



“ESAF Small Finance Bank Limited
Q2 & H1 FY26 Earnings Conference Call”

November 12, 2025



MANAGEMENT: **MR. K. PAUL THOMAS – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – ESAF SMALL FINANCE BANK LIMITED**
MR. GEORGE K. JOHN – EXECUTIVE DIRECTOR – ESAF SMALL FINANCE BANK LIMITED
MR. GIREESH C.P. – CHIEF FINANCIAL OFFICER – ESAF SMALL FINANCE BANK LIMITED
MR. HARI VELLOOR – EXECUTIVE VICE PRESIDENT – CREDIT – ESAF SMALL FINANCE BANK LIMITED

MODERATOR: **MS. AYUSHI GUPTA – MUFG INTIME INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the ESAF Small Finance Bank Limited Q2 H1 FY26 Earnings Conference Call. As a reminder, all the 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 Ms. Ayushi Gupta. Thank you and over to you.

Ayushi Gupta: Thank you. Good morning, ladies and gentlemen. I welcome you all to earnings conference call of ESAF Small Finance Bank Limited to discuss the Q2 and H1 FY26 business performance. Today on the call, we have from the management, Mr. K. Paul Thomas, Managing Director and CEO; Mr. Gireesh C. P., CFO; Mr. George K. John, Executive Director; and Mr. Hari Velloor, Executive Vice President for 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 uncertainties. For more details, kindly refer to the investor presentation and other filings that can be found on the company's website.

I would now like to hand over the call to the management for their opening remarks, and then we can open the floor for Q&A. Thank you, and over to you, sir.

K. Paul Thomas: Thank you. Good morning to all. On behalf of our ESAF Small Finance Bank, I welcome you to the Q2 and H1 FY '26 Earnings Call. We appreciate your continued interest in ESAF SFB and thank you for joining us to review our business and financial performance. Joining me today are Mr. George K. John, Executive Director; Mr. Gireesh C.P., EVP and CFO and Mr. Hari Velloor, Executive Vice President.

At ESAF SFB, financial inclusion remains the cornerstone of our purpose while our strategy balances impact with profitability. Our dual focus approach of building a sustainable, diversified balance sheet and deepening our social mission have helped us deliver consistent growth and value creation for our stakeholders.

As a result, by offering a wide range of innovative products, banking services, distribution channel, and customer service, we have been able to expand our rural, semi urban and urban presence in all customer segments, across retail and other businesses. During the first half of FY '26, we continue to broaden our retail franchise, especially across secured lending segments, gold loans, MSME, mortgages, Mobility and agri loans.

This strategic shift is strengthening asset quality, reducing portfolio concentration and derisking the business model. Our emphasis on data-driven credit, disciplined underwriting and risk governance supports this transformation. Our technology-led distribution model, integrating physical reach with digital capabilities enables us to serve customers across rural, semi-urban and urban markets efficiently.

This, in turn, is helping us enhance CASA growth, drive cross sell and improve operating leverage. The Indian economy remains on a strong growth momentum driven by domestic demand, favorable monsoon conditions, lower inflation, structural reforms like GST 2.0 and various developmental and regulatory measures announced by RBI, aimed at strengthening the banking sector and improving credit flow.

ESAF Small Finance Bank is well positioned to capture these opportunities through its customer-centric strategy, strong governance and prudent capital management. At ESAF Small Finance Bank, our mission remains deeply rooted in social responsibility and ethical governance.

We continue to invest in a robust risk management framework, transparent disclosures and responsible banking practices, ensuring that we build long-term shareholder value while staying true to our founding purpose of transforming lives and livelihoods. Before we begin the detailed presentation, I'm pleased to inform you that the bank has appointed, Shri Karthikeyan M, a veteran commercial banker and former Executive Director of Bank of India, former Director of Star Union Dai-Ichi Life Insurance Company Limited, former nominee director, Bank of India Investment Managers Private Limited, as our part-time Chairman for a period of 3 years effective from December 21, 2025. His vast experience in commercial banking and governance will greatly strengthen our Board and strategic direction.

