ESAF Small Finance

Operator: Ladies and gentlemen, good day, and welcome to ESAF Small Finance Bank Q2 FY27 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. K. Paul, the Managing Director and the CEO. Thank you, and over to you, Mr. Paul.

K. Paul – Managing Director & CEO: Thank you, and good afternoon, everyone. We welcome you to the Q2 FY27 earnings call of ESAF Small Finance Bank. Joining me today are my colleagues, Mr. George K. John, Executive Director, and Mr. Girish C.P., EVP and CFO.

I would like to begin by highlighting a significant achievement for the bank this week: the successful implementation of ESAF 2.0, our flagship digital and IT transformation program, Star on Next. This marks an important milestone in ESAF Small Finance Bank's transformation journey and reflects our commitment to building a future-ready, technology-enabled bank.

The successful implementation has strengthened our technology backbone and established a more scalable and resilient platform for the bank's future growth. Over time, we expect this investment to enhance operational efficiency, productivity, automation, and customer experience, while strengthening risk management and control mechanisms.

Star on Next is a key enabler of our broader structural transformation strategy, supporting portfolio diversification, business scalability, and strategic expansion of our banking network. We believe this modern technology foundation will position the bank to pursue its long-term growth ambitions more effectively over the coming decades.

I would like to place on record my sincere appreciation for our employees, especially our Executive Director, Mr. George K. John, who oversaw this strategic transition program, and our technology partners for their commitment, collaboration, and collective efforts in successfully delivering this complex program.

I would also like to thank our customers for their continued trust and support throughout the migration. This is an important milestone for ESAF, providing a strong technological foundation to support our next phase of transformation and sustainable growth.

Our transformation journey continues with the MARG portfolio as the key anchor, supported by a renewed focus on the emerging household loan category. While the emerging household portfolio has more than doubled compared to last year, the MARG portfolio has maintained its steady growth rate every quarter. The growth is not dependent on any individual segment but is broad-based, with all the constituent segments of MARG and EH showing strong growth, both year-on-year and quarter-to-quarter.

The MARG portfolio continues to maintain lower delinquencies, and complementing it with the EH portfolio, comprising customers with an established repayment track record and growing income profiles, has helped us further improve our asset quality.

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Our financial performance has improved significantly and continued its positive trend on the back of our strategic transformation and focus on operating efficiency. Our objective is to build a well-diversified retail franchise, with secured lending, emerging households, microfinance, and deposits complementing each other. This will be further supported by continued investments in technology and innovation to deepen customer engagement and provide best-in-class facilities to customers.

We will continue to build on the strength of our network, which is primarily present in rural and semi-urban areas, to provide a wider range of banking products and financial solutions to customers. All our strategies have been built with a clear focus on creating a stable, diversified, and resilient asset base that is supported by disciplined execution, investments in technology, prudent risk management, strong governance, and operational efficiency.

At the same time, the bank has established itself as a front-runner in integrating environmental and social stewardship into its core business operations. Through a wide range of purpose-driven initiatives and strategic projects, the bank actively promotes sustainability and social well-being across communities. As a result, our CARE ESG rating has improved from 75.4 to 77.6. The bank has been rated higher than the industry in all 3 aspects—environmental, social, and governance—thus reflecting our continued progress towards responsible and sustainable growth.

On the macro front, the Indian economy appears to be resilient. Though the RBI raised its FY25 GDP growth forecast to 7.1% in the latest MPC meeting, it also increased the repo rate by 25 basis points to calibrate tightening as inflationary pressures persist. We remain cautious and watchful of the increased volatility in global energy prices and the persisting El Niño conditions. These events have not had any material impact on our business or operating performance as of now.

The overall performance in H1 FY25 in terms of total business growth, secured portfolio diversification, and improved financial parameters gives us confidence that we are moving in the right direction with regard to people, technology, systems, asset quality, and risk management for our next phase of growth.

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

George K. John – Executive Director: Thank you, Paul sir, and good afternoon, everyone. During the quarter, improvement across key parameters continued sequentially, including improved profitability and asset quality metrics, supported by normalization in slippages and better operating efficiency.

