



“Equitas Small Finance Bank Limited  
Q4 FY '26 Earnings Conference Call”

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**Moderator:**

Ladies and gentlemen, good day, and welcome to the earnings call of Equitas Small Finance Bank Limited Financial Performance for Q4 FY '26.

We have with us today Mr. P. N. Vasudevan, MD and CEO; Mr. Balaji N., Executive Director and Head of Operations and Information Technology; Mr. Sridharan N., CFO; Mr. Jagadesh J., Head of Assets; Mr. Murali Vaidyanathan, Senior President and Country Head, Branch Banking, Liabilities, Product and Wealth; Mr. Gopalakrishnan G., Head, Treasury; Mr. Suresh, Head, Strategy and Business Intelligence; Mr. Sundararaman D., Head, Investor Relations; Mr. Abeshek, Specialist Investor Relations.

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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. P. N. Vasudevan. Thank you, and over to you, sir.

**P.N Vasudevan:**

Good morning, everyone, and thank you for taking the time to join us today. Building on the sign of resilience demonstrated in Q3 of the last financial year, Q4 continued to be a good quarter for the bank marked by strong performance across business growth, asset quality and profitability.

The NIM increased for the first time in the -- in Q3 after many years of decline. And in Q4, the NIM continued to show an upward trajectory. This was led by higher levels of income due to growth, lower reversal of income due to lower net slippage and a simultaneous reduction in cost of funds. And credit cost at 1.11% for the Q4 came in lowest compared to the previous 8 quarters.

The combined effect of the above has enabled us to deliver a PAT of INR213 crores for Q4, which is the highest ever PAT achieved by the bank so far. This translates to a reasonably healthy ROA of 1.46% and an ROE of 14.1%. This is in spite of the fact that Microfinance portfolio only contributes to around 10% of the advances. And going forward, we expect to maintain Microfinance portfolio contribution to the similar levels of 10%.

In terms of sustainability of this performance of Q4, the income levels are expected to maintain their upward trajectory given the visibility on sustaining growth in advances of about 20%. It should be, however, impacted by any increase in GNPA slippage, which may result in reversal of income. Further, we have increased our interest rate on TD and SA during March '26, and this is expected to increase the cost of funds going forward.

Credit cost at 1.11% represents the traditionally strong Q4 performance that we normally see. Going forward, this is expected to normalize to our guided range of around 1.5% for the full year. Given the above, we expect to end the current financial year with a Q4 exit ROA of about 1.5%.

Macroeconomic factors: The ongoing geopolitical tensions in West Asia do present certain risk, particularly through their potential impact on global supply chains and in turn, on broader GDP indicators. The customer segments that we serve are at a Level 2 and Level 3 order of

dependency, which substantially limits the direct transmission of such external shocks to the cash flow of our borrowers. As a result, the immediate impact of these developments on our portfolio remains contained. However, if the government decides to pass on the increase to cost of gas and fuel to consumers, this could have an inflationary impact.

In small business loans and affordable housing, we believe our borrowers may be able to pass on the increase in cost to their customers since our borrowers largely deal in daily use products and services. However, in commercial vehicles, freight rates may take some time to adjust upwards. And during such interim period, our borrowers are likely to be affected. We will continue to closely monitor the situation and remain vigilant.

In the unlikely event of any emerging risk, we are well prepared to respond with calibrated and timely actions, which include tightening credit norms, moderating leverage levels, along with other prudent underwriting measures. Our focus in case of such eventuality would remain on preserving quality of asset over growth.

On the advances side, I'm happy to share that all products have turned profitable now. Products introduced during the past 3, 4 years, such as affordable housing and MSE finance have turned positive during the previous year and expected to improve their contribution to the bottom line during the current financial year.

In terms of deposits, the overall deposit growth was 8% year-on-year. We believe this relatively muted growth is largely transitory. We have introduced new products such as Elite ARTHA, Elite EPIC, Elite Lite and FCNR B deposits during the last quarter. And we are enabling -- I mean, these enable us to cater to different customer segments while creating incremental deposit opportunities.

Alongside this, continued enhancement of our technology platforms are strengthening customer experience and supporting better customer acquisition and retention. Importantly, we remain firmly focused on building a stable, granular diversified deposit franchise anchored around retail deposits, CASA and non-callable wholesale deposits, where we believe the bank is well positioned on the deposit front. Murali will elaborate further on these aspects.

Capital adequacy: We ended the last year with a capital adequacy ratio of about 20.3%. We continue to pursue multiple initiatives to conserve capital, including increasing central government guarantee coverage for our eligible loans, IBPC and focus on lower risk weightage products such as affordable housing and gold loans.

To sum up, we believe that with Microfinance collection efficiencies coming back to normal with all lending products lines turning profitable, sustainable improvement in collection efficiencies across products, we should look forward to continued good performance in the coming quarters. Thank you.

And with this, I hand over to Sridharan.

**Sridharan N.:**

Good morning, everyone. Thank you for joining us today for the Q4 FY '26 earnings call of Equitas Small Finance Bank. I appreciate your continued interest and support. Let me take a few

minutes to walk you through the financial performance for the quarter. Most of these details are also available in our investor presentation.

We reported a net interest income of INR980 crores and other income of INR259 crores, bringing our total net income to INR1,239 crores for the quarter. Total net income grew by 18% Y-on-Y and 9% on Q-on-Q.

NIM has significantly improved by 57 bps Q-on-Q to 7.29% in Q4 FY '26 as compared to 6.72% in Q3 FY '26. The bank reported highest quarterly PAT of INR213 crores, a growth of 406% Y-on-Y and 136% Q-on-Q. Return on assets and return on equity for Q4 FY '26 were at 1.46% and 14.1%, respectively.

