ESAF
ESAF SMALL FINANCE BANK
Joy of Banking

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To,

Listing Department **BSE Limited** **Phiroze Jeejeebhoy Towers,** **Dalal Street, Mumbai – 400001**	**Listing & Compliance Department** **National Stock Exchange of India Limited** **Exchange Plaza, 5th Floor** **Plot No. C/1, “G” Block** **Bandra- Kurla Complex** **Bandra(E), Mumbai- 400051**
BSE Scrip Code: 544020	**NSE Symbol: ESAFSFB**

Dear Sir / Madam,

Sub: Transcript of the Earnings Conference Call on Financial Results of the Bank for the quarter and half year ended on September 30, 2024

We would like to inform that the Transcript of the Earnings Conference Call in connection with the Unaudited Standalone Financial Results of ESAF Small Finance Bank Limited ("Bank") for the quarter and half year ended September 30, 2024, held on Thursday, November 14, 2024 at 15:30 hours (IST) is attached herewith. The above-mentioned transcript is also available on the website of the Bank at www.esafbank.com.

This is for your information and appropriate dissemination.

Thanking you,

Yours Faithfully

For ESAF Small Finance Bank Limited

RANJITH RAJ PARAMESWARAN
Digitally signed by RANJITH RAJ PARAMESWARAN
Date: 2024.11.19 17:43:21 +05'30'

Ranjith Raj. P
Company Secretary and Compliance Officer

"ESAF Small Finance Bank Limited Q2 and H1 FY25 Earnings Conference Call"

November 14, 2024

MANAGEMENT:	**MR. K. PAUL THOMAS – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, ESAF SMALL FINANCE BANK LIMITED** **MR. GIREESH C.P. – CHIEF FINANCIAL OFFICER, ESAF SMALL FINANCE BANK LIMITED** **MR. GEORGE K. JOHN – EXECUTIVE DIRECTOR, ESAF SMALL FINANCE BANK LIMITED** **MR. HARI VELLOOR – EXECUTIVE VICE PRESIDENT, ESAF SMALL FINANCE BANK LIMITED**
MODERATOR:	**MR. VIRAL SANKLECHA – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 and H1 FY '25 Earnings Conference Call of ESAF Small Finance Bank Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing the "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Viral Sanklecha from Orient Capital. Thank you, and over to you, sir.

Viral Sanklecha: Thank you, Steve. Good afternoon, ladies and gentlemen. I welcome you for the Q2 and H1 FY '25 Earnings Conference Call of ESAF Small Finance Bank Limited.

To discuss this quarter's business performance, we have from the management, Mr. K. Paul Thomas – Managing Director and Chief Executive Officer, Mr. George K. John – Executive Director, Mr. Gireesh C.P. – EVP and Chief Financial Officer, and Mr. Hari Velloor – Executive Vice President.

Before we proceed with this call, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risk and uncertainties. For more details, kindly refer to the investor presentation and other findings that can be found on the company's website.

Without further ado, I would like to hand over the call to the Management for their "Opening Remarks", and then we will open the floor for Q&A. Thank you, and over to you, sir.

K. Paul Thomas: Thank you. Good afternoon, everyone. On behalf of ESAF Small Finance Bank, I am glad to welcome you all to our Earnings Call where we will discuss our business performance for Q2 FY2025. I appreciate all of you taking the time to join us and show your support.

Here with me today, my senior colleagues, Mr. Gireesh C.P. – our Executive Vice President and Chief Financial Officer, and Mr. Hari Velloor – Executive Vice President.

I hope you all had a chance to review our quarterly results and investor presentations, which are already available on the Stock Exchange and our bank website.

At ESAF Small Finance Bank, our mission extends beyond conventional banking. We are dedicated to promoting inclusive socially responsible financial services that reach the underserved and unserved segments of society, while also meeting the various financial needs of the general public. It is a responsibility that goes hand in hand with our commitment to building stronger communities and a more inclusive financial landscape in India.

In this regard, we are proud to announce that CareEdge has awarded ESG rating with 68.1 out of 100, which is presently the highest score in the peer group and well above the industry average score of 51.8.

Let me start with a brief update on the operating environment. India's GDP growth projections have been retained at 7% for FY '25 and 6.5% for FY '26, signaling a stable outlook. While we have been penned with demand from the pandemic period normalized by end of FY '24, H1 of FY '24-'25 was also affected by sluggish activities in the lead up to the general election and intense heat waves and extended monsoons.

