Capital Small Finance Bank

CSFB. 2024-25/72 **May 16, 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 Financial Result for the Quarter and Financial Year ended on March 31, 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, May 10, 2024 for the Financial Results of Capital Small Finance Bank Limited ("the Bank") for the Quarter and Financial Year ended on March 31, 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

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Amit Sharma
Company Secretary & Compliance Officer
Membership No. F10888

"Capital Small Finance Bank Limited

Q4 FY'24 Earnings Conference Call"

May 10, 2024

Disclaimer:
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MANAGEMENT: **MR. SARVJIT SINGH SAMRA- MANAGING DIRECTOR & CEO- CAPITAL SMALL FINANCE BANK LIMITED**
MR. MUNISH JAIN – EXECUTIVE DIRECTOR – CAPITAL SMALL FINANCE BANK LIMITED
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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 Capital Small Finance Bank Limited Q4 FY24 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of this company as on date of this call. These statements are not guarantees of future performance and involve breaks 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 star then zero on a touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sarvjit Samra, Managing Director and CEO of Capital Small Finance Bank. Thank you and over to you, Sir.

Sarvjit Samra: Thank you, Muskan. Good morning, everyone. Thank you all for joining Capital Small Finance Bank's inaugural earnings call. We are extremely grateful to all the support we received from our shareholders including our anchor investors who believed in our business philosophy throughout our journey from our unlisted entity to a listed entity. Since this is our first earnings call after IPO, we would like to take the opportunity to provide a concise overview of our history, vision, our business segments and future trajectory along with discussing our financial and business metrics. Our investor presentation and financial statements are readily available on our website and the stock exchanges for your reference and I hope everyone got a chance to go through the same.

Joining me in the call are my colleagues Munish Jain, who is Executive Director, Aseem Mahajan, Chief Financial Officer, Raghav Aggarwal, Chief Risk Officer, Sahil Vijay, who is Head of Treasury and Investor Relations, Bharti Babutta, who is part of Investor Relations team along with team of SGA who are our Investor Relations Advisors. Let me provide a brief overview of the bank and the industry landscape following which Munish will provide a detailed overview on business performance and financials. Capital Small Finance Bank commenced operation as India's first small finance bank on April 24, 2016 following its conversion from a local area bank.

Prior to this transformation, we operated as largest local area bank for 16 years serving 5 districts in the state of Punjab. Starting with 47 branches at the time of conversion, we have since expanded to 177 branches across 5 states of North India i.e. Punjab, Haryana, Rajasthan, Delhi, Himachal Pradesh including the Union Territory of Chandigarh. Our business is focussed on the middle-income group customer segment having an average income ranging from INR 4 lakhs to INR 50 lakhs. Our objective is to establish ourselves as the primary banker for this demographic.

We do not serve either the below poverty line customer segment or the super high net worth individuals. We maintain a granular approach to both sides of our balance sheet, boasting a diversified loan book with zero direct microfinance exposure. Our loan portfolio is nearly 100% secured with average ticket size of INR 14.2 lakhs. Likewise, our liability franchise is heavily retail-oriented with retail deposit comprising 92.9% of the total deposit and maintaining a consistent CASA ratio of above 38%.

Our savings, bank's interest is 3.5%. Driven by a customer-centric approach, we aspire to be the primary banker of our target segment. Our comprehensive suite of loan, deposit and third-party products are available through a single window survey even at our remote rural branches. The bank operates on a branch-led business model with a significant presence in semi-urban and rural areas.

The bank employs a contiguous branch expansion strategy by first combing and then carpeting i.e. first entering into major business growth areas of new geographies by offering loan products first and then expanding our deep presence in the close-by territories. Then we emphase on deposits and cross-selling of other products after having built a strong customer relationship. We believe that our experience of operating as a local area bank for over 16 years provides us a competitive edge with respect to our understanding on growing our customer base which currently stands at more than 7,41,000 customers.

The bank has successfully raised capital amounting to INR 523 crores including a fresh issue of INR 450 crores through a well-received IPO which listed on February 14, 2024. With this growth capital, we are confident to march ahead sustainably, seizing the abundant opportunities that lie ahead.

Talking about the economy, India is one of the fastest-growing economies in the world having ploughed 5.9% average gross domestic product growth over the last decade i.e. between the years 2015 to 2024. Growth in India is projected to remain strong at 6.9% in the financial year 2025. India is aspiring to reach high middle-income group status over the coming period.

Amidst this economic landscape, the bank is strategically positioned to capitalize on the rise of the middle-income group segment, we being a middle-income group banker. In April 2024, RBI came out with guidelines for voluntary transition of small finance banks to universal banks subject to small finance banks fulfilling various eligibility criteria. We feel this is an important breakthrough in the evolution of Indian banking sector.

We are on track to achieve the necessary parameters towards a universal banking license and hope to apply for the same in the next couple of years. With the strong Indian macroeconomic scenario, rising middle-income group, and strong fundamentals and growth levers available to the bank, we are highly confident of a fast-paced sustainable growth in the current growth cycle. The bank has been a consistent compounder for all its stakeholders.