In terms of asset quality, gross NPA reduced by 13 bps Q-on-Q at 2.49% in Q4 FY '26 as compared to 2.62% in Q3 FY '26. Net NPA reduced by 20 bps Q-on-Q to 0.68% in Q4 FY '26 as compared to 0.88% in Q3 FY '26. Credit costs significantly declined to 1.11% in Q4 FY '26 as compared to 1.88% in Q3 FY '26 and 2.74% in Q4 FY '25. Our provision coverage ratio remains healthy at 73.03%, including technical write-off PCR stands at 86.81%.

Moving to the advances book. Gross advances grew 22% year-on-year to INR46,165 crores, driven by robust disbursement. Disbursement for the quarter stood at INR7,347 crores with strong momentum across all verticals.

On the liability side, total deposits grew 8% Y-on-Y to INR46,533 crores. Our CASA ratio at 26%, retail deposits now constitute 68% of our total deposit base. As of March 31, 2026, our capital adequacy ratio stood at 20.31%. Thank you. Handing over to Jagadesh.

**Jagadesh J.:**

Good morning, everyone. We closed the quarter with gross advances of INR46,165 crores, delivering 22 percentage year-on-year and 7 percentage quarter-on-quarter growth, which is driven by the strong disbursement momentum. Excluding DA, our overall bank advances grew 19 percentage year-on-year.

I will cover 3 things. One is on the growth momentum, product performance and asset quality. Firstly, on the growth momentum. We delivered our highest ever quarterly disbursement at INR7,347 crores in this quarter with a growth of 72 percentage year-on-year and 12 percentage quarter-on-quarter. Within this, our Microfinance disbursement increased to INR1,512 crores in this quarter, up 326 percentage year-on-year and 29 percentage quarter-on-quarter.

On our secured book, we also delivered our highest ever quarterly disbursements of INR5,835 crores, up 49 percentage year-on-year and 8 percentage quarter-on-quarter. Our non-MFI secured book stood at INR40,409 crores, which is growing at 21 percentage year-on-year.

Secondly, on the product performance. Our small business loans remained the largest contributor at INR18,559 crores, up 13 percentage year-on-year. Within the small business loans, the secured business loans growing at 26 percentage year-on-year. And on the Vehicle Finance segment, our focus is on the used segments. Our used commercial vehicles at INR5,899 crores, which has grown by 25 percentage year-on-year and 7 percentage quarter-on-quarter. And used

cars grown by 31 percentage year-on-year and 7 percentage quarter-on-quarter. Our new CV declined 20 percentage year-on-year to INR2,270 crores.

On the housing finance, we grew to INR5,782 crores, up 21 percentage year-on-year and 8 percentage quarter-on-quarter. And MSE finance, we grew up to INR2,090 crores, up by 24% year-on-year.

On the MFI, excluding DA, we stood at INR4,667 crores at quarter end, and we expect it to grow in a calibrated manner supported by improved disbursement and collection trend. And coming back to the asset quality. Our net slippages reduced to 0.79% in this quarter from 2.52% in the previous quarter, which is lowest level in the last 10 quarters.

On the SBL front, our net slippages reduced to 0.11 percentage from 1.53% in the previous quarter. On the credit cost, it has declined to 1.11% compared to 1.88% in the previous quarter and 2.74% in Q4 financial year '25.

On the Microfinance, our 1 to 90 DPD improved to 1.34 percentage from 2.14% compared to the previous quarter, supported by strong collection efficiency. And looking ahead for financial year '27, we remain aligned to our stated advances growth guidance of 20% plus year-on-year, supported by improved disbursements. Thank you.

I will now hand over to Mr. Murali.

**Murali Vaidyanathan:**

Good morning. Thanks for joining the call. While the ratios as well as growth details are given in the PPT, I would like to dwell upon 4 things, what is planned, what is happening at this point of time.

First, let me start with savings account. Savings account, we have strengthened our proposition covering from Mass to HNI through House of Elite as a proposition, which means earlier, we had Elite as a program for HNI. Today, we have 3 different categories within the HNI, one for Mass Affluent, one for Affluent and third for HNI, which we call it as ARTHA, Elite Lite and Elite.

Now this categorization is very important because we are moving towards the direction of family banking and product holding as a key thing, which is shown in our key liability strategy slide. So today, we have close to 28,000 - 29,000 families. Our aim is to double in this coming year and also to add ARTHA customers close to 3,000 to 4,000 and start of ARTHA is really encouraging.

So based on this categorization of customers, we have categorized branches where a set of 100 branches is going to focus only on House of Elite and manning is planned as per that. So strengthening RM channel, enhancing the product proposition and more importantly, this year, you will see more and more value-added services within the account along with a reasonably good pricing at the entry point.

In terms of current account, current account, we are shifting it at this point of time into 3 different categories. One is we have now got our sound box, our POS and QR ready operational in the

market, CUG done. So increasingly, branches will source transaction and payment-led current account.

We are launching a specific current account product, which is with -- backed by unsecured based on our own norms, so which means asset-led approach. And third is high variant only to focus on debt-free and payment non-centric companies. This is on current account. And current account last quarter showed a reasonable growth, but to sustain that, we need this proposition.

NR, we already launched our FCNR. We have crossed \$30 million. So we are seeing a good appetite. We have gone live on 3 more currencies. And most importantly, full range of AD1 product, we have gone live. And here, again, our focus is going to be Elite, that is HNI and most importantly, family banking, and we have launched a specific product last quarter, which we called it as explorer for seafarers as a segment, which the initial days are good. So this should help us inward and outward remittance.

