Capital Small Finance Bank

CSFB. 2024-25/357 **October 30, 2024**

To,

BSE Limited **Listing Compliance** **Phiroze Jeejeebhoy Towers** **Dalal Street** **Mumbai 400 001** **Maharashtra** **Scrip Code: 544120, 951995 & 953739**	**National Stock Exchange of India Limited** **The Listing Department,** **Exchange Plaza,** **Bandra Kurla Complex,** **Mumbai - 400 051** **Maharashtra** **Symbol: CAPITALSFB**

Dear Sir/Madam,

Sub: Transcript of Conference Call for Earning Conference Call for the Unaudited Financial Results of Capital Small Finance Bank Limited for the Quarter and half year ended on September 30, 2024

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

We submit herewith the transcript of the conference call held on Friday, October 25, 2024 for the Unaudited Financial Results of Capital Small Finance Bank Limited for the Quarter and half year ended on September 30, 2024.

In compliance of Regulation 46 of the Listing Regulations, the transcript is also made available on the Bank's website at https://www.capitalbank.co.in/investors/financial-results

This is for your information and records.

Thanking you,
Yours faithfully

For Capital Small Finance Bank Limited

AMIT SHARMA

Digitally signed by AMIT SHARMA
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Company Secretary & Compliance Officer
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“Capital Small Finance Bank Limited

Q2 FY '25 Earnings Conference Call”

October 25, 2024

“E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 25th October 2024 will prevail.”

MANAGEMENT: **MR. SARVJIT SINGH SAMRA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – CAPITAL SMALL FINANCE BANK LIMITED**
MR. MUNISH JAIN – EXECUTIVE DIRECTOR – CAPITAL SMALL FINANCE BANK LIMITED
MR. ASEEM MAHAJAN – CHIEF FINANCIAL OFFICER – CAPITAL SMALL FINANCE BANK LIMITED
MR. RAGHAV AGGARWAL – CHIEF RISK OFFICER – CAPITAL SMALL FINANCE BANK LIMITED
MR. SAHIL VIJAY – HEAD TREASURY AND INVESTOR RELATIONS – CAPITAL SMALL FINANCE BANK LIMITED
MR. BHARTI BABUTTA – INVESTOR RELATIONS – CAPITAL SMALL FINANCE BANK LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Capital Small Finance Bank Limited Q2 FY '25 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 select a signal and operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sarvjit Singh Samra, Managing Director and CEO. Thank you and over to you, sir.

Sarvjit Singh Samra: Thank you Siddhant. Good morning, everyone and thank you for joining Capital Small Finance Bank Limited's Earnings Call. We have already uploaded the results and the investor deck on the Exchanges. I hope everybody had an opportunity to go through the same. Joining me in this call are my colleagues, Munish Jain, Executive Director, Aseem Mahajan, CFO, Raghav Aggarwal, Chief Risk Officer, Sahil Vijay, who is Head of Treasury and Investor Relations, Bharti Babutta, who is part of Investor Relations Team of the Bank and SGA, our Investor Relations Advisors. Let me begin with an overview on economy along with industry, post which Munish will provide a detailed overview of our business performance.

India's economic growth remains on a strong footing amidst ongoing geopolitical risks globally. The GDP grew by 6.7% in between April to June '24, marking as the fastest growing major economy in the world. The Indian banking sector continues to remain resilient, supported by a strong internal mechanism and status of domestic systematically important banks.

Agriculture is expected to perform well, supported by above normal rainfall and robust reservoir levels, while manufacturing and services activities to remain steady. Private consumption will be supported by healthy Kharif sowing coupled with sustained momentum in consumer spending in the festival season.

The credit offtake of the banks moderated to 13% as of September '24 as compared to 16% as of end March '24. A large part of credit growth moderation has been due to slowdown in retail segment, including unsecured loans and mortgages. Large corporate credit growth has picked up a bit, while SME loans continue to deliver strong growth. Deposit growth also continues to remain range bound between 11% to 13%.

Recently, RBI in its monetary policy kept repo rate unchanged at 6.5%. However, the Monetary Policy Committee decided to change the monetary policy stance from withdrawal of accommodation to 'neutral' and remain unambiguously focused on durable alignment of inflation with the target, while supporting growth.

We have successfully closed the September 2024 quarter with a remarkable INR33.3 crores profit after tax, reflecting a strong 37% growth on year-to-year basis, with return on assets of 1.4%.

Our gross advances have grown to INR6,718 crores, registering a growth of 15% year-on-year and 5% on quarter-on-quarter basis. Our asset quality further improved with gross NPA reduced to 2.6% and NPA of 1.3% against 2.7% and 1.4% respectively during the corresponding quarter. We continue to maintain a healthy CASA ratio of 37%+, aligned with our strategic focus.

With continuous focus on innovation, customer-centric strategies and operational excellence, we remain committed to deliver value for all stakeholders as we progress towards our vision of inclusive growth.

Thank you and now I will hand it over to Munish who will provide you a detailed overview of the business performance during the quarter. Thank you.

Munish Jain: Thank you Mr. Samra. Good morning and warm welcome to all of you. We are turning intent into action as we tread on our growth journey. I am pleased to share the financial highlights for the quarter /half-year ended September 30, 2024.

The growth of the advances during this quarter is broadly in line with the Bank's estimates. Our growth journey, re-energised with growth capital infusion, is showing an upright progress, with gross advances stood at INR 6,718 crores as on September 30, 2024, represented by a growth of 15% year-on-year, 5% on quarter-on-quarter and 9% for H1, i.e., year-to-date figure. We are a secured lender, with 99.8% being secured book and 82.3%+ of the book is collateralized with immovable property or bank FDRs. Further, we are having zero direct microfinance exposure.