As of September 30, 2024, our total business stood at Rs.36,399 crores, registering healthy year-on-year growth of 25% compared to Rs.29,031 crores last year. During the same period, gross advances grew by 25%, while deposits increased by 24%, reflecting balanced growth across both sides of the balance sheet.

If we add IBPC transactions done during the quarter, our total business transacted stood at Rs.37,449 crores. Total deposits grew by 24%, retail deposits remain strong at 90% of total deposits, and CASA stood at 23.3%. Our liquidity coverage ratio stood at 141.48% as of 30 September 2024, indicating a comfortable liquidity position.

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Our liability strategy remained centered on granular retail deposits and significantly deepened customer relationships to improve the quality of our funding base. As a result, our retail deposits crossed a milestone of Rs.25,000 crores this quarter to reach Rs.25,409 crores.

Total gross advances grew by 25% YoY. The secured loan book grew faster at 35% YoY, whereas the unsecured loan book, consisting of microfinance business

Management: grew by 15% YoY. Secured business now stands at 64% of total gross advances, and improvement in portfolio mix towards secured assets and improved cost efficiency are driving improvement in asset quality.

The secured book is driven largely by the MOR portfolio, as it represents our strategy to increase secured retail lending. In Q2 FY27, at 13,938 crores, the MOR portfolio grew by 30% YoY and constitutes 58% of our loan portfolio. This quarter, a major constituent of MOR, that is, the gold loan portfolio, crossed 10,000 crores in gross advances to reach 10,450 crores. Portfolio quality is good and remains stable, with GNPA at 0.1%. We saw strong growth in all other MOR constituents also, driven by swift SOP execution and tailored offerings. Agri, gold, mortgage, and retail continued their strong performance, with YoY growth of 66%, 79%, 79%, and 34%, respectively.

As mentioned last quarter, our renewed focus on the emerging household segment is reaping good dividends. This segment has grown 124% YoY and 5% quarter-on-quarter, now contributing 22% of total gross advances. The segment has been broadly classified into individual, entrepreneur enterprise, and FIG, that is, Farmers Interest Groups. While FIG has remained stable, the individual and enterprise portfolios are growing rapidly, with strong YoY and sequential growth. Also, emerging household loans consist of disbursements to customers who are typically individuals and small entrepreneurs progressing beyond traditional microfinance and who have a good repayment history. Hence, the portfolio quality is good and significantly improves the bank's overall asset quality.

The microfinance loan portfolio, comprising group loans, has degrown by 55% YoY, but the decline in this portfolio is in line with our strategic direction. Rather than persisting with customers in the collection, we are progressing eligible borrowers to individual and secured lending initiatives under the emerging household portfolio. We are adopting a calibrated approach to our microfinance portfolio and are comfortable with our current portfolio size, as we aim to preserve yield and reduce volatility.

During the quarter, we added 10 new banking outlets, and now our distribution footprint stands at a total of 831 banking outlets, 722 ATMs, 1,060 customer service centres, and 31 institutional business correspondents across 24 states and 4 union territories, enabling deep customer reach and connection.

We have already mentioned over the last couple of quarters ESAF 2.0 through our {? Transfinite ?} project, which is our theme-spanning digital and IT transformation program. I am pleased to share that ESAF Small Finance Bank successfully went live with {? Tagline Core ?} 2.0 on 26 October 2026, marking a major milestone in our tech-led transformation journey. The implementation involved migrating to Oracle Cloud as our core banking system, alongside the deployment of upgraded business applications and a modernized technology infrastructure.

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Following go-live, our focus is on stabilizing operations, ensuring transaction accuracy, strengthening system performance, and supporting employees and customers through the transition. Our team is working closely with technology partners to monitor operations and address emerging issues on priority.

From a strategic perspective, {? Tagline Core ?} is not more than {? Tagline Core ?} is much more than a core banking migration. It represents a foundational investment in the bank's future operating model. The new technology environment is designed to support greater scalability, improve automation, strengthen operating controls, and enhance digital capabilities. It will also support our ongoing business transformation, including portfolio diversification, the expansion of secured lending, improved cross-selling, and the strategic growth of our banking network.

