Operator: Ladies and gentlemen, good day, and welcome to Capital Small Finance Bank Ltd. Q2 and H1 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 and then zero on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sarvjit Singh Samra, MD and CEO, Capital Small Finance Bank Ltd. Thank you, and over to you, Mr. Samra.

Sarvjit Singh Samra – MD & CEO: Thank you, Ranju. Good morning, everyone, and thank you for joining us on Capital Small Finance Bank Ltd. earnings call for the second quarter and first half of FY27. I hope you and your families are keeping well.

Our financial results and investor presentation are already on the stock exchanges and on our website.

Let me quickly introduce the team with me on the call today. I have with me Mr. Munish Jain, our Executive Director; Aseem Mahajan, our Chief Financial Officer; Raghav Aggarwal, Chief Credit Officer; {? Lovlesh ?} for Branch Banking; Sahil Vijay, our Chief Treasury Officer and Investor Relations Lead; Bharti Bahuta from our Investor Relations team; and our IR advisors, SGA.

I will begin with an overview of the operating environment and macroeconomic developments during the second quarter and the first half of FY27, followed by a detailed discussion on the bank's performance and outlook.

Let me begin, as I usually do, with a few words on the environment in which we are operating. The sector is entering a phase in which the quality of growth, the strength of your deposit franchise, and how well you navigate a shifting rate cycle really start to matter.

The first half of the year has been a healthy one for the system. Credit growth stayed strong on the back of retail and MSME demand, and deposit mobilization has picked up well. As of the end of September, banking industry credit grew at around 19.4% year-on-year against deposit growth of about 17.8%.

The other major development was, of course, monetary policy. In its October review, the Reserve Bank raised the repo rate by 25 basis points to 5.50% and moved its stance to calibrated tightening. This was on the back of some emerging inflationary pressure, higher energy and food prices, alongside an economy that is still growing well.

The signal from the central bank is fairly clear. For now, rate cuts are off the table, and the path ahead will depend on how inflation and growth play out.

For us as bankers, this shifts the focus. Until recently, the question was how quickly rates would come down. Now, it is about managing a rate environment that may stay higher for longer. The cost of deposits, how our liability book reprices, and our ability to protect lending spreads will be the things that drive profitability from here. Through all of it, disciplined underwriting, comfortable liquidity, and selecting the right loans will be what allows us to keep growing without letting asset

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quality slip.

These are not new disciplines for us. They are how we have always run the bank. In an environment like this, granular retail deposits and genuine customer relationships matter more than ever. For a bank like ours, rooted in semi-urban and rural markets, the ability to raise deposits through the branch network we have built over decades and to go deeper with customers we already know is a genuine and durable advantage.

When I look at where we stand, I am confident our model is well-suited to this environment. A deep presence in core markets, an almost entirely secured loan book, and a relationship-led way of banking give us a solid base to keep growing while staying measured on risk.

Our priority remains quite simple: grow the franchise, strengthen the deposit base, and protect the quality of the balance sheet.

With that backdrop, let me take you through how the bank performed in the second quarter and the first half of FY27. I will touch on the headline numbers and then hand over to Munish for further details.

Our gross advances stood at 9,755 crore as of September 30, 2026, up 23.4% year-on-year and 7.5% over the previous quarter. Disbursements for the quarter were Rs 1,095 crore, up 36% year-on-year. On the liability side, total deposits grew to 10,831 crore, up 16.2% year-on-year and 2.2% over the previous quarter. CASA stood at 3,734 crore, or 34.5% of total deposits, compared with 33.9% a year ago. Gross NPA declined to 2.3% at the end of September 2026, compared with 2.47% in June 2026 and 2.70% a year ago. Our average credit-to-deposit ratio stood at 85.4% during the quarter, compared with 81.5% in the corresponding period last year.

Looking ahead, our priorities are clear: keep the momentum going in our core lending segments, make the deposit franchise deeper and more stable, improve productivity, and stay firmly focused on asset quality. In a shifting rate environment, we believe discipline and consistent execution will count far more than simply chasing scale.

On that note, let me hand over to Munish, who will take you through our financial and operating performance in more detail. Over to you, Munish.

Munish Jain – Executive Director: Thank you, Mr. Samra, and good morning and a warm welcome to you all on the call.

Let me walk you through the key business and financial highlights for the quarter and the half-year ending September 30, 2026, and then spend a little time on the progress we are making on our strategic priorities and Vision 2029 roadmap.

Business performance and advance profile: Starting with the advances, as of September 30, our gross advances stood at 9,755 crores, which is a growth of 23% year-on-year and 7.5% over the previous quarter. This is an acceleration from where we were in Q1 and a reflection of steady execution and healthy demand across our core segments. Disbursements stayed strong throughout the quarter and stood at 1,095 crores, up 36% year-on-year. That tells us that demand is holding up well across our segments and that our distribution and underwriting engine is working efficiently.

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Our book remains firmly secured, and around 97% is secured. Over 76.7% of the portfolio and 89% now, excluding the non-corporate book, is backed by immovable property or our own FDRs. This is very much by design and is the single biggest reason our asset quality holds up the way it does. The book is also granular, with an average ticket size of about 19.53 lakhs against 17.1 lakhs in Q2 FY26, and is well diversified.

As of September 30, our portfolio continued to remain well diversified, and the business loan segment is presently the largest segment. It increased to 48% of the book against 43% a year ago, and was 47% at the end of the last quarter. Mortgages were about 24% of advances, a little lower than 26% a year ago and 25% a quarter ago. Agriculture was 26% against 27% a quarter ago. Corporate exposure stayed deliberately constant at around 4%, where we lend only to well-rated borrowers.

On asset quality and risk management: Let me turn to asset quality, which I know is always a big focus area for all of us. Gross NPA came in at 2.36%, an improvement of 11 basis points over the previous quarter and 34 basis points over a year ago. Net NPA improved to 1.12% from 1.14% last quarter and 1.38% a year ago. I would highlight that this improvement has come in a quarter that had its own share of weather-related stress in our core geography, which to us is the clearest validation of our secured, carefully underwritten approach.