Fresh disbursement during H1 FY '25 is INR 1,345 crores, which is grown by 33% on a year-on-year basis. This disbursement constitutes 21% to MSME segment, 23% to mortgage, 20% to agri, 22% to the corporate and the NBFC segment and remaining to the consumption loans. The disbursement during the quarter was INR 592 crores.

Our advances constitute of agriculture being 35%, it was 35% in Q1 FY '25 and 39% in Q2 FY '24. Mortgage, presently 27%, against 27% a quarter-back and 26% a year-back. MSME, 20% against 21% a quarter-back and 20% a year-back. Corporate/NBFC lending at 11%, which was 10% a quarter-back and 8% a year-back. With consumption lending at 7% during all the three periods.

Our experience being in the lending business for more than two decades helped us in putting in place the streamlined credit assessment processes and risk management practices that has allowed us to consistently maintain a superior asset quality. Our GNPA, 2.61% for Q2 FY '25 against 2.73% in Q2 FY '24 and 2.69% a quarter-back. Net NPA of 1.29% against 1.36% in Q2 FY '24 and 1.35% a quarter-back. Our SMAs continue to be on collection and resolution even for the sticky loans with very near to zero write-off i.e. INR0.1 crores only and nil NPAs allowed during the quarter.

Our slippage ratio for Q2 FY '25 stood at 1.27% with upgrade and recovery ratio very near to that of 1.2%, which is calculated on annualized basis. Our credit costs remain range-bound and same is 0.19% during Q2 FY '25 and the same remain range-bound historically, including the COVID period.

During the quarter, we have created some additional provision to boost our PCR from 50.6% a quarter-back to 51.3% during the end of this quarter. Our SMA 1 and 2, calculated as a percentage to the advances, improved to 5% as on September 30th, against 6.4% a quarter-back.

Now moving to the liability side, the liability side continued to be positively skewed towards the deposits, which constituting presently 81.4% of the balance sheet and out of this 93.7% being the retail deposit. And out of the liabilities, another 4.1% being the borrowings, which is providing us a liability expansion levers. Our deposit book grew by 11% to INR7,780 crores as on September 30, with a CAGR of 15% from FY '19 to FY '24, while maintaining a healthy CASA ratio of 37% plus. Our CASA ratio which was 37.8% a year back is 37.1% as the end of the 30th September.

We have consciously calibrated our deposit growth owing to our low CD ratio and high leverage ratio before the growth capital infusion. The cost of the funds for Q2 FY '25 stood at 6%, the same was also 6% a quarter-back and our cost of deposit for the quarter being 5.9%. The average credit to deposit ratio for the bank has inched up from 79.1% in Q1 FY '25 to 82.4% in Q2 FY '25. We aim to take this ratio to mid to high 80s going ahead.

Now I am talking about the profitability. Our pre-provisional operating profit has increased to INR48 crores against INR35 crores in the corresponding quarter, registering a growth of 40% and profit after tax stood at INR33 crores against INR24 crores in the corresponding quarter, registering a growth of 37%. Our PAT growth is driven by an increase in net interest income by 20%, increase in net total income by 26% and reduction or optimisation in the cost-to-income ratio.

Our non-interest income has increased to INR26 crores against INR17 crores in the corresponding quarter. Further, our cost-to-income ratio during Q2 FY25 has declined to 61.4% against 64.8% in the corresponding quarter and 63.2% in Q1FY25. Our NIM has increased to 4.2% in Q2 FY25 against 4% in the corresponding quarter and our operating margins improved to 2.1% against 1.7% in the corresponding quarter and 1.8% during the last quarter.

The operating margin is being calculated on average asset basis. Our OTA has improved to 1.4% in Q2 FY25 and return on average advances increased to 2.1% against 1.1% and 1.7% respectively in the corresponding quarter. Our return on equity during Q2 FY25 is 10.8% against 9.9% in Q1 FY25. The capital adequacy ratio is at 26.3% at the end of Q2 with LCR ratio of 238% giving us enough legroom to further improve our CD ratio.

Our branch network at the end of the quarter is at 180 branches spread over five states and two union territories. During the quarter-ended review, bank has expanded its network by expanding to one more state /union territory i.e. the Union Territory of Jammu and Kashmir.

Going ahead, we remain committed towards achieving our loan book growth as guided earlier of 22% plus during FY25 by capitalizing on growing MSME, mortgage segment coupled with expanding over middle-income group segment. Our focus on operational efficiencies and expansion in NII and increasing fee income will be our key drivers for our annualized ROE target of 1.4% plus for FY25 and continued expansion going ahead of the ROE.

With this, I request the moderator to start with the question and answers.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. Our first question is from the line of Narendra from Robo Capital. Please go ahead.

Narendra: Thanks for the opportunity and congratulations on a good set of numbers. So, first, would it be possible for us to give a further breakup of our loan book into agricultural loans, housing loans, LAP?

Munish Jain: Sure. Our agricultural loans, presently constituting 35% of the portfolio and it was 35% at the end of the last quarter. Mortgage is 27% and the same was also 27% in Q1. Our MSME segment is 20%, which was 21% in Q1. Our corporate, including NBFC lending is at 11%, which was 10% a quarter back. And our consumption lending is 7%, which was 7% a quarter back.