I now invite our Executive Director, Mr. George K. John, to take you through the next segment.

George K. John:

Thank you, Paul Sir, and good morning, everyone. Let me begin by providing a brief perspective on the broader macroeconomic and regulatory environment that frames our business performance. The Reserve Bank of India in its October monetary policy committee meeting kept the repo rate unchanged at 5.5%, maintaining a neutral stance. This was the second consecutive pause following a cumulative 100 basis points rate cut earlier in the year.

The standing deposit facility rate and marginal standing facility rate also remains unchanged at 5.25% and 5.75%, respectively. Importantly, the Reserve Bank of India revised India's FY '2026 GDP growth estimates upward to 6.8% from 6.5% and lowered CPI inflation forecast to 2.6% from 3.1% earlier, reflecting continued macro stability and resilient domestic demand.

On the regulatory front, the RBI's draft circular on the Expected Credit Loss (ECL) framework, though currently not applicable to small finance banks, signals a strong move towards global best practices in credit risk provisioning and transparency. We view this positively as it underscores the sector's gradual convergence to universal bank standards. The central and state government credit guarantee schemes like CGFMU, CGTMSE, etc., continue to play a critical role in expanding former credit access.

Turning to the ESAF Bank performance the second quarter of FY26 demonstrated sequential improvement across key business metrics. The bank is progressing well on its strategic priorities of quality growth, prudent risk calibration, and operational efficiency. As of 30th September 2025, our total business stood at INR 42,031 crores compared to INR 39,954 crores a year ago reflecting Y-o-Y growth of 5%, while the Advances grew by 4%, the deposits increased by 6%.

Our disbursement grew 119% Y-O-Y and 16% Q-O-Q, mainly led by gold, MSME, agri and affordable housing.

This reflects robust demand and a successful transition towards secured quality growth. A significant structural change is visible in our portfolio composition. The micro loan book, which was INR 11,125 crores in Q2 FY '25 has declined to INR 7,426 crores in Q2 FY '26, in line with our de-risking strategy.

This reduction has been offset by strong traction in affordable housing, MSME gold loans, vehicle finance and retail loans. Among these, Gold loans were the standout performer, up 12% QoQ and more than doubling YoY, reflecting robust and recurring demand from our rural and semi-urban customer base. As a result, secured assets now constitute 61% of our gross advances, up from 39% a year ago

We remain firmly on track to achieve our 70% secured portfolio target by March 27. This significant shift validates the success of our strategy in building a more resilient, better quality portfolio with stable yield and lower credit costs. Our distribution footprint continues to be one of our strongest differentiations. 788 banking outlets, 718 ATMs over 1,110 customer service centers and 33 Institutional business correspondents across 24 states and 2 union territories enabling deep penetration in the targeted markets.

On the microfinance side, after 4 to 5 quarters of stress across the industry, early signs of normalization are visible. The sectors renewed focus on credit discipline and improved collection efficiencies indicate that Q2 may have marked the bottom of the cycle. Our micro-finance recovery strategy includes - revamping the Sangam meeting process for stronger field connect, targeted new customer acquisition and focussed graduation of Group Loans to Individual Loans, and delinquent borrower follow-ups. With the guardrails now operational, our micro-finance portfolio is stabilising with improving collection efficiency, supported by disciplined underwriting and focussed risk management framework to achieve sustainable and quality growth. With this context, I'll now invite our EVP and CFO, Mr. Gireesh C. P., to take you through the financial performance.

C. P. Gireesh:

Thank you, Sir. Good morning, everyone. I thank all the participants for taking time for joining us on the call. Let me give you an overview of our financial performance highlights for Q2 FY '26.

