

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

**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY '25 Earnings Call for ESAF Small Finance Bank Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone 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, Shlok. Good evening, ladies and gentlemen. I welcome you for the Q1 FY '25 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 Director, and Mr. Hari Velloor, Executive Vice President Credit.

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 findings 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 remarks, and then we will open the floor for Q&A. Thank you and over to you, sir.

**K. Paul Thomas:** Thank you. Good afternoon, everyone. On behalf of ESAF Small Finance Bank, I'm glad to welcome you all to our Earnings Call where we will discuss our business performance for Q1 FY '25. I appreciate all of you taking the time to join us and show your support. Here with me today, my senior colleagues, Mr. George K. John, Executive Director, Mr. Gireesh C.P., our Executive Vice President and Chief Financial Officer, and Mr. Hari Velloor, Executive Vice President. I hope you all had a chance to review our quarterly results and investor presentations, which are already available on the Stock Exchange and our company website. ESAF Small Finance Bank is dedicated to serving the low- and middle-income segments of India.

As one of the leading small finance banks in the country, we are distinguished by our significant retail deposits, high yield on our loans and our continued focus on diversification of loan portfolio. With a wide range of banking services and advanced technology, we continue a legacy that spans over three decades. We remain committed to meeting the financial needs of our customers with diligence and innovation.

India's economy showcased extraordinary growth, surpassing earlier projections. The International Monetary Fund has raised India's growth forecast for the 24-25 period to 7%, up from the earlier 6.8% prediction in April 2024. This increase was due to the improvement in private consumption, particularly in rural areas.

Additionally, India's retail inflation data, which revealed an increase to 5.08% from a 12-month low of 4.75% in May, underscores the ongoing dynamics influencing economic policy and consumer behavior. Now, about the microfinance industry, which serves an underserved segment, continues to show strong growth at the grassroots level. The budget introduces measures to improve banking access to businesses and MSMEs across India.

We are also seeing a change in how MSMEs get loans. Mainly because of technology, improving access to finance for MSMEs will be crucial in making them a cornerstone of a \$5 trillion economy. The digital revolution and government efforts to improve business conditions will play a vital role in attracting substantial investments for economic growth.

Before discussing our operational performance, I want to mention a strategic move we have made regarding our business correspondent services with ESMACO. As of June 30, 2024, ESMACO was handling around 49.62% of our bank's total gross advances and 70.54% of gross advances managed by all our institutional business correspondents. Starting from July 1, 2024, banks discontinued some specific part of the scope of business correspondence services that was provided by ESMACO.

The banks started directly managing such services. We have made sure that all employees absorbed from ESMACO will continue their services with us under similar terms and conditions. The transfer was happened smoothly and those employees were joined with our bank officially from July 1, 2024.

We have taken all necessary steps to ensure that there is no disruption in our services during this transition. This change is not expected to have a major financial impact on our bank. Post-transition, our bank directly manages the services previously handled by ESMACO, reducing their contribution by 36.97%. This means ESMACO handles 12.65% of our gross advances as on June 30, 2024. While banks directly manage 66.43% of gross advances as on June 30, 2024, overall our institutional business correspondents will manage 33.57% of our gross advances as on June 30, 2024.

Moving to our operational performance as of June 30, 2024, we have strong national presence with 8,481 touchpoints consisting of 755 banking outlets strategically positioned across the country, 627 ATMs, 1,065 customer service centers, 5,386 banking agents, and 648 business facilitators.

We are proud to have served 86.7 lakh customers. This extensive network enables us to provide comprehensive services and maintain a strong presence across various regions, enhancing our ability to meet customer needs and drive continued growth. Our operations span across 23 states and 2 union territories, showcasing our extensive reach and impact. Our gross advances outside the home state amounts to INR12,175 crores, constituting 64.8% of our total gross advances, reflecting robust growth and effective expansion strategies in diverse markets.