We need the continuous trust and backing of all the stakeholders, especially the esteemed investors, to unleash our true growth potential. Thank you. I will now hand it over to Munish, who will share a detailed overview of our business performance and financials.

Munish Jain: Thank you Mr. Samra and a warm welcome to all of you. Now let me share with you the highlights for FY24 and Q4 FY24. Our gross advances stood at INR 6160 crores as on March 31, registering 5-year CAGR of 19%, Q-o-Q growth of 8% and Y-o-Y growth of 12%

respectively. We are a secured lender, with 99.9% being secured book, with 86% plus book, we have a collateralized with the immovable property or bank's own FDRs. We are a middle-income group based lender and our endeavour is to be the primary banker of the customer.

The portfolio ATS is INR 14.2 Lakhs and 67% of our portfolio is with the clients having an exposure upto INR 25 Lakhs. We are well diversified with each segment witnessing multiple cycles. The portfolio comprises of 37% agriculture, 26% mortgage and 19% MSME and trading book. Our disbursements for FY24 were INR 2,068 crores consisting of around 27% to agriculture, 24%-25% to mortgage, 22%-23% to MSME and trading segment.

Post the capital infusion in February 2024, disbursement has accelerated and Q4 FY24 disbursement was INR 675 odd crores which is 76% growth over Q3 FY24. Our experience being in the lending business for more than 2 decades helped us in putting in place streamlined credit assessment processes and risk management practices. We have industry leading asset quality with GNPA and NNPA off 2.8% and 1.4% respectively. Our NNPA is stable around the same level over the last 3 years. It is worth mentioning that we have near-zero write-off and nil NPA sell-off since inception demonstrating our ability to recover. Our focus is on collection and resolutions even for the sticky loans.

Our slippage ratio for FY24 stood at 2.4% with an upgrade and recovery ratio of 2.1% and further, our credit cost historically remained range-bound even during the COVID period.

Moving towards the liability side, we believe our liabilities are one of our biggest assets. The liability mix is positively skewed towards deposits with one on liability side of the balance sheet 80% of that in the shape of deposits and 13% being the shareholder fund. So, our liability is purely skewed towards the deposit. And retail deposit constituting 93% of the deposit with a CASA of 38% plus. It is worth mentioning that our interest rate on saving bank account is 3.5%.

The deposit stood at INR 7,478crores as on March 31, registering a five-year CAGR of 15% and Y-o-Y growth of 14% respectively. We have consciously calibrated deposit growth owing to the low CD ratio and high leverage prior to the IPO. We strongly believe that we have the ability to quickly ramp up the deposit mobilization to support our credit growth.

Talking about profitability, we have demonstrated consistent improvement in our return metrics and our ROTA for FY'24 is at 1.3%which is 2.5x over FY'19 and our ROE is 14.6% which is 1.8x over FY'19. The opex to the average profit assets for FY'24 stood at 2.95% against 2.9% for FY’23 and cost-to-income ratio for the year is 62.5%.

The NIM for the year is 3.9% and our non-interest income is 0.8% against 0.6% a year before. The PAT for the year is INR 112-odd crores with a five-year CAGR of 42% and year-over-year growth of 19% with Q-o-Q growth of 16%. The drivers for the PAT includes improving the CD ratio which is helping us in accelerating the NIM. Operating leverage benefits coming from our continued increase in the proportion of the matured branches and low credit cost.

Our focus on retail deposit results in one of the lowest cost of funds and over cost of deposits which stood at 5.8% and 5.6%, respectively. Our CD ratio has improved by 11.5 percentage points since FY'21 and our average CD ratio for FY'24 stood at 79%. The funds from the IPO has strengthened our capital adequacy ratio which is now 27.4 in FY'24. The LCR for FY'24 was 248% plus with the average CD ratio of 79% which are giving us a growth lever for the loan growth.

Going forward, we intend to expand our branch outreach by scaling up our new branch opening, by expanding outreach in the contiguous states coupled with deep penetration in the existing markets. Our endeavour is to organically grow our secured loan book with 22% to 24% target growth rate targeting MSME, trading, mortgage and agriculture segment.

We intend to capitalize on the anticipated tailwind in the middle income group segment. We target ROTA expansion to 1.4% for FY'25 and continuous ROTA expansion going forward. Our focus on strengthening operational and profitability metrics shall be driven by improving CD ratio which consequently will make a NIM expansion, optimising our operating cost and improving share of the fee income.

This is all from my side, and I request Muskan to begin with the Q&A.

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

Chinmay: Good morning, sir. Thank you for taking my questions. Firstly, could you highlight this INR 430-odd crores of increase in the gross advances? How much was from the newer geographies and how much was from our old geographies?

Munish Jain: If I just give you a split about our advance growth. Advance growth in FY'23 is, consisting of 85.19% from Punjab and 14.81% from out of Punjab. As on March 31, 2024, the ratio being Punjab number is now 82.6% and out of Punjab being 17.4%. So we are seeing an improvement in out of Punjab share to the total advance number.