While the benefits will be realized progressively as the platform stabilizes and business processes are further optimized, we believe this investment provides an important technology foundation for the bank's scalable growth over the coming decades. We remain committed to building a stronger, more resilient, and future-ready ESAF Small Finance Bank.

As we move into the second half of FY27, we continue to further strengthen our secured lending franchises through MOR and grow the emerging household segments, maintaining a fine balance between growth and asset quality. Also, our investments under ESAF 2.0 will enhance business growth, productivity, and customer experience, thus creating a stronger foundation for the future.

The improvement that you see in core asset quality and profitability that we have witnessed now reflects the structural changes we undertook over the last 2 years, and this transformation is continuous. With disciplined execution, prudent risk management, and customer-centric innovation, we aim to deliver continued improvement in our business performance in the coming years.

I will now invite our EVP and CFO, Mr. {? Hendrick Joseph ?}, to take you through the financial performance.

{? Hendrick Joseph ?} - EVP & CFO: Thank you, sir. Good afternoon, everyone. I thank all the participants for taking time to join us on this earnings call. Let me give you an overview of our financial performance highlights for Q2 FY27.

As of Q2 FY27, total deposits stood at 28,466 crores, growing 24% compared to 22,894 crores last year, with a healthy CD ratio of 82%. Retail deposits increased to 25,475 crores, registering growth of 15% YoY, which now constitutes 89% of total deposits. Our retail deposits reflect a stable and granular deposit base, which we will continue to build further. Additionally, we are also seeing good traction on our non-resident deposit base, witnessing steady sequential growth over the last 5 quarters.

CASA deposits grew at a slower pace than term deposits to 6,645 crores in Q2 FY27, registering 10% YoY growth, with the CASA ratio standing at 23.3%. We are formulating various measures for prioritizing quality CASA acquisitions and focusing more on NTB, NR, and task relationships to achieve the targeted CASA level by the end of the year.

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Gross advances increased to 23,934 crores from 19,137 crores a year ago, registering growth of 25% YoY. Our strategic priority of diversifying the loan book remains on track. The secured portfolio stood at 15,377 crores, with growth of 32% YoY, whereas the unsecured portfolio stood at 8,557 crores, with growth of 15% YoY, aligned with our strategy.

Healthy asset growth, moderated NPL levels, strategic product mix, and an appropriate pricing strategy translated into strong revenue momentum, with total interest income reaching 1,175 crores and net interest income increasing by 73% YoY to 634.43 crores. Other income for the quarter also grew by 47% YoY, thanks to increased business volumes.

Yield on advances continues to be in a comfortable zone, with the cost of funds remaining largely stable in Q2 FY27, leading to a net interest margin of 6.2%. The funding cost is expected to marginally go up in Q3, but we have enough cushion to absorb the current NIM levels. Lower slippages, primarily in unsecured lending, will continue to support margins, but any further upward changes in the policy rate may lead to higher interest expenses, affecting the NIMs.

Pre-provisioning operating profit for the quarter was 362 crores, up 289% YoY. The improvement in PPOP is expected to remain stable for H2 also.

Operating expenses in Q2 FY27 increased by 2% QoQ, largely due to other opex, which grew by 4%, whereas employee expenses remained flat. The cost-to-income ratio stood at 58%, as compared to 82% in Q2 last year. We will continue to focus on further improving operating efficiency and optimizing overhead costs for the remaining year as well. The operating expenses are within comfortable levels and have remained largely range-bound sequentially, considering the incremental opex towards technology and branch network build-up on planned lines. We aim to maintain a cost-to-income ratio of around 60% for the year.

Normalization of the asset quality issue in the MFI sector and the change in portfolio mix have led to improvement in asset quality and lower slippages. As compared to Q2 FY26, gross NPA for Q2 FY27 declined significantly to 2.8% from 8.5%, and net NPA declined to 0.3% from 3.8%, while slippages reduced sharply to 87 crores from 332 crores on a YoY basis. Total technical write-off for the quarter was 626 crores, probably the last lot from the legacy NPAs.

With slippages well under control, credit cost on an annualized basis has reduced to 2.6%. We estimate the same to remain in the range of 2% for the full year. Our gross slippage ratio for Q2 FY27 on an annualized basis has reduced to 1.6% and is expected to follow the same trend in the remaining period.