As of 30 September 2025, deposit stood at INR22,894 crores, up by 6% YoY from INR21,613 crores. Our focus remains on building a granular and stable base. As a result, the total retail deposits rose to INR 22,082 crores as of September 30, 2025 from INR19,891 crores a year ago, marking a robust 11% Y-o-Y growth. The share of retail deposits in total deposits improved further from 93% in FY '25 to 96 percentage in Q2 FY '26, a clear reflection of the stickiness and quality of our franchise.

CASA balances remained the key pillar of our deposit profile, reaching INR 6,046 crores in Q2 FY '26 as compared to INR5,319 crores in Q2 FY '25 translating to a growth of 14% Y-o-Y.

CASA ratio improved strongly by 180 basis points to 26.4%. The downward repricing of deposits had a partial impact to a marginal reduction in cost of funds. The remaining benefit will be accruing on maturing the term deposits, which will get renewed at lower rates and this trend will continue in the coming quarters. Our CASA growth strategy is anchored on superior customer service, differentiated savings products and acquisition through digital mode and expanding the distribution network.

Gross advances stood at INR19,137 crores, up from INR18,340 crores in Q2 FY '25, reflecting our calibrated approach to lending. Disbursements for the quarter were INR8,913 crores almost 2 times compared to the disbursements of INR4,058 crores during last year in Q2. Importantly, secured loans constituted 82% of the total disbursements consistent with our de-risking and sustainability strategy.

Secured retail portfolio, which is predominantly retail and includes vehicles, mortgages and gold loans continues to deliver strong performance, both on Y-o-Y and Q-o-Q basis. Meanwhile, the unsecured portfolio, which comprises of micro loans declined 33% Y-o-Y and 1% Q-o-Q. It now makes 39% of total gross advances, compared to 61% of last year. We believe microfinance book has largely stabilized, and our focus is now on quality growth and recoveries.

Net interest income for the quarter was INR364 crores compared to INR378 crores in Q1 FY '26. The net interest margin at 5.9% also remained stable sequentially. The recent moderation in NIM reflects the shift in portfolio mix towards secured lending and disciplined loan growth, but with reducing cost of funds and increased disbursements, we expect positive improvement going forward.

Non-interest income, excluding the treasury and PSLC sales improved sequentially by 182% from INR29 crores to INR82. Pre-provisioning operating profit after considering the treasury and PSLC sales, came in at INR93 crores versus INR125 crores in Q1 FY '26 impacted by lower other income.

As on Q2 FY '26, gross NPA marginally increased to 8.5% while our net NPA was stable at 3.8%, reflecting both the prevailing macro conditions and our cautious stance on micro finance lending. However, our provision coverage ratio improved to 74.4%, demonstrating our continuous focus on strengthening the balance sheet, thanks to the stringent policy to provide over and above minimum levels prescribed by the regulator. This provides us some cushion against potential stress.

Slippages moderated to INR340 crores in Q2, down from about INR450 crores in the previous 2 quarters, driven by improved trends in the micro banking segment and better SMA performance observed over a few quarters. We remain focused in bringing down both gross and net NPAs to more sustainable levels over the next few quarters.

This will be driven by enhanced monitoring, proactive collection strategies and sharp service management exercise across all lending segments. Further accelerating NPA recoveries remain

a top priority. We are also expanding our secured asset portfolio, especially in gold, mortgages, vehicle, MSME and Agri to diversify the book towards more stable and profitable segments.

Based on the current trend in business and delinquency levels, we expect to achieve positive quarterly ROA in FY '26 since the operating performance strengthens and provisions are expected to normalize. FY '26 will be a year of consolidation, one where we target moderate business growth while sharply improving operational metrics and asset quality.

We continue to improve internal productivity, optimize resource allocation and reduce operating costs while maintaining the high quality and reliability of our customer services. With the risk environment in the micro banking sector showing early of stabilization and with the strategic actions we have implemented in asset sales, secured loan book growth and portfolio diversification, ESAF SFB is well positioned for a stronger and more resilient footing to drive our next phase of expansion. Thank you very much.

Moderator: Sir, can we begin the question-and-answer question.