There is, however, a positive outlook for H2 driven by steadily improving rural consumption, improved agriculture yields and anticipated increased public infrastructure spending by the government. These factors are setting a foundation for sustainable growth in the near term.

Inflation, however, remained elevated on account of sticky food prices, exceeding the RBI target of 4%, delaying process of rate cut by the Central Bank.

Turning now to the BFSI industry landscape, the microfinance sector has been widely reported valued at INR4.25 lakh crore has shown some signs of slowing down. This moderation highlights several key challenges including regulatory changes, pricing delinquency rates, over-indebtedness and concerns about asset pricing.

Our operational performance for the quarter reflects steady growth in many areas and the conservative approach in microfinance. Our gross loan book rose from INR 17,490 crores in Q2, FY '24 to INR, 19,216 crore in Q2, FY '25, a 10% year-on-year increase.

Within our loan book, we are seeing diversification with a planned effort of growth in secured loans, particularly gold loans and other secured loans. While Kerala remains our largest contributor with approximately 35% of growth advances coming from the region, we have been steadily decreasing share from 56% in FY '21.

Our network is expanding as well, with 756 banking outlets across 26 states now serving customers nationwide, allowing us to leverage our broad geographic reach effectively.

Our focus during the last six months were secured or retail loan disbursements in the first half of FY '25 amounted to INR 5,631 crore, grew by 92% a year-on-year, making a significant increase from INR 2,937 crore during the same period in FY '24.

Secured asset portfolio has increased from 27% in the first half of FY '24 to 38% in the current year.

Gold loan portfolio has increased to INR 3,742 crore as on September 30, 2024, compared to INR 2,348 crore on September 30, 2023, reflecting 59% year-on-year growth.

CASA deposit increased by 69.3% year-on-year to INR 5,319 crore in Q2 FY '25, up from INR 3,142 crore in Q2 FY '24, resulting in a CASA ratio of 24.6%.

Our retail portfolio has seen impressive growth, driven by our focus on expanding the secured lending segment. This has been deliberately done as we have brought forward our goal of achieving 40% secured books by this financial year, which was originally planned for FY2027. This achievement highlights the flexibility of our strategy and the ability of the bank to quickly adjust and execute plans in keeping with the rapidly changing environment.

The gold loan segment in particular has shown strong traction, growing by 59% year-on-year. Our proven ability in breeding and scaling the gold loan business gives us confidence, and we are targeting an increase in our secured book to 45% by March 2025. This robust growth enhances our balance sheet stability and aligns with our long-term goal, reducing dependence on unsecured loans.

In addition to gold loans, we are focused on increasing our agricultural loan portfolio, along with mobility loans and mortgage loans. Over the past two years, we have doubled mortgages and mobility books with tight asset quality, and we are now executing plans to build on this further. These secured products allow us to serve a broad range of customers while maintaining a balanced risk profile.

An important achievement in this period has been our deposit composition. Total retail deposits continue at a high 92% of our deposit base, a testament to the bank's ability to building a high-quality, stable, and diversified funding source. Thus, our reliance on bulk deposits remains very low, aligning with our strategy to prioritize retail deposits, which bring stability and lower costs.

In addition, our CASA ratio currently standing at 24.6%, as against 18.04% in the Q2 FY2024, has strengthened significantly. Our goal remains to increase the CASA ratio to 26% by the end of FY2025.

Turning to the microfinance segment, as stated earlier, this area has faced significant stress due to several factors. The MFI sector is experiencing similar stress due to a combination of external factors affecting the low-income segment. These include prolonged collection periods, sequence heat waves in certain regions, and residual effects from the pandemic that have impacted the repayment capacity of borrowers.

Additionally, the post-pandemic environment has led to a dilution of the joint liability group model, a fundamental component of our microfinance Strategies. Group meetings, which were central to fostering financial discipline and mutual accountability, have become less frequent, impacting repayment discipline among borrowers.

Over-indebtedness among borrowers has further strained repayment capabilities. As a result, we have observed a rise in non-performing assets, NPAs, in the microfinance segment, which increased from 3.5% to 10.3%.

Given the challenges, we expected that the revival of the segment will be visible only by 2025 after two to three quarters. The bulk of the bank's non-performing assets turn from the microfinance portfolio, which highlights the pressing need to address challenges within the segment, including improving borrower assessment and strengthening credit monitoring.