Q2 FY27 PAT has doubled sequentially to reach 160 crores from 80 crores in the previous quarter. ROA and ROE are reaching normalized levels and stood at 1.5% and 26.5%, respectively, on an annualized basis. We are taking steps to optimize capital consumption and have seen CRAR improve by 20 basis points to 24.1% as of September '26.

As business volumes grow and operating leverage from our distribution network flows in, further improvement in the return ratios is expected going forward. We believe that a strong H1 will support H2 as well through a diversified asset book, disciplined underwriting, and improved operational efficiency, enabling net income growth, optimized cost ratios, favorable NIMs, and NPA

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movements.

However, we remain vigilant on global tensions, the revised monetary stance by RBI, supply chain disruptions amid geopolitical tensions, and recent weather-related issues. Our continued focus on profitable growth, disciplined risk management, operational excellence, and customer-centric innovation will be further boosted by the successful implementation of our new technology platform. The investments made over the past 2 years have created a strong foundation for a resilient balance sheet and profitable growth going forward.

Thank you very much. And now the floor is open for the Q&A session.

Operator: Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question comes from the line of Amit {? Mandale ?} from {? BOB Capital ?}. Please go ahead.

Amit {? Mandale ?} - {? BOB Capital ?}: Thank you. My first question is on the loan book. This quarter, our loan book has grown 3% sequentially, or 3% quarter-on-quarter, but NII growth is about 10%. Can you please explain the reason for the higher NII growth?

{? Hendrick Joseph ?} - EVP & CFO: It is due to the asset mix as well as the fact that last year there were NPAs on which interest income was unable to be recognized. Managing NPAs has released the income recognition at full levels.

Amit {? Mandale ?} - {? BOB Capital ?}: Right, sir. Was it also partly because there was an NPA write-off, and there was an interest component that was released? Was there any release in that line item—provision release or any interest release?

{? Hendrick Joseph ?} - EVP & CFO: Yes, as far as the technical write-off is concerned, that is principal versus provision [cut off]

Management: which has already taken a P&L hit. There is absolutely no component for the income reversal on that.

Amit {? Mandale ?} - {? BOB Capital ?}: Right, sir. Continuing on the quarter-on-quarter growth, the growth this quarter is slightly moderate at 3%. Do you still expect 20% type of growth next year, such as in FY28?

Management: No, this quarter, the growth was moderate because, as we mentioned, we are focusing on the migration, so that took some attention from the team. That is why the growth was a little moderate. But by FY28, we expect the earlier growth projection to continue. On a YoY basis, we have grown 25%.

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Amit {? Mandale ?} – {? BOB Capital ?}: Right, sir. On other income, how much is the insurance income, either quarterly or for last year? Is there any impact from the revised insurance guidelines on the profitability of the P&L? Can you quantify the impact?

Management: For the current quarter, the insurance contribution is 25 crores. The draft guideline has only now been released, and we have all given our suggestions on the new proposals given by IRDAI in the draft proposal. Let us see the final proposal and assess the complete impact. In case there is a drastic reduction, alternative arrangements will be made to increase the other income portfolio.

Amit {? Mandale ?} – {? BOB Capital ?}: Right, sir. What was the insurance income for last year, such as FY26 full year?

Management: 124 crores for the full year.

Amit {? Mandale ?} – {? BOB Capital ?}: Okay. My last question is on capital raising. In the earlier calls, there was a discussion that any future capital raise would happen closer to the IPO valuation multiples. Are we still maintaining that, given that the IPO valuation was closer to perhaps 1.4–1.5 times book? Are we still maintaining that expectation?

Management: The bank has taken a decision to infuse capital to the extent of 1,000 crores or so. But on the valuation front, we are yet to take a call on that.

Amit {? Mandale ?} – {? BOB Capital ?}: Sorry, sir, I could not hear that properly. Can you repeat the first part of the answer?

Management: As of now, we have a capital adequacy ratio of 24%. Therefore, there is no urgent need for a capital raise. However, we are open to a strategic capital infusion. We are exploring those options. We have also raised Tier 2. In the first quarter, we raised Tier 2 as well. On the valuation front, it will come closer to the discussion on that.