Our total loan book increased from INR19,664 crores in Q1 FY25 to INR17,204 crores in Q1 FY24, making a growth of 14.3% year-on-year. Additionally, our disbursements for this quarter amount to approximately INR4,503 crores, which was in line with Q1 FY24. Our journey towards fostering innovation and upholding social responsibility is more challenging and rewarding.

The strong support and trust of our customers, dedicated employees, and regulators have been invaluable. Our business model is designed to be socially inclusive and aims to transform the lives of India's hardworking and aspiring under banked population. Thank you all for your continued support and dedication.

With that, I will now pass on the call to Mr. Gireesh C.P., EVP and CFO to present the financial performance.

**Gireesh C P:**

Thank you everyone. I sincerely appreciate your presence for this conference call today. Let me provide you with an overview of financial performance for Q1 FY25. As a bank, our focus is on serving the unbanked and under banked population. 62% of the banking outlet network in South India contributing 87% of the deposits and 68% of growth advances. The majority of our advances come from semi-urban and rural areas which accounts for 57 percentage of growth advances and 70 percentage of our banking outlets are strategically located in these regions.

Our key offerings include microloans, retail loans and a range of specialized products such as gold loans, mortgages, personal loans, virtual loans, loans for MSMEs, loans to financial institutions and for agriculture. This strategic positioning allows us to effectively address the needs of underserved communities, ensuring that our financial services reach those who need them the most. I am pleased to share our financial performance for Q1 FY25. We are proud to serve a wide range of customers with our commitment to financial inclusion and community development.

In Q1 FY25 our growth advances grew to INR18,783 crores up from INR14,444 crores in Q1 FY24 representing a 30% increase Y-o-Y. During this quarter, our disbursements were INR4,503 crores as compared to INR4,509 crores which is in line with the same quarter last year. We also saw significant growth in deposits rising to INR20,887 crores in Q1 FY25 from INR15,656 crores in Q1 FY24 with a 33.4% increase Y-o-Y. Our net interest income for Q1 FY25 was INR588 crores as compared to INR585 crores in the same quarter last year.

Our net interest margin for the quarter stood at 9.4 percentage on account of higher growth in deposits and slippages. In terms of asset quality our gross non-performing assets were 6.6% and our net non-performing assets increased to 3.2%. The provision coverage ratio for the quarter remained at 61.9%. Disbursement growth compared to Q4 FY24 is adversely affected on account of heat waves in Central and Northern parts of the country and also on account of the union election.

It has also affected the collection efforts during this period. For Q1 FY25, our annualized return on assets stood at 0.9 percentage and our annualized return on equity stood at 9.9 percentage. Profit after tax for Q1 FY25 was INR63 crores. Our cost of funds for June 24 quarter remained steadily at 7.4 percentage and capital adequacy ratio continued to be at a higher percentage of 23.5.

In conclusion, the outlook for small finance banks continues to be promising. As more Indians transition into the formal economy, we anticipate a significant increase in demand for credit. Small finance banks are uniquely positioned to meet this growing demand thanks to their close proximity to customers, effective coverage and deep understanding of their core segments. Thank you and the floor can be opened for questions and answers.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Pritesh Bumb from DAM Capital. Please go ahead.

**Pritesh Bumb:** Hi sir. Good evening. First of all congratulations on a good performance on CASA side. So we have one of the bank who have shown good savings related growth so that congrats to you guys. My couple of questions first is on the retail book. So we have seen good growth in the retail side. If you can just mention was it gold driven and how much was the gold driven growth and how much is the share now?

**Gireesh C P:** The asset mix as far as micro banking is concerned there is a little bit reduction in the book. Last quarter it was INR13,766 crores and from there it came down to INR13,239 crores. Whereas gold it was INR3,700 crores in Q4 it increased to INR4,136 crores. MSME INR1,148 crores increased to INR1,251 crores and the other INR1,045 crores it remains almost at the same level.

**Pritesh Bumb:** So the 11%, 12% rise in retail loans was driven by gold only is what we are trying to say that's how it is?