K. Paul Thomas: Yes.

Moderator: Thank you very much. We will now begin the question and answer session. The first question comes from the line of Varun Mishra from SK Investments.

Varun Mishra: I had a couple of questions from my end. So like over the past few quarters, you've seen a clear strategic shift towards the loan book, like in terms of secured lending that loans are now forming up about 61% of the total advances, up from like 39% a year ago. So like what is the share of micro finance loans, which has been steadily declining. So can you please elaborate like key factors for this transition, like what are we seeing, how it is backing?

K. Paul Thomas: Yes. As of September end, secured loan is 61% and micro loan percentage has come down to 39%. We had planned to achieve this in 2027, but we were able to achieve this very early.

Varun Mishra: All right, sir. And sir, additionally, how should we think about the bank's focus either in terms of like particularly balancing growth between like the secured segment and unsecured segments?

K. Paul Thomas: Secured almost at the same level, so to keep the mix at around 35% unsecured and 65% secured is our plan by the current year end.

Hari Velloor: If you see our earlier investor calls also over the last three, four quarters, this is what we have been projecting as a bank. So strategically, we are on course in terms of implementing that strategy.

Varun Mishra: Okay. And like, sir, the Q2 disbursements like have more than doubled Y-o-Y. Like could you elaborate the key drivers behind the strong growth momentum. Like was it primarily led because of the gold loans or like a broader retail sector products?

Hari Velloor: So what we've been doing when we shifted to 61% secured, primarily the driver has been gold loans. So in the current quarter, INR6,500-odd crores of gold loans have been disbursed. While if you look at the micro segment, INR1,500 crores have been disbursed.

But the good thing, what we have to say is that for a few quarters we have been controlling micro, we have been focusing completely on quality, we have been putting the guard rails into force etc. And looking at the overall environment in terms of the country, since August, we are seeing a slight uptick in terms of micro disbursements also. So within the overall strategy of remaining at 35% unsecured, now that we have the confidence, we have started ramping up micro. Keeping in mind that we will not go above 35%.

Moderator: The next question comes from the line of Shailesh Kanani from Centrum Broking.

Shailesh Kanani: I had a couple of questions. Sir, in terms of SMA book, so retail has seen some sequential spike. So just wanted to understand any early signs or some color on that in terms of bounce rates, other things what you can share. Second is, as we proceed towards more and more secured book, I see the secured book has comparatively far lower NIMs. So what levers do we have in terms of protecting the NIMs over there? My final question was related to opex. If you can give some guidance in terms of cost-to-income opex to asset for FY26-27?

C. P. Gireesh: I will talk about the yield, how it is going forward when we diversify the business. Yes, microfinance is giving me more yield, so when I have shifted the micro banking proportion with more secured advances, the NIM is bound to come down. However, the operational expenditure, it is directly related to the BC commission, etc. That also has come down. And what has happened during the last 1 year is that because of the repo rate changing by 1% , all the variable interest rate has also been passed on to the customers. And that is why recently, we are observing a NIM contraction.

At the same time, deposit book also, we have rationalized the rates, but the effect of which will be flowing over a period of time. Around 25 basis points we have already seen and going forward, we will see the full benefit flowing in the coming quarters. And on the retail book, Yes, as a starter, we were giving some sweetener on the pricing. However, we are moderating the pricing to see that the NIM going forward, it will improve further.

And on the opex front, we are taking all possible steps to curtail the opex. And once the income levels increase, the cost/income ratio also will improve, somewhere around 60 to 65% we are comfortable. So towards that, we are working now.

Shailesh Kanani: Just a follow-up, we are seeing lower NIMs will be compensated by lower opex, and we are also planning to increase the yield on the RA book. Is that understanding right?

K. Paul Thomas: Correct. So for example, today our gold loan the average yield is around 13.4%.

C. P. Gireesh: Yes, there is ample room for improvement in all the retail book. As a strategy as a starting point, we have given some kind of moderation in the rate, but step by step, we are increasing rates.

