



ESAF Small Finance Bank Limited
Q3 FY26 Earnings Conference Call
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Moderator: Ladies and gentlemen, good day, and welcome to ESAF Small Finance Bank Limited Q3 FY26 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 then zero on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Dr. K. Paul Thomas, MD and CEO of ESAF Small Finance Bank. Thank you, and over to you, sir.

K. Paul Thomas: Thank you. Good morning, everyone, and welcome to ESAF Small Finance Bank's Q3 and 9 months FY26 Earnings Call. On behalf of Board and management, I thank you for joining us today and for your continued interest in ESAF Small Finance Bank. Joining me today are my colleagues, Mr. George K. John, Executive Director; Mr. Gireesh C.P., EVP and CFO; and Mr. Hari Velloor, EVP.

At ESAF Small Finance Bank, financial inclusion and serving the underserved has always been the bedrock of our purpose. At the same time, we are consciously strengthening the balance between social impact and sustainable profitability.

Over the last few quarters, our strategy has been focused on building a stable, diversified and resilient balance sheet supported by disciplined execution and risk calibration. Our focus on secured lending, granular deposits, operational efficiency and technology-led service delivery is now clearly visible in our financial performance. Accordingly, we have intensified our focus on a diversified product portfolio, strengthening our distribution network and enhancing service delivery standards. This has allowed us to deepen our presence across rural, semi-urban and urban geographies, while serving a wider customer base with greater efficiency and consistency.

We are building a sustainable and diversified lending business with a shift to secured lending, which is important for long-term stability and growth. At the same time, we are adding new customers and increasing our connect with existing customers to further bolster our CASA and deposit base.

A key highlight of our transformation journey has been the successful execution of our MARG strategy, which represents M for MSME, A for Agri, R for Retail and G for Gold loans. This strategy reflects our deliberate shift from unsecured to secured lending.

At ESAF Small Finance Bank, our operations continue to be guided by strong governance, transparency and responsible banking practices. We remain committed to maintaining high standards of disclosure and risk discipline, while creating sustainable long-term value for our shareholders. At the same time, we stay true to our founding purpose of fostering financial inclusion and enabling meaningful socioeconomic progress across the communities we serve.

On the macro front, the Indian economy continues to witness strong growth momentum driven by robust domestic demand, lower inflation and structural reforms related to GST and labor.

This has been supported by various regulatory and monetary measures announced by RBI that are largely aimed at strengthening the entire banking sector.

Q3 FY26 business numbers mark a turnaround in our business performance with PAT turning to positive territory and both gross NPA and net NPA reducing significantly. We will continue to work towards improving cost efficiencies and strategically increasing disbursements, especially across secured lending segments like gold, MSME, mortgages, vehicle and Agri loans. This strategic shift is strengthening our asset quality, reducing portfolio concentration and de-risking the business, thus enabling sustainable growth.

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 briefly outlining the recent regulatory backdrop.

In the December Monetary Policy Committee meeting, the RBI reduced the repo rate by 25 points to 5.25 percent while maintaining a neutral stance. This marks a cumulative rate cut of 125 basis points during 2025, supported by a sharp moderation in inflation and a stronger-than-expected economic recovery. The overall macro environment remains conducive, with improved visibility on credit growth across the system, which is expected to benefit the banking sector meaningfully.

Moving to our bank performance, Q3 FY26 reflects a clear improvement across key parameters. The quarter witnessed a return to profitability, supported by normalization in asset quality and significant reduction in NPA levels. We also saw sequential improvement across core business metrics, underscoring the effectiveness of strategic actions undertaken over the past few quarters.

As of 31 December 2025, our total business stood at INR 44,686 crores, registering a healthy year-on-year growth of 10 percent compared to INR 40,706 crores last year. During the same period gross advances grew by 13 percent while deposits increased by 7 percent resulting in balanced growth across both sides of the balance sheet. Disbursements witnessed strong momentum, recording a growth of 134 percent Y-o-Y and 46 percent quarter-on-quarter. This growth was broad-based across segments and clearly reflects the strength of underlying demand as well as the successful execution of our strategy towards secured high-quality lending.

