SURYODAY
A BANK OF SMILES

November 12, 2025

Ref.: SSFB/CS/79/2025-26

To,

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (East), Mumbai-400051

Symbol: **SURYODAY**

BSE Limited
The Corporate Relations Department
Phiroz Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400 001

Scrip Code: **543279**

Dear Sir/Madam,

Sub: Submission of the Transcript of the Conference Call held on November 07, 2025 on the Un-Audited Financial Results of Suryoday Small Finance Bank Limited (the "Bank") for the Quarter (Q-2) and Half year ended September 30, 2025

Ref.: Our Letter No. SSFB/CS/67/2025-26 dated October 23, 2025, and Letter No. SSFB/CS/75/2025-26 dated November 07, 2025, respectively pertaining to intimation of Conference Call and disclosure of Audio recording of Conference Call on the Un-Audited Financial Results of the Bank for the Quarter (Q-2) and Half year ended September 30, 2025

In continuation to the above referred letters and pursuant to the Regulation 30 read with clause 15 of Paragraph A in Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**SEBI Listing Regulations**"), kindly be apprised that the transcript of the aforesaid Conference (Earnings) Call held on November 07, 2025, on the Un-Audited Financial Results of the Bank for the Quarter (Q-2) and Half year ended September 30, 2025, has been made available on the Bank's website within the timeline prescribed under the SEBI Listing Regulations and could be accessed at following link and also attached herewith as an Annexure to this letter:
https://suryoday.bank.in/assets/pdf/ssfb-earnings-call-transcript-q2-h1-fy26.pdf

The aforesaid disclosure will also be available on the Bank's website at:-
https://suryoday.bank.in/investor-corner/#disclosure-to-stock-exchanges

The above is submitted for your kind information and appropriate dissemination.

Thanking You,
For **Suryoday Small Finance Bank Limited**

KRISHNA KANT CHATURVEDI
Digitally signed by KRISHNA KANT CHATURVEDI
Date: 2025.11.12 17:58:58 +05'30'

Krishna Kant Chaturvedi
Company Secretary & Compliance Officer
Encls.: a/a

"Suryoday Small Finance Bank Limited

Q2 & H1 FY26 Earnings Conference Call"

November 07, 2025

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on November 07, 2025 will prevail

MANAGEMENT:	**MR. BASKAR BABU RAMACHANDRAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER** **MR. HEMANT SHAH – EXECUTIVE DIRECTOR** **MR. KANISHKA CHAUDHARY – CHIEF FINANCIAL OFFICER** **MR. HIMADRI DAS – INVESTOR RELATIONS, HEAD** **MR. SASIDHAR VAVILALA – EVP, BUSINESS ANALYTICS**
MODERATOR:	**MR. SHAILESH KANANI – CENTRUM BROKING LIMITED**

Suryoday Small Finance Bank Limited
Q2 & H1 FY26 Earnings Conference Call
November 07, 2025

Moderator: Ladies and gentlemen, good day and welcome to Suryoday Small Finance Bank Limited discussion on Q2 and H1 FY26 Earnings Conference Call. 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 your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shailesh Kanani from Centrum Broking. Thank you, and over to you, sir.

Shailesh Kanani: Thank you, Sravani. Good morning, everyone. Welcome to Suryoday Small Finance Bank Q2 and H1 FY26 Earnings Conference Call. On behalf of Centrum Broking, I would like to thank the management of Suryoday, for giving us this opportunity to host this call.

Today, we have with us the entire top management team of Suryoday Small Finance Bank, represented by Mr. Baskar Babu, MD and CEO; Mr. Hemant Shah, Executive Director; Mr. Kanishka Chaudhary, CFO; and Mr. Himadri Das, IR Head.

I will hand over now to Mr. Baskar Babu for his opening remarks, and then we'll open the floor for the Q&A session. Over to you, sir.

Baskar Babu: Thanks, Shailesh. Good morning, everyone, and thank you for joining us for Suryoday Small Finance Bank Q2 and H1 FY26 earnings conference call. We sincerely appreciate your time and interest in the bank's performance. Our financial results and the investor presentation are available on our website as well as on the stock exchanges and I hope you had an opportunity to go through the same.

Taking you through the bank's performance for Q2 & H1 of FY26. Our gross advances stood at ₹11,124 crore as at September 30, 2025, reflecting a year-on-year increase of 18.9% compared to ₹9,360 crore last year. Disbursements excluding SCF during the half year ended September 30, were ₹3,973 crore, up 18.1% from ₹3,366 crore in the same period last year.

