Capital Small Finance Bank

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CSFB. 2024-25/215 **August 07, 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 ended on June 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 Wednesday, July 31, 2024 for the Unaudited Financial Results of Capital Small Finance Bank Limited for the Quarter ended on June 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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Amit Sharma
Company Secretary & Compliance Officer
Membership No. F10888

"Capital Small Finance Bank Limited Q1 FY25 Earnings Call"

July 31, 2024

"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 31st July 2024 will prevail."

MANAGEMENT: **MR. SARVJIT SINGH SAMRA – MD & CEO, CAPITAL SMALL FINANCE BANK LIMITED**
MR. MUNISH JAIN – EXECUTIVE DIRECTOR, CAPITAL SMALL FINANCE BANK LIMITED
MR. ASEEM MAHAJAN – CFO, CAPITAL SMALL FINANCE BANK LIMITED
MR. RAGHAV AGGARWAL – CHIEF RISK OFFICER, CAPITAL SMALL FINANCE BANK LIMITED
MR. SAHIL VIJAY – HEAD OF 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 the Capital Small Finance Bank Limited Q1 FY25 Earnings 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 signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Sarvjit Singh Samra: Thank you, Siddanth. Good afternoon, everyone. I am Sarvjit Samra – Managing Director and CEO of Capital Small Finance Bank.

Thank you all for joining Capital Small Finance Bank Limited's earnings call. We have uploaded the results and the investor deck, on the exchanges. I hope everybody had the opportunity to go through the same.

Joining me today on the 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 who is part of Investor Relations team and SGA, our Investor Relations Advisors.

I will first cover brief on our Bank, then the industry, post which Munish will provide a detailed overview on our business performance.

In our journey spanning over two decades, we have transformed from the largest local area Bank to Small Finance Bank on April 24, 2016. Prior to this transformation, we operated as the largest local area Bank for 16 years, serving five districts in Punjab. Starting with 47 branches at the time of conversion, we have since expanded to 177 branches across five states in North India. That is Punjab, Haryana, Rajasthan, Delhi, Himachal Pradesh, including the union territory of Chandigarh.

Our commitment is to offer premium banking services directly to the middle-income group customer segment, that is customers with an average annual income of Rs. 4,00,000 to Rs. 50,00,000 with a focus on rural and semi-urban areas. Our customer-centric banking model coupled with pure lending practices has fueled organic growth, anchoring us with stronger roots and fostering big aspirations. We present a robust value proposition across our area of products and services. Our market dominance in our operational domain is attributed to our dependable services, seamless accessibility, prompt disbursals and transparent procedures. The Bank operates on a branch-based model headquartered in Jalandhar in Punjab. The Bank is expanding its network in a contiguous manner.

We believe that our experience of operating as a local area Bank for 16 years provides us a competitive edge with respect to our understanding on growing our customer base, which currently stands at more than +7.5 lakh customers. We have consciously focused on building a secured and granular loan book over the years with a focus on income generation.

Our diversified loan book across agricultural loan contributing to 35% of our loan book, mortgage loan contributing 27%, MSME loans contributing 21% of the loan book and rest are contributed by corporate and consumption loan.

Our strategic priorities are anchored in placing the customer at the core of our operation. By focusing on middle income group segment, we aim to solidify our role as their primary banking partner, offering a comprehensive suite of tailored product and services.

Aligned with the Budget 2024 both for MSME, agriculture and the middle-income group segment, we are focused on empowering these sectors with special emphasis on the semi-urban and rural sectors. With strong Indian macroeconomic scenario, rising middle income group and growth levers available to the Bank, we are highly confident of a fast-paced sustainable growth and delivering enduring value to our stakeholders.

Thank you. I will now hand over to Munish Jain, who will share a detailed overview of our business performance and financials.

Munish Jain: Thank you, Mr. Samra. I am Munish Jain, working as Executive Director for Capital Small Finance Bank Limited, and a warm welcome to all of you.

Now let me share with you the highlights for the quarter ended June 2024. Advance and deposit have grown during the quarter and are in line with the Bank's estimate. Our growth journey re-energized with the growth capital infusion has started showing upright progress. With the growth in the gross advances of almost 12% and disbursement of Rs. 1400++ crores have been witnessed over the last six months post the growth capital infusion in February 2024.

Historically, sequential decline in advance is seen in Q1. Contrary to this, advance during Q1 FY25 have grown by 4% and stood at INR 6,391 crores. The advances have grown by 16% on a year-on-year basis and at a5-year CAGR of 19%. We are a secured lender and as on June 30, 2024, 99.8% of our book is secured with (+86%) book is collateralized by immovable property or Bank’s FDRs.

The Bank has made the highest quarterly disbursement of Rs. 754 crores, a growth of 62% on a year-on-year basis and 12% on quarter-on-quarter basis. The disbursement constitutues 25% to MSME segment, 25% to mortgage, 22% to agri, 20% to the corporate and remaining to the consumption lending. Our advances consisting of agriculture 35%, which was 37% a quarter back, that is as on 31st of March 2024; mortgage 27% against 26% a quarter back; MSME, 21% against 19% a quarter back; corporate and NBFC, 10% against 9% a quarter back; and consumption lending at 7% against 8% a quarter back.