We have made meaningful progress in reshaping our portfolio mix. In line with our de-risking strategy, the microfinance group has been rationalized from INR 10,000 crores in Q3 FY25 to INR 7,500 crores in Q3 FY26, enabling a greater shift towards secured and better rated assets. This transition is enhancing portfolio resilience, reducing volatility and supporting sustainable long-term growth.

As part of our de-risking strategy, we have defined a progress growth framework called MARG, detailed in Slide 5 of our investor presentation. MARG in Sanskrit signifies direction, and this framework reflects our clear strategic path towards secured lending led by MSME, agri, retail

and gold loans. This shift is strengthening portfolio quality and long-term resilience. An added advantage of this portfolio transition is that all the constituent segments under the MARG framework exhibit significantly lower NPA levels.

Together the segments now account for nearly 60 percent of our total advances. Among them, gold loans have emerged as a standout performer, recording a strong growth of 89 percent year-on-year and 16 percent quarter-on-quarter, reflecting sustained demand from our rural and semi-urban customer base. As a result of this focused strategy secured assets now constitute 63 percent of our gross advances compared to 45 percent a year ago. We remain firmly on track to achieve our stated target of 70 percent secured portfolio by March 2027. The steady improvement in the secured asset mix over the last 5 quarters clearly validates the effectiveness of our strategy in building a more resilient high-quality portfolio with stable yields and lower credit cost.

Our distribution footprint continues to be one of our strongest differentiators. 788 banking outlets, 720 ATMs over 1,042 customer service centers and 31 institutional business correspondents across 24 states and 2 union territories, enabling deep customer reach and connect.

On the microfinance front, after nearly 5 quarters of industry-wide stress, we are now seeing a clear sign of stabilization. Collection efficiencies have improved sequentially, and the overall operating environment has begun to normalize, supported by better borrower behavior and tighter industry discipline. We are leveraging this improving macro environment through a focused and calibrated strategy for our MFI portfolio. This includes revamping the “Sangam” meeting process to strengthen field level engagements, targeted acquisition of quality customers, structured graduation from group loan to individual loans, a calibrated risk approach to fresh disbursements and intensified follow up on the delinquent accounts.

We remain confident about the stability and long-term potential of our microfinance portfolio. With improving collection trends, disciplined underwriting and a strong risk management framework, the portfolio is now on a much stronger footing.

As we continue to execute our priorities of derisking the balance sheet, enhancing asset quality and improving operational efficiency, we are well positioned to deliver sustainable and high-quality growth supported by continued investment in technology, products and customer service. The improvement in business performance during the quarter clearly reflects the impact of our focused strategic actions and disciplined execution.

The bank has returned to profitability during the quarter, supported by a meaningful reduction in GNPA level, moderation in slippages and improved operating efficiency. This turnaround has been driven by tighter credit underwriting, calibrated disbursements, stronger collection performance and sustained focus on portfolio quality.

The sequential improvement across key financial parameters, including profitability and asset quality, is a direct outcome of management's strategic initiatives and the consistent efforts of our teams across the Bank. The improvement in asset quality metrics, coupled with better cost

control and a healthier business mix, reinforces our confidence in the sustainability of this recovery. We believe the progress achieved during the quarter marks a structural improvement rather than one-off and positions the Bank well for continued improvement in profitability and return ratios going forward.

ESAF 2.0 StratoNeXt digital transformation remains a key strategic initiative with go-live targeted for Q2 FY27. Beyond improving operational efficiency and scalability, the program is focused on strengthening risk management, regulatory compliance, data governance and controlled frameworks. This transformation will enable better monitoring, improved auditability and stronger compliance alignment while supporting sustainable growth and improved customer experience.

I will now invite our EVP and CFO, Mr. Gireesh C.P., to take you through the financial performance.

Gireesh C. P.:

Thank you, Sir, and good morning, everyone. I thank all the participants for taking time to join us on this call. Let me give you an overview of our financial performance highlights for Q3 FY26.