Shailesh Kanani: Fair enough, sir. Sir, and my third question with respect to the SMA book, especially on the retail front?

K. Paul Thomas: Would you repeat that, Shailesh?

Shailesh Kanani: So I just wanted to understand on the retail SMA book. So in both that were gold and MFI has seen an improvement, but there is some very marginal increase in SMA book for retail. So I just wanted to understand if you can throw any color with respect to or any concerns on that, if you can just highlight?

Hari Velloor: So in terms of retail, it is retail plus other loans. So as you know, we have retail, and then we have close to INR890 crores or so of lending to NBFC. Retail book has been behaving extremely well. And as you can see, even the NPA figures, SMA figures, they are completely under control. But in the NBFC book there is 1 account where it has slipped into SMA 1 in the last quarter. And we are negotiating with them, and we are as of now hopeful that we'll be able to get it under control before the quarter end.

Shailesh Kanani: Sir, can you quantify that amount, in that account?

Hari Velloor: That is roughly about INR40 crores

Moderator: The next question comes from the line of Varun Dubey from Share India Securities.

Varun Dubey: Thanks for the opportunity to ask a question. Sir, just 1 thing. I think that in the opening remarks, the company is expecting to turn ROA positive in FY 26. Am I right?

C. P. Gireesh: Yes. I was telling about positive quarterly ROA in FY '26.

Varun Dubey: So when do we expect that in Q3 or Q4 any time line?

C. P. Gireesh: We are working towards attaining it in Q3, if not in Q3, than definitely in Q4.

Varun Dubey: sir, my other question is on gold loan. I mean just wanted to understand what percentage of your total loan book would be coming from gold loans in coming quarter, because that is 1 business that the company is scaling and also on the yield part, I was looking at around 13-14% on the gold loan because in many companies in gold loan I've seen yield growing up to 17%, 18%. So what is stopping ESAF to generate that yield in gold loan?.

Hari Velloor: Okay. I will take your second question first in terms of increasing the yields. Actually, nothing is preventing us from increasing it but over the last 3, 4 years, we have steadily built up this book. And currently, it's in the region of about INR 8,000 crores or so. And if you see our yields from the gold loan portfolio used to be 11%, 11.5%, which we have now brought up close to 13.5%. So over the period of time, we will steadily increase it.

And we definitely have the potential to increase also. However, we will do it slowly and bring up the yields up to, I don't want to say a figure, but definitely far more than what we have

currently. In terms of share of gold loans. Yes, it's 39% as of now. And we see it in the region of about 40 going forward.

K. Paul Thomas: And the current lending rate for gold is 15%.

Varun Dubey: The incremental gold loan rate for this year like 15%.

K. Paul Thomas: Yes, incremental loan is at 15%.

Moderator: The next question comes from the line of Vishant Patidar from Edelweiss Life Insurance.

Vishant Patidar: I have just two questions. So 1 question is regarding the current MFI exposure in Kerala and Tamil Nadu. So what's the ground reality on this stage about the recoveries and collection efficiencies? And the second thing is what is our target of comfortable credit cost in next two quarters? And are you planning to be PAT positive in upcoming quarters?

Hari Velloor: In terms of credit cost, what we are seeing is in the region of about 4% would be on a steady state basis, looking at the industry trends. So that is what we can say roughly what we see ahead. In terms of stress in Kerala and Tamil Nadu, Kerala definitely has been coming down. We are seeing a major uptick in that. And that is why we have the confidence to start lending again, with the guardrails in place.

In terms of Tamil Nadu, Tamil Nadu is actually where we have the bigger stressed book as of date. Tamil Nadu and Karnataka are the 2 big states over there. In both states, we have been very, very careful in terms of increasing the book. The good thing is that Karnataka, as you know, there was a bit of a political dimension to the problem. In the last 3 months, our control over that portfolio has definitely improved.

And we are seeing loans which had been delinquent starting to repay again. So what we see is that there will be definitely a good progress in Karnataka over the next few months. In terms of Tamil Nadu, we are still progressing very carefully within good quality accounts, we are definitely lending. Otherwise, the focus is maybe in terms of recovery.

