

Management Discussion

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Good morning, and thank you for taking the time to join us today. To start with, I'm pleased to introduce our new CFO, Mr. Mukund, who has joined Equitas leadership team recently. After Sridharan, the earlier CFO, had retired after being associated with his Equitas for over 15 years. Mukund brings with him extensive experience across finance strategy, business planning with a strong track record of driving financial discipline and supporting scalable growth. We're delighted to have him on board and confident that his experience and insight will contribute significantly to Equitas growth in the next phase. This is Mukund's first earnings call at Equitas and I would like to extend a warm welcome time. .Coming to Q1 of current financial year, business performance, despite a challenging operating environment and continued impact of elevated funding costs, the bank delivered a resilient and steady performance during Q1. Our gross advances grew by 27% year-on-year to INR 47,640 crores, driven by broad-based growth across key asset classes. We continue to see strong momentum in the small business loan, housing finance and vehicle finance, while used commercial vehicle and used car deliver a particularly robust growth of 25% and 30%, respectively. Our micro finance continues to perform well, reflecting the discipline for portfolio management. The expected collection efficiency in micro finance remained strong during the quarter at 99.7%, and while the 1 to 90 DPD in microfinance has improved by 14 basis points at 1.1%, indicating continued normalization of the portfolio behavior. Other products like gold and AHF are also showing traction. Encouragingly, despite the geopolitical tension in West Asia and the associated macroeconomic uncertainties, the quality of retail and vehicle finance portfolio remains intact. We are confident on the stated guidance of 20% plus advances growth for the current financial year. Mr. Jagadesh, Head of Assets will explain in detail our strategic priorities and growth drivers to achieve this target. On the deposit front, the total deposits grew by 10% year-on-year and 5% sequentially to around INR 48,900 crores. Our CASA ratio stood at 25%, while retail deposits continue to account for a stable 65% of the overall deposit base. While the increase in savings and term deposit rates recently have led to a rise in funding cost 11 days sequentially, our focus remains on building relationship-led deposit franchise across retail, affluent, business banking and NRI segments. We are seeing a good traction in the new FCNRB as well as retail domestic deposit flow in the current month of July, and we are looking at a better deposit growth in the second quarter. Murali Vaidyanathan, Head of liabilities, will explain in detail the strategies that drive deposit growth. Our initiatives on IT remain robust. A few key apps such as enterprise LOS and litigation management system are being developed in-house and should be launched during the year. The first few projects using AI are underway and we expect to be the first feel of the benefit of usage of AI in the bank in the coming couple of quarters. Even though the first quarter, the CS&L is supposed to be the weakest quarter for the industry, we have seen one of our best performance in the first quarter compared to the same quarter over the past few years, be it in advanced growth, credit cost or cost to asset ratio. We have guided for a 20% plus advanced growth and an ROA of about 1.2% for the full year. The first quarter momentum gives us confidence that we should be able to deliver beyond our guidance on both the fronts. Overall, this performance reflects the strength of our franchise and the execution of our strategic priorities are increasingly reflected in our financial outcomes. The benefit of our balance sheet growth, improving portfolio diversification and sustained progress in asset poultry are now becoming more visible across our key earnings metrics. These efforts help us to strengthen the quality of growth while maintaining a prudent approach to risk and capital management. We had connected an Investor Day meeting in the month of June and has set

out a 5-year vision for the bank, and we remain committed to delivering the same. Thank you. And with this, I hand over to Mukund.

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

Thank you, sir. Good morning, everyone. As this is my first opportunity to engage with many of you in my role at Equitas, I would like to begin by expressing my sincere gratitude to the Board, our MD and CEO, Vasu sir, and the leadership team for their trust, confidence and support. I would like to extend a warm welcome and heartfelt thanks to all our investors, analysts and stakeholders who have joined us today. We value your continued interest in Equitas and greatly appreciate trust and confidence you have placed in us over the years. Let me briefly walk you through the financial performance for the quarter. This will be the summary of the details available in our investor presentation. We reported a net interest income of INR 1,030 crores and other income of INR 250 crores, bringing our total net income to INR 1,280 crores for the quarter. Total net income grew by 19% year-on-year and 3% quarter-on-quarter. Effective quarter 1, FY '27, NIM is reported based on daily average interest ending assets replacing the earlier methodology based on the average of opening and closing interest ending assets for the quarter. NIM stood at 7.24% for the quarter 1 FY '27, a decline of 12 basis points quarter-on-quarter due to the increase in cost of funds. Total operating expenses were at INR 875 crores, up 16% year-on-year and 5% quarter-on-quarter, reflecting the impact of annual increments during the quarter and increase in the employee point -- employee count on year-on-year basis. Cost to assets declined by 14 basis points quarter-on-quarter to 5.61% in quarter 1 FY '27 as compared to 5.75% in quarter 4 FY '26. Cost-to-income ratio stood at 68.38% in Q1 FY '27 as compared to 67.52% in quarter 4 FY '26 and 70.62% in quarter 1 FY '26. The bank reported a quarterly profit after tax of INR 184 crores compared to a loss of INR 224 crores in quarter 1 FY '26. Return on assets and return on equity for quarter 1 FY '27 were at 1.18% and 11.76%, respectively. Moving to the asset quality. Gross NPA reduced by 13 basis points quarter-on-quarter to 2.36% as compared to 2.49% in quarter 4 FY '26. Net NPA increased by 2 basis points quarter-on-quarter to 2.70% in quarter 1 FY '27 as compared to 0.66% in quarter 4 FY '26. Credit costs on average gross advances declined significantly to 1.37% in quarter 1 FY '27 as compared to 6.8% in quarter 1 FY '26. On coverage ratio remained stable at 71.02%, including technical write-offs, provision coverage ratio stands at 86.96%. Moving further, gross advances grew 27% year-on-year to INR 47,641 crores, driven by robust business growth across products. On liabilities, total deposits grew 10% year-on-year and 5% quarter-on-quarter to INR 48,976 crores. CASA ratio stands at 20%. As of June 30, 2026, our capital adequacy ratio stood at 19.44%, Tier 1 capital at 16.01% and Tier 2 at 3.43%. Thank you, and I will now hand it over to Mr. Jagadesh.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