Our experience being in the lending business for more than two decades, helped us in putting in place the Streamline Credit Assessment Processes and Risk Management Practices. That has allowed us to consistently maintain superior asset quality and the GNPA for Q1 FY25 stood at 2.7%, which was 2.8% a quarter back, and NNPA of 1.3%, which was 1.4% a quarter back. Our emphasis is on the collection and resolution even for the sticky loans and we have almost zero write-off during the quarter and nil NPA sell-off**.**

Our slippage ratio for Q1 FY25 is 1.09% on an annualized basis, which was 2.40% for the FY24. Further, our credit cost remained stable at 0.1% during Q1 FY25, and our credit cost has remained always range-bound, historically, including the COVID period.

Now, if I move towards the liability side:

We believe our liabilities are our biggest assets. The liability mix is positively skewed towards the deposit and 80% of the liability side of the balance sheet is in the shape of the deposit. 12.8% being the shareholder fund, and our retail deposit constituting 95% of the total deposit, with CASA ratio of 39.5%, which was 38% a quarter back. It's worth mentioning that our interest rate on our saving Bank account is 3.5%.

Our deposit book grew by 4% quarter-on-quarter basis, which is Rs. 7778 odd crores, with a five-year CAGR of 15% and annualized growth of 10%. We have consciously calibrated deposit growth owing to the low CD ratio, and we have the capacity to quickly ramp up the deposit growth.

On profitability aspect, the pre-provisional operating profit, PPOP, has increased to Rs. 43 crores in Q1 FY25 as compared to Rs. 39 crores a quarter back. The Bank registered a PAT of Rs. 30 crores in Q1 FY25, which is a growth of 6% quarter-on-quarter basis and with net interest income growth of 14% on quarter-on-quarter basis. Our net interest margin improved to 4.2% in Q1 FY25 against 3.8% in Q4 FY24, and same is attributed to increase in the yield on advances and a constant cost of deposit during the quarter.

OPEX to average asset for Q1 FY25 stood at 3.1% against 3% in Q4 FY24. During the quarter, Bank has voluntarily deposited reverse charge, that is the GST, on PSLC purchase during FY21 to 24 as a one-time payment, which has an impact of 0.1% to the OPEX ratio. ROA for the quarter stood at 1.3% against 1.2% in Q4 FY24. And the capital adequacy ratio stood at 26.3% as on Q1 FY25, out of this 22% being the tier one capital.

Going forward, we intent to expand our branch outreach by scaling up the new branch opening and by expanding outreach in our contiguous states coupled with deep penetration in the existing market. We intend to organically grow our secured book and are confident of growing our loan book as initially targeted that is 22% to 24% for FY25. We intend to capitalize on growing MSME and mortgage market segment, coupled with anticipated tailwind in the middle-income growth segment. We intends to expand our ROTA, as originally planned, to 1.4% for FY25, and continuously ROTA expansion going forward. The drivers will be continuing to be our CD ratio expansion, which will result in acceleration in the NIM. Operating leverage benefits with continuous increase in the profitability of the matured branches and non-interest income expansion.

This is all from my side and now I request Siddanth to begin with the question and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: My first question was pertaining to yields. So, could you please highlight the product-wise yields that we have for each of the products and also if you look at the calculated yields on a sequential basis, they are closer to 10.9% versus the reported yields of 11.2%. So, is it fair to understand that the majority of the disbursements happened in the second or in the latter part of the quarter?

Munish Jain: If we take question #2 first, basically the yield is calculated on the basis of the daily average of the advance's calculation and as per that, the value of the yield comes to be 11.2% as we have reported. Yes, the disbursement, Q1 is always historically low, could be so a declining trend in the advance outstanding. And we do the disbursement during the period and which is typically more in the month of June. So, if we calculate on a daily average basis, the outcome which we are calculating is 11.2. So, that is where we are and which is being calculated, this is a daily outstanding average and comparison is also done similar basis with a daily outstanding average for the last quarter. Second point of the question, if we take up segment wise interest yield. So, the agriculture segment with the interest yield of 12.42%, our mortgage loan having an interest yield of 11.8%, MSME 10.7%, corporate 11.13%, consumption including the loan against FDRs 9.68%.

Shreepal Doshi: Got it. So, that's very helpful. So, my question is, what were the product-wise yield numbers for 1Q FY24, were they like different or were they broadly the same?

Munish Jain: I have the handy number available for the last quarter, that is the Q4 FY24. The numbers are 12.08% for agriculture, 11.81% for the mortgage, 10.74% for MSME, 11.15% for the corporate and 9.72% for the consumption.

Shreepal Doshi: The second question was, recently the regulator has come out with guidelines on universal banking license. What are our thoughts on this? Would we be exploring that opportunity?

Munish Jain: As we discussed in the last call also, yes, coming up with the regulatory guidance on the universal is one of the enthusiastic events. And in a way, for a banker like us, which is going to see outlook to grow further to the next level. As per the present guidance, we believe we have ticked all the boxes except one that is the net NPA level, which we have started showing improvement in in the current quarter. From 1.4%, we are able to improve it to 1.3%. We intend to take it below 1% and that is what is required for the universal banking license over the next 9 months to 15 months period so that we are able to tick all boxes for the universal banking license requirement. So, basis that our Board will take a strategic decision to take it further to the Universal Banking License and accordingly we will take it. But saying all this, I like to further add that there is an ample opportunity available to sustainably grow even in a present avatar as an SFB, given our present operating business model.