**K. Paul Thomas:** Yes, mostly driven by gold.

**Pritesh Bumb:** Got it. So it was 13% sorry if I am right it was 13% as a share. Now how much is that in the share?

**Hari Velloor:** Roughly about 16% Pritesh.

**Pritesh Bumb:** Okay, thank you sir. And next question was on this transfer of book from your parent BC, ESMACO to the bank. Any commercials in that? How is that arrangement done to transfer that to the bank? I saw the employees you have absorbed the employees, but what about the others? Any commercials in that involved?

**K. Paul Thomas:** There was no book transfer because it is a business correspondent arrangement. Book was in the bank book only. So they were only managing the customer acquisition and servicing of these loans. So we have a transition around the people around 5,200 employees was being trained by them. So there was an agreed payment given for that.

**Pritesh Bumb:** Got it. Sir in this employees all have taken a stance to stay in the bank or are they doing some other arrangements maybe I don't know. If you can elaborate on that?

**K. Paul Thomas:** No, they are all moved to the bank rolls. So we have created a separate new vertical micro banking channel. It is a distribution vertical. So to start with they will be doing the micro loan collection, disbursement and servicing. Going forward, we plan to start other product also. We see it's a huge potential precisely it is 5,157 employees. So the average vintage of these employees are 5 to 7 years. So that is the advantage we are foreseeing.

**Pritesh Bumb:** Got it. Sir, only a follow up to that. Have you seen any rise in NPAs because now I think it's been 29 days when you have seen the book completely now. So anything on the NPA side, if you can guide if there is a rise, if there is improvement from the ESMACO book and otherwise as well?

**Gireesh C P:** The ESMACO do not have any book. And the entire book is that of bank. And they managed only the collection part of it.

**Pritesh Bumb:** So I think if collections got improved when it has moved to the bank, or if the collections got a little bit disrupted because of this movement is what I wanted to understand? Because I think we started from July 1st, right?

**K. Paul Thomas:** Yes, July 1st only we started. It's not time to comment, but some locations we see green signals. Some locations still continuing. As we have discussed, as we have informed in our previous call, it will take at least two quarters to turn it around. But we are getting very positive signs during our interaction with the field staff. Since they are all moved to the bank roles, there is a lot of excitement. They are taking efforts to individually contact the defaulted customers. And so we are seeing that momentum starting.

**Moderator:** The next question is from the line of Prabal from Ambit Capital. Please go ahead.

**Prabal:** Sir, my question is, last two quarters we have seen very elevated slippages. What is the reason behind that?

**K. Paul Thomas:** I think some disturbance on the line. Hello?

**Prabal:** Sir, my question is that, last two quarters we have seen quite elevated slippages. What is the reason behind that?

**Hari Velloor:** Yes, Prabal, I'll take that. This is Hari Velloor. I don't know if you were there in the call last quarter when we held it. At that time, we had mentioned three or four distinct factors which had affected and resulted in the slippages. One thing was that in certain parts of Kerala and in Tamil Nadu, we had deliberately slowed down lending because we were seeing a little bit of stress in those geographies. The stress was caused primarily because of, there were unregulated entities who were being very, very, what do you say, aggressive in lending, which was causing a bit of disruption in the industry generally. This was one part of it.

The other part of it was that, especially in Tamil Nadu, there had been some, what do you say, weather issues along the coast where we have very large branches. That was the second part of it. Then in Madhya Pradesh, we had spoken about how some staffing challenges had also arisen. And these were the three or four large factors which had impacted.

And at that time itself, we had said that it would take us a couple of quarters at least to bring this around. If you come to the -- specifically, if you talk about the last quarter, which is April to June, the elections have had an impact a little bit. The heat factor has played a big role. These were the two larger things which I would say has impacted collections in some geographies. The other things, of course, you know, continued.

**Prabal:** Got it. And subsequent to that, have we tightened our underwriting results?

**Hari Velloor:** Very much. There are two or three things which we have done. We have tightened up underwriting, as you said, in terms of credit requirements. Apart from that, we have put some very tight ceilings on the kind of lending we will do and the kind of amounts we will see per borrower.