Good morning, everyone, and thank you for joining us. Before I begin the deep dive into our advances portfolio, let me briefly touch upon the current situation. As of now, we have not observed any visible stress in our portfolio attributable to the ongoing developments in West Asia. We continue to closely monitor the situation and remain watchful of any potential development. Business momentum remained steady during the quarter supported by disciplined underwriting and stable collection performance. Against this backdrop, let me now walk you through the key trends in our advances portfolio. We have closed the quarter with gross advances of INR 47,641 crores, reflecting a growth of 27 percentage year-on-year, which is driven by a strong disbursement growth. Let me walk you through some key highlights. We have delivered the highest ever 1st quarter

disbursement of INR 6,784 crores in quarter 1, a growth of 93 percentage year-on-year. Microfinance disbursement of INR 1,343 crores in this quarter, which constitutes around 11 percentage of the overall loan mix, and we intend to maintain it around 10 percentage going forward. Including DA book, MFI currently stands at 13 percentage. In addition to that, 80% of our organic MFI book is covered under CGFMU. On the non-MFI front, our disbursements were at INR 5,441 crores in this quarter, a growth of 68% year-on-year. Our non-MFI book, which is a secured one, now stands at INR 41,623 crores marking a 22% year-on-year growth. Our small business loan portfolio continues to be the largest contributor with INR 19,249 crores, growing at 15% year-on-year, and notably, our secured business loans, with an SBL saw a robust 32% year-on-year growth. And vehicle finance grew 15% year-on-year. And within vehicle finance, use the commercial vehicles, grown by 25% year-on-year and used car go posted a strong growth of 30% year-on-year. Our strategic focus remains on used the CV and used car, which continue to show resilience. Our housing finance grew 24% year-on-year and MSA finance grew by 28 percentage. Coming to the field and asset quality front. The yield on gross advances increased by 23 bps quarter-on-quarter to 15.74 percentage, and non-MFI yield increased by 4 bps quarter-on-quarter to 14.89 percentage. Our asset quality continues to be an improving trend. Our net slippages at 1.43 percentage in quarter 1, the second lowest among the first quarter over the last 5 years. Our GNPA at 2.36 is lowest among the last 2 financial years. And credit costs led 1.37 percentage in this quarter versus 6.4 percentage in quarter on-order financial year '26. Adjusting for the INR 29 crores stress sector provisioning reversal in quarter 4 financial year, credit costs would have been approximately 1.38 in Q4, broadly in line with the current quarter, indicating the stable underlying credit cost on a sequential basis. In micro finance, the 1 to 90 DPD declined to 1.10 percentage from 1.34 in quarter 4, driven by enhanced collection efficiency. The expected collection efficiency at the cost level of 99.7% in Q1, reflecting the stability. I would like to conclude that even in a seasonally weak quarter, we delivered strong performance in disbursement and asset quality across products. We expect this momentum to sustain in the quarters again. Thank you, and I now hand over to Mr. Murali.

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

Good morning, friends. I would like to take you through what's happening on the liabilities front. We continue to build a healthy momentum with total deposits growing sequentially 5% and book reaching closer to INR 49,000 crores. And in this, the composition is 25% of that money coming from CASA. And CASA plus RTD accounts close to 66% of our total deposit base. This reflects the strength and granularity of our franchise and the bank. It is also noteworthy that 91% of our bulk deposits are noncallable in nature and in a duration of 1 year. This provides the greater stability to our funding profile and limiting the repricing risk, which happens on the same year. The FCNR, we have launched through the AD1 project which has gone live, pre-swap and post-swap, we are seeing a healthy traction, and we have crossed close to 42 million already. Adding -- this will add the diversified as well as opportunity for customer towards hedging and an opportunity for us to build the dollar balance sheet. On a daily average cost of funds, it increased by 11 bps. We actually decreased our staff pricing, and we have launched branded product called Maxima with 3-year 1 day as a duration, and that is showing enough traction. So the culmination of both has increased the cost of funds and moving up to INR 7.05 crores from INR 6.94 crores. We are also encouraged by the response to our recently launched ARTHA proposition, targeting H&I and H&I plus. And the proposition as well as segmentation is helping us to penetrate into the H&A segment very deeply, and high-value customers are enjoying the premium banking proposition along with the use of