The bank is already actively working on NPA collections with the focused approach towards controlling slippages to enhance portfolio quality and sustainability. Further, since March 2024, our micro loan book which was at INR13,764 crore has been deliberately reduced to INR11,984 crore as of September 30, 2024.

Recognizing these trends, we have introduced guardrails quite some time ago to ensure sustainable growth and portfolio health. These measures include title lending criteria, a maximum microfinance ticket size of INR 75,000, and stricter control on borrower indebtedness. While these guardrails are crucial for long-term stability, they have led to a de-growth in our microfinance portfolio.

As we prioritized quality over growth in this segment, further we introduced specific guardrails, reduced the maximum loan amount per borrower to INR 75,000, limited the number of loans per client to two, capped the overall borrower exposure at 1 lakh from earlier 2 lakh, and restricted new loans for clients with a DPD exceeding 60 days. This is a deliberate decision to safeguard our portfolio, ensuring that we continue to lend responsibly in an environment where borrower repayment capacity has been tested.

We have implemented granular monitoring and refined our NPA management approach. We have tightened controls to reduce swift mortality in a new disbursement and are closely monitoring accounts to prevent slippages from SMA2 to NPA. Additionally, we are focusing heavily on recovery and upgrades across all buckets and re-engaging inactive NPA accounts to drive better outcomes.

Further, in specific branches and regions where the repayment performance has been weaker, we have slowed down or paused microfinance lending activities. This targeted approach allows us to focus our resources on regions with stronger repayment histories. While actively managing risk in high-stress areas, our aim is to ensure a responsible lending process that aligns with the economic conditions of each location.

We continue to monitor the situation closely, and we are maintaining a disciplined focus on preserving portfolio quality during this challenging period. As a result of the controls put in place, the collections in the linked in accounts improved, with the number of accounts having collections from the linked in account moving from 3.45 lakh in June 2024 to 4.86 lakh in September 2024.

Our Bank has taken several strategic steps over the past months to bolster our portfolio quality and strengthen the balance sheet.

1. Provision coverage ratio, PCR, increased. We have maintained a high provision coverage ratio, which has risen from 62% from the trailing quarter to 74% as of September 2024. This increase reflects our commitment to covering anticipated credit losses and ensuring long-term stability and sustainable growth.
2. Substantial provisions for stressed loans. In recognition of the current challenges, we have taken a conservative approach, setting aside INR 214 crore as additional provisions for stressed loans. This substantial provision is a critical step to secure our bank's long-term health and that demonstrates our commitment to addressing potential risk proactively.
3. Controlled exposure in microfinance through diversification. To reduce exposure to unsecured lending, we have progressively shifted our focus towards secured assets such as retail assets, MSME, and agriculture which provide greater stability.
4. As already stated, our revised target of secure loan portfolio at the level of 50% consisting of more balanced and diversified loan book by the financial year '26-'27 as against our earlier plan to reach 60% by FY '26-'27. We have now brought a significant portion of field operations directly under bank control, especially in areas previously managed by our largest BC.
5. Additionally, we started the revival of group meetings, which is essential for fostering accountability, improving communication and enhancing the overall effectiveness of the joint liability group.
6. We are also promoting the use of digital payment channels and educating clients on the flexibility and security of making payments through these platforms, enabling our field officers to dedicate more time to overdue collections rather than daily visits.
7. In microfinance business, to strengthen our field efforts related to monitoring and improving collection efficiency, we have increased our field officer count and reduced the borrower base per officer from 400 to 355. This allows field staff to focus more effectively on collections and recovery.
8. Focus on collections and reduction of first instance overview. Strengthening our collection practices has been a top priority. We are actively working to reduce instances of first payment if payment defaults through targeted collection efforts and borrower education. This has included closer communication with clients and an increased focus on maintaining regular contact with borrowers, aiming to address issues before they become overdue.

As part of our growth strategy, we are committed to expanding our geographic presence. Our branch network has been growing steadily and we are opening new branches in key regions to better serve our diverse customer base. With each expansion, we aim to tap into new markets, reach underserved communities, and improve accessibility to our services. This broader geographic footprint not only supports portfolio growth but also strengthens our branch presence across multiple regions, mitigating our risk through diversification.

The bank expanded its distribution network, operating 756 branches, 646 ATMs across 24 states and 2 Union Territories. The bank also partnered with 35 institutional business correspondents, and they operate 1,097 customer service centers, enhancing its reach and accessibility to communities. The bank added 5.68 lakh new customers during the first six months of FY '25, reaching 89.4 lakh customers.