Shreepal Doshi: I mean since you highlighted that you will be targeting the below 1% net NPA over the next 9 to 12 months. I mean you know that the goal of achieving universal banking and also net NPA because it's a 2-year track record that we need to have below 1% net NPA. So, are we certain that we will take this 9 to 12 month?

Munish Jain: To the extent I understand you said that we have taken a goal of the net NPA of below 1% and the universal banking required 2 years of consistency. So, yes, we are targeting to make this box tick below 1% over next 9 to 15 months and intend to keep it around that level, below that level to make ourselves eligible for the Universal Bank application so that on the strategic decision-making, whatever is the strategic decision, so we are in the right position to execute that particular decision.

Shreepal Doshi: Got it. So, just one last question. If we look at the employee cost sequentially, there is a sharp rise. So, is it more to do with salary hikes and bonuses or anything else?

Munish Jain: Employee cost is on the sequential basis. If I look into the employee cost on the sequential basis, just let me give you the number. The employee cost is typically the last quarter it was Rs. 31 crores, now it is presently Rs. 35.7 crores. This particular growth is contributed towards the new staff which are getting on boarded as well as we have annual salary review happened in the month of April. So, there is a regular increase which happened for the current fiscal FY24-25. So, theset are the two major factors which are contributing to this particular increase.

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

Pritesh Bumb: Just a couple of questions from my side. One is that on the yield, we've seen a bit of a jump this quarter. So, the whole Agri MCLR which we had increased is in the yield or is it that this bump up is because of the capital raise benefit coming in this quarter?

Munish Jain: Also typically, Pritesh, if you look into the yield, the yield increases purely because of the increase in the MCLR. The increase, which is basically the last year's yield on advances, Q4 FY24 was 11%, which has increased Q1 FY25 to 11.2%. It's consequent to increase in the MCLR. Now looking at the transmission of this increase in the yield to the NIM. the benefit is coming both from the increase in the yield. (of 20 bps) Our NIM has improved from 3.8% to 4.2%, which is largely attributed towards the increase in the yield on advances and some benefit is also coming from the increase in the capital in the NIM perspective. But on yield perspective, it is purely the MCLR benefit. Let me clarify that the full benefit has still not come. Still the good number of portfolios which will be getting repriced as we move forward in the remaining part of the year. Since we increased over MCLR by 20 basis points in Q4, FY24, for which , we are able to reprice 60% to 70% of the book, but around 25% to 30% of the book remaining to be repriced. So, with the benefit will come as we move forward in the current fiscal.

Pritesh Bumb: Sir, if I just want to follow up on this question itself, we had seen 11.25 in 3Q 24, which was the best quarter for us, generally, seasonally. So, if I want to extrapolate this for next two, three quarters as a yield, can it move towards like 11.4 or something like that? So, can it go and stabilize there?

Munish Jain: So, I believe the yield on advances, which is presently 11.2% for the current fiscal. We will be able to see some slight increase in the Q2 and Q3, before stabilizing for the Q3. So, the up-string available in the yield will not be that steep as we are talking about 11.2% to 11.4%, but there will be some increase which we are able to see from 11.2% to next as level we move forward. Since we have done during the quarter, a disbursement which is 25% of the mortgage and 22% of the agriculture and 25% of the MSME. So, we believe this yield will continue to improve in Q2 slightly and bigger improvement we will see in Q3. So, that is what we will see on the trend line perspective. But the important point to note out here is, if we look into our cost of deposit, our cost of deposit remains constant. It was 5.8% in Q4 FY24 and it is 5.8% in Q1 FY25. So, which is helping us in improving over NIM.

Pritesh Bumb: Got it. So, the second question was on, you mentioned about your desire to get your net NPA lower over time. So, how do we think from here on that the credit cost can be a little up from here, or we are including provisions to increase our PCR? Because that only will enable our net NPAs being lower. So, what are your thoughts on the provisions and the PCR, both. Thanks.

Munish Jain: So, typically, over the journey for reduction of the net NPA will be consist of our improving our gross NPA level, that is through the recovery efforts and a slight portion will be shooting up by increasing the PCR. So, current year will be coming up for our improving the GNPA level. So, as you move forward, we will intend to improve our GNPA level. the GNPA level, which was 3% in December, which was improved to 2.8% in March, is further improved to 2.7% in the month of June. We believe we want to continue the similar trajectory as we move forward without any write-off and with the purely recovery effort initiatives. So, that is the one journey which we are in the process and which we intend to take it further as we move forward. Secondly, yes, we are intending to take the journey from 9 months to 15 months. We are clearly keeping in mind that our credit cost, which is typically 0.1% to 0.2%, we intend to keep it in the same range as we do for the current fiscal that is 0.1% to 0.22% or 0.23% range. That is a range we intend to keep our credit cost. So, we will be working on that, we will be creating a balance to maintaining the net NPA level target below 1% as we move forward by creating some additional provision, but keeping in view that our credit cost remain the range bound as we are always historically.