Narendra: No, sir. I get that from the PPT. But would it be possible to give a product level kind of a split? As in housing loan, what would be the percentage of housing loans or what would be the percentage of LAP? Would that be possible?

Munish Jain: So, if we talk about the housing loan and the LAP, they are the subcomponent of the mortgage, mortgage is 27%. Presently, housing loan and LAP are almost equally between this or I can say between 13%-14% being the housing loan, 13-14% being the LAP.

Narendra: And your agri-term loans, would that be the most of the component of your agricultural loans?

Munish Jain: Our agri-term loan will be around 7%-8% of the portfolio and around 27% will be the agriculture KCC loans. total35% in the agriculture portfolio.

Narendra: Okay, understood. Sir, what I wanted to understand is even the largest of the banks aren't able to do the credit cost that you are doing, right? So, what gives us the confidence that the credit cost will be maintained from between 0.1%-2%? Because historically also we have been around 0.3%-0.4%. So, what gives us the confidence that we will stay at the current levels going ahead?

Munish Jain: If you look into our credit history, we being as a model, we are a lender to the middle income group. And we have purposefully selected this particular segment, and we have demonstrated stable credit cost, which typically remain in the range of 0.1% to 0.3%, except one of the year when it cross 0.3% that is FY22. This particular thing is attributed being over specifically identified MIG, that is the middle-income group, plus we are a secured lender with 99.8% being the secured book and 82% plus book, we have a collateral of more than the value of the loan in the shape of immovable property or the bank FDRs.

So, we are a true term collateral lender and we are a granular lender and our perspective is to be the primary banker of the customer. Rather than acting as a standalone term lender, we are there to ensure that the client, we have become his primary banker or the main lender of the book. So, along with this, a lot of such practices we do like sourcing from the branch channel, that is we follow the branch led business acquisition model, so that we need to know our customer well before we underwrite.

So, all these practices and lots of other practices which we are following, which are giving us the confidence plus we being a lender now for more than 24 years that is we have a 24-year track available, which has shown the various events, including lots of black swans, be it COVID, be it demonetisation, be it GST implementation.

And we have seen all those events, a lot of social micro environment changes, a lot of political changes. So, during all these changes, we are able to demonstrate our credit cost, remain in the range of 0.1% to 0.3%. So, which is giving us a further confidence that given we are continuing with our model, which we know well and given we know the customer segment, which we understand well. So, we are keeping ourselves confident to retain our credit cost within this particular range as you move forward.

Narendra: Okay, great. Also, what would be your LTV on the book? And given that you have a target of achieving a 20% kind of loan book, so currently we are at 15%, if I'm not wrong. So, is the second half going to be much better than the current half? And do we still stand by the target of 20% loan growth?

Munish Jain: If we talk about the growth rate, we are currently targeting a growth rate of 22% plus for the fiscal FY25. Out of this, if we look into the H1, H1 we have already grown by 9%. So, if we talk about a year-end basis, just before the growth capital comes in, there has been some muted growth in FY24, pre the capital raise period. But if we talk about the current fiscal, current fiscal H1 growth is already 9% and for the current fiscal, we are targeting a growth of 22% plus. Given the banking industry outlook and our historical trend line, we are confident that we will be able to achieve the stated growth target, as we set in the begin of this year.

Narendra: Okay and sir, LTV?

Munish Jain: So, LTV perspective, LTV will be different LTVs depending upon the product. Like agriculture, we typically look for a LTV of 50%. In the LAP, we are typically looking for a LTV of 50% to 65%. In housing loan, it will be 67% to 78%. In the MSME segment, it will be 75% to 82%.

Narendra: Okay. Understood, sir. Thank you and all the best.

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

Pritesh: Hi, sir. Good morning. Just a couple of questions. One is the other income, one of in that in the sense treasury or is it all fees benefit?

Munish Jain: Pritesh, if we slice the other income, this particular other income, this time we will find if we compare it with the corresponding year of the last year, September, one other income, which is

1.08% to the average advances, which was in the last year, the same number was 0.8%. So, we have been improving it from 0.8% to 1.1% for this particular period. This primarily consists of the core income and the treasury profit will be very negligible. That will be hardly 0.05% types.

But one important point I like to mention here that this quarter as against last September, 0.12% is the penal charges, which was earlier sitting in the interest income. So, which has moved from the NIM to the non-interest income.

So, 0.12%, which otherwise had been comparing you to the Q2 would have been sitting in the interest income, which now because of the regulatory guidance, moved to the non-interest income, which is 0.12%. So, that is the one change our comparative basis and is due to given the regulatory environment change. So, apart from this non-interest income, which is 1.1%, including 0.12% being the penal charges are typically the primarily our core income, which if we talk about, this element includes INR 24.2 crores are the commission and brokerage and the remaining INR 1.5 crores is from the other operating income .

Pritesh: So, this breakup you gave was of the INR25 crores of other income, which came this quarter, right?

Munish Jain: Yes, the other income came this during this quarter.

Pritesh: Got it. Second question was on your PCR, you mentioned in your opening remarks saying that you have enhanced the PCR this quarter, which is visible. What are your thoughts from here on? Basically, have you made up some policy or made up your thoughts in terms of how you want to take the PCR going ahead?

Munish Jain: Typically, Pritesh, if we talk about our internal guidance, we are always :

- looking to maintain a minimum PCR of 50% plus,
- plus for the asset, which are beyond the NPA aging of more than 4 years. We like to create a PCR of 100%
- for any unsecured piece, , we like to create a PCR of, if the NPA remains more than one year old, like to create a PCR of 100%.