convenience. In addition to that, we have specific proposition of EPIC for NRI, which is showing a traction in terms of rupee as well as dollar-denominated feature. And Elite Lite, which we launched 3 months back for emerging affluent is showing in terms of number and value. So both the offerings are witnessing encouraging traction and helping us to expand our reach across key segmentation. So with a strong retail franchisee, differentiated customer proposition and customer segments, along with customer-centric approach towards mobilization of deposits and building balance sheet. We remain well positioned to support the bank's funding requirements as we move forward. Thank you. I hand it over to Gopi.

Gopalkrishnan. G - Head of Treasury, Equitas Small Finance Bank

Good morning, everyone. The quarter went by was very challenging given continued untreatable geopolitical situation with Asia exerting severe pressure on rupee and other domestic assets due to higher crude prices. Financial markets continue to exhibit volatility with uncertainty continuing to impact treasury revenue. Our treasury income stood at INR 31 crores in Q1 FY '27. Foreign investors have retreated to safe haven investments while placing large bets on AI causing India to miss out on in dollar flows. Rupee depreciation pressure continues. However, the measures announced by RBI in June to attract external flows have got off to a good start garnering over \$20 billion. In the immediate term, CPA is expected to broadly remain within the NPC inflation targets skewed towards the upper end. Longer-term effects of imported inflation and this year's monsoon shortfall are likely to see some upside risk committee against current RD projections. Government bonds saw the benchmark 10-year yield exhibit heightened volatility during the quarter, closing it at 6.77%. The yields have mirror the volatility in crude prices and geopolitical cues, and this is likely to continue definitely into tension in West Asia. We approached the coming quarter with caution, given the continued volatility. Thank you.

Operator

[Operator Instructions] First question comes from the line of Heet Khimawat from IIFL Capital Services. Please go ahead.

Questions & Answers**Heet Khimawat - Analyst, IIFL Capital Services**

Hi sir. Thank you for the opportunity. Firstly, on the funding side, maybe Murali sir, you could take this. The share of bulk has gone up in this quarter. And we're also seeing in the last couple of years, the share of individual depositors in our deposit base. has been coming down while banks and on body share has been going up. So just wanted to understand what is happening here and how do we see this trend in the medium term? .While also on the cost of funds, we've seen the marginal -- like I just wanted to understand the marginal cost of funding that would be seeing in this quarter? And how would that compare versus the current cost of funds that we are seeing and mainly in the near term, in the next 1 or 2 quarters, can the marginal cost remain at the current level? And would that be higher or lower than the current cost of? That would be my first question.

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

Thank you. See, first, on the retail to bulk side, there are 3 divisions. We have given it on the slides, which is greater than INR 3 crores to INR 10 crores, INR 10 crores to INR 50 crores and greater than INR 50 crores as a bucket. So in these government bodies and institution, and we have something

called cooperative banks. Today, cooperative banks accounts to close to 18% of the book. And government bodies and institution contributes to 12% of the book. The 30% of the book is coming in for bulk TD requirement. The expansion into government actually helped us to mobilize. So the overall pie at this point of time, looks like 68% coming from individuals as well as HUF and balance 30% coming from institutions. When we pick up, that is recently what we have done on SCNR as well as Maxima pick up, over a period of 6 months, it will gradually come down to earlier of either 70-30 or 72-28 over 2 quarters. That is what is expected on the funding side.

Heet Khimawat - Analyst, IIFL Capital Services

Got it. And just on the marginal cost of fund basically the quarter...

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

Yes. On the margin cost of one side, if you look at it currently, we are at about 8%. And the current outlook from that point of view, we still believe maybe around this mark only we'll be having it as we move forward as well.

Heet Khimawat - Analyst, IIFL Capital Services

Got it. Got it. Secondly, on the MFI slippages. So we've seen that coming down. However, the non-MFI slippages have been stuck in this quarter. So just wanted to understand if there is any seasonality coming from the vehicle book that we normally see in Q1? Or is this from any other non-MFI segments? And how do we trend -- how do we expect this to trend in the coming quarters?

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

This is Jagadesh. So slippages has been better compared to the last Q1 of the financial year, okay? If you look at the net slippages, the current net slippages is INR 151 crores, okay? And MF is 30 crores and non-MF is 120 crores. If you look at the last financial year quarter 1, it's INR 453 crores, and MFI is INR 230 crores, so which is effectively INR 220 crores. It's better compared to the corresponding quarter of the previous year. And normally, the Q1 will be a season. It's based on the seasonal. We see better improvement in the asset quality going forward.