Pritesh Bumb: Got it. So, just again follow up on this one. So, if I do mathematics on this, we are at 2.7 today. If you want to be below 1%, we have to come GNPA should be down by about like somewhere like 2.3 or2.4, and then only we can with the same PCR or slightly bump up in PCR, we can see a lower than 1%. So, we are targeting GNPAs to be about say 2.2, 2.3 by the end of the year. Can we say that?

Munish Jain: Pritesh, if I do the back of the envelope calculation, presently I am 2.7% and 1.3%, back of the envelope calculation, it will typically make it 2.55% and make it the PCR to be around 53%, or 55%. So, typically with the reduction of 20 basis points in the gross NPAs and further by improving the PCR by 4 to 5 basis points. So, we will be, or there will be some base of working around it. Just going forward, we intend to improve our GNPA level of around 2.45% to 2.55% level as we move by the end of the year.

Moderator: Thank you. The next question is from the line of Anant Mundra from My temple. Please go ahead.

Anant Mundra: Sir, I missed the initial commentary that you gave on the opening of new branches because this quarter we have not opened any branches. So, just wanted to understand what is our target for this entire year and what happened this quarter?

Munish Jain: So, we begin year with 177 number of branches. We intend to close this year with 200 plus branches. So, branch opening is a journey, and the work is already in process with a lot of centers. And a lot of centers post the growth capital poured in**,** the journey has already been started. So, we are intact with our target of keeping 200 plus branches by the end of this fiscal. So, the opening will be getting steamed up or waiting will be further accelerated. We will see some opening in Q2, not a very significant number of opening in Q2, but you will find a good number of opening in Q3 and Q4. So, we are aligned to make it our branch count of more than 200 by end of this fiscal.

Anant Mundra: So, sir, without opening any new branches in this quarter, our OPEX to AUM has gone higher, 3.1%? So, is it right to assume that it's going to be sticky around this figure only? Is there scope to reduce it because we are going to be opening new branches going forward?

Munish Jain: So, typically the current quarter, the OPEX is 3.1%. Out of this, there is a one-time payment as we discussed as part of our commentary. There is a one-time payment which is 0.1%. So, if we iron out that 0.1%, our OPEX for the current quarter is typically 3%. And the same was also the 3% in Q4 FY24. So, typically we have a static, almost stable OPEX. Going forward also we intend to keep it around the similar level of that is 2.95% to 3.05% level.

Anant Mundra: So, I also wanted to understand how is your CASA and retail deposit share in geographies apart from Punjab like Haryana, Rajasthan, Jammu, if you can give some color on that?

Munish Jain: Presently, we are having a CASA of 39.5% for the Bank level and if you slice it for the other states, if I take my other big state in Haryana, so Haryana, we will be finding the CASA to be above 38% level only.

Anant Mundra: And what about the new branches that you've opened in the last two, three years in Punjab itself?

Munish Jain: The journey, overall, the Punjab as a whole, across the new branches, so some of the new branches which are the asset-heavy branches, may have a different CASA, which are the liability-heavy branches, they have a different CASA. So, branch-level mapping is not that feasible. But if you talk about the geographical split, whether we talk about the Punjab-level geography or Haryana-level geography, we will be finding a similar type of the CASA percentile.

Anant Mundra: And sir on agri loan, what is the typical tenure of the loan that we give off?

Munish Jain: Agricultural loan is typically five to seven years of the loan, which is repayable on the cash flow basis, which is typically given for the raising up of the crop and which we call the KCC as well as the term loan, both the type of facilities we are giving. For raising up of the short-term loans, but as a matter of fact, we give it primarily for the MSP crop and to the farmer whose requirement is 5 lakhs to 25 lakhs. That is to the middle-income group farmer, and we are staying away from the small and marginal farmers.

Anant Mundra: And do we insist that the farmer take up crop insurance or something?

Munish Jain: So, crop insurance has never been mandated. On the contrary, we typically look for collateral since agriculture land is legal mortgage with us with the LTV of minimum 50%.

Anant Mundra: And are these customers that we are targeting, are they new to credit customers? Is the agri loan that we gave out?

Munish Jain: We can say yes, there will be few new to the credit, so it could be a fair mix. I have not had the right data point available with me, but as per the estimate, it shall be 70% will be not new to the credit and 30% will be new to the credit.

Anant Mundra: And just want to understand, so of this existing base that we have in Punjab of agri, of farmers, how is it that we can increase our ticket size? Does their requirement of loan increase every year, every five years, whenever the refinancing happens, just wanted to understand that?

Munish Jain: Typically, if you look into the data point, our average ticket size of the farming, agriculture, it remains constant. This was 1.24 million a quarter back or even one year back 1.23 million and presently it's also 1.24 million. So, typically our target segment, our ATS in the agriculture is constant for a while now. So, it is not that we keep on funding him again and again. The other objective is to get new and new farmers to take care of their needs. So, there is an existing farmer if he repaid his loan and he needs the at the time of the renewal is required, that is done. That is workable. But it's not like that one year after that to be the similar piece of land or the similar activity, we will keep on topping up the loan. That is not the philosophy we follow. So, that is also being evident from our ATS, that our ATS in the agriculture, which was 1.24 million as on June 30th, the same was 1.24 million only as of 31st of March and same was 1.23 million as on June 30th, 2023.