So, these are the three basic underlying guidance on which we typically follow the PCR guidance. So, I am restating that is the NPA book more than 4-year-old 100%, unsecured more than 12-month-old 100% and overall not less than 50%.

These are the three guidance which we have internally and basis this we keep on reworking on the PCR. PCR is typically to report that is what is the expected loss out of it. I just like to reiterate, if we look on to our historical trends, we have never sold any NPA asset and our write-off in during this quarter is also very negligible and including the whole of the year it is very, negligible. So, we understand the slippage is also there, but the PCR we believe is maintaining at a sufficient number. So that the right confidence is given to the investor side.

Pritesh: I got your philosophy or got the policy of doing a PCR, but anything over and above that, is there any thought process to that or we will be following this policy only for some time now?

Munish Jain: Sir, we intend to follow this policy as we move forward, if there are some macro environment changes, we will review this policy as per that.

Pritesh: Got it. Last question from my side is on the branches front. So, we have seen branches, three branches I think opened this quarter, 180 from 177. So, what is the progress on that? How much can we expect in Q3 and Q4, anything on that? Because we had a target of about 200 plus this year. So, what is the progress on that?

Munish Jain: So, typically as we discussed in the last earning call also, we started the branch working, we are targeting, intending to keep it 200 types, 200 plus branches by end of this fiscal. So, branches typically lots of activities being involved starting from the real estate development. We have opened three branches in Q2 and we are anticipating opening of around 7 to 10 branches in Q3 and remaining in Q4 to take over tally to 200 plus. So, we are confidenttowards achieving this towards 200 levels by end of this fiscal.

Pritesh: Got it, sir. Thank you and all the best.

Moderator: Thank you. Our next question is from the line of Chinmay Nema from Prescient Capital. Please go ahead.

Chinmay Nema: Hi, sir. Good morning. A couple of questions from my side. The collections were marginally down on a Q-on Q basis and the gross slippages were also up about 30 bps. Could you give some color on which segments are driving this?

Munish Jain: So, typically if you look into our collection efficiency or the upgrade ratio over the current quarter, our slippage ratio is typically 1.27% or in a numeric basis, it was INR21.8 crores, which was INR16.3 crores a quarter back. But similarly, we have been able to upgrade, improve our upgrade ratio also. Our upgrade and recovery ratio, which is presently 1.2% or in a value basis, INR18.3 crores, the same number was INR14.6 crores a quarter back.

So, even if there has been some increase in the additions or there is a slippage ratio, there is a corresponding similar increase there in upgrade ratio. So, we are able to maintain or rather improve our gross NPAs. So, both the things are moving in the similar direction and that is since both the numbers are not very far away and that is just the percentage basis looks different, but on the value basis, I shared the number and very near to each other.

Even if you look into the collection, the collection efficiency for the current quarter, which is 97.1% and the collection efficiency which was in the Q2, was 98.5%. But if I slice it further, if you look into the SMA numbers, our SMA 1 and 2, which was 6.42% at the end of June, has improved to 5% by end of September. So, we are able to improve our matrix or our risk assets down from which we call SMA number from special monitoring number from 6.42 to 5 and also maintaining and reducing the GNPA number.

Chinmay Nema: But qualitatively, are you seeing stress in any of your books, Agri, MSME, corporate? And just an extension on that, our share of corporate book has increased from 8% to 11% on a YOY basis.

And if I compare the incremental loan book out of the INR852 crores that have grown on a YOY basis, INR242 crores are from the corporate book.

So, if you could give some color on how much of this is microfinance exposure and in general, how does microfinance affect your business? Do you have any FLDP arrangements with these corporates? Some sense around how the stress building up in general in the sector is affecting your book?

Munish Jain: Surely, if I talk quantitatively about the asset quality side, presently we are not seeing any stress building up in any of the portfolio. We believe all the portfolio we are having on the segment is in control and we are not finding any stress as we talk presently. And if we talk about our NBFC segment, NBFC and corporate lending, which is 11% at the end of the current quarter, was 10% a quarter back.

So, there is a very, very marginal increase in the quarter. Just if we compare it with the last September, the number was 8%. And if I talk about our MFI lending out of the NBFC lending to this particular pie, let me just give me a minute,. We have a limited MFI exposure. The MFI exposure presently cumulatively INR59 crores out of the total NBFC book.

So, out of the total NBFC book our MFI exposure was INR59 crores which was INR73 crores in the June quarter. So, our NBFC MFI exposure has reduced from INR73.8 crores to INR59.6 crores by end of this quarter. And in MFI we are having in majority of the case FLDG arrangement to protect us.

Chinmay Nema: And sir what is the thought process behind this book? Do you plan on increasing it going ahead?

Munish Jain: As I shared about the data side MFI NBFC, we have shown a decline during this quarter from INR73 crores which already is miniculous number. We have reduced from INR73 crores to INR59.6. We are watchful of the macro factors and the situation around it. And depending upon the macro factor, we will take the call.

Chinmay Nema: Got it, sir. And last question from my side. Could you talk about growth in your newer states? What kind of traction are you seeing? I think in the previous call, you talked about the larger strategy of expanding to the newer states. So, in terms of disbursement, loan book, growth, plant expansion, what are you seeing in your newer states, some subjective color around that?

Munish Jain: So, if I talk about the newer states, newer states has been showing a good traction. If I talk about on year-on-year growth, on year-on-year growth we grew by 15% on advances. If I talk about out of this, out of Punjab book typically has grown by 21%. And if we talk about the component of the Punjab versus out of Punjab, the Punjab share which is 81.42% at the end of the last quarter and 83.97% at the end of the last half year is now 80.93% or I can say our out of Punjab book has improved from 16.03% to 19.07% by end of this quarter. So, out of Punjab book is growing faster presently and they are start contributing in our growth number.