In line with our strategic focus on enhanced customer experience and operational efficiency, we have initiated a comprehensive technology transformation program. This program represents a complete technology revamp for the bank, designed to elevate every aspect of our operations while complying to all regulatory guidelines. By integrating advanced digital solutions, we aim to provide seamless and more personalized banking experience for our customers.

A core goal of this transformation is to drive digital penetration across our product offerings and service channels. This technology transformation will not only strengthen our ability to serve our customers but also improve internal efficiencies, positioning us as a high digitally empowered, forward-looking bank.

Our priorities for the coming quarters are clear. Going forward, our focus will be on maintaining stability and reducing volatility in the microfinance sector. We aim to limit the share of microfinance within our total portfolio while prioritizing regions with a high repayment discipline and shifting focus to secured asset growth.

This approach will allow us to manage risks while continuing to serve our microfinance clients responsibly. We will continue to expand our secured portfolio with gold loans as the primary focus, currently representing 20% of our total portfolio.

In addition to gold loans, we are focused on increasing our agricultural loan portfolio, which was grown by 20% year-on-year, along with mobility loans and mortgage loans, which have shown growth rates of 127% and 56% respectively. These secured products allow us to serve a broad range of customers while maintaining a balanced risk profile.

Our Authorized Dealer 1 activities and distribution of third-party products will also be focused and we believe this will diversify our sources of income and increase shareholder value. This will be a key priority in our strategy, and we are optimistic about the positive impact it will bring in the future.

While challenges in the microfinance segment are expected to persist for some more time, our strategy growth in secured lending, CASA focus, strengthening of asset quality, high provision coverage and geographic diversification position us well to emerge stronger.

We will continue to monitor market conditions closely and adjust our approach as necessary to protect both our customers and our shareholders. We are fully aware of the challenges facing our industry and the broader economy, and we are committed to navigating these times with transparency, resilience and an unwavering focus on our goals. I want to extend my sincere gratitude to our shareholders, investors, partners and stakeholders for their ongoing support and trust in us. Thank you.

With that, I will now pass on the call to Mr. Gireesh C.P., EVP and CFO, to present the financial performance. Gireesh?

Gireesh C.P.: Thank you, everyone. I sincerely appreciate your presence for this conference call today.

Let me provide you with an overview of "Financial Performance" for Q2 FY '25.

We as a bank are focused on the unbanked and underbanked, particularly in rural and semi-urban areas. 62% of the banking outlet network in South India contributes 86% of the deposits and 67% of gross advances. Our commitment to empowering the underprivileged and promoting financial inclusion has enabled us to serve 89.4 lakh customers across 24 states and 2 union territories in India. We are proud to serve diverse segments with a deep commitment to financial inclusion and community development.

Our disbursements reached INR 4,058 crores in Q2 FY '25 as compared to 3,345 crores in Q2 FY '24, marking a Y-o-Y growth of 21.3%. Notably, there has been a shift within our portfolio with a reduced contribution from microloans to an increased focus on secured loan types, as detailed by our MD and CEO in his speech.

Regarding deposits, we saw substantial growth rising from 17,416 crores in Q2 FY '24 to 21,613 crores in Q2 FY '25, reflecting a Y-o-Y increase of 24.1%.

Our CASA balances highlighted the importance of our current and savings accounts, reaching 5,319 crores in Q2 FY '25, up from 3,142 crores in Q2 FY '24.

Our net interest income stood at 540 crores in Q2 FY '25 as compared to 597 crores in Q2 FY '24, with a net interest margin of 9.7%, down from 11% in the previous year mainly on account of the asset mix change as well as the slippages in the portfolio.

The return on assets for Q2 FY '25 was negative, whereas it was growing 66% in Q2 FY '24. Pre-provisioning operating profits before considering the exception items in Q2 FY '25 reduced to 143 crores from 254 crores in Q2 FY '24.

The Board of Directors at their meeting held on June 14, 2024, had taken a strategic decision to reduce concentration risks associated with dependence on business correspondent and had decided to modify the existing arrangement with M/s ESMACO, the largest business correspondent and one of the promoter group entities of the bank from July 1, 2024.

In terms of the modified arrangement, the bank had absorbed 5,109 trained employers of ESMACO and had agreed to compensate ESMACO with Rs. 58 crores including the GST components being the value addition for sourcing and training the staff which otherwise the bank would have had to incur based on an independent external valuation. These employees would be eligible to all the benefits similar to the bank staff from 1st July 2024. Accordingly, this 58 crores is reported as an exceptional item for the quarter and half year ended, that is September 2024.