Vishant Patidar: Okay. And sir, any bottom line expectation at the end of the year.

C. P. Gireesh: Yes, that I have already indicated. A positive ROA in Q3 and if not in Q3 than in Q4.

Moderator: The next question comes from the line of Vidhi Vora from SaaS Capital.

Vidhi Vora: So my question is that are you seeing any stress in specific geographies or product categories, especially in the micro loan or MSME portfolios?

Hari Velloor: Did you say early stress?

Vidhi Vora: Yes, early stress.

Hari Velloor: Okay. I will answer it in a slightly different way. As you know, the micro finance portfolio had stress what we had lent in 2022, 2023, etc. . But if I take what we did in 2024, let's say, in the month of July 2024 onwards. So we are now at about 15 months or so. We have disbursed INR6,000 crores or so over that 15-month period and as of now, the outstanding book is in the region of INR4,000 crores. As of now, what we are seeing in terms of stress or in terms of NPA is roughly about 2-point something percent of what we disbursed way back in June '24. So what I can say is the new book is behaving according to what a traditional microfinance would have. And we are not really seeing any early stress in that book.

Vidhi Vora: Okay. And as we know, that Kerala continues to have the largest deposit base. So are there any plans to deepen the penetration of the states to reduce the regional concentration risk we have?

Hari Velloor: Definitely. The good thing is that we steadily have brought down the share of Kerala. And in fact, Tamil Nadu, Karnataka, they are already increasing the book. In fact, this time, when you see the fifth largest book is in Delhi. So we definitely have plans in terms of increasing the liability base also outside Kerala, and it is slowly coming into place. In terms of the branch network also roughly 470 branches are outside Kerala. That network will definitely start showing results.

Moderator: The next question comes from the line of Maitri Shah from Sapphire Capital.

Maitri Shah: So you mentioned the three things. e firstly on the opex that we - would like to reach to a 60% to 65% range and then positively, we would want to turn ROA by quarter 3 or quarter 4 and then reduce credit cost to 4%. Could you specify the drivers of how we lead the turnaround in our metrics going forward?

C. P. Gireesh: Yes. Drivers are on both fronts, that is net interest income as well as on the other income. There is a more moderation happening on the Opex level as well. On the net interest income, as I mentioned earlier, the deposit rates, we have rationalized some time back and the repricing of the time deposit is happening on a day-to-day basis.

A partial benefit has already come into our books and substantial portion in the coming months, it will get benefited. And on the asset side, as MD as well as Mr. Hari explained, the rationalization of pricing on the asset side also is happening. Especially on the gold loan book, even though the average rate is 13.5%, the incremental rate is much above that.

So going forward, the NIM, definitely, there will be an improvement and also the disbursements has increased. On the other income side, also, we will get a substantial increase. So these are the drivers based on which we have given the statements.

Maitri Shah: Okay. And any sort of guidance would you give on FY '27 and what sort of loan book growth do we anticipate and also disbursement growth that we are looking forward, any ROA or ROE target that we have?