Chinmay Nema: Got it, sir. I'll fall back in the queue. Thank you.

Munish Jain: Thank you Chinmay.

Moderator: Thank you. Our next question is from the line of Monshree Soni from MK Ventures. Please go ahead.

Monshree Soni: Yes hi. I wanted to know your guidance on the cost to income ratio given that we're opening - planning to open new branches, more new branches in the second half of the year. And also relating to that, do we maintain our 1.4% return on total assets guidance for this fiscal?

Munish Jain: Yes. I just take the second component of the question first. Yes, we for the Q2 we are able to deliver 1.4% ROA as per our annual guidance for the fiscal which was 1.4% on the annualized basis. We are quite confident of maintaining the same 1.4% plus and in the coming years,. we will continue to expand our ROAas we move forward. So, there are a lot of drivers including the NIM driver.

As I said, optically it looked like the NIM is 4.2, but given our penal charge which has moved from interest to the non-interest. So, in that particular way we are able to expand our margin in that side. If I come to the second point, which we talk about the cost to income ratio. During the quarter under review, our cost to income ratio was 61.4% against 64.8%. And now if you look into the - our opex average asset, which is typically for the H1 typically remains in the range of 3% to 3.15% or 3.2%. And we are giving the same guidance in the beginning of the year also and now we are retaining the same guidance. That we believe our opex will continue to remain the range bound in the current fiscal.

And the coming year onward, we will be start showing after the two year from now, we will start looking into the opex expense reduction. But for the given, we will be one side opening the new branches which will bring a pressure on the opex and the second side our existing branches, the matured branches has given contributing higher and bringing down the opex significantly and our scale is bringing down the opex significantly. So, both the things are presently neutralizing each other. So, we are seeing the opex to be remain around the same level as we move forward for the remaining part of the year.

Monshree Soni: All right. Thank you.

Munish Jain: Thank you, Monshree.

Moderator: Thank you. Our next question is from the line of Anant Mundra from Mytemple Capital. Please go ahead.

Anant Mundra: Hello. Good morning, sir. Thank you for the opportunity. Sir what was our opex ratio for this quarter?

Munish Jain: 61.4% cost to income ratio against 63.2% a quarter back and 64.8 in the corresponding year quarter.

Anant Mundra: Sir in terms of opex /Total AUM?

Munish Jain: So, if I just have this number it will be operating expense around 3.2% for the current quarter against 3.1% in the last quarter.

Anant Mundra: And, sir in the previous call you had alluded that as CD ratio goes up, there is a…

Moderator: Sorry to interrupt, Mr. Anant. Your voice is a bit feeble. Can you please repeat your question?

Anant Mundra: Sir, in the last call, you had alluded that as and when the CD ratio goes up, there is an improvement of NIM that can happen. So like if the CD ratio goes up by 100 bps, there is an improvement of about 5 bps in the NIMs. But, sequentially, even though the CD ratio has gone up, we have not seen any improvement in NIMs happening. What is the reason for this?

Munish Jain: The reason is that typically historically our-interest components include the penal charges. Earlier, the penal interest was the component of the NIM. Now, that has moved to the non-interest, which is presently for the current quarter contributing 0.12%. 0.12% has moved out of the interest income to the non-interest income which otherwise as per our historical accounting, was typically sitting in the interest income. So, yes, with the increase in the CD ratio the margin has increased.

But because of the changed accounting principle, the penal charges/penal interest has started taken a shape of the penal charges and start looking to the non-interest income. So, you look our non-interest income as looking at 1.1 which includes 0.12% of the penal interest component. So, that is the accounting change. So, because of the current quarter we increased our CD ratio by basically 3 basic points. So, there has to be an increase of 12 to 15 basic points which has increased, but sits in the non-interest income because of this accounting change.

Anant Mundra: Got it. And, sir, can we expect the non-interest income to steady?

Munish Jain: Anant, I am just missing your voice. Your voice is very feeble. Can you please repeat, please?

Anant Mundra: Sorry for the trouble. Sir, I just wanted to check. So, our non-interest income should remain sticky at this level around 1.1%. Is that a fair assumption?

Munish Jain: Yes, we are intending to maintain in the range of 1% to 1.1% as we move forward which includes our penal charges now which is 0.12%.

Anant Mundra: Got it. My final question was on the AUM growth. So, you alluded that last year because of the IPO in the second half, our advances growth was slightly lower and that is why probably this year we will be able to go on 22% to 25% advances growth, but I just wanted to understand beyond this year, for FY26, what would you expect our advance growth to be?

Munish Jain: Anant, if we look into the current quarter, current year we grow 9% in H1 and current year we have given a guidance of 22% to 24% or I can say 22% plus growth. So, we believe we are quite confident of retaining that. And current year the growth is coming from the existing branches, that is the branches we set up before the IPO. The new branches we are building up will be getting positional operational in Q3, Q4 and slides few in Q2.

So, those new branches will start contributing in the next year. So, the current year growth is from the existing sweating and the next year we will be getting the new capacity and the existing branches. So, we are confident of maintaining or increasing our advance growth as we move forward,it is a macroeconomic environment. So, given bankers are the typically multiplier of the Indian GDP.

So, I believe if the present GDP growth continues to grow, so we have enough opportunity to continue to grow our advance book as we move forward. So, current time I am not giving any number graphic for this, but we are quite confident of accelerating our advance growth as we move forward.