We set aside higher provisions amounting to 214 crores, which is over and above the policy mandated, thereby reducing the net NPA and improvements in the coverage during Q2 FY '25. On account of the same, we declared a loss of 190 crores as against a profit of 63 crores during the trailing quarter.

Regarding asset quality, the gross NPA for Q2 FY '25 stood at 6.98% as compared to 6.61% in the trailing quarter and net NPA came down to 2.98% from 3.21% in the previous quarter. The provision coverage ratio also improved and stable at 73.7%. Moving forward also, we aim to maintain GNPA and net NPA at reduced levels.

As part of our risk management strategy, employees from our business correspondent partners were brought on board with the bank. While this transition led to an increase in employee expenses, it also resulted in a significant reduction in BC fees with the net impact as insignificant.

Despite current challenges, we are committed to maintaining a healthy net interest margin, which currently stands at 8.6%. We will focus on recovery of NPA, growing high margin products, especially in secured lending segments such as gold loans, mortgage loans, including affordable housing and mobility.

Additionally, our increased CASA ratio provides a stable, low-cost funding source, which will help sustain NIM levels over the long term.

We are actively implementing productivity and cost control measures across the organization. We anticipate through the steps, we aim to enhance efficiency, reduce operational costs, and support profitability.

Additionally, we are closely monitoring expense management to ensure that we operate efficiently without compromising service quality or growth initiatives.

To achieve these targets, we will continue to implement stringent risk management practices, reinforce our collection framework, and prioritize early identification of any potential issues. Regular monitoring and proactive measures will ensure that we stay on course, maintaining a healthy portfolio and minimizing risk exposures.

We have observed a decline in first instance of overdue trend, FIOD, which has played a key role in reducing the growth of our portfolio at risk. Since FIOD is an early indicator of asset quality and potential default risk, in the microfinance segment, effectively managing this metric is essential for preventing slippages and improving the overall health of our portfolio. With these strategies, we are confident in our ability to continue strengthening our portfolio, addressing challenges head-on, and responsibly supporting our clients. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Rishikesh from RoboCapital. Please go ahead.

Rishikesh: Sir, my first question is with respect to the NII. Our NII had dropped from INR588 crores to INR540 crores quarter-on-quarter. So, if you could explain if there is any one-off, and also if you can quantify that, please?

Gireesh C.P.: It is not mainly a one-off. Actually, the asset mix has changed from an unsecured book to secured book. So, partially on account of that, the NIM has come down. And further to that, there are slippages on a high numbers during these days. So, this has resulted in interest rate reversal on the fresh slippages. These two factors have contributed the NII reduction.

Rishikesh: Can you please quantify the interest reversal amount, please?

Gireesh C.P.: Interest rate reversal is INR 93 crores for the quarter.

Rishikesh: And also, if you could share the yield that we have on secured and unsecured book?

Gireesh C.P.: Yes, on the unsecured book, the yield is 22.2% and the other book it is around 13%.

Rishikesh: Our credit costs for H2, the provisions, they were INR339 crores. Can you guide going ahead for Q3 and Q4, what provisions do we see?

Gireesh C.P.: The guidance for Q3 and Q4 provisions also is a little bit elevated so that the ultimate aim of us to clean up the book during the current year itself.

Rishikesh: So, the Q2 provisions will continue for Q3 and Q4 as well?

Gireesh C.P.: We expect some kind of recovery and also the slippages will moderate in Q3 and Q4. So the exact amount, I can't tell a number as of now.

Rishikesh: And what loan book growth do we see for H2 and going ahead in FY '26 as well?

Gireesh C.P.: Can you repeat the question?

Rishikesh: So, what loan book growth do we see for H2 and going ahead FY '26 as well?

Hari Velloor: Loan book growth. For the remaining part of the year, we expect to end at around 21,000 crores or so, something like that. We won't give a firm figure because forward-looking statements we don't do. But it's around that figure.

Rishikesh: And I missed your comments on secured book targets that we have. How do we see the secured book growing ahead in this year as well as next year?

Hari Velloor: I think Mr. Paul had covered that in his statement. You know, until about a year ago, we had planned to bring secured up to 40% by '26-'27. By looking at the current situation and looking a little ahead and seeing the kind of problems that the unsecured sector is going through, we have actually accelerated that process. And what we think is by the end of this financial year, we should be at around the 55% or so unsecured and 45% secured.