Amit {? Mandale ?} – {? BOB Capital ?}: Right, sir. So, perhaps no equity capital raise in the next 2 quarters? Is it fair to say that it may not happen until the end of March?

Management: As of now, we have not taken any concrete decision on capital infusion, but that does not mean that we will not raise capital during the current year.

Amit {? Mandale ?} – {? BOB Capital ?}: Right, sir. One last thing: on credit cost, could you provide some guidance for FY28?

Management: Credit cost as of now is 2.6% annualized for the current quarter. Around 2% is what is expected for the full year, as things stand today.

Amit {? Mandale ?} – {? BOB Capital ?}: Sir, I am asking for next year.

Management: Next year, again, all the backlog has already been cleared. We hope that 1.5% will be a good estimate.

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Amit {? Mandale ?} – {? BOB Capital ?}: Okay, sir. Thank you. That is it from my end. Thank you very much.

Management: Thank you, Mr. {? Chinmay ?}.

Operator: Thank you. A reminder to all participants that you may press star and one to ask a question. The next question comes from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar – Sapphire Capital: Am I audible, sir?

Management: Yes, please.

Deepak Poddar – Sapphire Capital: Thank you very much, sir, for this opportunity. Many congratulations on a good set of numbers. I wanted to understand the ROA front first. Earlier, we were looking at ROA of 2% by year-end, and now we have achieved it in this quarter itself. How should one look at your ROA for the entire year, FY27, and FY28?

Management: We had given guidance of 2% quarterly ROA by year-end. But as things stand today, our guidance is ROA of 2% for the full year.

Deepak Poddar – Sapphire Capital: Sir, your voice cracked. So, are you saying 2% ROA for FY27 for the entire year?

Management: Yes, yes.

Deepak Poddar – Sapphire Capital: Okay, understood. What about next year, FY28?

Management: We will give guidance next quarter.

Deepak Poddar – Sapphire Capital: Okay, understood. Geographically, can you throw some more light? Is there any pocket or micro-market where you are finding any kind of issues? Some perspective on the market side would be very helpful.

Management: Generally, we are not finding any major issues in any of the markets in which we operate. But in Maharashtra and Karnataka, some of these markets are being affected slightly by the drought situation. The SLBC and the government are issuing some guidance in that regard. We are therefore watching developments in these markets very cautiously. Otherwise, our markets are performing at a safe level.

Deepak Poddar – Sapphire Capital: Maharashtra and Karnataka together form around 16%, or 15%-16%, of our portfolio. In those markets, is the payment or bucket collection efficiency above 99%? How is the scenario there?

Management: Our portfolio is performing well.

Management: As of now, it has not had much impact on collections. But if the situation continues for the whole year, we expect that it may have an impact.

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Deepak Poddar – Sapphire Capital: Currently, it is performing well, but if the situation persists, we might see some issue, right?

Management: Yes, yes.

Deepak Poddar – Sapphire Capital: Okay, understood. In terms of cost-to-income, did we say that this year we are looking at a cost-to-income ratio of around 60%?

Management: Yes, that is the guidance we have given. 57.5% is the current level. We expect it may be around 60%.

Deepak Poddar – Sapphire Capital: 60%, right? Six-zero?

Management: Yes, yes.

Deepak Poddar – Sapphire Capital: Why are you expecting costs to increase?

Management: As we were explaining, the planned capital expenditure will happen now. For the next half year, there will be some additional expenditure on account of that.

Deepak Poddar – Sapphire Capital: That is for the digital transformation, ESAF 2.0?

Management: Yes, yes.

Deepak Poddar – Sapphire Capital: How much was spent on that transformation? What was the amount spent on it?

Management: We will provide that later.

Deepak Poddar – Sapphire Capital: But that has now concluded, right?

Management: No, the capital expenditure will happen now because we went live late on Monday, this Monday.

Deepak Poddar – Sapphire Capital: Okay. I was trying to understand this because your costs will increase, but you are still maintaining that your ROA will remain at 2%. What factors can you cite that will offset this increase in costs? You are maintaining NIMs and costs will increase, so what will help us maintain that 2% ROA for the second half of this year?