In terms of RTD, retail TD, we had a huge last year renewal in terms of yearly pricing on 444 days, which we have focused and converted 70% of that into 888. Today, our 70% of the book is duration-centric with 888, and we are planning to add 30,000 customers internally and externally, and this will help us to enhance the PS proposition also.

In mobile banking, we have crossed our 5.5 lakh to 6 lakhs closer to mobile bank downloads on our Equitas 2.0, which is on par. I think this is one of the few apps where one can do entire payments as well as ASBA-related, that is secondary market when it's live, we are ready and primary market, they can do an investment and insurance proposition.

So this is a year, it's going to be clear segmentation, categorization, resource management through RM and most importantly, driving transaction-centric. We will cover as and when questions arise. Thank you.

I'll hand it over to Gopi.

**Gopalakrishnan G.:**

Thank you, Murali. Good morning, everyone. The quarter went by was very challenging given virtually how by our -- change in geopolitics and other and fuel price, global supply chain impact. Financial markets continue to exhibit volatility with the effects of geopolitical uncertainty continuing to impact asset prices across the board. All Indian asset classes continue to underperform. This has largely been caused by foreign investors seeking safe haven bets and rebalancing in favour of indexes with AI constituents and high technology access.

Rupee depreciation pressure continues. However, there have been active interventions by RBI to better manage volatility. In the immediate term, CPI is expected to broadly remain within MPC inflation target. However, the effects of imported inflation, impact of extreme weather events such as the current heat wave, expected impact of Super El Nino on this year's monsoon are likely to see some upside risk materialize against current RBI projections.

Government bonds saw benchmark 10-year yields significantly hardened during the quarter and close at above 7% against a 6.6% at the beginning of the quarter, with the market beginning to

price in possibility of rate hikes this fiscal. RBI actions will be keenly watched for further cues given the overall pressure on domestic economy and consumption.

Coming to Equitas, Income from investments was a loss of INR7.3 crores for this quarter. For the full year, treasury income stood at INR179.9 crores. With heightened volatility becoming new normal, we approach the coming quarter with caution. Thank you. Back to operator.

**Moderator:** Our first question comes from the line of Renish from ICICI Securities.

**Renish:** Sir, my first question is on this FY '27 ROA guidance, right? So we are looking at 1.2% ROA versus 1.5% in Q4. And you also mentioned that credit cost is likely to normalize maybe from 1.1-odd percent to 1.5%. But in that case, are we not expecting any margin expansion from here on?

**P.N Vasudevan:** See, as I mentioned -- this is Vasu here. As I mentioned in my opening comments, we have a NIM of 7.29% in Q4, while we should continue to look at a 20%-plus growth in advances, which will lead to a higher level of income. However, we have two issues. One is that our net slippage was the lowest in Q4, which means our income reversal on GNPA, again, is obviously the lowest.

But that's because Q4 is seasonally the strongest always. Now Q1 and Q2 are seasonally the weakest and Q3, Q4 will again pick up. So there is a likelihood of a higher GNPA slippage resulting in lower -- I mean, higher income reversal in Q1 and Q2.

Second thing is in March, we have raised our rates on TD and savings accounts, and that is expected to have an increase in the cost of funds. So these 2 together might moderate the NIM from 7.29%. And that is one at the top line. And at the bottom line, the credit cost at 1.11% is probably again the lowest given the Q4 seasonality issue, but it is more likely to be at around 1.5% for the full year.

So if you kind of take all of this into account, that's where we are -- we believe that we should be able to deliver a 1.2% to 1.25% ROA for the full year, while we should exit the fourth quarter at around 1.5%.

**Renish:** Got it. Got it. So I mean, just a follow-up on that. So basically, pre-crisis, our NIM used to be anywhere between 8.5% to 9%. And now given our NIM at 7.29% and we are not expecting any improvement from here on. So does that mean that NIM at this level would be a new normal NIM for our business mix?

**P.N Vasudevan:** Yes, absolutely, because our Microfinance, which used to be around 50% -- 45%, 50% in the past, now it's come down to 10%. And so as -- in fact, if you see our NIMs over the last maybe 3 years or 4 years, if you see the trajectory of our NIMs, it's been coming down quarter after quarter, largely because Microfinance has been coming down as a percentage of the portfolio.

And MFI, we all know, has the highest yield. And as it was coming down, the NIM was also coming down. And now today, we have reached a level where MFI is just 10% of the book, and we should expect that MFI to continue to remain around the 10% level. And that's why we

believe that our NIMs are more or less bottomed out and somewhere around 7% to 7.1% is where we believe it should kind of stabilize on an ongoing basis.

**Renish:** Got it. Got it. My last question on the corporate book side. So this book has actually become 3x in past 1 year. And I'm assuming it will be one of the lowest yielding book for us. So when we are seeing the definite pressure on NIM, then what's the strategy of growing corporate book so aggressively?

**P.N Vasudevan:** If you're meaning by corporate, if you're meaning the NBFC?

**Renish:** Yes, yes.

**P.N Vasudevan:** Right. So NBFC for us is a filler. It's not a product where we have a target to lend. It's a filler. So wherever we have surplus money, we lend to the NBFCs because otherwise, we would have to park it in government securities.

So last year, we had some excess liquidity at some point. In fact, our CD ratio had gone down as low as 79% at some point in time during the last year, and we were stuck with some excess liquidity. So we just deployed short-term loans to especially gold loan NBFCs because they have short-term assets. And so that's where the numbers reflect.

**Renish:** Got it. Can I ask last question.

**P.N Vasudevan:** Yes, please.

**Renish:** Okay. So just on the CV portfolio, right? I mean you did mention about there's -- we don't foresee any near-term pressure. I mean it's a Level 2, Level 3 order impact. But in your assessment, what kind of a fuel price hike do you think CV operator will not face challenges? And at what fuel price hike do you think we as a company should be cautious in terms of CV portfolio behaviour?