As you are aware, the industry has been facing multiple headwinds in the inclusive finance that has moderated growth and put pressure on asset quality and profitability. There are green shoots visible in microfinance sector and with improved collection efficiency. On the growth front, the bank disbursements remain healthy across all segments, particularly in Vikas loans, wheels and mortgage business. Notably, the Vikas loan disbursements stood at ₹905 crore in Q2 FY26, an increase of 111% on a year-on-year basis. This growth is on the back of the strategies that the bank embarked on a couple of years ago to move towards individual loans as against the JLG model. The mix within the inclusive finance model now stands at 70-30 in favor of the Vikas loan.

With the addition of new-to-bank Vikas loans, that's NTB VL as a product offering, the mix is further expected to tilt in favor of the Vikas loans. On the retail asset front, the bank continues to grow at a significantly higher pace both in the commercial vehicle business as well as the mortgage businesses. The CV book has grown from ₹1,047 crore in September’24 to ₹1,564 crore in September’25, and growth of 49% year-on-year.

Over the last 3 years, the bank has focused on building a retail franchise. The retail franchise and CV financing business will continue to be one of the main states and we will be scaling up the commercial equipment financing business as well as used car lending business. The mortgage book has grown from ₹1,845 crore in September’24 to ₹2,555 crore in September’25 and growth of 39% year-on-year.

The strategy has been to focused on select micro markets and grow deeper in these markets with focus on cash flow-based financing as against collateral-based financing. Our deposit base has expanded to ₹11,991 crore, a 35.5% increase from ₹8,851 crore in the previous year. The share of retail deposits now stands at 86% as of September’25 compared to 80.2% a year earlier. Our CASA ratio improved to 20.7%, up from 17.9% as of September’24. The bank implemented guardrails early in November'24 on the current bucket collection efficiency on the IF portfolio sourced in the last 12 months has been at around 99.5%. During the period, our GNPA ratio though increased to 5.9% as of September 30, 2025, as compared to 2.9% in the same period last year. The bank as part of the prudent risk management strategy initiated covering eligible loans under the credit guarantee scheme for micro units that is CGFMU since FY23.

We are pleased to inform that the bank has successfully made its third claim in September’25 and has received 100% of the amount claimed of around ₹313 crore. The bank continues to cover the entire eligible portfolio under the CGFMU scheme. The cover has helped the bank to protect the bank's capital during the volatile environment, wherein the industry is facing significant asset quality issues.

Moving to our financial performance. Our total income decreased by 2.7% year-on-year from ₹347 crore to ₹338 crore. Our net interest income decreased by 13.9% year-on-year from ₹300 to ₹258 crore, and our pre-provisioning operating profit decreased by 37.6% from ₹127 crore to ₹79 crore on a year-on-year basis. As of September’25, our cost of funds stood at 7.8% compared to 7.6% a year earlier. Our cost-to-income ratio for H1 FY26 was 72.9% as compared to 61.8% in the corresponding period last year. Our profit after tax decreased 33% year-on-year from ₹45 crore to ₹30 crore. We continue to maintain a strong capital adequacy of 23.4%, well above the regulatory requirement of 15%.

Our bank's digital banking strategy has also played out with digitally sourced deposit, crossing ₹1,300 crore and constituting over 10% of the credit deposits of our bank. This channel has helped the bank acquire over 80,000 retail fixed deposit customers, and we are confident that this will continue to a significant growth engine for our bank.

The digital channel is extremely scalable with incremental costs required to achieve higher scale being limited. Also, the customer acquisition cost is lower than the traditional channels. For bankers also introduce various products in the digital channel, such as secured credit cards and digital MSME loans. Also during the quarter gone by, the bank has partnered with Paytm and launched the credit line on UPI product. The product has already started seeing scale with the bank having onboarded over 50,000 customers under the program till date. We believe products such as secured credit card and credit on UPI can be a real value addition for our banking customers.

Our focus for H2 FY26 will be on deepening engagement with MSMEs, expanding secured lending and strengthening the Vikas loan franchise by simultaneously accelerating CASA growth through digital-led journeys and broadening our retail base with a sharper focus on granularity. We also want to leverage our smart banking outlet micro strategy to further enhance customer reach and engagement. In parallel, we remain committed to fortifying internal controls, nurturing mid-management leadership and embedding customer-centric design across all our products and services. With improving repayment trends, disciplined credit process and easing portfolio stress, the second half of FY26 is expected to mark this sort of a steady recovery for us, setting the stage for stronger growth in FY27. Our customer base expanded to nearly 3.6 million as of September'25 compared to 3.2 million a year earlier, reflecting our continued focus on financial inclusion. Our mission is to serve our existing base representing nearly 1% of the Indian households more deeply and meaningfully becoming their comprehensive financial partner through initiatives, anchored in trust experience and satisfaction. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Saumil Shah from Paras Investment.