As of Q3 FY26, total deposits stood at INR 24,006 crores, reflecting a moderate year-on-year growth of 7 percentage as compared to INR 22,415 crores last year with a healthy CD ratio of 83.6 percentage. Our continued focus on building a stable and granular deposit base is clearly reflected in the strong performance of retail deposits, which increased to INR 22,426 crores from INR 20,737 crores a year back, registering an 8 percent of Y-o-Y growth.

Retail deposits now constitute 93 percent of total deposits as of Q3 FY26, underscoring the strength, stability and granularity of our deposit franchise. CASA balances grew to INR 6,030 crores in Q3 FY26, registering an 8 percent Y-o-Y growth with the CASA ratio improving to 25.1 percentage. The moderation in deposit pricing in line with soft interest regime has begun to reflect in a lower cost of funds. Our sustained focus on customer acquisition, service quality and branch-led expansion continues to support stable and granular CASA growth.

Gross advances increased to INR 20,679 crores from INR 18,291 crores a year ago, reflecting our measured approach to growth, which is consistent on a month-on-month basis from Q2 onwards. Quarterly disbursements stood at approximately INR 13,000 crores, growing strongly both year-on-year and quarter-on-quarter. Secured lending constituted 81 percent of the total disbursements marking the fifth consecutive quarter where secured assets formed over 75 percent of new lending.

This is a direct outcome of our MARG strategy focused on MSME, agri, retail and gold loans, which continues to strengthen asset quality and improve portfolio resilience. The secured portfolio led by MARG strategy continued to perform strongly on both Y-o-Y and Q-o-Q basis, reinforcing the success of our strategic shift towards secured lending. The unsecured portfolio declined by 24 percent Y-o-Y and remained stable sequentially, reducing its share to 37 percent of the total advances from 55 percent last year.

With asset quality stabilizing, our focus is now firmly on disciplined growth, improved recoveries and strengthening portfolio quality, ensuring healthy margins. Net interest income increased to INR 432 crores in Q3 FY26 from INR 372 crores in the previous quarter, driven by healthy loan growth, coupled with lower slippages.

Quarterly net interest margin improved to 6.6 percent from 5.9 percent despite a higher share of secured lending and further rate cuts of 25 basis points in Q3. The benefits of lower cost of funds and improved fund deployment in loan book outweighed the marginal yield compression, resulting in healthier margins and improved earnings.

The bank had a healthy comeback and started delivering a strong improvement in operating performance with pre-provisioning operating profit at INR 253 crores, which is up by 171 percent sequentially and 98 percent on Y-o-Y basis. This was supported by managing slippage and NPA sales, coupled with robust business growth, improving cost efficiency and securing higher fee based income. Non-interest income grew 86 percent Q-o-Q and 137 percent Y-o-Y, reflecting enhanced operating leverage and the benefits through scalability of the business model and ARC sale.

The improvement in asset quality during Q3 FY26 reflects the strengthening of the portfolio, leading to lower slippages apart from the sale of NPA. Gross NPA declined to 5.6 percent and Net NPA declined to 2.7 percent while slippages reduced sharply to INR 219 crores from INR 505 crores in Q3 FY25. This improvement has been supported by stable microfinance performance, disciplined credit underwriting and increasing contribution of secured lending under our MARG strategy. These developments reinforce the ability and strength of our risk management framework and the sustainability of our asset quality improvement.

Our focus going forward is to further strengthen asset quality by reducing both GNPA and NNPA to improved levels. This will be achieved through disciplined credit delivery, improved monitoring and a cautious approach to microfinance lending, accelerated recoveries and continued growth in secured assets under MARG framework. Together, these actions will enhance balance sheet strength and drive sustainable profitability.

Q3 FY26 also represents an important inflection point for our Bank with a return to profitability and a PAT of INR 7 crores. With improving operating metrics and normalization of credit costs, we expect to deliver this trend in the coming quarters ahead.

FY 26 remains a year of consolidation for the bank with emphasis on improving asset quality, strengthening operating metrics and pursuing disciplined growth. Our continued focus on productivity enhancement, cost optimization and balance sheet strengthening is yielding positive outcomes. With the operating environment stabilizing and our strategic initiatives gaining traction, ESAF SFB is well positioned to drive the next phase of sustainable, resilient growth.