Credit cost for the quarter was 0.18%, broadly in line.

Just as importantly, our early warning indicators are moving correctly. SMA-1 and SMA-2 accounts were around 1 to 3.31% of advances, down from 4.78% a quarter ago and 4.42% a year ago. That reflects proactive collection and much closer monitoring of the book. As we grow, protecting asset quality stays right at the top of our list. We will keep lending the way we always have: secured, granular, with careful customer selection and strong collection. We are increasingly using data and technology to sharpen our early warning systems. All of this keeps us firmly on track towards our goal of taking net NPA below 1% without letting growth come at the cost of the balance sheet.

Deposit and liability-side franchise: Coming to the liability side, our total deposits crossed 10,831 crores, up a healthy 16% year-on-year and 2.2% on a quarter-on-quarter basis. To us, this is really a measure of the trust our customers continue to place in us and the strength of our retail franchise.

Our average credit-to-deposit ratio for the half-year was 85.4%, up from 81.5% a year ago, which shows that we are deploying our funds efficiently.

CASA stood at 34.5%. It is a touch lower than what we had last quarter, and that is seasonal and in line with what the whole industry is seeing in a high-term-deposit-rate environment. But it remains higher than a year ago, at 33.9% a year ago, and it continues to anchor the stability of our funding.

The cost of deposits stood at 5.68% against 5.92% a year ago.

Going forward, building our granular retail deposit base remains one of our key priorities, especially as we enter newer markets. We will keep deepening customer relationships, pushing CASA, and fine-tuning our funding mix. Together with disciplined liability management, we believe this is what will protect our margins and profitability as the balance sheet grows.

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Let me come to profitability. Pre-provision operating profit, or PPoP, was 68 crores, up 31% year-on-year. Profit after tax is at 92 crores—is at 46 crores, up about 31%. That is a healthy outcome, driven by steady operations and continued cost discipline.

Our net interest margin held steady at 4.24% against 4.04% a year ago. In a quarter in which the rate environment actually turned, improving margins speaks to the resilience of our core earnings, and we benefited from the repricing of the term deposits we had flagged in the last calls.

Our net interest income grew by 24% year-on-year and stood at 139 crores, against 112 crores in Q2 FY26. Non-interest income grew 25% to 30 crores, against 24 crores in Q2 FY26.

On efficiency, our cost-to-income ratio is 59.8%, an improvement from 61.7% last year, even as we continued to invest in branches, technology, and people. In other words, the benefits of operating leverage are expected to begin soon.

Return on assets stood at 1.39% against 1.26% a year ago and 1.30% a quarter ago, while return on equity was 12.43% against 10.22% a year ago and 11.2% a quarter ago, supported by consistent profitability and prudent balance sheet management.

Improving our profitability and return ratios is a central part of our roadmap. As our newer branches mature, relationships deepen, and our business scales, we expect operating leverage and productivity gains to contribute more and more to RoA.

Let me spend a moment on geographical diversification, which continues to build nicely. As of September, our net [cut off]

Management: ...network to 222 branches across five states and two union territories. Strengthening our footprint in rural and semi-urban markets remains central to our long-term route. It is worth mentioning that our deposit share in the home states has increased to 1.3% of the industry as of June 30, 2026, against 1.17% as of March 31, 2025.

Markets outside Punjab are becoming a real growth engine for us. Advances there grew by over 39% year-on-year this quarter, comfortably ahead of our overall loan growth of 23%. That tells us our model travels well beyond our home market. These markets now make up 26% of our advances and 8% of our deposits, which tells us that customers in these new geographies are increasingly choosing to bank with us.

We have 47 branches outside Punjab, which is 21% of our network, and they are contributing 26% of our advances. Encouragingly, business per branch in these markets, that is, the out-of-Punjab markets, continues to show an upward trajectory, with business per branch starting to reach 80 crore plus for branches with a longevity of 5 years and above, against 72 crores at the end of Q4 FY26.

Our expansion remains targeted. We go into markets where we can genuinely replicate our relationship-led model without diluting underwriting standards, and we are equally focused on getting more out of our existing branches and deepening every customer relationship we have.

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We have 77% of our branches in rural areas, which contribute 75% of deposits. Interestingly, 23% of our urban and metro branches contribute 46% of advances.

A quick word on capital and liquidity, both of which remain strong. Our capital adequacy ratio closed at 20.8%, with Tier 1 capital at 18.5%, giving us ample headroom to fund our growth with no immediate need to raise fresh capital. Our average liquidity coverage ratio remains strong at around 216%, which gives us sufficient headroom for growth. We will continue to maintain comfortable capital and liquidity buffers as we grow, so that every bit of balance sheet expansion rests on a resilient footing.

Before I close, let me briefly reiterate where we are headed under our Vision 2029 roadmap. We continue to target a loan book of more than 16,000 crore and a network of more than 300 branches by FY29. The way we get there is clear: go deeper and get stronger in our existing market, pursue targeted expansion beyond Punjab, make branches more productive, and keep investing in processes and systems.

There are really three things that drive this journey: first, accelerating growth by lifting the contribution from our new markets; second, improving operating leverage as our branches mature and our businesses gain scale; and third, something we never compromise on, keeping the balance sheet clean through secured, granular lending and disciplined underwriting.

Importantly, this is not about scale for its own sake. It is about making sure growth turns into sustainable, profitable growth and better return ratios. We believe our relationship-led model, strong retail deposit franchise, improving diversification, and disciplined approach to risk give us a solid foundation to deliver on the stated roadmap.

With this, we will be happy to take your questions, and I request the operator to open the floor. Thank you, and wishing you all happy and prosperous festivities.

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 is from the line of Chintan Parmar with Param Capital. Please go ahead.

Chintan Parmar – Param Capital: Good morning. Congratulations to the team on a very good set of numbers. Can you hear me? Am I audible, please?

Management: Yes, you are completely audible, Mr. Parmar.