- C. P. Gireesh:** Directionally our ROA and ROE target is 2 percentage and 20 percentage. At this moment, in FY27, we are not so definite of that level, but definitely, there will be positive ROAs and the glide path will be there for achievement.
- Maitri Shah:** And on the loan book growth and disbursement?
- C. P. Gireesh:** Book growth will be somewhere around 20 to 25% on a Y-o-Y basis.
- Maitri Shah:** And do we expect most of it happening from the secured side? Or are we expecting unsecured to also up in the same proportion.
- C. P. Gireesh:** Yes. On the unsecured side, for the current year guidance, we have given a 35% and it will then moderate to around 30% business.
- Maitri Shah:** So FY '27, we expect it on 30%.
- C. P. Gireesh:** Yes, hopefully, by '27.
- Maitri Shah:** Okay. And on the GNP and NPA, how do we see those lowering in the coming quarters?
- C. P. Gireesh:** Definitely, GNPA and NNPA will come down which is already observed in the SMA levels, the moderation, which is already there in the presentation as well. So over a 1-year period, and going forward, the stress level at the micro banking level also is fading out. And therefore, we expect that substantial improvement on the GNPA and NNPA, which will also be the driver for attending the ROA.
- Moderator:** The next question comes from the line of Vivek Gupta from Star Investments.
- Vivek Gupta:** The CASA growth has been healthy at 13.7% year-on-year, like with a ratio of 26.4%. So what initiatives are being taken to further improve this CASA share?
- Hari Velloor:** As I was speaking, we have around 788 branches. So as those branches start increasing momentum in terms of customer acquisition, that definitely helps in improving the CASA book. The second thing is that we have two or three segments we concentrated on. One is the senior citizen segment, the other is the, NR segment both of which are excellent sources for CASA growth.
- Apart from this, we have introduced a few things, we have taken a QR handle, then we have tied up with various agencies to improve payment systems and things like that, which we'll see more in terms of fund flows through the accounts. So customer acquisition, concentrating on 2 or 3 segments and certain products which we are offering. These are 3 or 4 drivers, which will help us to keep the CASA growth momentum going.
- Vivek Gupta:** Okay. So with the cost of deposits reducing slightly to 7.2%. Do you expect this downturn to continue or will competitive pressure element further decline?

C. P. Gireesh: Immediate position on deposit rate, we are not envisaging because as you know, the industry growth itself is only 10 percentage as far as deposits are concerned. But however, we have already moderated the deposit rate. The benefit of this will be flowing in the coming quarters.

Moderator: The next question comes from the line of Riya Jain from HDA Finance.

Riya Jain: I wanted to understand a bit of a macro perspective of the industry. So how do you view the overall outlook for the small finance banking sector in the near term? And could you share your guidance or key focus areas for ESAF Bank for the upcoming quarter?

K. Paul Thomas: Okay. So small finance banks have been created to serve the underserved segments and the lower middle income segments of the country. And that segment is very promising, 70% of our Indian population belongs to low and middle income segment. And as the country is now talking about creating larger banks at the global level to be part of the global ranking. So there will be a lot of opportunity for smaller banks like the small finance bank category.

So I see a very good opportunity for small finance bank in general because especially it includes persons in the rural and semiurban areas too. Because lot of economic activities are happening. Industries are moving to the small towns of India. So we definitely believe that small banks are going to play an important role in India becoming a \$5 trillion economy or becoming Viksit Bharat by 2047.

Coming to ESAF small finance bank, we are well placed to leverage these opportunities. We have 70% of our branches in rural and semi-urban areas. Apart from our 788 branches spread across 26 states, we have 1,100 customer service centers operated by our business partners, business correspondents.

Most of them are in rural small towns of India, all places. So we see a lot of opportunity to leverage the franchise that we have already established. And also, we have developed over a period of time, we have developed teams and products and processes are in place for serving the farming community, agri segment and MSME segments. So we will be more focusing on these segments, MSME, agri, mortgage and mobility, apart from the micro categories, products like micro enterprise loan, etc. So this is the overall scope we see.

Moderator: The next question comes from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje: Sir, firstly, a few questions on micro finance. If you can share the segmental slippage in micro finance for this quarter? And what is the current bucket collection efficiency in that business? As on September or the entire second quarter, whatever you have available?

Hari Velloor: Yes. Let me take the NPA or how much the NPA has behaved over the last quarter or so. I'll split this into two books if you were on the call earlier, I was speaking about how the disbursement we've been doing since June 2024, how they have behaved. So since 2024 June, we disbursed about INR6,000 crores in micro finance. Out of that, currently, there's about 4,000 outstanding and the NPA today, is around 2-point something percent of what we disbursed way

back in June '24. So that gives a flavor of how the book has been behaving and what the kind of slippages have been over the last 15 months, and not this quarter, but last 15 months.