And if you look this number from a split perspective over composition which is consisting of agriculture of 37% which was 39% a year back, mortgage is 26% which was 26% a year back. MSME is 19% which was around 19%-20% a year back. Corporate / NBFC lending is 9% which was 8% a year back and consumption lending being 8% which was 7% a year back. So accordingly growth is evenly spread in all the segments.

Chinmay: Got it sir. And secondly, in FY'24, the write-offs have gone up from INR 0.1 crores in the previous financial year to INR 0.4 crores. Could you throw some light on which portfolios were these from and was there any lumpiness in the loans?

Munish Jain: Just to draw the attention, the total write-off value for the cumulative year is INR 40 lakhs or INR4 million against a portfolio of around INR 6150-odd crores. So this is not any lumpiness of the loan. This may be one or couple of the standalone cases where there are certain super different reasons like death of the borrower and guarantor. So it is not linked with any particular portfolio segment and neither the value is significant. It is completely insignificant value being INR 4 million on a total portfolio of around INR 6,150 crores.

Chinmay: Understood sir. Could you provide the opex guidance for FY'25?

Munish Jain: We typically look to expand our branch outreach. So, we look to scale up our branch outreach. And along with this, we believe the matured branch mix will continue to improve as we are going forward.

So we believe this particular benefit on one side will offset by the increased branch expansion expense. So we believe our opex ratio going forward will remain around the same level as in the current fiscal year.

Chinmay: Understood, sir. And lastly, could you talk about our PCR? What has the trajectory been in the last couple of years and what is the number right now?

Munish Jain: Our provision coverage ratio for the current period is around 50% and we are maintaining almost similar type of PCR over the period. And now if we slice it further, so we are maintaining a PCR in excess of what is required under the law to ensure that the rightful money is being provided for on the PCR. So PCR for the current fiscal as well as over the last period, 50% plus.

Chinmay: Got it, sir. I will join back with the queue for any more questions. Thank you.

Munish Jain: Thank you.

Moderator: Thank you. The 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, I am just referring to Slide 7 of the presentation where the asset quality has been given. So, if I see from FY'19 to FY'24, the gross NPA has been consistently going up. So can you explain what is happening exactly here? Because our credit cost is very low, but gross NPA is going up.

Munish Jain: We typically follow a philosophy of recovery. Our philosophy on collection and resolution even for the sticky loans. So if you look into this number, so instead of going ahead with the write-off for that particular thing, we typically follow the recovery path.

Even if you look into the current fiscal, we do have a slippage of 2.4% and with the upgrade ratio of 2.1%. So typically almost similar amount we are able to upgrade from the last period. So, from FY'19 to FY'22, there is some increase in this particular ratio because we follow the recovery path because from FY'20 to FY'22, there were some regulatory restrictions for enforcing of certain securities, due to which it was postponed for some period.

So that's why there are some increase, but we strongly believe all these assets are recoverable. So instead of following the cleansing route, we keep it in our book and so this GNPA gets a bit swollen during that particular period FY'20 to FY'22. But we are continuously ensuring that the recoveries keep on happening and we keep on moving in the right direction.

Anant Mundra: Okay. And for the credit cost that you have shown of 0.1%, that is net of recoveries then, correct?

Munish Jain: Credit cost of 0.1% includes provisions both for the standard and the NPA.

Anant Mundra: That's it. It does not include any recoveries that you are doing or any written-off assets or…?

Munish Jain: No, written-off is included in this. The complete thing which is the charge we are taking to the P&L regarding the loan is being part of it.

Anant Mundra: Okay. So the recovery is also a part of it, correct?

Munish Jain: No, recovery is typically -- that is not the credit cost. Recovery is the impact on the GNPA. Credit cost is typically the write-off or the provision which we need to create against the advance book.

Anant Mundra: If I see MSME loans are having a higher NPA yet we have lower yields on that. So what explains that?

Munish Jain: So if you look into this MSME loan book, the NPA numbers are on a declining trend which was 3.14% in the last year against 2.73% in the current year. These are typically during the COVID period which we have that particular some pain come in that area from a very few number of that cases. So which is already being in the resolution, so that is about that particular period, but the interest yields are typically marketable.

We being a lender for the prime property-based and the financial document-based. So accordingly the lending yields are aligned as per the market conditions.

Anant Mundra: What are the levers that we have to improve our ROA?

Munish Jain: I missed what is your question can you please repeat that?

Anant Mundra: What are the levers that we have to improve our ROA and if you can explain some of the strategy that we will adopt to manage these levers?

Munish Jain: Surely, we typically have the three levers for the ROTA expansion. The first being the NIM expansion that is we are looking to increase our NIMs. We are presently sitting at 79% average CD ratio for FY24 with a capital adequacy ratio of 27% plus with an LCR of 248% which giving us an opportunity to expand the CD ratio.