Anant Mundra: In the budget, the government had mentioned a lot about the agri tax. So, just wanted to understand how this would benefit us or will this increase competition for us because this is going to be an open source thing so the data is going to be available for other lenders as well. So, do you see increased competition because of this or how does this affect us?

Munish Jain: Rather I am seeing it as an opportunity. This budget is giving us two types of opportunities. One in the agriculture space you are talking about, other is MSME space we are discussing about and third, I will say the increasing middle-income group segment. So, in this budget given the various measures that have been taken by the government, I am seeing a good opportunity for a banker like us who is a middle-income group specialist organization with a target segment. Being the MSME, middle segment, and not the below poverty line segment, not the upper segment, agriculture, again, not the SMF (small and marginal farmer), neither the large landlords, 5 lakhs to 25 lakh segments, so I am seeing a big opportunity, given our deep understanding of this place. So, we being a lender in agriculture space in Punjab and Haryana from last 20-24 years plus. With that deep understanding and our deep outreach of our branches in the rural, with the customer connect, so I believe it is going to give us a better opportunity as we move forward.

Moderator: Thank you. The next question is from the line of Madhuchanda Dey from Moneycontrol. Please go ahead.

Madhuchanda Dey: So, my question is a good set of numbers, congratulations. I just wanted some help with the SMA stickers, the special mention accounts, SMA-0, 1, and 2, if you could start publishing them in your investor deck could be really helpful. I mean, just wanted to understand where are those figures according to your different lines of thinking?

Munish Jain: Surely, Madhu. As in basically, I am having Bank level figures for the SMA's numbers. So, the SMA number, if we talk about the SMA-2, is 2.83% against 2.56% on June versus June. And SMA-1 figure is 3.59% against 2.98% June versus June. So, the last quarter, we have seen an elevated heat wave and the electorals. So, there is a very slight increase in the SMA-1 and 2 position that is from 5.54% to 6.4%. So, we are working hard on this to take it to the recovery process. So, the SMA number presently being 3.59% SMA-1, SMA-2 being 2.83% against 2.98% and 2.56% respectively.

Madhuchanda Dey: SMA-0?

Munish Jain: SMA-0 is not the number I am handing since we are not chasing the SMA number very, very significantly. So, the installment is getting due at any of the time month. So, typically we are internally chasing 1 and 2 more precisely.

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

Ashlesh Sonje: One question for Samra sir. Sir from a medium-term perspective of next 2-5 years, what are the key areas of focus for you and what would be the key challenges that you are looking to address?

Sarvjit Singh Samra: The key focus area is we have leg room available to increase our CD ratio. So, the key drivers for our growth over the short-term periods, few years going ahead is increasing the CD ratio, which presently we are around 80% and where we want to take it to mid or high 80s that will drive the growth. And we are confident, now the main driver is going to be the CD ratio and then increasing our non-fund-based income. And of course, this will give a boost to our NIMs and other ratios.

Ashlesh Sonje: Just a couple of follow ups to that. Do you expect a meaningful change to your loan mix or customer mix over the next 3 to 5 years? That is one. And secondly, what would be the drivers of the increase in non-interest income?

Sarvjit Singh Samra: So, actually, say presently, we have main three buckets of loans, which is MSME, mortgage and agri. We are like about 80% of a loan rests in these buckets and going forward also, we want to carry forward in a similar way of course with the principle of secured lending. Of course, the more key emphasis will be now at and will be on MSME and followed by mortgages and then by agri. So, these buckets are going to accelerate our growth rate in advances in the similar what we have been doing.

Munish Jain: And just to add what we are planning to do in a non-fund-based income, our non-fund based income, so we have done 0.7% in the Q1 FY25, which was 0.9% in Q4 FY24, but that is typically, so we intend to continue to increase our penetration to our customers. Now the customer count with more than 7.5 lakh customers with the right ATS on the liability side, with 95% being retail, with the matured branches increasing. So, we believe the cross sell opportunities are increasing. So, with these cross sell opportunities, whether we talk about any banca products, maybe life insurance, general insurance, or any other products, that opportunity is increasing, and also the other non-fund-based opportunities, avenues are continuing to increase. So, that will be the lever to continue to improve our non-fund-based income as we move forward.

Ashlesh Sonje: Understood sir. And just one follow-up on that if you allow me. On the cross-sell part, where are we in that process of creating those products, hiring people, setting processes in place?

Munish Jain So, typically the product evaluation is completed. We have all the products now made available. The full team is available. The ground level staff is completely ready. So, typically it is nowexecution job and you will start looking into the results from September, we've done reasonable job in Q1, but you will find in much elevated results in Q2 as we move forward.

Moderator: Thank you. The next question is from the line of Sonal from Prescient Capital. Please go ahead.

Sonal: Good set of numbers. My first question is with regard to the net NPA that you were talking about to bring down to be compliant with the Universal Banking License. Does that have any short-term implication in terms of the profit that you want to be reporting? Because even if it's like 20-30 bps of extra provisioning, it adds up to I guess 12, 18, 20 crores of extra provisions maybe over the next 12 to 18 months. Is that something which we should analyze or that's not something relevant?