Chintan Parmar – Param Capital: Okay, thank you. My question is specifically on the agriculture sector. This year, the monsoons have not been very good. Do we see any impact from that? Our collection efficiency has been very, very good to date, but do we see it going down a bit because of this sector? If you can throw some light on what the impact could be, because the impact should probably come now.

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Management: Yes, I will take this question and take you a bit backward as well. If we talk about agriculture, what we do in agriculture is lend to the middle-income group within the agriculture segment. These are farmers whose financial need is somewhere between 5 lakh rupees and 25 lakh rupees, and progressive farmers who cultivate two or three crops in a year. Our agriculture segment is primarily concentrated in Punjab and Haryana.

Now, if we talk about the agricultural geography in which we operate, in addition to rainwater, there are other irrigation opportunities available in Punjab and Haryana. One is canal water. Over the last 2 to 3 years, we have seen very good progress, and canal water has started reaching the farm level. Second, last year we saw very good rainfall, which resulted in an increase in the water tables. With that in sight, and with the availability of tube wells and irrigation facilities throughout Punjab and Haryana, despite the deficit rainfall, the impact on agriculture was not visible in the geography in which we lend to agriculture.

Yes, we keep hearing about some impact in some segments and other segments of the country, and the same is also visible from our slippages as well as from our SMA-1 and SMA-2. Even if we talk about the current year, we had gross slippages for the full H1 of 1.11% on an annualized basis, and net slippages of 0.24%, with credit cost of 0.18% for Q2 and 0.24% for H1.

Our SMA profile continues to show an improving trend, with SMA-1 and SMA-2 continuing to be at their lowest ever. We now have SMA-1 and SMA-2 at 3.31% against 4.42% a year ago, and at the end of last year, the same number was 4.92%.

All the data points indicate that there is no challenge on the agriculture side from the deficit rainfall, and we have seen such cycles earlier as well. Even if we look at history, we saw the same cycle in FY23 when there was deficit rainfall, and then we saw a much larger cycle in FY16. If we look at the data flow for those years, which is available on slide 12 of our presentation, even during those periods we were able to hold firmly on our credit cost as well as slippages.

With our understanding of the market and careful selection of the borrower profile, I believe our secured lending franchise is helping us keep our asset quality under control despite various macroeconomic and natural calamity-related variables. This is our view, based on the data and otherwise.

Chintan Parmar – Param Capital: Perfect. My second question is on the geographical spread. We have the majority of our branches in Punjab. Haryana is probably the state where we have seen more maturity compared to the other states. Can you throw some light on whether we can replicate our performance, and perhaps Haryana will give us an indication? Things are at least reasonably good in the other states. What I want to understand is the status of deposits and cost of funds in the other states compared with Punjab.

I also want to understand the potential of Punjab and Haryana, specifically from a growth perspective. How many branches or what branch potential can Punjab support, and the same for Haryana? If you can throw some light on this, that would be great.

Management: Certainly. As I understand, some of my investors are looking for more detail on Punjab versus out-of-Punjab. My request is that you please turn to page 26 of our presentation,

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where we provide more details about both the Punjab and out-of-Punjab businesses across various aspects.

Let me reiterate. If we talk about Punjab versus out-of-Punjab, we presently have 21% of our branches outside Punjab, contributing 25.7% of our advances and 8.2% of our deposits. If we talk about the quarter, we grew 23% at the bank level in advances, while the Punjab book grew 19% and the out-of-Punjab book grew 39%. Deposits grew 16% at the bank level, while the Punjab book grew 17% and the out-of-Punjab book grew 12%.

If we talk about the other quality metrics, our GNPA in Punjab is 2.88%, outside Punjab it is 0.87%, and at the bank level it is 2.38%. CASA at the bank level is 34.48%, in Punjab it is 35.3%, and outside Punjab it is 25.32%.

If we talk about Punjab versus out-of-Punjab, and even about branch productivity, branch productivity outside Punjab is now matching the productivity within Punjab. All the metrics are moving in the right direction, both within the state of Punjab and outside the state of Punjab.

With this, I want to share one of the most important data points. Even within the state of Punjab, our market share on the deposit side against the whole industry has improved to 1.3%, which was 1.17% as of March 31, 2025. Over the last 15 months, we have improved this market share by 13 basis points. I am not talking about the incremental figure; I am talking about the outstanding figure. Since outstanding is a longevity-based number, we are gaining momentum.

Punjab has a liability book of 7.45 lakh crore. Haryana has a liability book of 10 lakh crore in deposits. These two states have a huge amount of money, and we just need a small movement to take care of our aspirations. The opportunity available in the geography in which we operate is phenomenally high, and we are gaining momentum both within and outside Punjab. We are keeping our eyes and ears open to take advantage of opportunities wherever they arise.

Chintan Parmar – Param Capital: Perfect. One small final question: do we use CGTMSE? If yes, what is the coverage and what is the cost?

Management: As far as the present status is concerned, we are primarily a secured lender. Since we are a secured lender, CGTMSE is not required by us because we are not an unsecured lender. Our book is purely collateralized. If I exclude the corporate loan book, we have a 92% collateralized loan book.

CGTMSE is not something we require, and neither are we using it. However, we are keeping our eyes open for any enhancement to a client who may have been with us for a long time. We are evaluating various possibilities for how we can leverage it without increasing our risk metrics.

That is what we are saying. We are not comfortable with entering a standalone unsecured business. We want to continue to be a secured franchise, where we see an opportunity and potential to grow the numbers, which we are demonstrating with each passing quarter.

Chintan Parmar – Param Capital: Thank you, Sarvjit and Munish, and all the other team members. Thank you for answering my questions, and I wish you all the best.

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Management: 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 Shreya Shivani with Nomura. Please go ahead.

Shreya Shivani – Nomura: Hi, good morning, team. Thank you so much for taking my question. My first question was on net interest margins, both on the asset side and the liability side. First, on the asset side, how much of the book that we currently have is repo-linked? As we see an increase in repo rates, how much improvement in yields can we see?