So with acceleration in the CD ratio we believe the NIM will keep on expanding as per our internal calculation with 100 basis points increase in the average CD ratio there will be an expansion in the NIM of 5 basis points. So that is the first lever we are looking forward. We look forward to increase the CD ratio from the 79% presently.

The second lever which is available here is increasing the non-interest income component which is presently 0.8% if you calculate on our average asset basis. Given our customer base, given our increasing in the matured branch count, our primary banking relationship, our saving account ATS which is INR42,000 our expanding loan book we believe there is enough opportunity to expand it further.

And third lever which is available is operating leverage as we discussed earlier. We are looking to scale up and increase in the proportion of the matured branches. So this will be another lever which will be available. So we believe there are three side levers available for our ROTA expansion as we move ahead.

Anant Mundra: Just a follow up on this the credit deposit ratio right now is 79% so at what level can we take this up to?

Munish Jain: So we typically look for the medium term range to take it mid to the high 80s.

Anant Mundra: Okay and similar on non interest base income I mean how much do we want to take that up to in the medium term?

Munish Jain: So typically non-fund based interest income just ideally we want to take it to the very good levels obviously. So presently we are 0.8%, but we believe the opportunity to grow is significant in this piece. So current year also we improved this number which was last year – this number has been improved which was last year 0.6%. Currently we were able to improve it to 0.8%. So we believe as we move forward, this number will continue to improve given the various levers available.

Anant Mundra: Okay. If I have some more questions. I will get back in the queue. Thank you.

Munish Jain: Surely, please.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Arihant Capital. Please go ahead.

Abhishek Jain: Thank you for taking my question. Sir, I have just started looking our banks right now. I just want to understand what will be the impact of recently farmer crisis or the farmer resolution – farmer impact on our business because especially in the states like Haryana. Is there any impact on our recoveries or is there any impact on our credit growth?

Munish Jain: If we look into the present farmer protest and if we look into the various asks made by the farmer community and the level of discussion between the farmers and the central/state government. This is typically more to do with the MSP and who shall be procuring the MSP crop.

We being a lender and a processor of the transaction for our borrowers and for our customers. Whether the processing is done or procurement is done by the state government or by the private authorities or the private corporates. The flow of the money, we are being part of all the channels, will continue to remain the same.

So, we are not seeing any impact because of that particular aspect. Point number two. If we look into this farmer protest which is I believe from the former farmer protest which we have seen couple of years back this is much more reduced shape and scale. Even if we look into that particular period and have look into the impact of that particular protest on our balance sheet was minimal.

Whether we took into from the perspective of the growth rate or from the asset qualityyou can see there is no impact of the same. Yes, we believe strongly as a corporate, this thing should settle quickly. But presently we are not seeing any significant impact on it on our balance sheet and the book.

And we are able to maintain the similar type of recovery proceedings even during this particular protest period historically also and during this protest.

Abhishek Jain: Okay, just for my book keeping side sir. Can you tell me the number of branches we have added recently and how much we want to add going forward? And what is the target credit cost we are targeting in next 2 years?

Munish Jain: So, typically we are presently having 177 branches spread over 5 states and 1 union territory of Chandigarh. Post the growth capital pouring in, we are intending to scale up our branch expansion by adding 25 plus branches and we want to cross our branch count by end of this year to 200 plus. So, that is what we are targeting for and within this we want to open majority of the branches out of the Punjab.

we want to increase our business from out of Punjab and we will continue to penetrate in the existing markets also. Our branch expansion will be combination of adding the contiguous states and entering into the new geographies and penetrating in the existing markets. So, this is what we are looking for.

As far as the opex ratiois concerned as we discussed that our presently opex ratio is around 2.95% on the average asset book. We believe given on one side we have a huge advantage which is coming pouring in from our scale and matured branches percentage increase. A branch typically takes 15 months to 21 months for the breakeven and post longevity of 3 years it get productive and high productive post completion of the 5 years.

Now, our matured branches which is 5 years plus branches are getting in a majority. So, with that thing is pouring in. So, we are seeing a good benefit pouring in from that side and then we will be adding few branches which is typically on the base of 177 say 25 to 30 odd branches which is typically 12% to 15% of the existing branches.

We believe that the benefit pouring in from the matured branches plus scaling up will be better. So, we see for the current year and being in a growth period the opex ratio will remain in the range bound around the current year levels.

Abhishek Jain: Sir, can you throw some light on the corporate and consumer loans which is these are the two segments where we have seen very healthy growth constitute our 17% of our book right now. How you see it going forward?

Munish Jain: Our corporate loan segment which is typically more a lending to the NBFC which was 8% in FY23 has been 9% in FY24 and our consumption lending which was 7% in FY23 is now constituting 8% of the present book. Let me clarify. Our consumption lending is typically to the clients who are availing our mortgage, MSME or agri or any other banking relation with us as their second, third or fourth product selling or upselling opportunities.