Moderator: Thank you. The next question is from the line of Shailesh from Centrum Broking. Please go ahead.

Shailesh: I just wanted to understand whether after taking over ESMACO, we have received any FLDG or penalties from the business correspondent due to the deterioration in the asset quality?

Gireesh C.P.: Yes, we have adjusted the FLDG. It is an ongoing process and whatever business they are still managing, the FLDG is always there.

Shailesh: Can you quantify that?

Gireesh C.P.: Overall, we have adjusted 180 crores so far from all the BCs put together.

Shailesh: So, given that predominantly it is ESMACO's book, what percentage of that book coming from ESMACO?

Hari Velloor: Not necessarily because ESMACO, the book is about 2,700 crores or so, and there is another 2,000 odd crores from other BCs also. So, this figure doesn't necessarily mean that predominantly it will be ESMACO, but a large part definitely will be ESMACO.

Shailesh: And any, means, can we expect anything further as you have highlighted that credit cost may be a little higher in the second half as well. So, this FLDG is over or we can expect some kind of FLDG coming in the second half as well?

Hari Velloor: FLDGs are adjusted only on present basis. So, going forward, definitely the FLDG has to be maintained.

Shailesh: Sorry, I missed the last part.

Hari Velloor: FLDGs are still available.

Gireesh C.P.: Up to the limit, on an incremental basis.

Shailesh: In case there is a further deterioration in the asset quality, that is what I was trying to see.

Gireesh C.P.: Yes, that is right. If FLDG at agreed percentage on an incremental basis, it will be an ongoing basis.

Shailesh: And can you share PAR number per se and how it has been sequentially gone up or year-on-year basis as well?

Hari Velloor: The PAR number on the microfinance book is roughly in the region of about 24% or so.

Shailesh: That is zero plus, right?

Hari Velloor: I am sorry?

K. Paul Thomas: Zero.

Hari Velloor: Yes, zero plus.

Shailesh: Zero plus. And how was it in the first quarter sequentially, just to get a sense?

Hari Velloor: In the first quarter, it was maybe around 20%-21% or so. And I am sorry, I have to correct myself. In the first quarter also, it was a similar figure. It was a similar figure.

Shailesh: 24%. So, sequentially, the book's kind of quality has been kind of stabilized.

Hari Velloor: We don't want to state so, but it looks like that from what we have told you. For another two quarters also, we will be definitely concentrating on maintaining and improving the asset quality.

Moderator: Thank you. The next question is from the line of Ashilesh from Kotak Securities. Please go ahead.

Ashilesh: Sir, firstly, can you talk about the performance of your microfinance book across states, especially how is Kerala holding up as compared to others?

Hari Velloor: Yes, Kerala, as you know, is our largest book, and I think in the last call also, we had mentioned that we were seeing stress in Kerala, Tamil Nadu, Madhya Pradesh primarily and a little bit in Chhattisgarh. So, we continue to maintain the same thing because the share of the book of these things is also high. So, we have brought down the book side as the figures would have told you and as Mr. Paul Thomas had mentioned. So, this we had committed in the earlier calls also, wherever we see stress, we are bringing down lending, sometimes we are stopping lending also. And the whole effort is based on recovery and collections.

Ashilesh: Since Kerala has shown a problem for a few quarters now, do you see any signs of recovery over there in the MFI collections?

Hari Velloor: To some extent, yes. I think what is happening is the rest of the country is catching up with Kerala. If you see, what we are seeing across the country and in the newspaper reports is that there is stress building up everywhere. I think Bihar and UP particularly have been coming in for mills. So, Kerala has the stress a little earlier than the rest of the country. That is what we are seeing. And going forward, what we think is that there will be improvement.

K. Paul Thomas: Within Kerala, actually we were having more stress in the southern part of Kerala. So, where we have seen some improvement in the collections the last quarter, last two to three months actually.

Hari Velloor.: What we can say is to some extent, we have been able to control the low, the slippages. And like we had mentioned earlier, increase the accounts which were inactive through bringing in collections in such accounts. I think the figures that we mentioned in Mr. Paul Thomas' address, 4 lakh odd accounts and some 3 lakh odd, so it is a good trend.

Ashilesh: And sir, secondly, can you share some details about the gold loan product? Who is the typical customer here? Whether you are operating this business out of the BC branches or your own deposit branches?