Anant Mundra: Got it. So thank you. If I have any more questions, I will call back in the queue. Thank you.

Munish Jain: Thank you Anant.

Moderator: Thank you. Our next question is from the line of Sukriti from Laburnum Capital. Please go ahead.

Sukriti: Hi, sir. Good morning. First thing on the -- we have maintained the advance growth, but this quarter the disbursement came down quite a bit. I think 22% down from last quarter. What is the reason for that?

Munish Jain: So, there is no specific cause. So, typically as a matter of strategy, if you look into the H1 disbursement, H1 disbursement for the fiscal is typically 33% more than the last year H1. As a matter of strategy, we build more in Q1 from the corporate lending. So, that is where the first question comes, that we increased from 8% to 10% by Q1. So, that is the way we have up fronted some of the large corporate disbursement in the Q1 instead of taking it to the Q2. So, that may be a slight change in that particular structure, but otherwise disbursement perspective, H1 versus H1 there is a 33% growth.

And there is on the ground level, things are shaping up and the growth is coming. Even if I look into my MSME book or my mortgage book, both the books against my 15% growth in the book, they have grown by around 17%. So, we are quite confident of continue to growth as we move forward.

Sukriti: Is there an element of cyclicality between Q1 and Q2 growth because of the Agri book?

Munish Jain: The cyclicality in the agri book is typically will be more in the Q3. instead of H1 or H2. There is always H2 heavy historically, not just because of agriculture, but in the industry perspective and for us also, H2 is always higher in growth than H1 in the advance number. So, that is what we believe will be the norms as we move forward.

Sukriti: But 2Q you are saying is just because there were some corporate loans that were disbursed in Q1 instead and is just the drop is possibly a one-time anomaly?

Munish Jain: That is, I can say, not a one-time anomaly. Basically, typically Q1 is typically, we are trying to neutralize/offset the agriculture-based as you can say the impact which is bringing down the assets by Q1 and Q3. So, we are making a lot of work in that direction so that there we will continue to show an upward trend in all the quarters. So, maybe in Q1 and Q3, maybe not that high growth, but yes. So, keeping in view that, some structural or some sort of internal thoughts change are doing. So, as part of that particular thing, some sort of the advances which we are doing in the Q2 historically, we move it to the Q1. So, that is just a change and otherwise on an H1 basis, 33% growth has not come in the disbursement number.

Sukriti: And for the second question on the ticket sizes of your corporate loans, I think they have grown 30% over the last year. And even if I look over two years back, it is 60%, 65% up. Is there any space within your corporate book that you are getting excited about, which is driving this increase in ticket size?

Munish Jain: So, typically if we look about the ATS rather ATS growth you will witness in the two segments primarily. One in the MSME segment which was around 1.85 million a year back which we improved to 2.01 million. So, we are seeing a good traction in MSME and we believe the way the growth is coming and given the COVID is behind us and presently the momentum is building up. So, we are finding a good opportunity in the MSME space.

So, we are looking forward for 50 lakhs to 200 lakhs tickets also significantly in this piece. So, which is bringing a slightly up our ATS, which was INR 1.85 million to INR 2.01 million in MSME. Secondly, the growth you will find in the ATS in the corporate and the NBFC segment which was typically 15.8 crores which we improved to INR20.5 crores. The number was INR18.7 crores a quarter back. So, typically with the growth capital comes in, earlier we were giving a very, very small tranche to the even to the very efficient NBFCs, given we have a lower capital base.

Now, we have started moving which we earlier, which were doing up to INR15 crores of the tickets, we have started doing to the INR25 crores to INR30 crores of the ticket. So, to the larger A minus, A plus type of NBFCs, so which we are doing at a very lower ticket, given we have a lower capital. That said, we want to retain our exposure to that extent. So, that is the factor, so which helping us to improve this particular ATS which was 18.7 to 20.5 over this particular quarter.

Sukriti: This corporate book INR725 crores in our corporate book what is NBFCs as a percent of that?

Munish Jain: This is only NBFCs. There are around 40 to 42 NBFCs in this and this is completely NBFC based book.

Sukriti: Thanks a lot.

Munish Jain: Thank you Sukriti.

Moderator: Thank you. Our next question comes from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Hi, sir. Good morning and thank you for giving me the opportunity. So, my question was on other income. So, if you look at that, during the quarter it’s come in healthy. What explains the same? If you could just throw some light on that.

Munish Jain: So, our other income, which was our other income consisting of INR24.17 crores in commission exchange and brokerages, and INR1.51 crores from our ADII, which includes our] forex business and the treasury earnings, which was INR17.35 crores a year back of the commission exchange and brokerages. And almost, so in the other income, core income has grown from INR17.35 crores a year back to INR24.17 crores in the present quarter.

Out of this, as I shared, there's a growth which is coming in all the lines, and the line both from the distribution-based income, which is as we are enhancing our distribution franchise. So, there is an increase in our incomes from our Banca distribution, may it be life, generalor otherdistribution, there is a good increase, which was INR7.12 crores in the last year's September quarter, which has increased to INR11.55 crores.

So, there is around INR3 crores to INR4 crores growth coming from the Banka distribution, and there is a distribution -- other income growth is also coming here. And one more factor I would like to mention here, last year, our penal charges, what being sitting in the earning, interest earning, now they are sitting in the commission exchange and brokerage, which is constituting around INR1.5 crores to INR2.5 crores, so which is also coming here.