Management: If you see the PPOP, it is now at a steady-stage level. Slippages are very much under control, and provisioning is almost complete. The leftover NPA is only to the extent of 80 crores. Therefore, on the provisioning front, we will get the cushion.

Deepak Poddar – Sapphire Capital: So, credit cost will help you offset the cost increase and maintain the 2% ROA?

Management: Yes.

Deepak Poddar – Sapphire Capital: To offset the cost increase and help you maintain that 2% ROA?

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Management: Yes, for the entire year.

Deepak Poddar – Sapphire Capital: Okay. That is very helpful, sir. I would like to wish you all the best. That would be it from my side. Thank you.

Management: Thank you. Thank you, Deepak. Thanks for the question.

Operator: Thank you. A reminder to all participants that you may press star and one to ask a question. The next question comes from the line of Raj Shah from Sovereign Asset Management. Please go ahead.

Raj Shah – Sovereign Asset Management: Thank you for the opportunity, and congratulations on a great set of numbers. I wanted to understand the gold loan portfolio. There has been some rise in SMA 0 and SMA 1. What is the reason? Was it because of a temporary drop in gold prices? How do you see this flowing down to the further buckets going forward?

Management: There is a spike in SMA 0 and SMA 1, primarily because of gold price fluctuations in the market. Some customers require more time for rolling over the loans, and that is the reason.

Raj Shah – Sovereign Asset Management: Understood. But you do not expect any major flow-through to the downward buckets going forward from this, right? The majority of this will eventually be recovered?

Management: Yes, it will definitely be recovered, and some stabilization in price levels has come after the fluctuation that was rampant during September and the beginning of October.

Raj Shah – Sovereign Asset Management: Out of the 1,080 crores of SMA 0 and around 250 crores of SMA 1 in the gold and vehicle segments that were reported, how much would have been recovered till now?

Management: Gold is somewhere around 990 crores in SMA 0 and 200 crores in SMA 1.

Raj Shah – Sovereign Asset Management: Okay, understood. Secondly, you said that you are expecting around 2% credit cost for the full year. Incrementally, for the next 2 quarters, credit cost therefore appears very low, close to around 40-50 crores. Is that understanding correct?

Management: Yes, definitely, because all the backlog provisioning has already been completed. The SMA that is mounting is mainly in gold loans, and therefore 100% recovery is expected from the slippages, if anything happens at all.

Raj Shah – Sovereign Asset Management: Understood. Lastly, in terms of new products, are we looking at any new products going forward in the secured segment, such as two-wheeler loans or any other personal product?

Management: We are already in the secured segment and have introduced many products in the mobility and mortgage segments. With the new technology platform, we are planning to accelerate all the products because we have onboarded many new LOS platforms. That will help us accelerate growth in the retail business and the secured loan business.

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Raj Shah – Sovereign Asset Management: Understood, sir. Thank you so much.

Management: Thank you. Thank you.

Operator: Thank you. A reminder to all participants that you may press star and one to ask a question. The next question comes from the line of Amit Premchandani from RoboCapital. Please go ahead.

Amit Premchandani – RoboCapital: I wanted to clarify from the earlier participant: out of the 1,085 crores of SMA 0, gold is 900-odd crores, right? What is the balance portion there?

Management: The balance is spread across the other portfolios. There is no

Amit Premchandani – RoboCapital: The voice is not clear.

Management: There is no other concentration in any other portfolio. It is spread across all the other portfolios. It is quite normal.

Amit Premchandani – RoboCapital: Right, sir. On the gold portfolio, what is the LTV for that gold portfolio, the average LTV for the entire book of 900-odd crores?

Management: As of now, it is around 76%.

Amit Premchandani – RoboCapital: 76% as of now or at the time of lending?

Management: As of now.

Amit Premchandani – RoboCapital: Right, sir. Are those bullet products or monthly repayment products?

Management: Yes, mostly they are bullet products.

Amit Premchandani – RoboCapital: Sorry, I could not hear that clearly. How much is bullet and how much is

Management: Bullet only.

Amit Premchandani – RoboCapital: Right.

Management: Mostly, it is bullet only. Mostly, it is bullet only.