Hari Velloor: Right. So, we do gold loans only out of ESAF Bank branches. We do not do it out of BC operated customer service centers. So, this is one part of it.

Second part in terms of segment, largely, I would say about 80% or so is the general public. It is not the same segment to whom we have given microfinance loans. So, I guess that gives you a kind of an idea of the business. And this I am talking in terms of customer segmentation. If you see the book, it will go down even further in terms of value of the book, which is meant to general public and to the microfinance segment.

Ashilesh: And what is the average ticket size here in the MFI portfolio?

Hari Velloor: For us, it is about MFI, non-gold. We are talking MFI here. It is about Rs. 42,000.

Ashilesh: No, the gold loan product, sorry.

Hari Velloor: That is in the region of about 30,000 to 35,000.

K. Paul Thomas: Gold loan is not to MFI customers.

Hari Velloor: So, only about 20% accounts when the value is much less.

Ashilesh: Understood sir, Thanks a lot those were all the questions I had.

Moderator: The next question is from the line of Pritesh from DAM Capital. Please go ahead.

Pritesh: Just a couple of questions. One is, can you give a data on how much is the exposure to 4 plus lenders for us?

Hari Velloor: I don't have that immediately with me. He is asking to how many people who we have lent have borrowed from more than four entities. Pritesh, I don't have that information readily available. But the thing I did say is, which Mr. Paul Thomas had covered, the guardrails which we have put in place, controls that. If anybody has taken more than four people, we don't lend to them at all, as of now, in the past or a year or so.

Pritesh: So, we mentioned the PAR book being 24%, right? PAR zero plus. So, will it be a similar number? Will that number be a 4 plus lender number or it may be a little higher? Any ballpark?

Hari Velloor: It will include those, yes. It will include to some extent 4 plus.

Pritesh: Sir, just if you can dwell a little bit more in terms of asset quality, in terms of slippages and even for PAR book in terms of if you separated between BC book and your own bank book now? Can you spell out that, how that book has been?

Hari Velloor: You are asking us about how the BC book and the bank book has been behaved. Am I correct?

Pritesh: I just wanted to check if there is a stark difference between the BC book and the bank managed book.

Hari Velloor: Well, I think the BC book has behaved better because we brought in a lot of, you know, 50% of the portfolio into the bank book. Having said that, the good news is that the bank book, since we have taken over the last 3-4 months, we have been able to bring in controls, discipline, and what we are seeing is we have been able to slow down the PAR slippages in the last 4 months, and that is increasing, I would say, the ratio by which we are able to stop PAR building up. So, we are able to kind of increase or improve the quality of the book from the bank side.

K. Paul Thomas: Yes, the BCs were facing a very high staff attrition. So, that we were able to, once they were absorbed to the bank roles, so we were able to reduce the attrition significantly. So, that is improving the collection efficiency also.

Gireesh C.P.: Geography also.

Pritesh: Sir, if you can give data in terms of exposure to Tamil Nadu in terms of our MFI book and Kerala as well.

Hari Velloor: I will give you. The Kerala exposure is 4,000 crores.

Pritesh: Sorry, the Kerala exposure is 4,000 crores.

Hari Velloor: Yes, and Tamil Nadu is 2,700 crores. I am talking separately….

Pritesh: Yes, so 4,000 crores and 2,700 crores is Kerala.

Hari Velloor: Kerala and Tamil Nadu.

Gireesh C.P.: On the micro-finance.

Hari Velloor: On the micro-finance.

K. Paul Thomas: Kerala, 4,000 crores.

Pritesh: So, okay, sorry. So, Kerala is 4,000. 2,700 is Tamil Nadu. And sir, last question from my side is on the OpEx front. As now we have seen three months of employees being absorbed and working through the bank, seems to be that the employee expense looks a little bit more stark than the other expense. I mean, in a BC model, you will have whatever expenses you will have given to ESMACO for connections and different services. Seems to be that the other OpEx has not come down that much, but the employee expense has gone up too much. So, I just wanted to get a sense if there is something in that perspective.

Gireesh C.P.: No, on the OpEx front, because of the employee migration, the OpEx has not moved up, but because of the other factors, like, you know, the increment factored for the current year, and also the retirement benefits valuation and incentives, etc., it has gone up. Because last year also, the performance incentive has been cited during the current year. So, on account of that factor only, the operating expense has gone up.

Moderator: The next question is from the line of Sunidhi Joshi from Prime Investments. Please go ahead.