Heet Khimawat - Analyst, IIFL Capital Services

Yes. So mainly non-MFI would be largely seasonal from vehicle maybe and that would be -- I just wanted to understand that -- is there any seasonality.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

Yes. It's a seasonal.

Heet Khimawat - Analyst, IIFL Capital Services

Got it. Got it. And sir, lastly, on the MFI side, so we had the DA book of INR 1,340 crores which came in 3Q. Like what is the rundown that we are seeing? Or by when can we expect this to run off in how many quarters?

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

Currently, we have INR 838 crores. By Q4, it would come around close to INR 150 crores.

Heet Khimawat - Analyst, IIFL Capital Services

Got it. Got it. That is helpful. That is all from my side. Thank you so much.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

Thank you.

Operator

Thank you. The next question comes from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan - Analyst, DSP Mutual Fund

Good morning. You had mentioned about capital optimization a couple of quarters ago, which included CGFMU and so on. But is there any chance of increasing your DA or securitization book so that you can grow while maintaining a slightly higher capital adequacy. Now you're at 16% Tier 1. And so I want to know where you'd expect it to be, let's say, in the end of Q4, given your strong growth.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Yes. So there are a lot of levers for capital preservation that we have been using over the last few quarters. So we will continue to do that. In fact, last quarter, meaning the first quarter of this financial year, we did do a DA of around INR 500 crores of the affordable housing book, which released a little bit of capital. We are also actively getting our vehicle finance portfolio covered under CGT MSC, which again releases capital. And then, of course, the IBPC is always a tool available to sell down and preserve the capital and focus on lower risk-weighted assets like housing finance or gold loans to conserve capital. So there are a lot of levers. And we continue to use all the levers available to our CGFMU, of course, is 1 more lever. Today, I think, out of microfinance book -- our own micro finance, just taking the DA part of it out, almost 87% of the microfinance book is covered under CGFMU which not only mitigates risk, but also relates to some amount of capital. So all this is something that we'll continue to do. And so hopefully, that -- we should -- we don't expect to raise capital -- Tier 1 capital in the current calendar year. For this calendar year, I don't think we'll be raising any capital. Maybe towards the end of the fourth quarter of the financial year or maybe towards first quarter of next financial year, we might look at it. But again, that depends on how much capital we're able to consider through all these methods. And in the forthcoming AGM, we will be putting up a resolution, an enabling resolution for a Tier 1 capital of INR 1,250 crores, but that's, again, largely an enabling provision. Last year also, we had a similar provision at the last AGM, which was approved by the shareholders, but we were able to manage the capital so we really didn't raise. This year, again, we'll be coming up with enabling resolution. And -- but the target would be to raise it either in the fourth quarter or first quarter, again, depending on how we are able to conserve the remaining capital.

Operator

Sir, the current participant line is disconnected. Should we proceed with the next question?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Yes, yes.

Operator

Thank you. The next question comes from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar - Analyst, Sapphire Capital

Yes, am I audible, sir?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

You're audible.

Deepak Poddar - Analyst, Sapphire Capital

Thank you very much for this opportunity. So just wanted to understand, first up, I mean, for the full year, we are still targeting 1.2% kind of an ROA rate so -- so are we still maintaining our exit ROA of 1.5% by 4Q, that I think we have mentioned in earlier calls as well?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Yes. So we had guided for a 1.2% for the full year and 1.5% exit for fourth quarter ROA, but if you see our first quarter ROA is almost 1.2%, just a little bit less than 1.2%, and -- so it does look like our ROA for the full year should be more than our guided range of 1.2% ROA. So we are also looking at a lot of the metrics which ROA tree. And maybe the end of second quarter, we might come with a revised guideline. We believe that our actual ROA for the year should be better than the guided figure -- earlier guided figure, how much better? And what is it likely ROA that we should expect for the full year? We'll be able to come back to that maybe the end of second quarter.

Deepak Poddar - Analyst, Sapphire Capital

Okay. And we still maintain year-end ROA of 1.5%?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

I mean that's what we have guided, definitely that we should be able to deliver. By end of second quarter, we will be able to say whether it can be better than that.

Deepak Poddar - Analyst, Sapphire Capital

Okay. And anything on FY '28 next year, what sort of ROA we are looking at?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

See, the exit quarter, whatever the full year ROA that we will end up for current year, the next year should only be better than that because all the metrics are looking good, the whole platform has really been laid out strongly over the last 3, 4 years. So whatever be the ROA that we end up this year, next year should be an improvement on top of that.

Deepak Poddar - Analyst, Sapphire Capital

So improvement over the exit ROA?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Not exit ROA. I'm saying that for the full year...

Deepak Poddar - Analyst, Sapphire Capital

Full year ROA.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Whatever ROA we delivered for the full year, next year, full year ROA should be definitely better than that.

Deepak Poddar - Analyst, Sapphire Capital

Got it. Got. It. Thats very helpful sir. Thats it from my side.

Operator

Thank you. The next question comes from the line of Shailesh Kanani from Asian Market Securities. Please go ahead.