Munish Jain: No, at this stage no extra bumper to the credit cost or rather we are very mindful of the ROTA target we have taken for us. We have taken a ROTA target for us for the current fiscal 1.4%. So, we are very, very mindful of this and very conscious of that ROTA target, ie 1.4% ROTA target, and we are very confident of achieving that ROTA target for FY25. So, all the actions which we are doing around this will be keeping in view this ROTA target in sight.

Sonal: Got it sir. I am just talking about the health of the book with 3 categories: the MSME first one, the second mortgage and third agri. Any early signs, early warning of stress building up in these books individually, any subjective commentary you can give that's number one? And why I was asking was that there was an addition of close to Rs. 52 crores in Q4 FY24, which was lumpy. And hence, given that as a background, I wanted to understand more from a future perspective, if there's anything basically, we should be aware about or mindful of.

Munish Jain: So, if you look into our NPA table or that is NPA addition and subtraction, you will observe one thing in many of the tables that our additions as well as our upgradations and the recoveries are very nearer to each other. So, we are able to recover the amount which goes to the NPA because sometimes the NPA comes for some reasons, but for some temporary problem at the borrower level, but we are able to resolve and get the recovery done given our strong outreach to the customers. So, that is the one point I like to highlight. So, even from a statistical perspective, Q1 we have Rs. 16.3 crores of the addition and upgradation and recovery put together is 14.6. And even if you look at the Q4 statistically if I look into, our gross NPA number was Rs. 170 crores as on 31st of December and by 30th of June, that is six months later, the gross NPA number on the value basis is 171.9 and with a write-off of 0.3 million only. So, that is completely the money whichever is moving to the NPA, we are able to bring out (recover) the similar value from the NPAs out also. So, that is the first point I would like to mention. So, we are quite confident our model being a secured lending model with collateral being available and production lending. And if we talk about the second point, that is the three segments, if any stress is building up, as of date, we are not seeing any substantial stress building up, whether we talk about the agriculture and which is evident even from the numbers available in the agri as well as all the three segments, our numbers in the NPA perspective, net NPA perspective, it's almost similar as we've done in the last year, or as we've done in the quarter back. Even if you look into agriculture, the net NPA is 1.62 versus 1.69 only, mortgage is 0.86 vs 0.95. In MSME, it is reduced from 2.73 to 2.33.

So, typically at this stage, we are not seeing any stress building. So, the normal process of recovery is going on and collection efficiency is at 98% plus. So, at that point with all these things, we are not seeing much concern about the asset quality.

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

Chinmay Nema: Couple of questions. Firstly, could you talk about traction of the business in new geographies, Haryana, Delhi, NCR, where we have a higher share of MSME advances? What's the business growth in advances in these geographies like?

Munish Jain Yes, so if you look into our book and if you look into the growth within the Punjab and out of the Punjab and in this particular period, our Punjab share has reduced in the total pie by around 1.5%. So, total portfolio increased from out of Punjab by 1.5%. So, there is growth coming in both the sides, both in Punjab and out of Punjab. Punjab share (in advance) which was 82.68% as in 31st March is 81.42% now. So, which is depicting that we have grown across the state. So, the business momentum is building up both in our home state, which is Punjab as well as the new geographies where we are building up that is Haryana, which we call as our next Punjab. So, both the states we are getting a good response and concentration risk is also being getting reduced and is reducing with each passing quarter.

Chinmay Nema: Secondly, previously, I think you guided that some recovery would come from loans that for which SARFAESI was postponed during COVID. And that should drive down GNPA. I think this was guided in the previous call. So, could you give some sense around how big is this pool? And what can we see from this pool during this year?

Munish Jain: So, typically if you look at the GNPA number, our GNPA number was 3% in December 2023. And today we are sitting at 2.7% in June. Over the last 6 months, we are able to improve the GNPA by 0.3%. And I am quite hopeful that we will continue to improve the GNPA number and we are move ahead, without write-off and NPA sell-off to further level by end of this year. So, the recovery effects of the old pool, which was there, which the recovery effort was being halted because of those specific reasons of the regulatory reasons. So, now start giving us a good result and consequently our GNPA number is continuously showing a declining trend without any write-off and sell-off perspective.

Chinmay Nema: Got it. The next thing is CASA growth. So, do you see it coming from the existing geographies or is there enough headroom in the existing geographies or do you Bank on the newer geographies for that because that's primarily the source of our low-cost funds. Any color on that?

Munish Jain: So, typically, we always said the Punjab in our home state is going to be the bigger driver of our liability business and which will be followed up by Haryana. We call it the Haryana; we are in the process of making Haryana our next Punjab. So, that is Haryana as we move forward in the coming period will be going to be a big liability source for us. But if you look into the CASA franchise, our percentage of the CASA, whether we talk about the Punjab geography or the

Haryana geography, are very nearer to each other. So, we are getting the similar response on the CASA franchise, both from Punjab and Haryana. So, yes, presently we believe these two states, which is Punjab and the second state Haryana, which we are saying, always internally we say Haryana to make it over new Punjab, are contributing significantly to our liability growth. And if you look at the liability franchise, it is 95% retail with 39.5% CASA and with the growth of 4% quarter-on-quarter. So, which was 92.6 %retail with 38% CASA a quarter back.