We being an organization who believe in a holistic product suite and taking care of all the financial need of our clients. So, this is another hook which is coming up with the existing client base rather than it is not a start point it is the additional hook to the existing customer which sits in a consumption lending.

So, these two books we believe with the matured branches increasing will have more potent to improve it further and corporate lending which is presently constituting 9% of the book against 8% a year back. So, we want to keep it in the range bound manner only.

Abhishek Jain: Thank you sir. I have few more questions. I will be in queue.

Munish Jain; Yes please.

Moderator: Thank you. The next question is from the line of Shripal Doshi from Equirus. Please go ahead.

Shripal Doshi: Hi sir. Good morning. Thank you for giving me the opportunity. So, my question was pertaining to yields and margins. So, what is it that is leading to drop in yields like can you calculate it on the book that the yields have dropped on sequential basis. So, while as you are eluding that margins could be supported by CD ratio and higher liquidity but on the other side, what is it that is leading to a drop?

Munish Jain: Surely. The drop in the spread is primarily driven by the interest rates arising interest rate which has put pressure on the industry as a whole because of increase in the cost of deposit. The impact is particularly immediate on the deposit side where we as a banker have to offer higher interest rates to attract the funds. While the effect on the loan is delayed as existing loan may get will continue at the lower price also.

Now, if we look into statistically. During FY '24 our deposit rate remain almost at the same level throughout beginning of the year and at the end of the year with our highest rate of deposit for retail was around 7.55% to 7.65%. At the end of the year also it is 7.55% to 7.65% and if we look into the MCLR we have increased the MCLR by 35 basis points during FY '24 out of which 20 basis point increase in the Q4 FY '24. Ours being 60% to 62% floating rate book which consists of 80% MCLR linked.

Now we believe around our 35% to 40% of the book will be starting repricing in quarter one only of FY '25 so which will be giving us a benefit as we move forward. So which make us more confident of retaining the interest margins. Historically also if you look into across the various interest rate cycles over the last three four years, if we look into our interest margins it remains in the range of 5.5% to 5.9%.Here interest margin is the difference between yield on advances and the cost of deposit. So which giving us a confidence that we will be able to maintain our interest margins and improving the NIMs

Shripal Doshi: Got it. Sir, like, but is it like when we are entering the new state, are we seeing the pricing being relatively low than our pricing for the products in the state of Punjab?

Munish Jain: As per our present experience, since we look into the present market dynamics and the present market rates, we are not facing much challenges and we are finding similar type of interest rates rather in few of the geographies,the opportunity to increase yield on advance is available.

Shripal Doshi: Okay, got it. The second question was pertaining to non-interest income. So I think to one of the participants you were highlighting that is something that we are working towards from improving from 0.8% to a relatively higher level. So what initiatives have we taken to boost the non-interest income or the fee income? Like even in the cross-sell opportunity, what initiatives have we taken to highlight a few?

Munish Jain: So typically, if we look into the non-interest income, if we look into the non-interest income,typically is primarily consisting of our commission exchange and brokerages, which is linked to our advance book, our liability customer, Banca Commission, which together constituting INR 63 crores out of the INR 68 crores out of the year.

And out of the, remaining INR 4 crores is arisen in shape of our AD IIbusiness. So, typically, purely a stable other income and not having any lumpy other income. Given that our matured branch's percentile is increasing, plus our average ticket size of our saving bank account is Rs. 40,000 ++, gives us continued opportunity to expand our credit given over the leverage which we discussed over the call earlier, and our matured branches percentile increasing which is giving us an opportunity to deepening of the existing customer base with the customer base crossing already 7.41 lakhs.

I believe giving us an opportunity to review and have expansion in this particular piece and if we look this which has started pouring the result in the current period also. Accordingly, our this income has improved from 0.6% to 0.8%. So these various levers which are available in this piece is making us confident with all product in place, with good partners in relationship already being in place, giving us a confidence that this is one growth lever available for our ROTA and the PAT expansion.

Shripal Doshi: But have we changed the KRAs of our employees to push the cross-sell? Have we taken any of those sort of initiatives? While I understand that branch expansion would help us in onboarding new customers and so forth. But on the KRAs of our employees or on our approach on cross-sell, have we taken any of those measures so far?

Munish Jain: Yes that measure has already been taken over the last years only and we are refining it with each passing period.

Shripal Doshi: Got it. So, the third question was on the quarterly trend that you highlighted on other slides where you showed how growth tends to be a little volatile on the quarterly basis. So just wanted to get some sense that if you could give a trend on asset quality as well as on loan growth side on a quarterly basis for us? So for example 1Q tends to be strong 2Q has to be strong 3Q tend to be soft. So if you could just give us a uh some sense on that side that the slippage tends to be higher in 3Q for example. So that will just give us a color on how the year plans or happens for us?

Munish Jain: We being a SURU specialist, that is a semi-urban and rural area specialist, with over 74% of the branches are SURU branches. So being SURU, the SURU has its own way. If you look into our historical trends, you will find our Q1 will be heavy on deposit growth, Q2 being heavy on our advanced growth, Q3 being heavy on our deposit growth, Q4 being our heavy on the advanced growth.