Apart from that, we have two SROs, as you know, the self-regulatory organizations. We've been working with them and we have put up some guardrails around the business. All of which will definitely help the entire industry to kind of curb the, what do you say, the slippages and generally control the lending, which is the only way in which these things can be brought around.

**K. Paul Thomas:** And as you know, we have discussed in the past also, our entire microfinance, micro loan book was managed by business correspondents. So we have decided to let -- whatever their internal issues were impacting our collections, because staff shortage and all those things. So that is why we decided to take over the management of micro loan operated through our banking outlets.

And that has been completed and their staff also, we have taken to the bank. So that has brought down the concentration from 66 % to 33%. So currently bank is managing 66 % and the business correspondents are managing 33%. Earlier it was 70% by business correspondents and the bank was managing only 29%. So bank has brought direct control on the operations now. So we just started this month. We are confident that this will give us the required results.

**Prabal:** Got it. And so are you revising your growth downwards because now since you have tightened your filters and you are also seeing build-up of some over-leveraging in the system. So any revision and growth guidance coming?

**Hari Velloor:** No, we don't plan to revise our growth, what do you say, plans. In the last two, three months, obviously we have concentrated more in terms of tightening credit and getting recoveries going and putting things in place, which is why if you see the book may not have grown too much, but the plans are still in place. And I think over the next two, three months, the book growth will be manifesting itself. As you can see, we have not stopped deposit growth at all. In fact, that book has grown. So we are doing that keeping in mind that one is, you know, the growth on the asset front also.

**K. Paul Thomas:** We are focusing on the retail assets and gold loan. So we expect that while we are putting a lot of control on the unsecured book, the other book will definitely grow.

**Moderator:** The next question is from the line of Ritika Chhabra. Please go ahead.

**Ritika Chhabra:** Hi, sir. After discontinuing services of ESMACO, what is our strategy to fill the gap from the services angle?

**K. Paul Thomas:** See, we have taken over the old staff who was managing that business in ESMACO. ESMACO was operating through our banking outlets. It was their services. Manpower services actually was provided. So we have taken over. We have transitioned all the employees, 5,157 employees on July 1st. They have transitioned to bank role.

So they were managing the same business there. And we have added more supervisory layers into that. And we are strengthening wherever staff shortages are there, we are hiring. As a bank, it is easy to attract talent in this space. So we are filling the vacancies. So that way we are managing that business. So it is not going to have any impact on that. The transition has not impacted the business.

**Ritika Chhabra:** Okay. Got it. Thanks.

**Moderator:** Thank you. The next question is from the line of Rishikesh from Robo Capital. Please go ahead.

**Rishikesh:** Hi. Thank you for the opportunity. Sir, year-on-year our yields have gone down. And if I see the cost of funds are being slashed. So just wanted to ask, when do we see this trend normalizing? And when can the NII growth be in tandem with the loan book growth?

**Gireesh C P:** Yes. The yield has primarily come down because the slippages was on the higher side. Which is leading us to non-recognize the income from the NPAs. So once the NPA slippages come to a normalcy, we will go back to the NIM level at around 10% at which we are comfortable.

**Rishikesh:** Okay. Can you share the amount due to which the yield was down due to slippages and the interest reversal amount?

**Gireesh C P:** It is roughly around INR35 crores per quarter.

**Rishikesh:** And also if you could share, how do you see the trends in NPA and slippages going ahead?

**Gireesh C P:** NPA guidance you are talking about?

**Rishikesh:** Yes.

**Gireesh C P:** Yes. NPA as you have seen presently the NPAs are on the higher side. In last quarter itself, we gave the guidance that it may take a couple of quarters to come to a normal kind of slippage which we are looking at. So our target is to have the NPA slippages on a consistent basis at 2% to 2.5% of the loan book. But because of the reasons which was explained earlier it is very much

on the higher side as of now. And once the business management is taken over by the bank directly for the substantial portion of the micro banking business, we foresee that in a couple of quarters that is maybe one or two quarters, it will turn around and come to a normalcy by the year end.