**P.N Vasudevan:** See, it's all very, very, very open-ended at this point in time. But the latest news report that we are seeing is that the oil marketing companies are actually out of pocket by as much as INR100 on per litre of diesel. INR100 per litre, practically the cost of today's diesel is also about INR100. So practically, it looks like they are out of pocket by as much as 50% of what they are selling at.

So we don't know exactly how far the government will try to recoup this cost from the consumers. But it all depends on how much they want to pass on the diesel costs, especially the diesel cost to the pump purchasers. So we don't know. I mean, frankly, it's very, very open-ended, very difficult to put a number or anything around it.

But anything -- normally, we have seen in the past over the last so many years that we have been financing commercial vehicles. We have seen in the past that anything up to 10% increase in diesel prices has no effect on the performance of the portfolio. When it goes beyond 10%, then we start seeing some effect.

**Renish:** Yeah. That's exactly what I wanted to check. Thank You, Sir

**Moderator:** The next question comes from the line of Pritesh Bumb from DAM Capital Advisors.

- Pritesh Bumb:** Congrats on a great set of numbers. Just two questions. One is on the savings account. There's a sharper decline in this quarter. Generally, this is a stronger quarter, but any reason for that? And what is the strategy for the same?
- Murali Vaidyanathan:** See, we have analysed our book. We have seen where we have lost the book is between INR5 lakhs to INR10 lakhs and INR10 lakhs to INR15 lakhs. That is why in March, we calibrated those accounts with slightly higher interest rate because primary market ASBA was also weak during the quarter. We had close to 35,000 customers who are on this bucket using savings account for ASBA. So we have enhanced the rate in that particular segment moving up. Earlier, it was at 3% levels. Now it is at competitive level of double what other competition can offer. This is on one side. Second thing, we are enhancing, as I said in my presentation, the proposition by itself house of Elite, focused more on program and specific targeted segment and branches. So these are the two approaches by pricing, by program expansion and offerings. So you will see the take-off from this segment.
- Pritesh Bumb:** Sure. And also in continuation for the same, we've seen also our bulk deposits move up significantly this quarter. Any thought process on the same as well?
- Murali Vaidyanathan:** See, bulk, we got it non-callable. If you see year-on-year, till quarter 3, we were spreading it and building a retail portfolio. And there was an opportunity available at bulk and non-callable across segment, government, insti and financial institution. It is not skewed towards one segment. So we leveraged what we had at that point of time and built it up. But our entire strategy for insti as always is hold and grow so that 70% to 75% of the portfolio remains always retail.
- Pritesh Bumb:** Sure. Sure. And just in continuation from the previous question on NIM front, what is our sustainable NIMs for our business where now we are going to calibrate mix and mix on the both side of balance sheet? What can be the sustainable NIM if you look at a 2-, 3-year perspective?
- P.N Vasudevan:** Yes. So I think we should be looking at a sustainable 7% NIM give or take a few basis points, largely because of, as I mentioned, 2 factors. One is that our cost of funds might start seeing an upward trend because we have increased the rates in the month of March. And second thing is that our CD ratio is slightly over 90%. So we will be trying to bring it to slightly less than 90%. So that could again mean some level of impact on interest income. So I think broadly, we should be able to look at about - around 7%, give or take some basis points this way that way.
- Pritesh Bumb:** For the concentration side, so now as we are...
- Moderator:** I'm sorry to interrupt, Pritesh sir, you're not quite audible. Could you be a little louder and use your phone on the handset mode in case if you're not using it on the handset mode. Ladies and gentlemen, the participant has got disconnected. We will move to the next participant. The next question comes from the line of Ashlesh Sonje from Kotak Securities.
- Ashlesh Sonje:** Sir, first question is on the SBL business and particularly the micro LAP side. Sir, assuming that over the next year, the global tensions don't worsen from here, how comfortable are you with growth in the MLAP segment in context of the challenges which you experienced last year? And along with that, if you can share, in FY '26, you made total provisions of about INR1,140 crores. How much of that went towards Microfinance and how much went towards micro LAP?

- Jagadesh J.:** Yes. This is Jagadesh. So we don't see any kind of impact due to global tensions for micro LAP or the Microfinance book, okay? So micro LAP, if you look into that, even the current year, we have been growing in that particular segment, okay? But not at the high level because our focus has been more on the business loans, which is about INR10 lakhs segment, which we have grown at 26% year-on-year. But micro LAP within the available opportunities and with good credit quality customers, refining our credit norms, we are growing at a double-digit growth in micro LAP, okay? So...
- Moderator:** Does that answer your question, Ashlesh?
- Ashlesh Sonje:** Sir, if you can -- so this micro LAP growth today is around 13-odd percent. Do you think that can go closer to a 20% number?
- Jagadesh J.:** It's a small business loans. It's growing at a 13 percentage, which might go up to a level of 20 percentage, okay? They're not given on the micro LAP 13%. It's overall small business loan segment.
- Ashlesh Sonje:** Understood, sir. I was calculating based on the mix which you share in percentage terms, but that answers the first part of my question anyway. If you can also share the provision breakup for the full year FY '26, that would be helpful. Then I can ask the next question.
- Jagadesh J.:** Yes. Microfinance, we made a provision of INR588 crores in the last year. And on the micro LAP, it's INR42 crores.
- Ashlesh Sonje:** Sir, the next thing on the liability side for Murali sir. Sir, what would be the incremental cost of term deposits and savings account for you in the last quarter?
- Murali Vaidyanathan:** See, we brought it down from 6.3% to 5.98%. Now with the increased slabs what we have anticipated based on present slab static is close to 0.7% to 0.8% only on savings account.
- Ashlesh Sonje:** Sorry sir, this 0.7% to 0.8% is the...
- Murali Vaidyanathan:** It will be 6.06%. It will go 5.98% to 6.06% or 6.07%.
- Ashlesh Sonje:** This is incremental cost on the savings account?
- Murali Vaidyanathan:** It's 9 bps. Savings will go to 6.07%. Cost of funds will go up to 7.1% plus.
- Ashlesh Sonje:** Understood. And this was for 4Q. Is that right?
- Murali Vaidyanathan:** Yes.
- Ashlesh Sonje:** Understood, sir. Perfect. And lastly, if you can share that the provisions which you have made in 4Q, have you utilized any standard asset provisions? And are there any standard asset non-NPA provisions, which are still outstanding on the balance sheet? That was my last question.