Shailesh Kanani - Analyst, Asian Market Securities

Good morning everyone and thanks for the opportunity. A couple of questions from my side. I wanted to check on the more growth of bold-on book. It seems to be a little bit some moderation has been there in this quarter on quarter-on-quarter basis. So how should we think about this? And what should be the year-end target following book?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Gold loan we have already informed that we are expanding gold loan to liability branches also from the asset branches side, we are enhancing our distribution -- so we are closer to INR 2,000 crores. Now on a full year basis, we intend to scale it up INR crores 2,600 mark. So that's the best -- so that's how we are looking at it as we move forward. Of course, there are opportunities to further scale it up as we move forward with the distribution getting announced and branches as well. So we'll come back on that maybe in subsequent quarters as far how it comes out.

Shailesh Kanani - Analyst, Asian Market Securities

Any reasons for moderation to be this quarter?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

It's largely seasonal and the summit of network expansion, what we have undergone, it's taking some more time. But otherwise, the month-on-month disbursements are healthy, so we continue to do healthy numbers there.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

This is Jagadesh. So on the asset part of the gold loan, we had to start up with our branch expansion, okay? So by Q2, we'll come up with more branches, and our plans of getting into close to some 120 branches will be done by Q4. So we can be able to see the upsurging disbursement from Q2 onwards.

Shailesh Kanani - Analyst, Asian Market Securities

Okay. Fair enough. And just to repeat the number, INR 2,600 crores. What is the target for the gold loan? That is what I head I properly?

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

It's 1,600 -- I said INR 1,600 crores this year.

Shailesh Kanani - Analyst, Asian Market Securities

INR 1,600. Okay. Fair enough. Sir, second question sir, my second question was with respect to liability fee income. That growth on the year-on-year basis seems to be muted. So any steps we are taking to move that line item?

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

Yes. See, in terms of product mix in insurance, we are now skewed towards term as well as traditional. And as we know, the commission structures are coming under scrutiny. We are putting a lot of guardrails in terms of focus on solutions based on suitability and also, most importantly, the mix, which should not be driven through revenue. So top line growth will happen. And revenue will be a byproduct of top line. That is what we call it as BWRP. That is going to be our approach for this year. And in the coming quarters, we are going to enhance our health insurance proposition within the customer segment. So it's a product of life, general and health. In the first quarter, it was skewed towards general and life. In the second quarter, we will be focused more on health penetration and life ticket size penetration.

Shailesh Kanani - Analyst, Asian Market Securities

Fair enough. Sir, just last question from my side. Any update on the Universal banking license?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Yes. So on that question, we are looking at it internally. As of now, we have not put a time line to -- we have gone through RBI guidelines, we have gone through the data of the bank. Technically, it looks like we are in compliance with the guideline requirements. That's what it appears to be for us. But we'll be doing more analysis of that. We will take our time. We are not really in a hurry to file our application at the earliest. We are not in that hurry. We'll take our time. We'll study the guidelines and the bank's position. We'll have dialogues with RBI also. And then we'll take that call as to when we should file. So if you ask me a time line by when we expect to file, we don't have the time line at this point in time. But we will come back to you shortly on that. But we are working on that project as of now.

Shailesh Kanani - Analyst, Asian Market Securities

Okay sir. Thanks a lot and best of luck.

Operator

Thank you. The next question comes from the line of Ashwani Kumar Agarwalla from Edelweiss Mutual Fund. Please go ahead.

Ashwani Kumar Agarwalla - Analyst, Edelweiss Mutual Fund

Good morning, sir. Sir, can you explain what was the reason for your decline in NIMs? Can you bring it? And the impact of the yield impact because of cost of funds, yes?

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

Yes. So from a yield point of view, we look at it on an average basis, daily average basis, the yield has gone up by 3 to 4 bps on a Q-o-Q basis. On the other side, on cost of funds, again, on a daily average basis, it has dropped by close to 12 bps. So this has resulted in a NIM drop for the on a sequential basis.

Ashwani Kumar Agarwalla - Analyst, Edelweiss Mutual Fund

You said your cost of funds also declined and yeild also increased. So your...

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

Yield increase was on a nominal basis, around 4 bps on a daily average basis. So the NIM drop is primarily contributed by the cost of month increase.

Ashwani Kumar Agarwalla - Analyst, Edelweiss Mutual Fund

And how much did your cost of funds increase roughly 16, 17 basis points?

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

11 bps during the quarter.

Ashwani Kumar Agarwalla - Analyst, Edelweiss Mutual Fund

Okay. And this -- do you hold any extra liquidity, which can be deployed in the next quarter?

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

One.

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

Yes. So during the quarter, a lot of transactions, which has been undertaken by treasury, the IBPC transactions and also we have some refinance during the fact end of the quarter, the last few days of the quarter has contributed to a higher liquidity at the end of the quarter. And that -- we expect that to be consumed in the current quarter. We already saw a significant amount of consumption in the last few days. And then the entire liquidity supply security gets consumed now.

Ashwani Kumar Agarwalla - Analyst, Edelweiss Mutual Fund

Okay. So what was the drag in the margins caused by that liquidity?