**Rishikesh:** Okay. And what is our current secured and unsecured book mix? And how do we see this book mix going ahead?

**Gireesh C P:** As of now, 33% is secured and we have a targeted plan in place to bring the micro banking piece to a 60% level over a period of 2 to 3 years.

**Rishikesh:** Okay. Thank you very much. Thank you.

**Moderator:** Thank you. The next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

**Ashlesh Sonje:** Hi team. Good afternoon. Firstly, on your outlook for slippages, can you just clarify that you expect the slippage ratio to come back to the 2% to 2.5% level in the fourth quarter of this year versus the 8% level that you are seeing today? Is that your expectation?

**Gireesh C P:** We hope so.

**Ashlesh Sonje:** Okay. And do you see any improvement in the month of July already in the collections and slippages?

**Hari Velloor:** Not really, Ashlesh. We can't, what do you say reveal that figure exactly because of obvious reasons. But it is early days yet and the transition has happened 3 weeks ago or so. There are a lot of things that we have put in place and started executing. So while on the specific question of NPA, I can't give you more details. But there are other things happening which are giving us good, what do you say positive expectations. Let me put it that way.

**Ashlesh Sonje:** Okay. Secondly, on the MFIN guardrails, have you already implemented these guardrails? And what is your sense about the effectiveness of implementation by other players?

**Hari Velloor:** Actually, what happened was some of these guardrails were already in place over the last 6-7-8 months. What the industry has done is actually kind of tried to bring all the players on the same page and make everybody implement it. So some of the smaller players probably were taking a little time to do it, etc. So what we can say is that we have implemented these guardrails and they are in place now. And I think most of the larger players have also done the same.

**Ashlesh Sonje:** Okay, perfect. And just lastly, can you elaborate on the actions which you have taken on your portfolio in the last couple of quarters maybe?

**Hari Velloor:** In terms of?

**Ashlesh Sonje:** In terms of tightening your credit filters which you mentioned very broadly earlier.

**Hari Velloor:** Okay. So some of the broad points we have taken is that we would not want to be the fifth lender for any customer. So it means that generally there will be a cap on the number of regulated entities who will lend to one particular customer in this segment. Am I clear on that?

**Ashlesh Sonje:** Absolutely.

**Hari Velloor:** The other thing is that individual institutions have kept some kind of caps on the amount they will lend afresh to any customer. For instance, the industry as a whole is looking at about 2 lakhs of a cap, while individual institutions may keep it at about a 1 lakh cap per customer, individual, etc. The third thing is that if the customer is in SMA-1 bucket he may choose not to lend or it could be SMA-2. It depends on each player how their risk appetite and things like that. So these are the three big guardrails that have been put in place by the industry as a whole.

**Ashlesh Sonje:** Perfect, sir. Thanks a lot for answering my questions.

**Moderator:** Thank you. The next question is from the line of Sunidhi Joshi, who is an individual investor. Please go ahead.

**Sunidhi Joshi:** Hello. Can you help us understand there has been an increase in net interest income year-on-year, while the cost of funds has remained consistent compared with the previous quarters. Could you provide some insights into the key factors driving the increase in net interest income and the stable cost of funds?

**Gireesh C P:** The cost of funds, we have indicated that last year itself that we will land up somewhere around 7.3% to 7.2% to 7.3%, considering the fact that it was in the rising interest rate scenario. And even as expected the reverse rate cycle is yet to start. And that is why this quarter also there is a slight increase in the cost of funding, by around 7.4%. The yield has come down because the NPA is the prime thing by which the yield has come down and also partially on account of the asset mix change. So the net interest income is managed because of deploying the funds in money market instruments and also by tight control for exercise over the deployment. We were able to maintain the net interest income level.