- Sridharan N.:** Yes. See, we had in Microfinance, INR75 crores brought forward, of which INR30 crores we used, INR29.6 we used in Q4, and we are carrying for the INR46 crores of standard stress sector provision
- Moderator:** The next question comes from the line of Shailesh Kanani from Asian Markets Securities.
- Shailesh Kanani:** Congrats on a good set of numbers. Sir, just wanted to understand, we have in one of the brackets that is INR5 lakhs to INR10 lakhs, we have in the saving account, we have increased the rate by around 200 bps. So just wanted to understand what is the contribution of that bracket. And the hike seems to be quite steep. It is even higher than the Jan numbers, if my data is correct. Can you just throw some light on this?
- Murali Vaidyanathan:** See, our principal -- our focused sourcing is through Elite, and we are -- Elite is for HNI as a segment. So INR5 lakhs to INR10 lakhs today contributes to close to 13% of my entire book. So 13% of the entire book actually today doesn't have any secondary offering because of ASBA market still, SIP market came into a standstill. And second thing, we are pushing through family banking as a proposition.
- So it is a conscious decision because earlier, it used to be 3.5%. And we saw there was a bleed inside this. So to grow the customer to a reasonable level, within that cost of funds not going up to this level, we have taken this bucket as a key approach, which helps in sourcing, deepening and most importantly, getting retail participation. That is why in SA, as I said, it came down up to as low as 5.98% from 6.1%.
- Shailesh Kanani:** Just one clarification. This is 13% of our total deposits, right?
- Murali Vaidyanathan:** INR10 lakh, yes.
- Shailesh Kanani:** Okay. Fair enough. So another thing, sir, we -- I have noticed there is a jump in the disbursement ATS of SBL. Is it primarily because of we have stopped lending in less than 3 lakh packet or anything else we can read into? And also, if you can specify what is the current sweet spot and impact if you can -- is visible on the macro -- because of the macro on this portfolio?
- Jagadesh J.:** Yes. This is Jagadesh. So we don't want to depend on any specific product segment, okay? Earlier, we have been focusing more on the Micro LAP and GLAP, which is the sub 10 lakh segments. Now we have diversified our product segment into various categories, okay? That's what you can able to see that the recalibration of the product mix shows the ATS has been increased. But if you look at the growth, we have been focusing on all the segments.
- Even the previous question on the micro LAP as a segment alone, we have grown by 16 percentage. And our primary focus would be majorly on the BL, which is about INR10 lakh segment, which we have grown by 27 percentage. So we do the recalibration based on the available opportunities, but we don't want to specifically focus on any specific customer segment.
- Shailesh Kanani:** Fair enough. Just a last question, if I can squeeze in. Sir, just I noticed there is a sequential drop in terms of number of employees, right, despite we are having highest ever disbursement

volumes. So how should we think about this? And any benefit we had in the employee expenses in terms of one-offs or anything?

**Jagadesh J.:** On the asset part, if you see, we have reduced the employees to close to 600 numbers between Q3 and Q4. This is basically integration of the supporting functions. We have not reduced our sales or the collection numbers because we integrate the affordable housing and SBL within the same branches, so we can able to leverage the supporting functions, which effectively can able to demonstrate better productivity and efficiency. On the employee cost numbers, Mr. Sridharan sir, will answer.

**Sridharan N.:** This Sridharan is here. On the one-off in Q4 in employee expenses, we had a reversal of around INR14 crores in gratuity and leave encashment, though we have provided INR29 crores with regard to new labor law code in Q3.

**Shailesh Kanani:** Just one clarification that employee decrease is predominantly can be considered as an operating thing, right? It's a structural change, right?

**Sridharan N.:** Yes.

**Moderator:** The next question comes from the line of Shreepal Doshi from Equirus Capital.

**Shreepal Doshi:** Congrats on a good quarter. My question was again on the deposit side and its implications on margins. So if you look at, we've taken -- we've already taken some rate hikes on the deposit side. So incrementally, if the systemic rates further go up, we would also take a rate hike. Then in that case, do you see the margin contraction for the year to be higher, especially when I don't think we plan to change the loan book mix broadly. So in that case, do you see the margin contraction being relatively higher than what we are envisaging today?

**P.N Vasudevan:** Okay. I'll take that. See, as far as the cost of funds is concerned, interest rates on deposits is concerned, we will have to keep it tuned to what's happening in the external market. And we need to ensure that deposit flow continues to be strong into the bank and the rates will be aligned from that perspective. So going forward, if RBI raises the rate and the market rates go up, of course, we'll necessarily follow suit.