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

So the drag on a -- since it is on an average daily average basis that drive very nominal.

Ashwani Kumar Agarwalla - Analyst, Edelweiss Mutual Fund

And where do you see the margins going forward? And second, is it likely to improve in the second quarter and for the entire year?

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

For -- from a NIM point of view, currently, we are at 7.24 or it will come down as we move forward, primarily attributable to the increase in cost of funds. So maybe 7.1 levels is what we are looking at NIM on a daily average basis. So that's the mark in the next 2 to 3 quarters we are looking at.

Ashwani Kumar Agarwalla - Analyst, Edelweiss Mutual Fund

Okay sir.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

So I would like to add -- also, I'd like to add on more thing is the LCR on a daily average basis, if you look at it, it's 142%. And so this 176% what we are put in the presentation is on quarter end this. So thing we are comfortable in that liquidity point of as well.

Ashwani Kumar Agarwalla - Analyst, Edelweiss Mutual Fund

And this is also declining because you're consuming capital and on spread basis, what do you -- how much would be the decline?

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

So yes, 7.24 will come down to around 7.1 NIM.

Ashwani Kumar Agarwalla - Analyst, Edelweiss Mutual Fund

But what about spreads?

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

From a yield point of view on advances?

Ashwani Kumar Agarwalla - Analyst, Edelweiss Mutual Fund

Yield and advances, minus cost.

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

So the combination is what I'm saying. So yield, there is a marginal uptick expected as we move forward, but it will be very marginal, but largely the drag will be from the cost of fund side.

Ashwani Kumar Agarwalla - Analyst, Edelweiss Mutual Fund

Okay sir.

Operator

Thank you. The next question comes from the line of Param Subramanian from Investec. Please go ahead.

Parameswaran Subramanian - Analyst, Investec Bank plc

Hi. Thanks for taking my question and congratulations on the quarter. So my question is on the deposits. So the -- if I look at the lead book as well as the SA growth, so it is still in, say, low single digits. And we -- you highlighted there will be some pickup through the year. So where do we see these numbers going to broadly, if you could talk about -- and what implication will that have for the cost of fund.

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

See, today, Elite book is standing at close to INR 18,500 crores, INR 18,475 to be precise about book comes from Elite. This is at a TRV level basis, which means Sa plus TD, what it has. So earlier, we had only 1 proposition called Elite. Today, we have 1 at the lower side lift for emerging affluent. And one we have created on the upper side called ARTHA, 3 months back. Now ARTHA trajectory, we already crossed 1,000 ARTHA and close to the ATS is very, very healthy. So we are seeing a trajectory of Elite customers migrating towards ARTHA and most importantly, sourcing ARTHA as a customer. And for our normal sourcing in most of the branches, we are using Elite Lite. So our ambition is to do at least INR 200 crores month-on-month on NTD acquisition, INR 100 crore addition on the existing Elite portfolio on savings account. This is going to be a drive and direction all about. So this in a continued on a sustained basis, we target from House of Elite, what we call, 4,000 accounts to come from -- 2,000 accounts will come from Elite Lite, 1,500 accounts will come from Elite and 500 from ARTHA. So we have a segmentation and product differentiation backed by RMS approach to build this RV and SA.

Parameswaran Subramanian - Analyst, Investec Bank plc

Okay, sir. So will it get to a double-digit growth, Elite and SA -- retail by the end of the year?

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

End of the year, definitely. This quarter, it -- as we said, RTD, we are seeing a significant uptick.

Parameswaran Subramanian - Analyst, Investec Bank plc

Okay. Great to hear. And sir, you mentioned on the margins, 7.24, I think goes to 7.1% through the year. Is that -- and that will be led by uptick in cost of funds. That is what you're talking about?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Yes.

Parameswaran Subramanian - Analyst, Investec Bank plc

Okay. And so sir, ROA improvement through the year, this 1.2 going to 1.5 by is mainly then the offset coming through from credit cost decline and OpEx to assets, is it?

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

Due to -- sorry, Q1 to 4Q point of view, if you look at it, -- there is a potential on the fee income as well because Q1 is sequentially a big quarter from a fee income Q4 will be very strong in that perspective, and OpEx and credit cards of all can be the drivers for the context.

Parameswaran Subramanian - Analyst, Investec Bank plc

Okay. Okay. Very clear. And sir, 1 last question, sir. This -- so in the last few quarters, we are seeing borrowings in the balance sheet, and I think it is refinanced that is going up sharply. So if people talk about, say, the funding cost from the refinance and relative to your deposit cost because that is incrementally helping your funding. That's my last question.

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

Yes. So the refinance, which we all from the refinance agencies all come with the benefit of CRR -- exemption. So from a cost of fund specialty compared to the deposits, it is marginally lower with because -- for the reference funds. -- in are to the cost of funds plus here, there will be a higher car costs. So in the refinance, it is a margin benefit coming out of that.

Parameswaran Subramanian - Analyst, Investec Bank plc

Okay. The effective cost will be better than the, say, 7.05 cost of fund you have. Okay. Thank you so much and congrats once again on the quarter.