On the liability side, is there still cost-of-funds pressure in the environment, or how are we looking at the cost of deposits? As repo rates increase, what will be the difference between the increase in yields and the increase in the cost of deposits, so that it can aid our NIMs? Please help me understand that.

Management: Certainly. If I come first to the analytical point, if you talk about the yield on advances [trails off]

Management {? Munish ?}: Yield on advances for Q2 FY27 remained at 11% against 11% in Q2 last year. We saw a repo rate hike in October, so the benefit of that has not flowed into the yield on advances in Q2. That will come in the coming period. If we talk about the cost of deposits, the cost of deposits has improved by 23 basis points, from around 5.9% in Q2 last year to 5.68% now. There is a good improvement in the cost of deposits from Q2 versus Q2, on a year-on-year basis, and accordingly our net interest margin has increased to 4.24% against 4.04% in Q2 last year and 4.21% immediately last quarter. Since the benefit of the repricing of deposits accrued primarily in Q1, we are not seeing much benefit from deposit repricing in the current quarter, but we have been able to firm up our yield on advances, which has improved by 10 basis points from the last quarter.

That is where the movement happened. Now, if we talk about the interest-rate environment taking a U-turn and how our balance sheet looks, we have around 52% fixed-rate advances and 48% floating-rate advances. We can say it is approximately 50-50. The portfolio is typically split equally between fixed and floating rates.

If we talk about the floating-rate portfolio, it is fairly balanced between MCLR-linked and EBLR-linked loans. The EBLR-linked portfolio will typically be around 13% to 14% of the portfolio. The benefit on the EBLR-linked portfolio will come in immediately. The MCLR-linked portfolio will get repriced as and when we reprice our deposits, and that benefit will be passed on to the advances.

In an upward interest-rate environment, what is the benefit for a balance sheet like ours? When a deposit is typically at a fixed rate, even if we increase the deposit cost, that will apply only to the incremental book. In advances, in addition to incremental advances, the benefit will also flow into the existing 50% of the book gradually. This will always be an advantageous balance sheet in an upward interest-rate regime in the medium term, until the time it stabilizes on both sides of the balance sheet.

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With the EBLR rate increase, we can see some benefit from the 25-basis-point impact, which will be implemented from November 1. Since we follow a month-end philosophy, an EBLR change in a month is implemented immediately at the beginning of the next month. Therefore, from November 1, an automatic increase will happen across the entire portfolio linked to EBLR for that particular site.

Shreya Shivani – Nomura: Thank you, sir. That is very helpful. My second question was on growth. We have set a 16,000-crore target for FY29 and are targeting growth at a rate of 22% to 22.5% for FY27. The two-year run rate over FY27 to FY29 then becomes around 22% to 23%. Given the balance sheet size and the loan book size we currently have, at around 9,700 crores, do you think this is slightly conservative on our side? Do you think we can grow faster than 22%, given the size that we have?

Management {? Munish ?}: As far as the growth forecast is concerned, at the beginning of the year we gave guidance of 20% to 22%, and at the end of H1 we are clocking 23%. We therefore look forward with a positive bias towards the growth engine.

Growth for bankers is a variable linked with a lot of macro factors, and predicting a macro factor for 3 years is a difficult task, even in the present environment. Yes, we are growth-hungry and want to achieve, or overachieve, what we committed. With that in sight, we are quite confident about what we have committed for FY29, and our run rate is better than the overall required run rate. From Q2 FY26 to FY29, our run rate is better than the run rate that is required.

Let me put it very clearly: we are a growth-hungry organization, and we believe the complete foundation is available for growth. We have all the systems, processes, team, infrastructure, and capabilities. If the macroeconomic environment remains comfortable and some good market opportunities arise, good growth will follow. We are not keeping this number to restrict our growth, but to challenge ourselves to improve our growth. That is how we look at this particular number. Yes, we are growth-hungry and look forward to growing the balance sheet at the most appropriate growth rate.

Shreya Shivani – Nomura: That is helpful. My next question was on our universal bank aspirations. I know it is a long-drawn process and we are at the initial stages of scaling up the bank. Some of the banks that started with us back in the day have scaled their books to a very large extent while being small finance banks, and are also on the verge of obtaining a universal banking license.

I wanted to understand your aspirations for becoming a universal bank and a pan-India bank recognized across the country. What are the steps, if any, that we are taking? Will we have to expand our product portfolio? [inaudible] Where do we see the bank perhaps 10 years from now? Please throw some light on that.

Management {? Munish ?}: Let me put one thing on record. Getting a universal license is one of the biggest aspirations that my entire team, including my big boss, and I are carrying. We aspire to be a universal bank. Our entire strategy and business alignment are in that direction.

If I talk about our thoughts on this, we believe that to become a universal bank, we need a couple of things. First, the right systems and processes, which we are confident are in the right shape. Second, diversification. We have a fully diversified lending portfolio. Rather than a monoline

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business, we have 4 to 5 different buckets, not just products, with each catering to a different economic need and different segment of people. These include the business segment, agriculture segment, mortgage segment, consumption segment, and corporate lending segment. We are present in all these buckets and all these functionalities.

Diversification is something we will continue to improve with each passing quarter, strengthening our underwriting capabilities for every diversification so that we are well equipped to take up that particular universal banking phase.

The third factor is scale. We have given a vision for FY29 under which we want our AUM to be 16,000-odd crores. If we are talking about an AUM of 16,000-odd crore, it translates into a balance sheet of anything between 21,000 and 23,000-odd crores. With one side of the balance sheet at between 21,000 and 23,000 crores, I believe that is the right size to apply to the regulator for a universal bank.

We believe that by FY29, when we achieve the scale and efficiency ratios of 1.6% plus ROTA and 15% plus ROE, with a branch network of 300 plus 100 branches and a business of more than 21,000 to 25,000 crore on one side of the balance sheet, that will be the right size to approach the regulator and pursue our aspiration for the next stage of the journey.

That is why Vision 2029 is very important for us. Rather than just giving a top-line number, we have given a number that includes quality metrics, profitability, risk analysis, risk distribution, and diversification. All the metrics have been put in place. Vision 2029 is a stepping stone towards the next aspiration, which is becoming a universal bank.