Saumil Shah: So if you see our other income, it has gone down considerably from around ₹109 crore to ₹80 crore last quarter, because of which our PAT has also reduced significantly. So I mean, can we know what was the reason for such a drop in other income?

Kanishka Chaudhary: Correct. So there are two major drivers there. So one is the PSLC income that we earn on selling the PSL certificates. Last quarter, we made about ₹32 crore of income, and this quarter, we made around ₹10 crore. And this is largely due to the seasonality, right? Most of the PSLC certificates get sold in Q1. The other is that in our investment book, we had a onetime sale on which we had gains of ₹13 crore in Q1 and which is the reason why you see that drop in other income.

Saumil Shah: Okay. So going forward in the remaining two quarters also, PSLC income will be equal to our current quarter income?

Kanishka Chaudhary: So PSL income will be quite muted in Q3. We are likely to see some opportunity again in Q4, which will be possibly similar to the ₹10 crore that we have made this time. The good part is in both the quarters, our pricing remained fairly firm at 2.8%. So to that extent, we can see some uptick in Q4.

Saumil Shah: And sir, on the ROA guidance, I mean, even in this quarter, we have reiterated that we can do around 1.5% to 1.6% ROA for the current year. But if we see first half, I mean, it's hardly ₹60 crore, ₹65 crore. So for the remaining half, we have to do almost 3x the profit of first half. So is it possible? How confident are we to achieve ROA of 1.5% to 1.6%?

Kanishka Chaudhary: Yes. At this particular point in time, we are targeting to have an ROE of at least around 1.2% as things stand today from here and then improve with some incremental efforts on our side more in terms of recovery from our recent NPA pool, which is likely to give the uptick. So as things stand today, 1.2% is around what we are targeting, which will translate to an ROE of anywhere between 8% to 9%.

Baskar Babu: Saumil, just to clarify, what we have repeated is that whatever we gave as the guidance last time, we haven't really changed that because we're just mentioning what was given as a guidance. And currently, we are stating where we are.

Saumil Shah: Okay. So for this financial year, we can do about 1.2% ROA, for the full year?

Kanishka Chaudhary: Yes.

Saumil Shah: And sir, on the GNPA and NNPA front, since we have received our claim this quarter, I mean, last quarter, and we are targeting about 5 gross and 3 net. So I mean, is it possible that we can achieve this 5 and 3 by end of this year because I think now there would not be any CGFMU claims for this year, right?

Baskar Babu: Again, to repeat, this is what we said 5 and 3. Currently, we have made our claim. The question was in terms of whether claiming in Q2 or Q3. But however, we chose strategically to make a claim in Q2 as the amount was large and we wanted to make sure that our systems and processes are completely compliant. So we did choose to do it in Q2. So at this point of time, as the norm stand, there will be no more claims possible in this financial year unless otherwise there is any change in terms of the CGFMU norms. But however, our net NPA, including eligible claims will continue to be closer to 0%.

Saumil Shah: And sir, may I know, I mean, what was the collection efficiency for the month of October?

Baskar Babu: It's around 98.5% in terms of the overall portfolio, 99.5% in terms of last 12 months originated portfolio, which currently comprises approximately 60% of our portfolio.

Saumil Shah: So X bucket was around 98.5% for October?

Baskar Babu: Yes. Correct.

Kanishka Chaudhary: But the point that is being highlighted is that the book that has been built in the last 12 months, the X bucket collection efficiency for that book is 99.5%.

Baskar Babu: Also equally good apart from the current, is that the 30 plus on that portfolio, which was built in the last 12 months is just a little shade less than 2%.

Saumil Shah: Sorry, I didn't get your answer?

Baskar Babu: There are two things. One is the current bucket efficiency, which is, say, 99.5%. But if the 0.5 resolution rate is very low, technically, that would mean that now approximately 4% to 5% of the portfolio also will be in 30 plus. So currently, what we see as a 30-plus portfolio in this 12 months originated portfolio is a shade less than 2%.

Saumil Shah: And so we have mentioned in our presentation that we are going to raise equity of about around ₹1,000 crore. So, we wanted to know whether this will be below book value. Are we considering it in this financial year to raise ₹1,000 crore?

Baskar Babu: This is an enabling provision. So we kind of already guided that we are comfortable with the capital adequacy of approximately 20%, a little higher than the regulatory requirement of 15%. So to the extent it is an enabling provision and it is not that we have any plans immediately to raise. And hence, the question in terms of not deciding on the price is not relevant at this point of time.