Thank you very much. The floor is open for question and answers.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Deepak Poddar from Sapphire Capital.
- Deepak Poddar:** So just a few things I wanted to understand. Now with your gross NPA reducing and even slippage has come down considerably. So by when we should see normalization of credit cost or a declining trend as such?
- Gireesh C. P.:** Credit cost will get normalized in the next financial year itself.
- Deepak Poddar:** Okay. I mean will it be visible from first quarter, fourth quarter?
- Gireesh C. P.:** It has already moderated on a quarter-on-quarter basis, also on a month-on-month basis, it has moderated. By next year, hopefully by Q1 it will be at a comfortable stage.
- Deepak Poddar:** Okay. So, from Q1 FY27, a visible improvement may be seen, right, I mean, in terms of the credit cost?
- Gireesh C. P.:** Yes.
- Deepak Poddar:** And what's the normalized credit cost now given 63% is your secured book, right? So, what would be a normalized credit cost given the current portfolio mix?
- Gireesh C. P.:** It will be somewhere around 2% to 3%.
- Deepak Poddar:** Okay. Understood. And how do we see the ROA profile now given a change in our mix of portfolio. So, I don't consider the ROA that you used to do, I mean, at a higher MFI book share can be repeatable with the current portfolio mix. So, what is your steady-state ROA profile that you expect given the current portfolio mix?
- Gireesh C. P.:** Getting the ROA stabilized will take some more time because there is some backlog to be absorbed in the P&L. On a normalized level, we hope that the ROA will be somewhere around 1.5 percentage to 2 percentage going forward on a steady state.
- Deepak Poddar:** Okay. And this we can expect in FY 27 itself, or it will take more time?
- Gireesh C. P.:** FY 27 it may not have the full impact. But in FY 28, you will have the full impact as things stand today.
- Deepak Poddar:** By FY 28, okay.
- Gireesh C. P.:** Yes.
- Deepak Poddar:** Okay. Understood. And any sort of outlook you want to share for FY 27 in terms of growth and all? How should one look at the loan book growth?
- Gireesh C. P.:** In FY 27, we expect the loan growth to be somewhere around 25 percentage.

- Deepak Poddar:** And this year, where do we look to end FY 26?
- Gireesh C. P.:** This year may be around 15%.
- George K. John:** As of now, we are already at 14 percent. So based upon that, some growth will happen.
- Deepak Poddar:** So 15%, 16% would be a fair assumption?
- George K. John:** Yes.
- Deepak Poddar:** Okay. Given the current improving situation, quarter-on-quarter, we would see improvement in terms of your performance, whatever we have done, let's say, in third quarter. Quarter-on-quarter, we should expect some improvement?
- K. Paul Thomas:** Yes, definitely, you can expect a quarter-on-quarter improvement in all parameters.
- Moderator:** The next question is from the line of Chinmay Nema from Prescient Capital.
- Chinmay Nema:** Sir, could you please share the write-off numbers on the microfinance book for 9 months FY26?
- Gireesh C. P.:** This year, we have not done any technical write-offs. We have only had some ARC sales.
- Chinmay Nema:** Sir, could you share the number for that? What would be the total number in the 9 months?
- Gireesh C. P.:** Yes. It is around INR 1,018 crores.
- Chinmay Nema:** Got it. And secondly, could you share the net NPA number on the microfinance book? So we do report the gross NPA number, but if you could also share the net NPA number on the microfinance book?
- Gireesh C. P.:** The number we will share.
- Chinmay Nema:** Okay, sir. Sure.
- Moderator:** Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for the closing comments.
- K. Paul Thomas:** Thank you very much. So, as we have been communicating throughout the year and as mentioned earlier also, FY 26 will be a year of consolidation for the organization. We believe we have taken the right strategic steps and hopefully supported by positive microfinance environment; we can expect to see continued growth.

I would like to again thank all the participants, investors and analysts for taking the time out for this conference call today. In case you have any follow-up questions or inquiries, you can always reach out to our Investor Relations team. Thank you very much.

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