We have to follow suit. Even if the RBI does not raise the rates, we have seen that some of the banks have actually started raising the rates in the last 1 to 2 months. And we don't know how this will go forward happen because as you know, sectoral deposit growth is less than the sectoral credit growth. So somewhere along the way, banks might start increasing the rates on their own, even if repo rate does not really change. If such a thing happens, we'll also have to follow suit and our cost of funds will go up.

The only advantage we have in the system is that the segments to which we lend to is largely the underserved to unserved segment of the borrowing segment. And because of that, 0.2% or 0.1% or 0.2% increase in cost of funds, by and large, you can say we should be able to pass it on maybe with some little bit of a timing gap, but it should be possible. And so that around the 7% NIM that we are talking of is something we should be able to maintain even if cost of funds does go up in the future.

**Shreepal Doshi:**

Okay. Got it, sir. That was helpful. And the second question was on -- I mean, our aspiration on the universal banking license as well as visibility on the capital raise plans if we have in the near term.

**P.N Vasudevan:**

Okay. So on the Universal Bank license, RBI has a guideline for SFBs to convert to Universal Bank. And so now we have completed the -- this year's financials are now completed. So we'll be doing a full analysis. And then we'll have to take it up with RBI and see whether we comply with the various requirements of that guideline. And if there's a consensus feeling that, yes, we do qualify, then we'll end up applying. So that's something that we will dialogue and come to a decision and do it on that basis.

As far as capital raise is concerned, our approach has been consistent over the last 1 year, that we will try and manage capital conservancy approaches as much as we can, conserve capital as much as we can through various forms. So we have started getting a lot of our qualifying assets guaranteed under the central government, various fund schemes like our vehicle finance under CGTMSE, Microfinance under CGFMU. So all those release capital to the bank.

Second thing is that our affordable housing and gold loans have been growing quite strongly. So they are all lower risk-weighted assets. And third is IBPC is a tool that we use from time to time based on demand and supply appetite from the other banks. And so all of this is something we continue to do.

Now our Tier 2, we raised about INR1,000 crores last year. Out of INR1,000 crores by September, I think around INR300 crores will run out from the Tier 2 classification. And so somewhere by end of this calendar year, we are looking to raise another maybe INR400 crores to INR500 crores of Tier 2. We will be putting up a suitable resolution into the AGM at some point in time. And so all of this, we hope will enable us to keep our capital adequacy at a comfortable level.

And RBI has come with a draft guideline on capital adequacy. There are a few factors which might actually support our capital adequacy if those guidelines become an applicable guideline from being a draft guideline. So we'll keep monitoring it. And if at all required, we will try and raise the Tier 1 capital towards the end of fourth quarter maybe or first quarter of next year, maybe. But our objective is to try and see how do we manage capital through various other instruments and means.

**Moderator:**

The next question comes from the line of Nitin Aggarwal from Motilal Oswal Financial Services.

**Nitin Aggarwal:**

So sir, I have 2 questions. One is on the gold loan book. Last 2 quarters, we are seeing pretty strong like 45%, 50% sequential growth. In the past, we have not been, I will say, so successful in scaling up this portfolio. And -- but now the traction is really quite evident. So how -- what is our game plan here? Like how much mix do you see this book shaping up to in the next 2, 3 years? What all underwriting changes have been made to drive this kind of growth? And any color around the yields also that we are making in this business?

**Murali Vaidyanathan:**

Murali here. See, conceptual changes, 3 things. One is we did the data mining, and we first found out how many of our existing customers are having gold loan outside. And we went behind those

campaign, and that campaign has yielded numbers. Second thing is we focused our activity to the largest markets, which means we actually brought in resources closer to those markets where gold loan naturally exists, and we targeted if you see with the new RBI norms up to 2.5 lakh, 85% and on.

So our entire ticket ATS went up, campaign went up, and we added resources in those branches where there is an opportunity. So these 3 things actually help. And now we have started using asset branches to cross-sell gold loan. That has stepped in, and that should add more and more cross-sell as an opportunity in coming days. And we have the entire range of gold loan products from bullet payment to gold loan OD.

Now every line of product actually expands the market. So while gold loan OD today is less than 5%, it should help in coming days current account-led acquisition. Overall, it is a mix of campaign, understanding data mining, allocating resources and focused on branches. That is the reason.

**Nitin Aggarwal:** Right. And any color around the yield also and the mix that you see this portfolio gaining in the next 2 years?

**Murali Vaidyanathan:** See, today, we are predominantly cross-selling to asset into liability-based customers. So our yield is anything around closer to 14%. So moment we start expanding it through asset branches, the yield should shoot up because here, the ATS is high, requirement is nonseasonal, but for consumption or emergency purpose, so it comes up to 14%. And it should start looking up as we expand into asset branches.

**Nitin Aggarwal:** Okay. Got it. And the other question is around like LCR ratio, which is fairly high for us. So while we talked about NIMs to kind of start kind of seeing some moderation after this sharp rise this quarter, and we have raised deposit rates. But do you plan to like use LCR as a lever to deploy additional liquidity and so as to support margins? What is the thought process there?

**Gopalakrishnan G.:** Yes. This is Gopi here. Yes, you are right, our LCR is high. One, if you look at it, what we focus is also on the quality of deposits. So naturally, what we look at is the quality of deposits naturally tend to be LCR friendly. That is the primary reason why our LCR remains high vis-a-vis the market.

Second thing is with respect to the surplus liquidity, we are -- while we carry this surplus in the balance sheet, it is adequate for the immediate growth plans. So there is no massive liquidity being carried in the balance sheet, which may cause a drain on interest income.

**Nitin Aggarwal:** Okay. Okay. And sir, one data point also on the interest reversal because you talked about that next quarter, it may not be there as much level. So any one-off beside interest reversal that is there in this quarter number that you would want to call out?

