



ESAF Small Finance Bank Limited
Q4 FY26 Earnings Conference Call
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Moderator: Ladies and gentlemen, good day, and welcome to ESAF Small Finance Bank Limited Q4 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 your touch-tone 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 afternoon. And welcome to ESAF Small Finance Bank's Q4 FY26 Earnings Call. On behalf of the Board and the management team, I thank you for joining us today and for your continued interest in ESAF small finance bank. Joining me are my colleagues Mr. George K. John, Executive Director; and Mr. Gireesh C.P. EVP and CFO.

At ESAF Small Finance Bank, our strategic focus remains on building a granular, diversified and an increasingly secured lending portfolio, which we believe is essential for improving asset quality, earnings stability and long-term scalability. At the same time, our commitment to financial inclusion and serving the underserved segments continues to be a core differentiator of our franchise.

As outlined in our previous call, our MARG strategy of MSME, Agriculture, Retail and Gold loans is central to this transition. This approach is enabling us to diversify risk, improve portfolio quality and reduce dependence on unsecured segment. During the year, these segments have delivered healthy and broad-based growth aligned with our strategic priorities.

Our focus on secured lending, disciplined underwriting and calibrated risk management is now beginning to reflect in our performance. In Q4 FY26, we have seen sequential improvement across key financial parameters including asset quality and profitability metrics, indicating early outcomes of the strategic shift underway.

On the liability and customer side, we continue to deepen our presence across rural, semi-urban and urban markets. During the year, we crossed a milestone of 10 million customers with a strong representation of women borrowers. We see this as a structural strength of our model, contributing to both portfolio resilience and long-term franchise value.

From a sector perspective, the microfinance industry is showing signs of stabilization after a period of stress. Collection efficiencies have improved, and operating conditions are gradually normalizing, supported by better borrower discipline, better credit under writing and easing delinquencies. While external factors, including geopolitical developments, remain a watchpoint, we believe the sector is now on a more stable trajectory.

Looking ahead, our priorities remain clearly defined—increasing the share of secured assets, improving asset quality, strengthening profitability, driving operating efficiency and improve customer experience. These will be supported by continued investments in technology, distribution, and analytics-led decision-making.

With that, I now invite our Executive Director, Mr. George K. John to take you through the performance highlights.

George K. John:

Thank you, Paul sir, and good afternoon, everyone. We continued to build on the momentum from the previous quarter, with a clear focus on sustainable growth and financial discipline. As a result, we have seen sequential improvement across key operating and financial metrics, including profitability, asset quality, moderation in slippages, improved operating efficiency, and strengthening return ratios.

As of 31st March 2026, our total business stood at INR 48,276 crore, registering a 15% year-on-year growth compared to INR 42,055 crore last year. Gross advances grew by 19%, while deposits increased by 11%, reflecting balanced growth across both sides of the balance sheet.

On the liability side, retail deposits remained strong at 92% of total deposits, compared to 93% last year. Further, 88% of bulk deposits carry a non-prepayment clause, providing stability to our funding base. Our Liquidity Coverage Ratio stood at 143.35% as of 31st March 2026, indicating a comfortable liquidity position.

Disbursements during Q4 FY26 grew by 88% year-on-year and remained broadly stable sequentially. For the full year, we recorded our highest-ever disbursements of INR 42,530 crore, reflecting a 103% growth over FY25. This growth was broad-based, with the MARG portfolio continuing to be the key driver, growing by 133% during the year. Importantly, 82% of total disbursements were towards secured assets, in line with our strategic priorities.

On the advances side, our microfinance book remained stable at INR 8,746 crore as of March 2026. The secured loan mix improved to 61%, compared to 53% last year, driven by the continued scaling of the MARG portfolio. Overall, MARG advances grew by 47% year-on-year, with Gold loans and Mortgage loans each delivering growth of over 50%.

This ongoing portfolio transition is strengthening asset quality, reducing earnings volatility, and supporting sustainable growth, given the relatively lower NPA profile of these segments. We have also seen a decline in fresh slippages on a sequential basis, supported by improved collection efficiencies and tighter credit discipline. Notably, there were no ARC sales or technical write-offs during the quarter, reflecting underlying portfolio stability.

We remain on track to achieve our stated target of 70% secured assets by March 2027.

Our distribution network continues to be a key strength, with 804 banking outlets, 720 ATMs, 1,047 customer service centres, and 32 institutional business correspondents across 24 states and 2 union territories, enabling deep customer reach and engagement.