Amit Premchandani – RoboCapital: Okay, sir. On the earlier discussion regarding the drought, there is also RBI forbearance, and recently some SLBC guidance was issued as well. You can therefore use either of those for restructuring if there is any delinquency there, right? Is my understanding correct?

Management: Yes, restructuring is permitted, but we do not foresee any kind of major restructuring requirement in our portfolio.

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Amit Premchandani – RoboCapital: Right. Will you be able to restructure the gold portfolio as well on the same basis?

Management: Normally, no. Gold loans are not given as crop loans, so [trails off]

Amit Premchandani – RoboCapital: Right. Okay, sir. That is it from my end. Thank you.

Management: Thank you. Thank you.

Operator: Thank you. A reminder to all participants that you may press star and one to ask a question. The next question comes from the line of Diwakar Rana from Prudent Equity. Please go ahead.

Diwakar Rana – Prudent Equity: Hello, sir. What is the proportion of non-MFI customers, especially in retail? Have customers also migrated from MFI borrowers?

Management: There are small percentages of migrated customers, but not all. The non-MFI portfolio consists of MSME, Agri, Retail, and Gold. There will be some graduated MFI customers, but the majority will be outside the MFI customer base.

Diwakar Rana – Prudent Equity: Outside new customers, right, sir?

Management: Yes, that is correct.

Diwakar Rana – Prudent Equity: There has been a fresh slippage and NPA addition of around 74 crores to 87 crores. What was the reason? What were the key drivers of these slippages in Q2?

Management: One corporate portfolio was also included in that, to the extent of 7 crores. Otherwise, it is normalized and continues at that rate.

Diwakar Rana – Prudent Equity: I need some more clarification on the SMA {? 1 and 2 ?}, which grew from {? 8 to 53 crores ?}. What was the reason on the gold front?

Management: On gold, the price fluctuation was rampant during this quarter, especially in September and the beginning of October. There was a price drop, and now it is becoming slightly stabilized. We hope that the SMA portfolio will get cleared once price stability in gold prices comes to the market.

Diwakar Rana – Prudent Equity: Do you expect anything to slip into NPAs from this?

Management: We do not expect any kind of slippages in the gold loan book because, generally, when price stability comes, this will get cleared.

Diwakar Rana – Prudent Equity: We are seeing a lot of big players showing increasing NPAs in the gold portfolio. Do you have any [inaudible]?

Management: Our advantage is that we still have only 76% LTV, and we are very conservative in fixing the per-gram gold rate for lending purposes. We do not generally give top-up loans, whereas some players are also giving top-up loans on gold loans, which is a risky practice. We have not

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resorted to that.

Diwakar Rana – Prudent Equity: How much of the Q2 other income came from PSLC sales and other non-recurring items?

Management: It is 54 crores.

Diwakar Rana – Prudent Equity: Given the high concentration of deposits in Kerala, what is the plan to diversify the funding base across other states?

Management: Our branch network is now well diversified. We have a presence in 26 states, and all those locations, especially in the North, East, and West, have started performing. Deposits are also a function of trust and how long you have been in the market and operated in that market. We have now been in these markets for many years, so over a period of time, we will be able to bring down the concentration in Kerala.

Diwakar Rana – Prudent Equity: Have you seen any impact from the Middle East-Israel war on deposits or on the inward remittances that we receive from the Middle East in the southern part of India?

Management: Absolutely not. In fact, NRI deposits have already increased by 17% YoY. We do not have credit exposure to NRIs, and therefore there is absolutely no problem on that side either.

Diwakar Rana – Prudent Equity: Okay. Thank you.

Operator: Thank you. Ladies and gentlemen, as there are no further questions today, we have reached the end of the question-and-answer session. I now hand the conference over to management for closing comments. Over to you.

Management: We believe we have taken the right strategic steps, and the improved performance validates them. We will continue with the same dedication, and hopefully, supported by a positive macro environment, we can expect to see renewed growth. Thank you to all the investors and analysts for taking the time to participate in this conference call today. In case you have any follow-up questions or queries, you can always reach out to our investor relations team. Thank you very much.

Operator: Thank you. On behalf of Elara Securities and ESAF Small Finance Bank, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

Management: Thank you. Thank you, all.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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