Chinmay Nema: And lastly, could you give some sense around how the operations, do you see any challenges in the operations in the newer geographies in terms of sourcing collections? Is there a difference in the collection's efficiency in the newer geographies or largely the operations are as tight in the newer geographies as the state of Punjab?

Munish Jain: So, typically our growth is contiguous. We follow a contiguous growth of expansion philosophy, which helps us in understanding that geography much better when we reach there. And our philosophy of growth is combing and carpeting**.** Instead of carpeting on day one, we will start at branch one, understand that geography, comb it or understand it, then we carpet it. So, with these two principles in sight, presently our NNPA numbers or GNPA numbers, if we talk about the Punjab and Haryana, it will be to your surprise, our Haryana will be maybe overall 35% or 40% of what our GNPA number of Punjab. So, we are finding a similar collection efficiency out there. And from the headcount perspective, we've been a great place to work. And a certified company, I don't know from how many years now. So, I say maybe 8, 9 years consecutively, which gives you a testimony to that we have the right HR practices to follow. So, we are able to identify and retain the right talent with us.

Moderator: Thank you. The next question is a follow-up question from the line of Madhuchanda Dey from Moneycontrol. Please go ahead.

Madhuchanda Dey: So, my question is again little housekeeping type. Can you give us the breakup, the geographical breakup of your advances and deposits o book?

Munish Jain: Yes, if we talk about the advances book which is handy, our advances book which was 82.68% as on March 31, 2024, of Punjab and 17.32% out of Punjab. As on June 30th, it is improved, and our Punjab book is 81.42% and out of Punjab book is 18.58%. So, our Punjab versus non-Punjab, so concentration risk is getting diluted with each of the quarter. So, this is about the advances book.

Madhuchanda Dey: And deposit?

Munish Jain: Deposit typically, yes, we are typically having a Punjab as our heavy sources of the deposit. So, Punjab is continued to be around 93% to 94% of the deposit, as we were on 31st of March also. So, typically, similar numbers are there in the deposit franchise from Punjab and out of Punjab. But on the advance franchise, the concentration risk is getting diluted. We always believe the liability sourcers is where you have a strong presence and where you have a strong brand recall and trust factor. So, Haryana, we are in the process of making it over next Punjab. So, as we move forward which is a journey, which is not a day's job or month job, which is a journey, and we are well begun. So, we are confident as we move forward, we will find a much deposit accretion out of Punjab as well.

Madhuchanda Dey: And you mentioned in your remarks that your branch expansion strategy is 177 to 200, right? So, where are these branches going to come up broadly?

Munish Jain: So, typically, if we look into, we are intending to open around 24 to 26 branches as part of this present expansion, which will be consisting of three in the state of Jammu, three in Rajasthan, eight being in Haryana, and the rest being in Punjab. So, typically more than 50% of the branches we target to open are out of Punjab. So, that is what we are planning as part of the current branch expansion, and we are intending to keep the similar philosophy as we move forward to open majority of the branches out of Punjab as we move forward in the coming period.

Sarvjit Singh Sarma: And Jammu, we are adding a new area where we will be starting with three branches.

Moderator: Thank you. The next question is from the line of Rishab Jogani from Incred Research. Please go ahead.

Rishab Jogani; My question was regarding branch expansion and it is already covered.

Moderator: Thank you. The next question is from the line of Prabal from Ambit Capital. Please go ahead.

Prabal: Two questions. So, first, on such a small balance sheet, why is loan growth only 16%? How do we take it to 24%?

Munish Jain: So, typically, if you look into our balance sheet, you will observe our growth on a year-on-year basis, you are seeing it 16%. If you look into the growth of the advances over the last six months, that is post our growth capital pouring in is 12%. Before the growth capital pouring in, we were highly Leveraged, which is containing our advance growth. Now post the growth capital pouring in, that is February, our advance over the last six months has gone by 12%. So, that's the way we all believe that 22 to 24 guidance is well in sight. So, last 6 months growth is 12% plus, post the growth capital pouring in. And Q1 is always a quarter which is a stable to declining trend quarter for the advances. But even despite that particular historical trend, Q1 is 4% plus. And if we add two quarters consecutively, that is February 14 onwards, we already grown by 30th of June, 12% in the loan book with a Rs. 1400 crore plus disbursement over the last six-month June, post the growth capital pouring in. So, the variable which was constraining our growth was the capital, whose solution has already come in February. So, post that the growth is coming track and that's where we believe that the growth target, we take for us, the 22% to 24% is in sight for us.

Prabal: The second question is in your opening remarks you mentioned about the credit assessment model getting deployed in various branches. Can you elaborate on that?

Munish Jain: So, typically what we said is the branch is typically not a credit assessment model, we built up the branch. The branch is the sourcer of the credit. The credit underwriting process is through the centralized team, which is a separate two different set of teams. One is the PD team, and one is the underwriting team. PDs are the guys who are being attached with each of the branches, as this guy who go and meet the customer in addition to the sourcing guys. We follow a principle of Four-Eyes that before a loan value is being processed, two different people, review that file. So, that basis, our learnings as a local area Bank and being a lender from 24 years in these three spaces, the various underwriting models, that is we being a primary banking model, cash flow-based model, income assessment-based model and typically we follow a repaying capacity-based model. That is how much earning he's having and the capacity to repay rather than the pure play of collateral efficacies. Collateral is important for us, but our start point is always how much he has ability to repay us and his intention to repay. So, our model involved about his ability and intention to repay. So, that is the model which we have built in place. This is our learning of 24-year plus as a lender in the space.