Sunidhi Joshi: Can you provide some insights into the nature of stressed assets for which provisions were increased and the likelihood of recovery from this account?

Gireesh C.P.: See, the provisions primarily on the unsecured book only the additional provisioning has been done. And on the recovery aspects, the past recovery percentages may not hold good in the current volatile environment, but past recovery trend it was around 30%, 35%, up to 30%, 35% recovery we were experiencing in the past incidents.

Sunidhi Joshi: And the gold loan portfolio grew by around 59%. So, what specific market dynamics or strategies have fueled this growth and how are you positioning this product for further expansion?

Hari Velloor: In the case of gold, you know, one of the most important things is distribution. So, currently we are distributing this product to close to 650 odd branches. That by itself and this has increased by about 200 branches in this year alone from 400 odd to 670 odd. So, that itself has given a momentum. This is one.

Second, between keeping gold with a bank and a non-bank, I think we have certain advantages because end of the day, the cost of borrowing from us is definitely lower than the cost of borrowing from an NBFC.

Third thing, I think our practices are much more fair. We are far more transparent. The pricing is far more transparent. So, wherever we go, we are seeing a good response to our products. So, I think these three things are very important. And what we see is wherever we go, some of the

NBFCs are also trying to set up a branch close to us. So, it seems as though the kind of clientele we are able to attract is a good, what do you say, segments.

Sunidhi Joshi: And with the net NPA ratio reducing to 2.98%, what further steps are being taken to maintain or improve the asset quality, especially in the regions with high delinquency rates?

Hari Velloor: Well, there is nothing new in this industry. I am talking micro-finance primarily. There is nothing new you can adopt. It is a matter of persistent follow-up and consistent contact and engagement with the customer. This is being done. Two or three other things which will help is the group trying to revive the group sense, maybe not physically, but it could be in terms of WhatsApp groups, in various digital modes etc., etc. That also helps.

The third thing is how to encourage repayments digitally. What we are seeing is wherever we are encouraging digital payments, helping them to do it, facilitating this, there is a good improvement. And a side effect of that is that when there is a digital repayment, there is less manual effort needed to go and physically meet customers. So, end of the day, these are the three or four big things which help to get repayments coming and also activate accounts which were not paying back installments on time.

Where microfinance is concerned, there is really no other major new thing which you can do to revive. It's a constant engagement. But as an institution, as a bank, we have always worked with this segment in various ways, which is in terms of financial literacy, being with the customer segment in times of stress and trials, during other, maybe it could be a flood or there could be some disaster. Then we go and help out in terms of distributing food, clothes, things like that. I think that kind of engagement is also very, very important where microfinance is concerned. And there, we have been doing it and we continue to do it.

Sunidhi Joshi: I just wanted to understand, given that 100% of the microfinance business was previously managed through business correspondence, so how has the transition to in-house operations impacted the customer service and operational efficiency?

Hari Velloor: I think it's been a very, very positive thing we have seen, as Mr. Paul Thomas had said, just in terms of employee retention. And in this segment, the last employee, the customer service executive is very, very important because they are the ones who are in actual touch with customers.

So, when 5,000 odd employees got transitioned from a BC to the bank, that itself has given a very positive impact in terms of retention. I think we have had hardly some 200 odd people leaving since the transition, which is four months ago. And what we understand in the BC segment or in the MFI segment, let me put it that way, employee attrition has been something like 35% to 40%. So, that is a very good effect which has happened.

The second thing is that we have been able to slowly turn around the situation, whether it is in terms of FIOD, which is first instance of default, or in terms of reviving of accounts which have not been repaying for some time. I think whatever we have done in terms of this transitional transformation has definitely helped. And those numbers we are seeing on the ground.

Moderator: Thank you. The next question is from the line of Rishikesh from RoboCapital. Please go ahead.

Rishikesh: Sir, can you please guide on our cost-to-income ratio going ahead for H2 as well as FY '26?

Gireesh C.P.: Yes, cost-to-income will come back to a normal level of around 60% level once the slippages comes down and also we get the productivity at the optimum level.

Moderator: Thank you. In the interest of time, that was the last question for today's conference call. I would now like to hand the conference over to Mr. Viral Sanklecha for the closing comments.

Viral Sanklecha: Thank you, everyone. I would like to thank the management for taking this time out for the conference call today. And also thanks to all the participants. If you have any queries, please feel free to contact us. We are Orient Capital, Investor Relation Advisors to ESAF Small Finance Bank Limited. Thank you so much.

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