**Sunidhi Joshi:** Okay, sir. Thank you.

**Moderator:** The next question is from the line of Sahil Vora from MNS Associates. Please go ahead.

**Sahil Vora:** As you mentioned in the opening remarks, the GNPA and NNPA have risen to 6.6% and 3.2% respectively. So this uptick is quite substantial compared to the previous period. Could you please provide some factors which are contributing to this increase?

**Hari Velloor:** So I had mentioned this about a couple of questions ago also and this had come up in our earlier calls, the main reasons behind this increase in NPAs was that, Kerala and Tamil Nadu are our biggest markets. So in certain areas of Kerala, we had actually found a lot of stress building up in the portfolio. And we had taken various measures including curbing lending. The same applies

to areas in Tamil Nadu also. So these are the two big geographies where we saw stress building up and that is what has happened in the last three months also.

So apart from this in Madhya Pradesh, in certain pockets, we've seen stress. So largely our NPA buildup has been on account of the issues we've had in these three geographies. We had foreseen this and in fact in our call of the last quarter also, we had kind of briefed whoever had called in that this situation we didn't think would improve at least for a couple of quarters. It would take us that much time to bring this under control.

**Sahil Vora:** Okay, sir. Thank you. And a follow-up would be, when can we expect the reduction in the GNPA and NNPA? And what is your overall guidance? Can you give us some insight into that as well?

**Hari Velloor:** We can't give a forward-looking statement. But as you know, my colleague Girish had already mentioned that by the year-end, what we are looking at or hopeful of, let me put it that way, is something in the region of 2.5% to 3% NNPA.

**Sahil Vora:** Okay, sir. Thank you so much. That will be all.

**Moderator:** Thank you. The next question is from the line of Munshee Soni from Emkay Ventures. Please go ahead.

**Munshee Soni:** Yes. So, I wanted to ask, are we maintaining our loan growth guidance of minimum 25% for FY25? And also, as we are moving towards a secured mix, what is our guidance on NIM if you could specify?

**Hari Velloor:** You asked about business growth in the first question?

**Munshee Soni:** Yes. Loan growth guidance. We've set 25% year-on-year. So, are we continuing?

**Hari Velloor:** Yes. Actually, the first question in this call was on that. And yes, we are still maintaining that stance. On the NIM, Girish will...

**Gireesh C P:** Certainly, the NIM is 9.4. And anyway, it will be somewhere reaching the 10% level. That is what we are looking for.

**Munshee Soni:** But we are moving more towards secured mix, right?

**Gireesh C P:** Yes.

**Munshee Soni:** So, the NIMs are expected to increase. What would be the drivers for a NIM increase?

**Gireesh C P:** First of all, the slippage is expected to come down. And also, the recovery is something that will contribute to interest reversal, contributing to the NIM. And there are high-yielding products in the retail front also we are driving, like Mobility Loan, MSME and things like that.