And that is how we are fairly confident that we are able to manage the new book pretty well. So the slippages that we are seeing earlier in terms of in this quarter or whatever slippages happened. is primarily because of the books, which we lent in 2022 and '23. So that is the problem area which we are facing. And there, total increment NPA is about INR144 crores, which is declining.

George K. John: **In addition** , it's known that major slippages happened in Karnataka and Tamil Nadu but we are very positive around slippage coming down in Karnataka compared to 6 months back. And Tamil Nadu is also in a stable place as mentioned by our MD.

Ashlesh Sonje: So out of this INR340 crores total slippages this quarter, you said 140 has come from micro finance. Is that fair?

Hari Velloor: No. INR255 crores is the slippage which has come from micro out of the INR340 crores

Ashlesh Sonje: Understood, sir. Okay. Sir, and secondly, how easy or difficult is it today to hire employees for the micro finance business because you're planning to increase the disbursements over there?

Hari Velloor: Well, it is like this. The dependency of employees, I would say it is there, but it is coming down. What we see is that about 40% of our repayments are coming in terms of digital mode where customers are paying into their loan accounts using a GPay or some other payment mode. So to that extent, dependency on employees is coming down in terms of seeing the customers personally.

But definitely hiring there will be a challenge. What we see is going forward, we will have to look at the model of the last 3, 4 years, whatever traditionally, the industry has been following. We may have to look at empowering them as agents. And I'm not committing this on behalf of the bank. Since you asked in terms of our view, this is a general view of the industry that I'm seeing.

We may have to see that instead of employees, we have agents. So agents who typically get some income in terms of commission, we give them various opportunities. Again, it's an example only and not a commitment. A bank can do various things. They can source other loans. They can source SB deposits. They can source of fixed deposits. There are variety of things that an agent can do. So as individuals and this is part of the regulatory framework, which is allowed also. So going forward, as an industry we feel that is the direction in which it will be moving.

Ashlesh Sonje: Understood, sir. Sir, and if I look at your microfinance disbursements, you have definitely seen a quarter-on-quarter inch up but if I look at FY '24, you were running at a run rate of about INR3,000 crores to INR4,000 crores per quarter. Where do you think you can end up going ahead?

Hari Velloor: We will assess this very, very carefully. I can tell you what we have done. Till July 2025, we were collecting more than we disbursed. Since July, that is from August onwards, our disbursements have exceeded the repayments. So we will be very, very careful.

We will be very choosy in whom we lend. However, where there is opportunity to lend and where the quality is good, we will definitely do it. So I think in the earlier conversations which we had in this call itself, we've been indicating that we see micro finance at about 30% to 35% of our book. We will keep it there in a very clean, healthy way.

So over the last 3 months or so, the average disbursement we've been doing is about INR630 crores. Looking at the quality, we may increase that a little bit more. However, it will not be like the earlier days when you were speaking about INR4,000, INR5,000 crores every quarter, etc. That will not happen.

Ashlesh Sonje: Understood. Sir, and just last question. Can you share the average cost of saving deposits and average cost of term deposits for you?

Hari Velloor: The average cost of savings deposits is about 5.1% and the average cost of fixed deposits is about 8% or so. However, if you see from a cost of deposits point of view, last year, the whole 4 quarters, we were at 7.5%. This year, we come down to 7.3% and last quarter it was 7.2% . So we've been rationalizing the deposit rates. And as you know, deposit rates take far longer time to show in the cost of funds change. However, I think the CFO, Girish, has already mentioned, we see it moderating over the next 12 months.

Ashlesh Sonje: Understood, sir. Sir, you said cost of SA is 5.1%. Is that right?

K. Paul Thomas: That is right.

Ashlesh Sonje: Okay, sir. Thank you very much for answering my questions.

Moderator: Thank you. As there are no further questions, this brings the conference to an end. On behalf of ESAF Small Finance Bank Limited, we thank you for joining us. You may now disconnect your lines.