We are quite aspirational, and all our efforts and targets are aimed at taking us towards becoming a universal bank. However, I would like to mention one thing: in the interim, until we obtain a universal license, the present model in which we operate as a small finance bank is not restricting our growth. Given that we are a granular, middle-income-group-based lender and that the market available to the middle-income group is significant, the present model is not restricting our growth.

We believe that until FY29 we can scale the present model in a very significant and efficient manner, and we aspire to convert ourselves into a universal bank after FY29 when all these metrics are achieved. Those are our thoughts about the universal bank. I would also request Mr. Samra to add something if I have missed anything on this.

Mr. Samra: That is how we aspire. We feel that from here until our Vision 2029, nothing stops our growth metrics. As Munish said, that would be the most appropriate time when we feel we should move to the next level, which is a universal banking license.

Operator: Thank you. Mr. Pimple, please rejoin the queue for more questions. The next question comes from the line of Sarthak Shah with Spark PWM. Please go ahead.

Sarthak Shah – Spark PWM: Thank you for the opportunity. First of all, many congratulations to the management of Capital Small Finance Bank for posting such a great set of numbers, and secondly, for the excellent disclosures.

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My first question relates to our diversification. Diversification has been on a very strong path, particularly outside Punjab. Almost 23% to 24% of our advances now come from outside Punjab. Under our Vision 2029, what kind of ratio are we targeting between Punjab and outside Punjab, in terms of advances and deposits? That is my first question.

My second question relates to our consumption and other loans. When we talk about auto loans and gold loans, our interest yield is still much lower than even our corporate loans or LAP loans. What is the reason? Is it competitive intensity or something else? Normally, these are slightly higher-yielding loans compared with LAP, based on what we have seen in the industry. These are my two questions. Thank you.

Management {? Munish ?}: Certainly, Mr. Shah. First of all, on the first question, as part of our Vision 2029, we are targeting more than 30% of our branches to be outside the state of Punjab. Today, 21% of our branch count is outside Punjab, and we intend to increase that to 30% by FY29.

There will be a corresponding movement in our advances. Today, advances outside Punjab are 25.7% with 21% of our branches. We believe that with 30% of our branches outside Punjab, our out-of-Punjab book should be anything between 32% and 37%, approximately. That is what we believe the ballpark number will be by FY29.

On the second point, let me tell you what we do in consumption. Consumption, which presently constitutes 7% of the portfolio, is typically the second or third hook. What I mean by this is that consumption is not our starting point. Consumption is a second or third hook for our existing customers, who may be our business loan customers, mortgage customers, agriculture customers, or customers already availing themselves of some facility from us.

Our vision is to be the primary banker for our customers and take care of all their financial needs. Accordingly, this is lending to a tested client rather than an untested client in a new universe. If it is the second or third hook, it may not be collateralized, but the customer has some other collateralized exposure with us that has been performing satisfactorily over a long period. That is why the yield is relatively lower, since it is not a very high-yielding product.

This has remained at 7% for some time. This portfolio has been at 7% from FY24 or FY25 onwards until date. It also includes a sizeable portion of loans against FDRs. Of this 7%, around 1.5% to 2% is loans against our own FDRs, which pulls down the yield for that portfolio.

We are quite mindful of the pricing. Of the 7%, around 25% to 30% is FDR loans, which carry pricing of around 7.5% to 8%. With that in mind, this is what the pricing looks like. This is a low-risk add-on product. If you look at slide 9 of our presentation, the net NPA of consumption lending is 0.47% across all the life cycles, which tells you what kind of consumption lending this is. That is the position.

Sarthak Shah – Spark PWM: Yes, I understand your point about your grip on the business. You are referring to it as a cross-sell product. My point is whether you feel it is now time for the bank, having already tested certain geographies where we have good knowledge of the geographies, to directly pitch to customers through dealer financing for auto loans or gold loans for new customers rather than testing existing customers. Do you think it is now time for the bank to take a more

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aggressive approach rather than focusing on existing customers?

Management {? Munish ?}: Yes, Mr. Shah, we are quite watchful of this, and we are already running some pilot projects internally on how [trails off]

Management: to expand it, how to expand it, and how to fast-track this particular sub-segment within this particular product. I am not authorized to share more details about that particular matter, but I can tell you that we are already working on this and looking to press the pedal on sub-products within this lending category. We are evaluating a lot of factors to accelerate our growth.

As I said, we are a growth-hungry organization, but I would also like to clarify that, in addition to consumption, we have a lot of other buckets that are now growing very fast. We want to ensure that our consumption loans start growing somewhat faster as well. Consumption loans are growing 6.8% quarter-on-quarter and 21.9% year-on-year. I know the base is low, so this growth is almost equal to the growth of the overall portfolio. It is growing in line with the portfolio as another product. Yes, we are watchful of it and are evaluating all the options and opportunities available within the product.

Sarthak Shah – Spark PWM: Thank you so much for the clarity, and all the best for the forthcoming quarters.

Management: Thank you, Mr. Shah.

Operator: Thank you. A reminder to all participants to dial star and one to ask a question. The next question comes from the line of Shreepal Doshi with Equirus Securities.

Shreepal Doshi – Equirus Securities: Hi, sir. Thank you for giving me the opportunity, and congratulations on a decent quarter. My question was on the draft circular by IRDAI. How do you see it impacting us? One of the key elements of our thesis for ROA expansion was also driven or aided by improving other income, or improving this overall other-income component. How do you see this draft circular impacting our overall aspiration, or could it derail it?

Management: First of all, let me make two or three points. It is still at the discussion-paper stage. Let it first move from a discussion paper to a draft stage. Today, we are at a discussion-paper stage, not yet at the draft stage. That is one part of the journey.