So yes, we are working, so we are adding more and more of the urban branches to minimize this particular quarterly split change. But just for, we can believe that Q1 being the deposit heavy, Q2 being the advance heavy, Q3 being the deposit heavy, Q4 being the advance heavy centers. From that what we believe and that we are working to align it as we are moving ahead by adding more and more of the urban and metropolitan centers.

Asset quality side the impact is that you see, I look into the industry number always we as a bankers put additional efforts at the end of each of the half year. So I always believe we will find the optimum results in September and March for all the period in our asset qualities.

Shripal Doshi: Got it. Last question was on loan growth guidance. What is it that we expect for FY '25, '26 on the loan growth side?

Munish Jain: So as we discussed earlier, what we are anticipating,, we are looking for a growth for FY '25, a growth of 22% to 24% on the advanced book side. And going forward also, we want to look to increase our loan growth on a CAGR of 22% to 25% over the next three to five years.

Shripal Doshi: Got it. So just to follow up here, I mean, given our size and the geography that we operate in and we have a diversified portfolio as well. What constraints us on, loan growth side? I mean, 20% to 24% on a size of INR 6,600 crores. So what is it that keeps us at that level? If you could throw some light on that.

Munish Jain: Typically, the growth will be coming from the two sides one will be sweating the existing infrastructure and second will be building up the new capacity. As we discussed earlier we have ramping up our capacity building which is we call it a branch expansion. So accordingly current year we are targeting 22% to 24% growth and over the periods to come,we believe our growth rate will be keep on accelerating as we will be keep on adding more branches to our kitty and our capacity expansion will be keep on happening.

Shripal Doshi: Got it. Thank you, sir and good luck for the next quarter.

Munish Jain: Thank you

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

Pritesh: Hi sir good morning. Couple of questions. Sir this quarter if you look at there has been a little bit of higher reliance on bulk deposits and our CASA plus retail TDS is slightly lower though it's not off from but few quarters it has been coming down from 98% it has come to now 92%. So what is the sense on this, why are we slightly increasing bulk deposits and how do you see the cost of funds going ahead? So that was my question.

Munish Jain: Pritesh, just one clarification and update. I believe the current quarter there is no increase in the bulk deposit. Bulk deposit percentage for Q3 end and Q4 end are almost static or rather I believe the bulk deposit is slightly reduced from Q3 to Q4. So that is my first clarification. Point number two, as far as the trend on the cost of deposit is concerned, as we discussed, we being seen a upward interest rate regime which necessitating increase in the cost of deposit immediately by offering a high rate of interest.

So accordingly, cost of deposit increase has come immediately which has poured in the shape of the deposit cost. So now, as I discussed earlier, just for the sake of repetition, our offered rate on retail deposit is now constant over the last, for a while, say six months to nine months. That is the almost similar rates. We believe the rate of deposit, cost of deposit is getting optimized. So we are not looking for a significant up sting from the present level and we believe in the interest rate environment being a stable. So we will looking that the cost of deposit will be stabilizing around this particular level.

But on the side of the asset given we increase the MCLR by 35 basis points in FY'24 out of this 20 basis point increase in Q4 FY'24 with 63% being the floating rate assets out of which around 35% to 40% are getting repriced in Q1 only. We can sense a good progress for the FY'25 on that side, which will help us in maintaining the similar interest margin and with an expansion in the CD ratio, expansion in the NIM is being anticipated. That is about the cost of the interest rate cycle side and our view of our trajectory.

And if we look into the CASA trajectory and if we look into the industry wideCASA, we have seen a lot of diving back down, we being a retail franchise with the foot on the ground, having a strong branch presence, having a strong customer connect we are able to retain this strength. If we look into our CASA number if you slice it further and divide it with our deposit which is retail deposit you will find still our retail CASA deposit is 41% plus which is almost a similar level which was a year back.

So on optically, you were finding it 38%, which is around 39% a quarter back, almost flattened. And if you look into the industry, the type of loss CASA have, Pritesh, you have the right numbers available. We believe given our practice of deep penetration, given our practice of a retail franchise, given our practice of a target customer segment of middle income group and their holistic bank suit we are able to retain this number and we are confident, Yes, we will go with the industry trend so we believe that we are confident to beat the industry or to have better numbers than what whole of the industry is depicting.

Pritesh Bumb: Got it, sir just one follow up on the yield perspective. If you can mention, will this yield benefit also come on our Agri book given that what we know is that, Agri is somewhat fixed book and if your book will see that repricing and second is in the yields perspective only as the mix changes what kind of yield change also you can see in your book going forward?

Munish Jain: Pritesh, as far as the Agri-prices are concerned, Agri-price typically annual to biannual reprice reset asset. So typically, MCLR increased benefit will be also pouring in that particular book. And as far as we're concerned, going forward our growth drivers for the current fiscal will continue to be mortgage, MSME and Agri. The similar three drivers which we are chasing up to now. Depending upon the geography, these drivers will change, depend upon the geography. So, with these three drivers going ahead, we believe that we will be able to retain spread, we will be able to improve yield on advances in the current year from FY'24. So that is what we believe and where we are targeting to be.