**Suresh G:** Nothing as such. Nothing specific...

**Nitin Aggarwal:** And how much is this number?

- Suresh G:** INR27 crores for the quarter is the reversal.
- Nitin Aggarwal:** Okay. So that's only like a kind of measurable one-off, meaningful one-off?
- Suresh G:** Yes. Sorry? Does it answer the question?
- Nitin Aggarwal:** Yes, yes. So basically, INR27 crores is the only meaningful one-off in this quarter?
- Suresh G:** It's not a one-off. This is a reversal for the quarter. Interest reversal for the quarter. Every quarter, we do have it. For this Q4, it is INR27 crores.
- Moderator:** The next question comes from the line of Rajiv from Yes Securities.
- Rajiv:** Congratulations on strong numbers. Firstly, I want to understand the work between -- I mean, you're exiting at a credit cost of 1.1%, but you're trying to indicate is that for the whole year FY '27, your guidance is kind of building in 1.5% as a credit cost number. So I'm just trying to understand we are at a PCR of 73%. We are seeing strong trends, which is structural in terms of slippages. And we also have a leftover standard asset provision of INR40 crores, INR46 crores on the MFI. So what makes us guide for 1.5% credit cost? Because given the trends as we see right now, things are looking pretty strong. So are we building in any geopolitical risk of higher slippages coming through in Q1? Or are we building it that your LGDs may increase possibly? Are you seeing something like that already? That's the first question.
- P.N Vasudevan:** Yes. So Q4 traditionally is the best in terms of performance for us, probably for the rest of the system also. So that 1.1% is not something which we can assume to be a repeatable number. Now if you look at Equitas specifically, our Microfinance is now back to complete under control. The bucket collection efficiencies are totally back to normal. And so we expect the Microfinance credit cost to be back to the normal range, which used to be anywhere between 2%, 3%. So the credit cost of Microfinance could be in that range.
- And the rest of the business, all of them have actually been improving over the last 2, 3, 4 quarters and performance of them have been good. So we expect the credit cost across the board to be kind of comfortable going forward. But we really don't have much of an idea what is the entire effect of the war that's going around, is going to have, we don't really know. And that's one thing.
- Second thing is that first and second quarter, traditionally, the collection efficiencies will be lower because of the fact that April to June is seasonally the weakest. And July to September, there will be a lot of rains all over the place, which will have an impact on customers' cash flows. All this is what we are factoring in when we are guiding for that.
- Moderator:** Does that answer your question, Rajiv? I'm sorry to interrupt, Rajiv, you are not audible...
- Rajiv:** Am I audible now?
- Moderator:** Yes, now it's better.

**Rajiv:** Now it's better. Yes, yes. I think my question is on the product level ROAs. Sir spoke about in the initial remarks that the new products have turned ROA profitable in the last year. So how further you see the ROA needle moving for affordable MSE, gold loan in the current year? And also, could you share ROAs -- exit ROAs for some of the existing products like vehicle, SBL and MFI? Can you give some color on the ROA of the vintage product also?

**P.N Vasudevan:** Okay. So in Equitas, we do 100% transfer pricing to the lending divisions, which means that the entire cost of the rest of the bank is transfer price to the asset side. So when an asset does an ROA, it's actually an ROA. If the -- let's say, we take the ROA of the different lending business divisions and you sum it up, it should actually come equivalent to the ROA of the bank because the entire rest of the cost of the bank is transfer price to the asset side.

So that's how we do it. So when I say that all products turned profitable last year, it is on a fully loaded cost basis. And so the new products like affordable and MSE turn in black for the first time last year. And hopefully, with increased volumes and better leverage of their cost, they should become more and more contributing from a bottom line perspective.

We haven't and we don't want to really give the ROA at different product levels. At this point in time, we are not really wanting to give that. But broadly, we can say that Microfinance when the collection efficiency is good, will be very high from an ROA perspective.

Micro LAP, on an ongoing basis, Micro LAP is probably one of our best products from an ROA perspective. The SBL as a whole, including Micro LAP, is, again, a well-performing product from an ROA perspective. Vehicle Finance, maybe just marginally lower than SBL from an ROA perspective. And the other products, we should see them catching up soon.

**Rajiv:** Yes. Sir, can I just ask one more, one last question, please?

**P.N Vasudevan:** Okay.

**Rajiv:** Yes. Just comparing Q4 to Q4 ROAs, I mean, you exited this Q4 with 1.4% ROA. Now you're guiding that your exit FY '27 ROA will be 1.5%. So what is the difference? What will change between these 2 years in 12 months? See, the credit cost number is already lower at 1.1%. You are exiting at a higher NIM. Then would be cost scale efficiencies and the growth efficiencies and the cost efficiencies try and overcome whatever dip you see in the NIMs? Or are you also building in some lending rate hikes following some deposit rate hikes?

**P.N Vasudevan:** See, what we are saying is that the NIM might contract a bit compared to Q4 of this year to Q4 of -- I mean, last year to Q4 of this year. And credit cost, at least at the Q4 level, credit cost may not be very different to the Q4 credit cost of last year. And the other thing is that our operating cost, cost to assets, which is about 5.8% at this point in time, should come down a bit because of the growth, basically the growth in the advances and overall asset growth.

So if you see NIM contracting a little bit, credit costs will remain more or less at similar levels on Q4 to Q4 basis. I'm not talking of full year, just Q4 to Q4. And operating cost, cost to assets should come down a bit. So the NIM reduction and operating cost reduction should hopefully net each other out. And if Q4 of this financial year, credit cost is similar to Q4 of last financial

year, that's why we are saying that this 1.45% of this year exit ROA should be around 1.5% for the current financial year.