We have already started working on the change. If you look at Q2, our bancassurance commission has moved to number two, and our other fee income has started surpassing bancassurance commission. Our bancassurance commission out of the 30 crores of non-fund income is 10.2 crores, while our other fee income is more than 20 crores. Bancassurance constitutes around 33% of non-bancassurance income. Within bancassurance, it is not just insurance; it includes all the products. All the sub-products, including MTSF, are part of what we do for our partners.

We are quite watchful, and we have already started working internally on the various options and opportunities available to diversify into other product lines and other fee income streams, and to reduce our dependence on this income.

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For now, instead of changing course immediately, we have internally opted to wait until the current quarter-end and see how the regulatory environment develops. Perhaps a draft will provide us with 6 to 8 months. We fully recognize that our fee income, which is presently 0.92, is 0.92 against 0.82 last quarter and 0.86 in the same quarter last year. The increase is not coming from bancassurance; it is coming from other fee income.

We are quite watchful and mindful of this. Internal deliberations and alternative courses have already begun, and work has already started. We will look to change gears when a draft comes, so that we have visibility on what is actually going to happen and can act accordingly.

As a retail franchise, distribution is present, but this particular income may see some change in the percentage of earnings, which may also increase the volume. I would not say that the impact will be complete. Yes, there will be some impact, but it will not be material for a balance sheet like ours, especially when we are in a growing phase. That is my view, and I am waiting for at least a draft, if not the final circular, so that we can assess what is happening.

Shreepal Doshi – Equirus Securities: Understood, sir. Currently, how much does it contribute to our ROA?

Management: There are multiple ways of looking at the ROA metric. Since we are talking about gross income and net income, we also have to consider the costs involved. There are a lot of factors, including the tax component. I think the total contribution of this will be approximately 12% to 13% of our total PAT, or 12% to 13% of our total PBT or PAT. That is our assessment. This is on an overall basis.

I am not saying that we have a very high dependence on it. We are also looking at alternative measures. There are a lot of options to shift it through other fee income and other activities. I reiterate, Shreepal, that we are waiting for the draft to come. Accordingly, we have already taken several strategic decisions regarding how we will respond if the regulatory environment changes.

We have already prepared several internal responses to ensure that the RoA impact is minimized to the greatest extent possible.

Shreepal Doshi – Equirus Securities: Understood, sir. Since you have highlighted other avenues to cover the impact that we may see from this, could you please elaborate on what other products or avenues you have shortlisted or are working on? This is critical not only for defending income from insurance distribution, but also for the ROA aspiration that we have.

Management: Our next growth journey in ROA, from 1.39 to 1.6, is typically driven by two factors: NIM and opex. In our original plan versus the updated plan based on this change, one thing remains constant: the transition from 1.39 to 1.6 will be driven by two variables. One is NIM, and the second is opex.

We have always said that non-interest income would continue to be around 1%, or between 0.95% and 1%. It is now 0.92%. We are not saying that non-interest income is the main driver of our RoA expansion. Our larger drivers will be NIM and opex.

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However, we see many other ways to shift bancassurance commission. There are many ways to earn income; it is not the case that this is the only income we can earn from servicing customers. A banking relationship is based on trust and service, and there are many fungibilities available. There are many ways to make up the difference, which we will evaluate.

At this stage, giving a specific answer would be too early and premature. We should first look at the draft. Let the draft come, as it will give us better visibility on the regulatory environment. Internally, however, we have prepared several responses for all scenarios, so that we can address them very quickly and immediately and minimize the impact on RoA.

Shreepal Doshi – Equirus Securities: Understood, sir. I have one more question, if I could squeeze it in, on the way we are growing in non-core geographies. I wanted to understand how different our deposit or liability strategy is in states such as Rajasthan and the NCR region compared with the typical Punjab-Haryana belt. In these newer markets, there are a large number of players with deeper penetration and larger franchises already present. What is our differential strategy there compared with our core-state strategy?

Management: Shreepal, we follow an asset-first approach in a new geography. Wherever we go, we follow an asset-first approach rather than a deposit-first approach. We believe that liability will follow trust. First, we build brand recall there. Rather than concentrating on deposits, we concentrate on brand recall, trust-building, and an asset-first approach. The deposit franchise will always follow trust.

Haryana has now started contributing in a meaningful way to our deposits. With the expansion into newer geographies, which I describe as sowing the seed for our deposits for the period ahead, we are building the foundation for future deposit growth.

The asset-first philosophy, with liability following trust, consists of the two simple metrics that we follow. As we move there and become the primary banker for the business segment, we are primarily entering the business segment in Rajasthan and the NCR, the two regions you mentioned. We are entering the ecosystem, and as the ecosystem grows, the deposit franchise will start reaching the grassroots level.

These are the two simple philosophies that we follow, and they are giving us results. Rather than acquiring or pursuing deposits from day one in an unfranchised geography, we follow an asset-first approach, allow trust to build, and let deposits follow that trust.

We also have a strong capability from the states of Punjab and Haryana to fund our deposit requirements. The state of Punjab has a deposit book of more than {? 7.5 lakh crore ?}, and Haryana has a deposit book of more than {? 10 lakh crore ?}. Therefore, the aspiration to achieve our deposit growth is available in these two states for the interim period, while Haryana is beginning to contribute. During this period, Rajasthan and the NCR will begin contributing more significantly to the deposit franchise.

Shreepal Doshi – Equirus Securities: Understood, sir. Thank you so much for the detailed answers and good luck for the next quarter. Thank you.

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Management: Thank you, Shreepal.

Operator: Thank you. The next question comes from the line of Aditya with Securities Investment Managers. Please go ahead.

Aditya – Securities Investment Managers: Hi, sir. Thanks for the opportunity. I had a question on your cost of deposits. The RBI had earlier cut the repo rate by 125 basis points, but if I look at your cost of deposits, it has fallen by only 22 basis points, from 5.90% to 5.68%, which is quite low compared with some of the other banks. What is the reason for this?

Management: Our deposit pricing model is different. Rather than looking at the absolute value of our deposit cost, my request is that we look at the absolute reduction and the overall basis. We are talking about a 5.68% cost of deposits, which is comparable with universal commercial banks as well. At that scale, we were never paying a very high interest rate on deposits.