Pritesh Bumb: Got it and last question from my side is on the staff opex, This quarter it was slightly soft given that we are doing a little bit of expansion. Do we see our opex growth a little bit higher than the balance sheet growth or do we see that we could see some benign opex in FY'25?

Munish Jain: As far as, Pritesh, I will prefer that our overall opex ratio, given staff cost and other staff cost, that is the split which we are talking about is typically, we are typically maintaining 55% to 60% in one of the segment, being 40% to 45% being other segment. Our opex ratio is remaining in the range of 2.9% to 2.95%. That is a broader range if you see over the last 2 to 4 years. So we believe over this ratio will remain around the similar level given our accelerated branch expansion philosophy also. Within this, staff cost is a relative which is dependent upon how the market plays.

But if we look into our philosophy, our readiness, we have get ourselves, our business sourcing and servicing it through the branch channel, underwriting is done by our regional/cluster and head office level. We have the regional cluster and head office level readiness to support up to 225 to 250 branches from 177 presently. So we believe in the current fiscal, I'm not looking forward to any significant change which required to do in our middle management to higher middle management. The expansion will be at the branch level, which we believe will continue in the similar trend line. So I'm not anticipating any significant surprise from the staff cost current year.

Pritesh Bumb: Got it, sir. Thank you for those answers. Thank you. All the best.

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

Franklin Moraes: Yes, sir. Thanks for taking my question. Sir, if we move towards the ECL framework, I wanted to understand what would be the provisions required?

Munish Jain: If we look into the ECL framework, ECL is typically work upon the LGDs. And given the present write-offs and compromise, which is very insignificant and also stepping up that is the over PCR requirement given the step-up choices that is the SMA 1 and 2 being these numbers in remaining in control, the numbers are available in our presentations. So I am not seeing any significant impact on the ECL. So I believe there will be some benefit on the ECL. There will be not any significant change from what we are in the present accounting structure.

Franklin Moraes: So what would be our SMA 0 exposure?

Munish Jain: We typically chase SMA 30 plus. Given over EMI due dates ae 1, 11, 21dates and with the cash flow coming on around first or third of the month. If we look into SMA 1 and 2, which put together is 4.5%. SMA 0 being 0 to 30 days is one segment given we being using our own accounts for recovery and our 90% plus recovery through SI route. So our internal matrix/KPI is typically SMA 1 and 2, together which is 4.5% for the bank portfolio as a whole.

Franklin Moraes: I just wanted to understand, because in the ECL framework, then SMA 0 as well would be considered. And we are having a provision of about 50% of that 4.5. So I just wanted to understand.

Munish Jain: As far as the last calculation which we have done on the ECL, we are finding a positive impact on the reduced ECL provision requirement as per the performance.

Franklin Moraes: Okay. And in terms of universal bank license, what is our thought process?

Munish Jain: As Mr. Samra said, yes, that is one of the important milestones, which come in the banking landscape, and provides the positive energy to organizations like us, who are having a well-diversified asset book. If we look into that particular guidelines, we have complied with all the requirements except net NPA, which is prescribed to be 1%. We believe that given our plan going ahead, keeping in view the macroeconomic factors which are prevailing as on date, we intend to achieve that over the next 12 to 18-month period.

So accordingly, we will be looking forward to the universal bank license as guided by our board and the views taken by the board of directors. What I just believe, this is giving a good breakthrough and good foresight to the SFBs like us, saying all this, I believe the present SFB structure is giving us a huge opportunity to scale and sustainable, profitable growth.

Franklin Moraes: Yes. In terms of diversification, we are largely present in Punjab. So would that not be a hindrance in terms of getting a universal license?

Munish Jain: Diversification, to the extent we understand, is with the sectors. We are a purely diversified play with all the assets being diversified across various products and also being a secured franchise. With Agriculture 37%, with Mortgage 26%, with MSME 19%, with Corporate 9%, with Consumption 8% each. So we are fairly diversified in our advance book.

Franklin Moraes: Fair enough, sir. Congratulations. Thanks a lot.

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

Anant Mundra: Thank you for the opportunity again. I just wanted to understand what is the underlying security that we have in our Agri-Loans portfolio and the MSME and Trading Loans portfolio?

Munish Jain: So typically, we have the two line of securities. It just gives you the color of the whole of the portfolio. Over 86% of the portfolio, of the total portfolio, we have a collateral in the shape of immovable, (that is in the shape of the land, building, or the office building space) or bank own FDR. So our total portfolio, out of the 100%, 86%, we have a collateral which is tangible collateral in addition to the primary.

And now I'm coming to your specific question. On MSME as well as retail trader, we have two line of securities. One, primary security in the shape of current asset/machinery, depending upon the nature of the facility we granted. I'm presuming you are talking about the working capital. If I'm talking on working capital facility, in addition to the charge on the current assets, we take a collateral in the shape of his residential house or the office building.