Prabal: Do we also incentivize for the collection?

Munish Jain: The collections are not incentivized, but rather it's a KPI. Collection is a KPI at the branch level. So, they have to achieve this KPI to get the right rating and right variables pay. So, there is no separate incentive for collection, but collection is mandatory for them to make them earn all the incentives they're having. So, instead of making it a separate thing, it is one of the important KPI, which is made part of the branch goal sheet

Prabal: So, only after they actually will be eligible for maybe bonus or a premium or whatever?

Munish Jain: So, the collection is given as a good weightage and the busters also. If they are not able to do the collection efficiencies, the other efforts will get busted. So, the collection is one of the important parameters in the ratings or in the goal sheet as part of the important KPI.

Moderator: Thank you. The next question is from the line of Franklin from Equentis Wealth Advisory. Please go ahead.

Franklin: Given the pro forma LCR guidelines which have been maintained, in our assessment what would be the impact?

Munish Jain: So, if you look into the present pro forma LCR requirement, through the industry level anticipated impact as 11 to 18, for our company for the Capital Small Finance Bank, impact visible is 13% to 15%. So, the impact of that particular pro forma will be on our balance sheet of 13% to 15%, but I just like to flag here. We have an LCR of 215% on Q1 basis. So, with this effect, we have a sufficient opportunity to grow our loan book, maintaining the high LCR.

Franklin: And in terms of our cost to income ratio, if you look at 63, I know you alluded to the fact of OPEX, but if we just look at it from cost to income ratio perspective at 63%, it is slightly on the higher side, when we compare it to other banks? So, what is the kind of scope, maybe over the medium term that we have? What is the kind of levers to improve on this aspect?

Munish Jain: So, typically, as we move forward, we are looking for, if I just give it a slice dimension, that is the OPEX to the total asset ratio. So, the OPEX to the total asset ratio, which is around 3.1 reported in the current quarter, consists of 0.1 being one time item. So, typically, if I iron out that one time item, OPEX to the asset ratio is 3, which was also the 3 in Q4 FY24. Going forward, we believe that we are having the growth engine. With the growth engine, some OPEX will be keep on adding. And on the other side, more matured branches are increasing, and scale benefit is coming. So, on one side, there is a benefit that will be pouring in the OPEX ratio. On one side, we will be spending some additional OPEX ratio, which we believe are contra-offsetting each other. So, with that thing in sight, we believe for the midterm, that is for the next two years, we believe our OPEX ratio will remain range bound around the present level, that is 2.95 to 3.05 levels. So, that is the ratio number we are seeing for the next 2 years and after that it will start dipping down. Then we start looking into the benefit coming from this ratio, OPEX ratio, after two years to the ROTA.

Franklin: And also, in terms of your ROA, you have given guidance of 1.4% and you did mention that the ROA is likely to improve going forward as well. So, in terms of looking at a sustainable ROA, where do you see that number to be?

Munish Jain: Typically, if you look into our ROA trajectory, you will see that our ROA is continuously improving from last couple of years, including the COVID period. So, in the current year also, we believe that our ROA will be improved, which we reported last year was 1.3%, we intend to improve it to 1.4%. So, we believe there's a huge opportunity available as we move forward. Being the NIM expansion, presently being 79% average CD ratio. With 79% average CD ratio, you have a NIM of around 4.1 to 4.2 with the present interest spreads. So, one basic points CD ratio as per our back-of-the-envelope calculation giving to give you a benefit of 0.05% in the NIM with everything remain static. So, with the NIM expansion is going to be coming from the CD ratio expansion, we want to improve the CD ratio over a medium-term basis to mid to the high 80s. So, which will bring us a benefit in the NIM expansion that is the one lever which is available for the ROTA expansion. Secondly, we are presently as part of the 1.3%(ROTA), we are showing that the non-interest income is 0.7%. We believe there is a huge opportunity to improve it and taking it to the much higher levels as we move forward in the medium-term basis. So, with these two big levers available on the margin expansion for the next two years, we believe that ROTA expansion will continue. And post that, the third lever, that is the OPEX ratio, which is basically sitting at around 3% levels around, will kick in, so which will give us a next level of growth for the ROTA expansion as we move forward. So, that makes us strongly believe the ROTA expansion which is continuously improving from every consecutive year. And currently we are targeting over 1.4. At this stage, I am not giving any specific number for the coming year. We will give it in the beginning of each year. But we are quite confident there is an expansion lever available as we move forward, as we move forward in the coming years, good number of years because of the levers available in hand to expand the ROTA.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question for today. I now hand the conference over to Mr. Sarvjit Singh Samra, MD & CEO for closing comments.

Sarvjit Singh Samra: Yes, I thank you everyone for connecting us on this earnings call. And we look forward and we are highly confident of a fast-paced sustainable growth and delivering enduring value to our stakeholders. Thank you.

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.