If we compare this in parallel with advances, there has been no compression in the yield. The yield was 11% in Q2 last year and is also 11% today. We have seen a one-sided reduction. Deposit repricing is one major reason, and we are a CASA-heavy organization. Between 34% and 37% of our deposits are CASA, where deposit repricing does not happen.

Therefore, 60% to 62% of the benefit is coming from that, which is giving us this benefit. With repricing, the benefit accrued, and the cost of deposits declined from 5.92% to 5.68%; it was 5.76% last quarter. That is one factor I would like to mention.

It is not that we are already a cost-competitive lender and deposit taker. I still feel that our cost of deposits is a very competitive figure and a very strong strength for us. A 5.68% cost for that quarter is one of the very good numbers to highlight, I would say, about our cost of deposits.

Aditya – Securities Investment Managers: Understood. I completely agree that the cost of deposits is quite good. I just wanted to get a sense of whether the rate differential between us and some of our peer banks in our core geographies has increased. Could that benefit us in garnering more deposits, because they may have cut their deposit rates more than we have?

Management: That is a possibility, because we were never paying a much higher rate. We were always paying a certain premium over the leading universal commercial private-sector banks. We were paying a very limited premium over universal private-sector banks, since we follow a trust-based liability approach. Our premium is always 25 basis points to 35 basis points over the leading private-sector universal banks, and we are following the same philosophy as of now.

Some of our peers may have changed their pricing philosophy, so they may have received some temporary benefit from it. We are consistently following the same practice that we followed earlier, and that particular benefit will continue to come as we move forward.

It is not only about pricing. Other metrics are also important, such as our average ticket size, rollover ratios, and the granularity of our deposits. More than 90% of our deposits are retail. We continue to have more than 34% CASA and more than 90% rollover. All these metrics are important from the liability standpoint.

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We also look at how the liability is growing, the average ticket size, and the average ticket size of term deposits. The average ticket size of term deposits is now 12 lakh rupees, while the average ticket size of savings deposits is around 50,000 rupees. All these metrics are important. Our deposit share in our home state of Punjab increased to 1.3% on an outstanding basis within 15 months, against 1.17% at the end of March 2025. These are all important metrics for assessing the strength of the deposit franchise.

Aditya – Securities Investment Managers: Understood, sir. On the agriculture piece, the cost and [trails off]

Aditya – Securities Investment Managers: ...share was about 35% perhaps 2 years ago, and it is now around 26%. How do you look at the agriculture business? Will the share of agriculture loans continue to decline?

Management: We are typically doing agriculture lending only in the states of Punjab and Haryana. We are not doing agriculture lending outside Punjab and Haryana. We have identified Punjab and Haryana for our agriculture lending products.

As part of our diversification, when we enter other states and the out-of-Punjab book grows, agriculture consequently grows at a slightly slower rate. However, agriculture continues to be a primary growth lever, and in the current quarter it grew by 6.23% on a quarter-on-quarter basis.

With our diversification, this is part of our agenda to maintain optimized numbers. The momentum presently available is in an indigenous-led business growth. The business loan book is growing at a much faster pace, which is why its share is gaining. The business loan book was typically 23% a year ago and is now 28%. Consequently, there has been some compression in agriculture, from 26% a year ago to the current level.

That is how we look at agriculture. Both factors are playing a role, and that is how things are moving. With this mix, the three products—agriculture, mortgage, and business—typically constitute 77% to 82%, and we expect them to maintain a similar share over the period ahead.

Aditya – Securities Investment Managers: Understood, sir. What I was asking was that agriculture is our highest-yielding product. If its share reduces, how should we look at our NIMs, since that is one of the important levers for improving our RoA? How do you look at the NIM aspect?

Management: We have a similarly yielding product in mortgages, which is LAP. If you look at the pricing within LAP, it is almost identical to agriculture. We understand that dynamic, and accordingly, the pricing of the growth lever within mortgages, LAP, is also delivering similar returns.

Even if you look at the MSME business, despite compression in deposit-market and advance-market pricing, we have been able to maintain the right pricing matrix. We understand this matrix and remain watchful of our NIM expansion. We are confident that we can maintain or increase our NIM as we move forward.

Aditya – Securities Investment Managers: Understood. Is there scope for NIM to expand further? One of the levers was the improvement in the CD ratio, which has improved from the low 80s to above 87% or 88%. Going forward, will NIM remain at similar levels, or is there scope for expansion?

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Management: I still believe there is a good lever available for expansion. Our average CD ratio for Q2 is 85.4%. There is sufficient opportunity for average CD ratio expansion. I see the average CD ratio of 85.4% providing an opportunity to improve by a minimum of 2 to 3 basis points. I am not talking about one or two quarters; I am talking about a medium-term period of 1.5 to 2 years.

There is sufficient opportunity for NIM expansion over the next 1.5 to 2 years. I can sense that a good improvement in the metrics will come from NIM expansion, which will take us towards our RoA journey from 1.39% today to 1.6%. NIM has an opportunity for expansion through CD ratio expansion, and that opportunity is still available.

Operator: Mr. Aditya, please rejoin the queue for more questions. The next question comes from the line of Satvinder Singh Bedi with Dion Insurtech Limited. Please go ahead.

Satvinder Singh Bedi – Dion Insurtech Limited: Thank you for the opportunity, and many congratulations, Mr. Samra and team. I think you are executing very well on your 2029 vision, and over the last 12 months you have tracked very well against it.

My question, Mr. Jain, is regarding the 1.6% RoA vision. Where do you see NIMs tracking in that scenario, and where will operating costs be, given that you have indicated that these are the two main factors expected to contribute towards 1.6%? What is the ballpark NIM that should be achieved, and what will the operating cost be by FY29?

My second question concerns the roadmap for any new product launches. You have given us a financial roadmap for FY29, but do we have a product-launch roadmap? These are my two questions. Thank you.

Management: Mr. Bedi, first of all, if I talk about our transition, or our journey from 1.39% to 1.6%, it will be driven by two factors. One will be NIM expansion, and the second will be the opex margin.