That is, we do all collateralized-based lending only. We are not a zero collateral, no collateral-based lender. We take the immovable property. And similarly, for the agri, we typically, in addition to the farm produce, we have a collateral in the shape of the land. And just to highlight, we value that agri land on the collector rate, that is the government rate, not the market price.

Anant Mundra: Okay. And is there no restriction on enforcing agricultural land as security under Sarfaesi?

Munish Jain: The agricultural land and the property are typically enforceable under the recovery proceedings. For SARFAESI, this agricultural land is not being covered presently under SARFAESI for a quick resolution. But given our LTV, we typically look for the 50% LTV valued at the collector rate.Plus, lots of precatautions we have put, which help us in maintaining the right asset quality. We've been lender for agriculture for now more than 24 years and seen the various cycles, and we are able to effectively recover which demonstrating our understanding of this segment and the geography well.

Anant Mundra: Okay. And my last question was, have we reported any fraud losses like in our history? If you can just give some color on this.

Munish Jain: The thing is that, , the frauds are getting common in the banking space. Historically, till date, we may have reported a couple of fraud cases. Even a few in the periods also. But the cases, as per the expert opinions, are presently covered under Fidelity Insurances. So, we will be invoking the Fidelity Insurances also, which is available with us as an organization.

Anant Mundra: Okay, sir. Anything that we had that any fraud losses that have happened in the recent past, if you can highlight and, what was the reasons? Any steps that you have taken after that to the improve our internal processes or something?

Munish Jain: So, typically, yes there was a fraud case which happened/ done with the connivance/ with the involvement of one of the revenue authorities. Someone has sold their land, which is mortgaged with us, without taking NOC from us. We have taken a cognizance of it, made an FIR, filing a 420.

So, these are the procedural things, which keep on happening. But there are no such large number of frauds, which have happened, and not the material values. So, we keep on taking the right steps, in the right direction, to ensure non-repetition and minimal loss to the organization.

Anant Mundra: Okay. Thank you, sir. That's it from my end.

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

Chinmay: Hello, sir. This is a small request from our side. Going ahead, could you include a detailed NPA schedule in your quarterly presentation? So, basically, opening balance additions, recoveries, technical write-offs. Typically, banks provide that.

Munish Jain: Surely, we can. I request my credit and my finance team to take note of it, so we can certainly look into any value at the same.

Chinmay: Great, thank you so much.

Munish Jain: But as a matter of fact, I just sharing, we are presently in the current FY'24. We are 2.4% slippage and 2.1% upgrade and recovery number.

Chinmay: Got it.

Munish Jain: Calculated on opening standard assets.

Moderator: Thank you. The next question is from the line of Ashok Shah, from LFC Securities. Please go ahead.

Ashok Shah: Thanks for taking my questions. Sir, congratulations to you and your team for giving a very good result. Sir, regarding the dividend distribution, which is just 4% of the profit we have made during the year. So, is it as per the RBI guidelines or RBI permission or it will increase in future years? Because percentage of the dividend distribution is only 4% of the profit.

Munish Jain: So, this is a decision of my board. So, being a growth-oriented organization/ we being in a growth engine-based organization, which will necessitating to sow a seed for our future growth. So, this is as part of that strategy that we continue to sow a seed for our future growth and keep on keeping/retaining the profit/money with us.

But along with this, ensuring some cash flow for the investor, we pay the dividend. The fine balance is being created between dividend payout and the retention. We being in a growth phase entity, which necessitating to organization like us to have the right capital base, which can support our future growth, which can act as a compounder for the stakeholders.

So, keeping that thing in mind, this dividend is being decided by the board members. But being a strategic decision, there is a good deliberations happen on the subject and accordingly decision matrix is being arrived at. But just noted your point and we will accordingly look into the same. So, that's the way how we work about it.

Ashok Shah: So, there was no restriction from the RBI to increase the dividend or something like that?

Munish Jain: So, there is a limitation on the RBI on the payout ratio. We are well below that payout ratio.

Ashok Shah: Okay. And secondly, sir, do we expect after the IPO money is coming in at least a 20% growth over next two to three years?

Munish Jain: We just said in the beginning of the call. We believe that on the advanced side we want to grow 22 to 24 in the current year. And so there will be acceleration in the ROTA also from 1.3% to 1.4% type what we are targeting for. So, with these two numbers, we are putting our best efforts to accelerate the growth trajectory.

Ashok Shah: During the current year, how many new branch we plan to open?

Munish Jain: We discussed in the beginning also. We are presently 177 branches. We intend to cross 200 plus during the current year.

Ashok Shah: Thank you, sir. That's all from my side and very best wishes for the current year.

Munish Jain: Thank you, sir.

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

Sarvjit Samra: Thank you everyone for joining this call and we look forward for your valued support and definitely we'll meet with the next quarterly results. Thank you.

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