Operator

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

Ashlesh Sonje - Analyst, Kotak Securities

Hi team. Good morning. A few questions from my side. First one is on the slippages. If you can share a breakup of the INR 360 crore slippage in the gross slippages the quarter between MFI and non-MFI. Similarly, if you can also break the INR 160 crore provisions in the P&L this quarter between MFI and non-MFI. Third one, your CD ratio seems to be in a fairly comfortable place to LCR. Can you tell me how much more you can stretch the CD ratio on the higher side? And fourth one is on the employee base. There has been a Q-o-Q reduction here. If you can share the reason for that as well as tell us how much more employees you intend to add during the year or during the next 2 years? And what proportion of them would be on the brand bulking side versus on the asset side? Those are my questions.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

This is Jagadesh. Regarding on the gross slippages for the quarter, it's almost 3.45 percentage, okay, which is INR 397 crores and in compared with the -- Okay. breakup between microfinance and non-microfinance, micro finance is INR 36 crores and non-microfinance is INR 360 crores.

Ashlesh Sonje - Analyst, Kotak Securities

Breakup of the P&L provisions, CD ratio question and employ those questions. .

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

Ratio point of view, we are at around 93% Ashlesh, we feel we'll maintain this as we move forward, and there is a potential for us to bring it marginally down as during the coming quarters. So provision breakup.

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

Yes. This is Mukund here. The explosion breakup for microfinance is INR 34.7 crores, and the non-MFI is INR 125.90 Crores, total is INR 160.6 crores.

Ashlesh Sonje - Analyst, Kotak Securities

Sorry, you said non-microfinance is INR 125 crores.

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

INR 193 crores.

Ashlesh Sonje - Analyst, Kotak Securities

Okay. Understood. And then the employee base, sir?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Employees, there was a marginal drop in Q1 compared to Q4. But that's largely because we haven't added -- we have not added new branches. So that's a marginal drop. But otherwise, for the rest of the year, we should see some increase in the front line sales staff in the liabilities. Liabilities, we expect to add another about maybe anywhere between 300 to 400 people, we should be adding on the liability side. So that we should see as an increase going forward. On the asset side, by and large, I mean, marginally, there may be an increase. But by and large, we don't expect an increase in the number of staff on the asset side. Is the rest of the bank in terms of the HO, the rest functions, there may be marginal head count increase, but it will not be anything significant. So if you look at it overall, maybe we can assume a 500 headcount increase for the rest of the year, largely coming from the liabilities division.

Ashlesh Sonje - Analyst, Kotak Securities

Understood, sir. Just one follow-up question on the provision as on March, I believe we still had about INR 45 crores, INR 46 crores of stress sector provision for MFI outstanding on the balance sheet. How much of that is still left now?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Roughly INR 44 crores as of now.

Ashlesh Sonje - Analyst, Kotak Securities

Thank you, sir.

Operator

Thank you. The next question comes from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta - Analyst, YES SECURITIES

Hi. Congratulations on good performance. This continuing on the provision of the INR 160 crore provision in the quarter, will INR 200 crores of write-off. So what was the write-off related provision in the quarter? INR 20 crores, INR 30 crores.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

So those write-offs were primarily 100% provided

Rajiv Mehta - Analyst, YES SECURITIES

Because they were MFI?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Yes. MFI is INR 143.83 crores.

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

Residual is 24.2% Vehicle finance, primarily.

Rajiv Mehta - Analyst, YES SECURITIES

Okay. But these were almost 99%, so no impact...

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Yes.

Rajiv Mehta - Analyst, YES SECURITIES

Okay. Got it. Got it. Okay. And collections from collections pose both MFI as well as on an, how is July holding, if you can share whether the bucket in MFI as well as on [indiscernible].

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

Yes. It is almost stable. July also -- not only July. In this quarter, we expect similar kind of performance in micro finance, both in packet as well as on the credit cost.

Rajiv Mehta - Analyst, YES SECURITIES

And this INR 24 crores of remaining additional provision will be automatically consumed.

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

Sorry to interrupt, it's INR 44 crores.

Rajiv Mehta - Analyst, YES SECURITIES

So we're still left INR 44 crores.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Yes.

Rajiv Mehta - Analyst, YES SECURITIES

But I believe it was a very similar number as of March also.

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

March is INR 46 crores. Now it's INR 44 crores.

Rajiv Mehta - Analyst, YES SECURITIES

Yes, yes. So this INR 44 crores, how do you plan to consume it in the next 2, 3 quarters?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

See this INR 45 crores, INR 46 crores, they are arrived. We have some formal basis which we make this provision for standard assets in microfinance, which is basically that out of all standard assets of MFI, all accounts where customers are leveraged more than INR 2 lakh by all the lenders or more than 3 lenders per borrower. So we arrive that number based on a credit run that we do at the end of each quarter. And that amount, we take it and we make a provision of 50% on that standard asset as this additional provision, the stress sector provision. That's how we do it. So in fact, we started this last year when the MFI was under a lot of stress and what we leverage clients who are causing the problems of nonrepayment. That's when we started this process. and we are continuing it as of now. How do we consume it going forward? It depends -- I think the comfort has come in very strongly in terms of the MFI coming back to a normal level. So we may watch it for maybe another 1 or 2 quarters -- and at the end of 1 or 2 more quarters, if MFI continues to behave very well, and we don't see any particular level of sales other than normal, then we might just reverse the whole standard at provisioning. That's something that we may do maybe at the end of 1 or 2 quarters or maybe 3 quarters. It all depends on how we perceive the MFI industry to come back to normalcy.