NIM, which is presently 4.2%, has an opportunity to increase to anything between 4.3% and 4.35%. We have an advantage of approximately 7 to 10 basis points available from NIM, strongly supported by CD ratio expansion.

We presently have an average CD ratio of 85.4%. We want to take it to the mid to high 80s. That will provide a good lever without changing the pricing of deposits or advances. That lever is available.

Second, if I talk about the cost-to-income ratio, it is presently around 60%. With the way the balance sheet is growing, and with the middle-management-to-senior-management cost and the fixed cost of the {? admin set-up ?} already having been spent, every increase in the business should provide some benefits through cost-to-income, or opex-to-asset ratio.

The remaining component relates to FY29, which is 2.5 years away. I believe there is a good opportunity for opex-led expansion. I would not say that opex is at its peak. We are still a growth engine, and a growth engine will necessitate more spending.

Even by FY29, I will continue to have a high cost-to-income ratio. I am not saying that it will be optimized. Optimization may come after that period. But by FY29, we should still see good

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cost-to-income improvement, regardless of the metric.

We improved our cost-to-income ratio from FY21 to FY26, and we are now taking it on the next journey from FY26 to FY29. Costs will continue during that journey. My sense is that NIM will contribute 7 to 12 basis points, and opex will contribute 8 to {? 40 ?} basis points. These are the two drivers that will help build the journey of RoA expansion from 1.39% to 1.6%.

There is also a non-interest-income lever. I am not saying that it is completely unavailable. It will not be a very large lever, but it will make some contribution.

Satvinder Singh Bedi – Dion Insurtech Limited: We are therefore talking about an operating cost of approximately 280 to 285 basis points in FY29 as a percentage of average assets?

Management: Yes, we can safely take that. Today, we are around 3.05%.

Satvinder Singh Bedi – Dion Insurtech Limited: Okay. Are there any new products or launches? [trails off]

Management: Yes, every year we continue to improve our products. In addition to the products, we typically organize our distribution by segment. Within MSME, we have multiple products such as CC, OD, WCTL, BLAP, term loans, and project financing. Every year, we introduce multiple new products within each segment.

Our focus is also on improving existing products. We remain quite watchful of what is happening at the ground level. We follow a practice at the beginning of each half-year called a town hall meeting, where all our business leaders come together. We understand the market dynamics, the pressures, and the challenges we are facing, and then redefine our products.

Product innovation is a constant process, and we will continue to innovate. On a diversification basis, as I said earlier, we are evaluating some consumption-led products to fast-track growth. These are at a very early stage of evaluation.

We will also continue to deepen our business loan products. After entering Rajasthan, where we currently have only 7 branches, we are studying the market carefully. Depending on the market requirement, we will respond with product innovation for that geography so that we can increase penetration there.

This is a constant process, and we will continue to do it. It is not that we will improve our products only at each year-end through FY29; we will continuously improve them to respond to market needs.

Operator: Thank you. Mr. Bedi, please rejoin the queue for more questions. The next question comes from the line of Shripal Doshi with Equirus. Please go ahead.

Shripal Doshi – Equirus: Hello. Hi, sir. Thank you for giving me the opportunity once again. My question is to understand the agriculture business. You highlighted that in Punjab and Haryana, canalization is helping, or rather helping everyone in those states. How do you see the situation at the India level?

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We are one of the expert and larger players in agriculture loans, at least in some key states. Based on your study or interaction with other players, how do you see the situation at the India level for key states such as Maharashtra, Karnataka, Gujarat, and Rajasthan, in terms of drought or weak monsoons? How well do you see canalization or the availability of water there overall?

Management: Shripal, I appreciate you asking this question. Let me add a caveat. I have more data dumps available for the geographies in which I operate. I can give you a lot of data about Punjab and Haryana and about the dos and don'ts within agriculture.

We are evaluating the other geographies. I started studying Rajasthan earlier, since it is a new territory. However, the results of our initial studies have not been very encouraging, so we have not opened the gates to agriculture in Rajasthan. We are not doing agriculture lending in Rajasthan.

At this point, I can say only this much. Since we do not have a presence or an immediate aspiration to be present in Maharashtra or Karnataka, I have limited information. I have only publicly available information, like any other reader, on the agriculture side.

I sense that there is a significant deficit this time, and with the deficit being widespread and many districts being affected, I have also observed, as part of my travel, that canal-water outreach in Rajasthan is not very strong. However, with {? ERCP ?} water, I can sense that there could be a meaningful and monitorable change. It is visible and could make it possible for us to open the gates to agriculture in Rajasthan.

I am keeping a close eye on the macroeconomic situation and the state's infrastructure-development plans regarding canal-water irrigation. This is the best answer I can give based on my assessment of agriculture.

Punjab and Haryana are doing well. I can tell you one thing: we expected some deficiency in productivity per acre for paddy. On the contrary, the early trends indicate that productivity is the same as or slightly better than last year.

Shripal Doshi – Equirus: Okay.

Management: This has been a positive surprise for me. I am also very positively surprised. I expected the high heat waves to have some impact, but the initial data from the first 15 days, or 20 days, of agriculture procurement is positive. It indicates productivity that is either constant or higher than last year.

Of the 26 districts in Punjab, I have come to know of only one district in which productivity is lower than last year. In the other 25 districts, productivity is the same as or better than last year. This is contrary to what we all believed. We expected the severe heat waves and lower productivity to have an impact, but the actual data is showing a different outcome.

Shripal Doshi – Equirus: Understood, sir. Thank you very much for that detailed answer, and Happy Diwali in advance. Thank you.

Management: Thank you, Shripal.

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Operator: Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of the question-and-answer session. I now hand the conference over to the management for closing comments.

Management: Thank you all for joining us today. I hope we have been able to answer most of your questions. If you have any further queries, please feel free to reach out to our investor relations team or to SGA, our investor relations advisor. As we head into the festive season, I wish you and your families a very happy Diwali and a prosperous year ahead. Thank you, and have a good day ahead.

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

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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