**Moderator:** The next question comes from the line of Parth Gutka from 360 ONE Capital.

**Parth Gutka:** Sir, what is the comfortable level of PCR that you would like to operate at? Our PCR has gone up substantially over the last couple of quarters. So what is the sustainable or what is the target PCR that the bank would like to operate at?

**P.N Vasudevan:** Around 70%.

**Parth Gutka:** Okay. Fair enough. And the second question is what segments of your -- on the asset side are covered under CGTMSE?

**P.N Vasudevan:** So under CGTSME 2 type of businesses are getting covered. One is on our MSE loans where it is -- where we don't take a collateral. And that part of MSE loan, which is non-collateralized is something that we cover under CGTMSE. Second thing is that Vehicle Finance, the commercial Vehicle Finance, a large part of our commercial Vehicle Finance are eligible for cover under CGTMSE, which gets covered.

**Parth Gutka:** Okay. Okay. And just trying to squeeze in one more. Considering it's around 1.5 months that the West Asia conflict is going on, are we seeing any signs of stress on the ground or the early bucket delinquencies? And have you guys tightened the risk filters in March end or somewhere in early part of April?

**Jagadesh J.:** This is Jagadesh. So as we early clearly indicated, we didn't -- not going to have a direct impact due to the West Asia conflict, okay? So even in the month of March, we have seen an excellent collection efficiency in terms of all parameters. And even April, we don't want to comment immediately. But looking at the Microfinance as such, we didn't see much of the impact on that. We need to see whether any kind of impact maybe the month or so. As of now, we don't see any kind of impact due to West Asia for our client segments.

**Moderator:** The next question comes from the line of Deepak Poddar from Sapphire Capital.

**Deepak Poddar:** A few clarifications first, sir. Now this cost of fund you mentioned is likely to increase due to higher saving rate and higher term deposit rate. And that's right, right? Hello?

**Suresh G:** Yes. Yes, Deepak it is.

**Deepak Poddar:** And it's effective from what, 1st April?

**Suresh G:** So we have done this change from March.

**Deepak Poddar:** Okay, effective from March only. Okay.

**Suresh G:** Yes, yes.

**Deepak Poddar:** Okay. And the NIM pressure is largely because of higher cost of funds and lower CD ratio that you're expecting?

**Suresh G:** Yes, Deepak, those are the couple of factors which will have an impact on the NIM as we move forward.

**Deepak Poddar:** Understood. And the NIM pressure will be visible from first quarter itself?

**Suresh G:** From -- marginally, yes, from Q1. And further as we move forward, it will...

**Deepak Poddar:** Full impact by 2Q and 3Q?

**Suresh G:** Yes, yes, Q3 and Q4 time.

**Deepak Poddar:** Okay. Understood. And sir, you -- borrower profile, I mean, having getting impacted due to this macro scenario and you are looking at a tightened credit norm with focus more on quality of asset over growth. So sir, can you throw some more light? I mean, how much percentage of your borrower is being impacted due to this? And what sort of credit norm tightening? I mean this 20% growth that you have mentioned is after factoring in tightening, right? And what sort of impact do you see on the slippage front, yes?

**P.N Vasudevan:** See, as I mentioned in my opening remarks, the inflation, which is the most likely outcome of the West Asia war, right, the inflation may actually go up. But in our small business loan and affordable housing, we do not expect that to have any effect from a borrower perspective because our borrowers are dealing in daily use products and services.

Like let's say that she's having a provision store or he's running a salon, barber shop or a salon or eatery or something like that. Now these are not discretionary consumption by people. These are just the daily use products and service.

I mean if an idly cost you INR25, INR30 today and if that INR30 has to go to INR35 or INR38 tomorrow, people will still have to just consume that idly. You can't just stop it, right? Most of our borrowers use -- are dealing in daily use products and service. And that is where -- not only now, historically, in the last, say, 15 years that our SBL has been operating, we have never seen inflation. We have never seen GDP movements up and down affecting the borrowers' ability to repay because they actually are able to adjust their selling prices in line with what's happening in the economy.

The area where I mentioned we might see an impact will be our commercial vehicle borrowers because if the diesel price goes up, freight rates will also go up, but there's always a lag time. There's always a lag period. And during that lag period, the operators' income cash flow comes down. And obviously, during that time, they may struggle to repay.

For us, commercial vehicle customers on our total advances should form about 12%. So about 12% of our total advances represent commercial vehicle borrowers. And that's a segment where if the diesel price goes up, let's say, beyond 10% or so, if the diesel price moves up, yes, those

people are the ones who are likely to feel an impact till the time that the freight rates get adjusted. So any tightening of credit norms and all that will be primarily in that segment.

The rest of the business, we don't see really much of an issue because we have seen this over the last 15 years. GDP movements have been going up and down and inflation has been going up and down, but we have never seen that having an impact on our customers. So it's this 12% business that we'll have to continuously track from a credit tightening if the diesel price starts going up.

**Deepak Poddar:** Understood. That's very helpful, sir. And what does it mean for slippage? I mean, are you seeing right now? I mean, we are already, I mean, 30 days into the month of April in terms of increased slippages in the segment?

**P.N Vasudevan:** April has been good. I mean, last year, April -- compared to last year, April, this year, April has actually been much better. So we are keeping our fingers crossed.

**Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. P. N. Vasudevan for the closing remarks.

**P.N Vasudevan:** And putting a lot of questions to us, always they enable us to keep us on our feet, look at what the market look for and ensure that we deliver an all-round performance, so look forward to seeing again next quarter, and we hope to continue to be able to deliver a good performance. Thank you. Bye-bye.

**Moderator:** Thank you, sir. Ladies and gentlemen, on behalf of Equitas Small Finance Bank, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.