Rajiv Mehta - Analyst, YES SECURITIES

Correct. So this is an ongoing policy, right? So on the subject will be every quarter depending on the leverage at the customer level, right?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

That's right. That's right. I can tell you the portfolio which is coming under this lower leverage position is INR 88 crores as of June, and it was INR 92 crores as of March.

Rajiv Mehta - Analyst, YES SECURITIES

Okay. It's come down, okay. Got it. All right. And just one thing on this net slippage ratio for the non-MFI obviously, seasonally, it has gone up -- but just to understand in the right way, I mean, would the saying, would this net slippage ratio of non-MFI portfolio, would it be amongst the best in the last 4 to 5 years, what you delivered in Q1?

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

It is not only based among the Q1 of the last financial year and also bar in Q4, even between Q2 and Q3 of the last financial year, this particular quarter, we've had better in terms of the net slippage even in the nonmicrofinance.

Rajiv Mehta - Analyst, YES SECURITIES

So you are very comfortable with the kind of seasonal movement we saw in all these non-op products.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Yes.

Rajiv Mehta - Analyst, YES SECURITIES

That is all from my side.

Operator

Thank you. The next question comes from the line of Jeet Suchak from Ambit Capital. Please go ahead.

Jeet Suchak - Analyst, Ambit Capital

Hi. Good morning. So in your Slide 6, we see different -- MIF, in non-MFI, we see a 4 basis point uptick this quarter while around 40 basis point decline Y-o-Y. So what explains the Y-o-Y decline, is it because of media mix change or rate cut, how much was from the rate cut and how much of the mix change?

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

So Jeet largely, it is from a mix point of view. So that's the resultant decline in terms of volume Y-o-Y basis.

Jeet Suchak - Analyst, Ambit Capital

Okay. So going forward, how it will be going through like the mix change will be -- incremental growth will be from the current mix that happened in Y-o-Y or how do you see this going forward?

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

From overall advances point if you look at it, DAs something which is going to come down. And MFI portfolio what we have is something selective we'll do basis the appetite. So otherwise, the rest of the products are continue to -- will continue to cover the intended growth of, let's say, 20% plus. So that's the path we have. So to that extent, mix won't be -- there won't be a change in rest of the products.

Jeet Suchak - Analyst, Ambit Capital

And so 3 -- so around some 13% to 10%. Do you see any meaningful decline in yields on transition?

Jagadesh J. - Head of Assets, Equitas Small Finance Bank

There would be any meaningful decline in yields on that side because the DA, what we have is around 2% of the -- so that is largely at a much lower yield. So that should not be a meaningful decline there. So in fact, what we anticipate is a marginal uptick on the yield as we move forward.

Jeet Suchak - Analyst, Ambit Capital

Okay. Thanks.

Operator

Thank you. The next question comes from the line of Saumil Shah from Paras Investments. Please go ahead.

Saumil Shah - Analyst, Paras Investments

Hi team. Thanks for the opportunity. Sir, my question is on the credit cost side. So for this quarter, it was at 1.37 percentages. So where do you see this number settling in this year? Any credit cost

guidance for this year?

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

We will be in a steady state or we'll show a marginal improvement or reduction going forward.

Saumil Shah - Analyst, Paras Investments

Okay. So for this year, they are looking at below 1.37% for the full year basis.

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank

Yes.

Saumil Shah - Analyst, Paras Investments

Okay. And one question on the ROA front. So basically, you've alluded to the previous participant that 1.2% ROA for this quarter moved to 1.5% by Q4, and typically June quarter being the weakest quarter. So how should we look at the coming quarter? This 1.2% gradually increases to 1.3% and then move towards 1.5. Any thoughts on that.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Yes, that should be a gradual improvement on this. However, we said that post Q2, we'll be in a position to guide you in terms of the full year -- but ROA, like you said, there will be a gradual improvement as we move forward and with an exit of 1.5 by 4Q.

Saumil Shah - Analyst, Paras Investments

Correct. So Q-o-Q, we are seeing an improvement over Q1?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Yes.

Saumil Shah - Analyst, Paras Investments

Okay. That's it from my side. Thank you and all the best.

Operator

Thank you. We'll take this as the last question. And now I would like to hand the conference over to Mr. P.N. Vasudevan for closing comments. Thank you, and over to you, sir.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank

Thank you. Thank you all of you for joining in and asking these questions and enabling us to answer your queries. Thank you, and looking forward to our next quarter interaction with you again.

Bye-bye.

Operator

[Operator Closing Remarks]