So, that's necessitated increase our non-interest income, which is presently 1.08% or 1.1%, which was 0.8% a year back. But it's a stable state income, and there is no income, which is a very, very minute, which is typically one time of nature. So, even if it look into this income our treasury earning, is not even INR1 crores. So, it is a purely stable state income.

Shreepal Doshi: So, what are the other we've been focusing on this for quite some time, on inching up our other income, through other avenues as well. So, what are the other aspects, that we are working on, or we plan to sort of roll out, to boost up our other income?

Munish Jain: So, as I shared, current quarter, if you look our, distribution income has increased. Our distribution income, has increased significantly, and which we are doing by increasing our partners, for our bank distribution, to ensure a right, more and more products made available. So, we are mindful, and more and more deepening is done with the clients, so that we can continue to increase the share of earning for us, as we move forward.

As I shared, the current year growth is also, is there because of a larger, higher distribution, and the income from our banker partners, may it be Life/general, or we call it 3 in 1 accounts, that particular share has increased, in a good way.

Shreepal Doshi: And just one more thing, to the previous participant's question, so what percentage of our NBFC exposure, would be towards MFIs, and so forth, like if you could just give some color there.

Munish Jain: So, we have a total INR725 crores, of the exposure to the NBFCs, out of this, the exposure to the MFI, is INR59 crores. So, NBFCs constituting, of the total portfolio, around 8% of the NBFC share, and of the, so if we talk about the total book, the MFI exposure, to the total book will be, less than 1%.

Moderator: Our next question is from the line of Lakshminarayanan KG, from Tunga Investments.

Lakshminarayanan KG: A couple of questions. If I just look at your Agri portfolio, is it comparing with the, March 2023 ending number, or September 2023 ending number, the growth has been, if I just look at year-on-year growth, it's around 3%, in terms of the gross advances. While, growth in the corporate loan book, has actually been almost 50%. Now, is the Agriculture loan book growth, is it a conscious choice, to actually grow at a low number? Because while we are looking, if I just move the corporate loan book, your growth is around 11%.

So it's, while your largest segment, is actually growing at below 5%. Is it a conscious decision? I just want to understand that.

Munish Jain: Lakshmi, if you look into the particular, growth number segment wise, our mortgage book, and MSME book, grown around 17% on year-on-year basis, Agri grown by 3%-4%, and other loans than NBFC, NBFC growth looks apparently high, because we were having a lower number. Given we raised the capital, which increased our particular capabilities.

Agriculture growth, which is around 3% is because of the two factors. I can say it's a conscious choice for this year because now we are expanding out of the Punjab. Out of the Punjab, we are not concentrating on Agriculture. Agriculture being concentrated in Punjab. Out of the Punjab, that's why growth in the mortgage and MSME is increasing. But just seeing all this, we believe Agriculture still has a lot of potential to grow.

And now we believe the growth in Agriculture, will be better, since we were keeping an eye on the Agriculture segment, from the last, for a while, given a lot of ground level activities. Now we are getting some confidence, and we are still looking into the same. And depending upon the macro inputs, and the inputs we receive, we will continue to start expanding more in the Agri-book.

So just this year growth, look on a quarter-on-quarter basis, so there is a growth, from INR2,223 crores to INR2340 crores. But on a year-on-year basis, this number has grown from INR2,267 crores to INR2,340 crores, which is around 3%-3.5%. So that's a deliberate choice we have taken. But if we look into all our three sets, we have three product- portfolio comprising , MSME, Mortgage, and Agri. Our MSME and Mortgage, it's growing 17% plus.

And we are very confident, our retail piece, we will continue to grow as we move forward.

Lakshminarayanan KG: So for the entire year, if I just look at your largest segment, which is Agri, what kind of growth do you actually expect, given the fact that, if I just look at your overall 22%, 20% guidance, while how much you think would, what band do you like this Agriculture loan book to grow?

Munish Jain: Instead of giving a product-life percentage at this point of time, I believe we are confident to retain over 22% growth target, since we have three product portfolio, MSME, Mortgage, and Agri. So these three products jointly, which is always constituting around 80%+, they will continue to maintain typically 80% to 82%. We will continue to maintain this number, 80% to 82% of these three products together.

Lakshminarayanan KG: And second, if I look at your NNPA, on an annual basis, for Agriculture sector?

Munish Jain: I missed Lakshmi, what you asked, the voice was a bit crippled.

Lakshminarayanan KG: Yes, so if I look at your Agriculture book, and if I look at your NNPA, it's up, almost 30% on absolute terms. One is your Agri book has actually grown by 3%. So, do you see some kind of increased NNPA in the Agri book?

Munish Jain: There is no, even if you look into presently, or if you look into the overall basis, if we have a GNPAof 2.61% bank as a whole, our Agriculture book, typically just Agriculture book is having a GNPA of 3.38%. So, which was 3.26% a quarter back. So, we're typically in a similar range. So, typically in Agriculture, I'm not that worried about the NNPAor GNPAin this particular book.

And we are confident, since the growth number has not been that high, so optically it may look absolute basis a bit higher. But typically on the ground, the recovery on this particular book is quite decent, and there is no challenge. And presently witnessing of a significant nature.

Lakshminarayanan KG: If you look at the next half year on GSM. We hear from the regulator as well as from some of the other banks that have reported on NBFC that it's a risk in the system. Now, while we are, we have been doing exceptionally well several years, and how do you see at this point in time for the near term, what are the pockets of risk you see and how are you planning to address? Do you see an increased risk scenario in the segments you're operating?