On the microfinance portfolio, we are adopting a calibrated and risk-averse approach, aligned with the improving operating environment. Key initiatives include strengthening field engagement through Sangam process enhancements, targeted sourcing of higher-quality customers, structured graduation to individual lending, and focused resolution of delinquent

accounts. With improving collection trends and disciplined underwriting, we believe the portfolio is now on a more stable footing.

On the technology front, ESAF 2.0 – StratoNeXt remains a key strategic initiative. This digital transformation program is aimed at laying a strong and agile foundation of our core technology infrastructure and business applications. We are making steady progress on the same and expect the implementation to be completed well before end of this calendar year i.e. before Q3 FY 27. It will bring in much-needed agility to quickly adopt to the emerging market needs, enhance operational efficiency, better data governance, improve risk management, and enrich customer experience and service. Our progress in digital transformation has been recognized through multiple industry awards, including the Digital Transformation Excellence Award at the Hitachi Vantara Exchange and the Best Digital Financial Inclusion Award from the Indian Banks' Association.

Overall, the improvement in performance during the second half of the year has been driven by tighter underwriting, calibrated growth, improved collections, cost discipline, and a better portfolio mix. We remain focused on sustaining this momentum through disciplined execution of our strategic priorities in the coming year.

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

Gireesh C.P.:

Thank you, sir. Good afternoon everyone and thank you for joining us today. Let me take you through the key financial highlights of Q4 FY26.

As of March 31, 2026, total deposits stood at INR 25,850 crore, registering a year-on-year growth of 11% over INR 23,276 crore, with a credit-deposit ratio of 83.5%. Retail deposits increased to INR 23,674 crore, growing 9% YoY, and now constitute 92% of total deposits, reflecting a stable and granular funding base. CASA balances grew to INR 6,181 crore, up 7% year-on-year, with a CASA ratio of 23.9%. We expect CASA traction to gradually improve, supported by continued focus on customer acquisition, service quality, and branch-led growth.

Disbursements for the quarter stood at INR 12,926 crore, reflecting a strong 88% year-on-year growth. Secured lending constituted 78% of disbursements, marking the sixth consecutive quarter with over 75% share, in line with our strategy of improving portfolio quality.

Gross advances increased to INR 22,426 crore, from INR 18,779 crore a year ago, up 19% year-on-year. The secured portfolio, largely driven by MARG segments, grew 47% YoY, while the microfinance portfolio remained stable in absolute terms, with its share reducing to 39% from 47% last year.

Net interest income for the quarter was INR 518 crore, compared to INR 432 crore in the previous quarter. Net interest margin improved to 7.3% from 6.6%, supported by lower cost of funds and reduction in fresh slippages. Pre-provisioning operating profit stood at INR 241 crore,

up 166% year-on-year, driven by business growth and higher fee income. Other income grew by 39% YoY during the quarter.

Profit after tax for Q4 FY26 stood at INR 24 crore, compared to INR 7 crore in Q3 FY26. ROA and ROE improved to 0.1% and 1.3% respectively for the quarter; these are non-annualised numbers.

On asset quality, GNPA declined to 5.4% from 6.9%, and NNPA declined to 1.8% from 3.0% on a year-on-year basis. Slippages reduced significantly to INR 106 crore, compared to INR 427 crore in Q4 last year. This improvement reflects the shift in portfolio mix, better collection efficiency, and disciplined underwriting, along with contribution from NPA resolution. Our slippage ratio on a gross basis reduced from 10.5% for FY 25 to 6.5% for FY 26. It has also shown improvement on a quarterly basis of 0.54%. Credit cost came down from 6.7% in FY 25 to 4.7% in FY 26.

FY 26 was effectively a year of two halves. While the first half was impacted by a challenging operating environment, the second half saw a clear improvement in performance, driven by portfolio rebalancing towards secured assets, better asset quality, improved operating efficiency, and cost discipline.

With a stabilizing external environment and continued execution of our strategic priorities, we expect further improvement in asset quality, margins, and return ratios, while maintaining a disciplined and sustainable growth trajectory.

Thank you. And the floor is open for question and answers.