- Hari Velloor:** We were just saying that, I remember we had visited also at the time. What we have been maintaining always is a 25% growth and what we had said is we wouldn't -- the absolute values of microfinance would not come down. But the share in the book would come down. So, that book will continue to grow along with the retail book. And we have been said that we will -- gold will be at around 20% is what we have projected. And that also yields us a fairly good interest rate. So, putting it all together, we have been saying that 9.5% to 10% is what we have been looking at steadily for the next foreseeable time.
- Munshree Soni:** Sure. Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Hetanshi Agarwal, which is an individual investor. Please go ahead. Ms. Hetanshi, you may proceed with your question.
- Hetanshi Agarwal:** Hi. So, my question is we can observe that there is a sharp increase in stress to asset quality recently. Could you provide guidance on specific impacts in outlook for the following loan segments being agricultural, retail, MSME and microloan?
- Hari Velloor:** I am sorry, Ms. Agarwal. What was the question? You wanted specific?
- Hetanshi Agarwal:** Sir, like we can observe like there is a sharp increase in stress to asset quality recently. So, can you just give your guidance on specific impact in outlook in this following loan segments? The loan segments being agriculture, retail, MSME and microloan.
- Hari Velloor:** Okay. So, you know, the stress that we have seen is in our microfinance portfolio. The other portfolios have more or less been stable and are not too much of a cause of concern. But in Agri, in the last couple of months or so, we have seen a bit of a stress, but nothing untoward in terms of, I think the industry per se, I am seeing a little bit of a -- what do you say, guardedness coming in agricultural lending.
- The same thing we are seeing in our portfolio also. But if you ask from an NPA point of view, the stress is, I would say 98-97% in the microfinance portfolio.
- Hetanshi Agarwal:** Okay. Okay. That's fair. Thank you, sir. Thank you.
- Moderator:** The next question is from the line of Hrishikesh from Robo Capital. Please go ahead.
- Hrishikesh:** Yes. Hi. Thank you again. Sir, I would like to ask what is our credit cost guidance for FY25 and FY26, are we revising our credit cost guidance or are we maintaining the same?
- Gireesh C P:** It's too early to predict as of now. But going forward, you know, once the things are stabilized, on a steady state basis, we are looking at 2 to 2.5% credit cost.
- Hrishikesh:** And the current credit cost would continue for a quarter or two?
- Gireesh C P:** Sorry, can you come back once again?

- Hrishikesh:** Our current credit cost for Q1, would that be fair to say that it will be continuing for a quarter or two, a couple of quarters?
- Gireesh C P:** That is what, you know, we stated earlier also. By year end, we hope that things will come back to some kind of normal.
- Hrishikesh:** Okay. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Jignesh Sachdeva, which is an individual investor. Please go ahead.
- Jignesh Sachdeva:** Hi, thanks for taking my question. So my first question is, can you update us on any recent or like planned branch expansions as an impact on the overall growth for the company?
- Hari Velloor:** No, we have been expanding branches in a fairly steady manner. And last year, we grew by about 53 branches. And we, you know, we continue to maintain that we foresee that kind of a growth continuing also. So branch expansion is not impacted in any manner.
- Jignesh Sachdeva:** Okay, so I also wanted to know, so now how is the company assessing the performance of these newly opened branches? So what are the key metrics that the company is looking at?
- Hari Velloor:** Like any other bank, we have certain metrics like, you know, business per branch, then a certain number of timeframe within which we expect them to turn profitable. And of course, each branch has its own specific targets in terms of various lines of businesses. So these are the three ways in which we will be looking at their performance.
- Jignesh Sachdeva:** Okay. My question would be, what are the strategies the company is implementing to attract new customers and to also lead?
- Hari Velloor:** To attract new customers and? I'm sorry, that it's not clear.
- Jignesh Sachdeva:** So hello. Hello.
- Moderator:** We request you to repeat your second question.
- Jignesh Sachdeva:** Yes, I wanted to know what are the strategies the company is implementing to attract new customers and to retaining the existing ones?
- Hari Velloor:** Okay. So, like any other institution, we have an acquisition strategy and we have a retention strategy. If you look on the asset front, we constantly analyze our customers, their profitability, their credit performance, etcetera, etcetera and then we look at them from a graduation point of view. A graduation is that we may have started lending in small amounts and we see if they have the capacity and the entrepreneurial instincts to take larger amounts. If so, do they have a proper project to do it, etcetera etcetera.

So essentially, the idea is to retain the profitable customers on the asset front to make sure that they continue with us. And since we have the credit history of such customers with us, we are very comfortable in doing so. This is one part of it. On the second part, for instance, we are building up our gold loan book.

So 30% of our gold loan book is composed of customers who are other lending business with the bank itself. So that is another way in which we retain our customer base. Along with this, we have mobility that is vehicle loans of various kinds, etc. Those are largely open market. But once they come to our fold, obviously we try to do various other businesses with them.