Munish Jain: If you look into just a few of the risks which we are seeing is in the unsecured piece, we are seeing a risk in the ticket size of up to INR3 lakhs on the Agriculture side. We are seeing some risk on the consumption lending side. So, there is a risk is building up on these two, three pieces. So, we are quite mindful and in view of that our product mix is accordingly realigning. If you look at how we are addressing these issues. So, in Agriculture, we are not in that piece.

Our start ticket is INR5 lakhs. We are not starting below INR5 lakhs. Our start price is INR5 lakhs. To keep us ring-fenced from that particular piece, we are completely out of that piece. We are not at all in the unsecured lending piece. So, the risk which we are seeing is emerging is more in the three pieces that up to INR3 lakhs in the MFI or you can say the rural lending or we can say into the lending which is unsecured and similarly personal loan and the consumption lending.

We as a banker in the consumption lending we are very mindful of it. So, our consumption lending is a second hook to the customer, not a start point. So, our consumption lending which is 7% is typically to the existing customers not to the first hook. So, we are accordingly ring-fencing ourselves from this type of risk. And given our secured franchise with the collateralized, all the books are collateralized.

Except the corporate book which is 11%. So, 82% plus book being collateralized. So, with that thing in sight, we are confident of retaining our credit cost as we did in the history.

Lakshminarayanan KG: So, this rate credit cost of 0.2% which you have reported, is it something which we can assume for the full year? Is that the band you like to be in?

Munish Jain: Yes, I intend to keep our credit cost in the delta of 0.15% to 0.25% for the fiscal.

Lakshminarayanan KG: If I look at your corporate lending book, if you can just give some granularity in terms of what is the ratings and what is the mix of ratings in your presentation if it is there or if you can just tell us in your corporate book how much is in AAA, how much is there, it would be helpful to know?

Munish Jain: Typically, if you look into our culture about the corporate book lending, in NBFC, we typically don't lend below BBB minus, we don't lend. And even if a client is up to BBB plus, or I can say below A minus, we look for the FLDG. So, the growth coming in the corporate book is typically from the A minus to A plus. So, that is where the growth is coming and we are quite mindful of it.

And this particular book is typically not a very, very large count. We will be having around 40 to 45 clients, which we are doing at this point of time.

Lakshminarayanan KG: So, it would be helpful maybe in your presentation going forward you can add some details on what is the rating profile of your corporate book.

Munish Jain: Can be done. We will take note of it, Lakshmi.

Moderator: Our next question is from the line of Ashlesh Sonjee from Kotak Securities. Please go ahead.

Ashlesh Sonjee: Just two questions from my side. Firstly, when you read the credit bureau reports of your borrowers, whether it is in the Agri loans portfolio or in the mortgages portfolio, which are the other typical types of loans taken by the borrower from other lenders?

Munish Jain: I request Raghav to pick up this question, please.

Raghav Aggarwal: Particularly when we come to bureau report scrub on an individual basis when we talk of our borrowers, there are mostly the credit cards or maybe some unsecured loans which are coming on to the records of the borrowers from other lenders. So, if we talk of the product mix which we are dealing in, so I can say that we are the primary lender in all these product segments. **Ashlesh Sonjee:** Do you also see instances of microfinance loans?

Raghav Aggarwal: No, we don't see such instances because our customer segment, so that is particularly the MIG segment, middle income group. And MFI segment, that is the low income group. That is not our target play area.

Ashlesh Sonjee: And one follow-up on this one. When these customers are still repaying to you but might be delinquent on other unsecured loans, what is the thought process when you talk to them about it? How do they think about repaying these loans versus your loans? If at all, if there is anything anecdotal, you can share.

Munish Jain: I'll just take up this question. As far as this particular point is concerned Ashlesh, so typically, if we look into this, this is a very, very rare phenomenon to come. And when we talk about the customer, we typically look for the primary banking relationship. Maybe before he, if we are making a BT or we are the first to that particular customer in the middle income group customer. He may have few of the credit card dues which is very, insignificant value or he may have a PL with one of the NBFCs or one of the other entities or an institution.

There may be some sort of delinquencies but this type of delinquencies is rare phenomena. Will not be in a majority in 90% + or 95% + of the cases So, since when we reach out the borrower, we intend to take care of his complete credit needs. So, but if this type of phenomena come on case-to-case basis, depending upon the circumstances of the case and depending upon our case to case evaluation, this action is being taken.

Since it is not a gross or the macro level phenomena, I will not be able to give you some guidance as a statistic point of view. But this is a very, very rare phenomena which we are observing in our portfolio over the last three to four years.

Ashlesh Sonjee: And secondly, if I look at the other loan segment for you, that seems to have de-grown on a Y-T-D basis from about INR495 crores in March to INR485 crores now. Any specific reason for this? Is it indicative of any drip in delinquency that you are seeing?

Munish Jain: No, that is not the case. This particular portfolio, as I said earlier, is our second or third hook with the customer. So this is depending upon the need of the customer. And it is not of a start product. This product is typically more to take care of a primary customer that is Agriculture, mortgage and MSME customer, any additional need of them. So this is typically as per the need of that particular borrower, there is no stress building up or something like this to interact out of it. Or rather, during the quarter, it has grown from INR462 crores to INR485 crores.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I now hand the conference over to Mr. Sarvjit Singh Samra, Managing Director and CEO for closing comments.

Sarvjit Samra: Thank you, everyone, for joining this earning call. And I thank you, my moderator and everyone who are connected on this call. Have a nice day ahead. Thank you. Thank you very much.

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