- Moderator:** Thank you very much, sir. The first question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Thank you very much, sir, for this opportunity. Sir, just wanted to understand first up, now given the portfolio mix is more towards secured, currently it is 60% and we are targeting 80%. So, what sort of normalized credit cost we are expecting with such kind of portfolio and by when?
- Gireesh C. P.:** A small correction on the unsecured book, we have given a gliding path up to 30%.
- Deepak Poddar:** Okay, not 20%? 30%?
- Gireesh C. P.:** That is what we are planning. And the credit cost going forward, if you see the credit cost for the current quarter alone, it is 1.08% and this has some backlog of provisioning on the stock of NPA. So steady-state basis a 2% credit cost is an expected thing going forward.
- Deepak Poddar:** Okay. And by when we can achieve that?
- Gireesh C. P.:** This year also there will be some backlog on provisioning, so from FY 28 you can expect.

- Deepak Poddar:** Understood. So, some backlog on provisioning will continue in FY 27, so a 2% kind of a credit cost steady state we can see by FY 28?
- Gireesh C. P.:** Yes.
- Deepak Poddar:** Okay. And sir, anything on the growth and ROA in FY 27? I mean, any outlook you want to share? That would be very helpful.
- Gireesh C. P.:** It is a futuristic statement and I'm unable to give you at this moment. But one thing which I can tell is that the growth is back and the asset quality problems are almost over and going forward we will be on a steady kind of growth. That is what is expected.
- Deepak Poddar:** Okay. So what you're trying to say, growth is back, asset quality problem is over, so ideally, we will see a much better performance than what we would have been seeing, right?
- K. Paul Thomas:** Also, we have built over a period of last 9 years, a great franchise spread across 26 states. So, we have 804 branches, we have 32 institutional business correspondent partners, operating 1,000 plus customer service centres. So last 2 years because of the asset quality issues and challenges, we were not able to fully leverage on the network we built.
- So going forward, we are seeing a great opportunity to leverage on the network we built, and mostly these are in the rural and semi-urban areas of India. So, the products we have developed are relevant for these markets, and that's how we are positioning ourselves.
- Deepak Poddar:** Correct. And given this portfolio mix more towards secured, now your credit cost you mentioned steady state would be 2%. So, what sort of steady state ROA, with this current, MARG focus that we have?
- Gireesh C. P.:** We are planning to have an ROA of 2%
- Deepak Poddar:** And that too, I mean, we will target to achieve by FY 28?
- Gireesh C. P.:** Yes.
- K. Paul Thomas:** We will start seeing the traction in another couple of quarters and you will see that trend continuing.
- Deepak Poddar:** Okay. Next two quarters maybe a traction we might expect in ROA front as well?
- K. Paul Thomas:** Yes.
- Deepak Poddar:** Yes, that's pretty much. That's very helpful, sir. I mean, wish you all the best. Thank you.
- K. Paul Thomas:** Thank you, Deepak.
- Moderator:** Thank you. The next question is from the line of Amit Mehendale from RoboCapital. Please go ahead.

- Amit Mehendale:** Thank you. Sir, my first question is on the loan book growth. I think this year we have grown by about 19%. So going forward, I mean, one can expect maybe 18%, 20%, 22% because they are coming out of a lean period, like 2 years have been very challenging. And now once the credit cost issues are behind us, we should be able to see a healthy growth, right? Maybe 20%-odd. I mean, what do you think? I mean, you may not give me a number, but broadly I think the trajectory should continue?
- Gireesh C. P.:** Yes, this year we have done some IBPC also. We have offloaded books to the extent of INR 650 crores, which is not there in the growth numbers. On a steady-state basis, 20% to 25% is the growth which we are looking.
- Amit Mehendale:** Right, sir. And any guidance on cost-to-income ratio going forward?
- Gireesh C. P.:** Cost-to-income ratio somewhere around 55%, plus or minus 2% is the guidance which we would like to give.
- Amit Mehendale:** Great, sir. And my last question is on NII. Now that our secured book is growing faster than the unsecured book and will have a larger proportion in the loan book, will NII grow in tandem with the loan book growth? Like suppose, the loan book grows by say 20%, NII should trail the loan book growth, right?
- Gireesh C. P.:** Yes, NII, has almost reached to a steady-state basis. So somewhere around 7%, plus or minus half percentage will be the NIM going forward.
- Amit Mehendale:** Okay, great. That's it from my end. Thank you very much.
- K. Paul Thomas:** Thank you Amit. Take care.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments. Thank you and over to you, sir.
- K. Paul Thomas:** So, thank you so much for participating in the call. We believe we have taken the right strategic steps and hopefully supported by a positive macro environment, we can expect to see continued growth in the coming years.
- I would like to 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 enquiries, you can always reach out to our investor relations team. Thank you very much.
- Moderator:** Thank you members of the management. Thank you, sir. Ladies and gentlemen, on behalf of ESAF Small Finance Bank Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.