We open savings bank accounts for all these customers. In fact, we open savings bank accounts for all our lending customers. Over a period of time, what we see is that there will be chances to improve them on the liability side. So we include microfinance also because we have a specific micro liability team within our liability product team. And the idea is that we are not seen merely as a lending institution, but they can also keep their savings with us.

And the fact is that especially in the micro segment, they do have some significant savings potential as well. The other way we do it is, you see from a liability point of view, we open savings bank accounts, about 35,000 - 40,000 new savings, and these are pure retail accounts with us. What we do with them is we have a very, very clear plan over a 4-month period of opening to have them onboarded.

This includes specific points of contact, specific steps that is taken on a monthly basis to make sure the accounts get transacted, etc. Once that happens, then within a year or so, we have a preferred customer program of various levels. So wherever we see potential, we will enroll them into these three programs. We have two categories of debit cards, so that is another way in which we try to see that good customers continue to bank with us.

In the case of current accounts, we study transactions, we install QR codes, and in many cases, we see a potential for lending to such customers on a business banking point. So these are some three or four ways in which both on the asset and liability side, we make sure that we retain the good customers.

**Jignesh Sachdev:** Okay, one last question from my side would be, are there any new products or services being introduced to enhance customer engagement?

**Hari Velloor:** On a product side, we are not allowed to speak of products, because we need to inform the exchanges, etc. before we launch. But yes, we have a few things on the anvil.

**K. Paul Thomas:** Continuously, we are having customer engagement programs at a branch level. We do for the low-income customers, we do a lot of financial literacy programs that help us to engage with the customer. And we also started a project to revamp the entire digital offering to attract the young customers.

And I think my colleague mentioned about the micro-liability, which we wanted to focus on mobilizing for micro-finance low-income customers. So we introduced a product called Dabba Savings, which is a traditional method of savings in the rural areas. So, which is a promotional video on Dabba Savings, both recognized in Cannes this year.

It was widely publicized also in the media. So we are taking a lot of initiatives to continuously engage with the customers. And in the newly-constructed micro-banking channel, we created a separate vertical for marketing and community engagement. So there will be continuous engagement with the customers. Since we started as an NGO, we are known for that. So we will continue to do that.

**Jignesh Sachdev:** That was really helpful.

**Moderator:** Thank you. The next question is from the line of Devang Mehra from SKB Capital Securities. Please go ahead.

**Devang Mehra:** Thank you for the opportunity. So I have a couple of questions. So my first question is, what is the percentage split of books between the floating and the fixed loan? And have any loans been repriced or there are any plans to pass on the higher cost of funds to the customers to protect our net interest margins?

**Management:** That is the first question you are asking about the floating rate interest and fixed rate interest, isn't it?

**Devang Mehra:** Yes, the split between the books of floating and fixed loans?

**Management:** Yes, floating rate interest is, very few accounts only, maybe around 3%. Yes, around 3% only will be under floating rate. The others are fixed rate loans only. Because primarily the microfinance is a fixed rate loan. And the gold also is a fixed rate.

**Devang Mehra:** Okay. And so the next part of the question, have any loans been repriced or there are any plans to pass on the higher cost of funds to the customers to protect our net interest margins?

**Management:** As of now, there are no plans because, 9.4% net interest margin, we are okay with for the time being.

**Devang Mehra:** Okay. And so my second question is yield on advances are largely flat. And as per our presentation, it has been somewhat of downward trend. So is this an outcome of the higher retaliation or how do you see this number progress for this year? Also, can you give a little bit idea about how long term guidance for the next couple of months?

**Management:** Yes, as explained earlier, the main reason for the yield coming down is because of these higher slippages, because of which we are unable to recognize the income of the NPA book. So once that PV is already set right, the NIMs will be ending towards 10%, which we are expecting on a steady state basis.

**Devang Mehra:** Okay. Thank you.

**Moderator:** Thank you. In the interest of time, that would be the last question. I would now like to hand the conference over to Mr. Viral Sanklecha from Orient Capital for closing comments.

**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 Investment Relations Advisors to ESAF Small Finance Bank Limited. Thank you so much.

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