Saumil Shah: Anything below book value won't be the right as a shareholder, I mean, nobody will like if we raise funds below the book value at least.

Baskar Babu: We haven't given thought about the pricing for sure. So to that extent, yes, your input is well taken. Thank You.

Moderator: Thank you. The next question is from the line of Deepak from Sapphire Capital.

Deepak: I think we are still maintaining advances growth of 30%, 35%, right? So the first half, the growth till now has been in the range of 19%, 20%, right? So ideally, your second half growth will accelerate. That's what we expect now, given we are maintaining 30%, 35% advances growth?

Baskar Babu: Currently, yes, we're looking at 30%. 2 things: one, the write-off of ₹400 crore which we did last year was also in the books as NPA last year at the same point of time. So to that extent, this is a little shade lesser in terms of a comparison. We have removed on both the side, probably a little higher than around 21%, 22%. So usually, the Q3 and Q4 are expected to be pretty good quarters for inclusive finance. Over the fact was that it wasn't really so last year because of the stress. What we are seeing currently is a slide in the acceleration in the approval of GNPA portfolio, which used to be hovering at around ₹70 crore, ₹75 crore in the beginning of the year to less than ₹35 crore at this point of time, as we see. In terms of the new over dues that are getting added, it shade less than ₹20 crore. So mathematically speaking, that is what will translate at max to a GNPA approval towards the end of Q4, probably starting from Jan and Feb. So given that overall, there has been green shoots and specifically in our VL portfolio, it has substantially improved collections overall, specifically in the terms of the 12-month portfolio. And we also mentioned elsewhere that our preapproved portfolio in our approval limits for inclusive finance stands close to around ₹8,000 crore, around approximately 1 million customers, which also includes inactive customers. So our effort is in terms of making that process quite smooth in terms of doing all the work at the back end and make it comfortable with the customer.

At this point of time, our inclusive finance is completely digital with no pen on paper at all. So currently, the run rate in inclusive finance has moved to around approximately ₹415 crore, ₹425 crore. So there is a marginal dip in the month of October. Fairly confident to get it back to close to ₹450 crore to ₹500 crore consistently for the next 4 or 5 months.

Deepak: Okay. So ideally, your disbursement will also improve because I think in the second quarter, it was in the range of ₹2,400-odd crore. So you expect disbursement in third quarter and fourth quarter to improve substantially, right?

Kanishka Chaudhary: Yes, please. That's what we are focusing on right now. I think the heavy load of past due collections has been significantly managed. Our focus right now for second half of the year is originating new business.

Deepak: And how should one look at on the cost of fund part, I mean it was 7.8% right now. So how should one look at the cost of fund?

Kanishka Chaudhary: So I think if you look at Q2 standalone, it has been quite encouraging because we have been able to reduce our cost of funds across both fixed deposits and SA. In SA at the lowest bucket, we have been able to reduce our rates by about 1%. In the fixed deposits in both the 5-year and 3-year bucket, we have been reduced our rates by about anywhere between ₹0.50 to ₹0.75, so with that in place, our cost of funds on deposits is likely to be lower by anywhere around ₹0.20, ₹0.25 for the second half of the year.

Deepak: So that will directly add to your NIMs?

Kanishka Chaudhary: Yes, please. That's right.

Baskar Babu: Unless there is a repo cut and the transmission will happen because all our floating loans are directly linked to repo, not to any internal benchmark rates. So to that extent if there is any, that may kind of nullify it on a temporary basis.

Deepak: Okay. So your yield reduction will kind of nullify your cost of fund reduction in your NIMs you look to maintain or there might be marginal improvement also?

Kanishka Chaudhary: Yes, there will be marginal improvement as we see it from here on.

Deepak: And in terms of your ROA and ROE, you mentioned ROA of 1.2% and ROE of 8% to 9% that we are targeting for this year, right?

Kanishka Chaudhary: Correct.

Deepak: So even at the ROA of 1.2%, I mean, you would have to reach a bottom line of around ₹190 crore to ₹200 crore for this year, given we have done ₹65 crore in the first half. So that is left with maybe about ₹130 crore, ₹135 crore. So ₹65 crore per quarter for the remaining two quarters.

So what will drive the earnings in the second half? I mean, will it be NIMs or will it be your other income? You mentioned PSLC will be muted in the third quarter. So just wanted to understand, currently, we are at 30%, 35% trajectory. So what will drive the movement from ₹30 crore, ₹35 crore to maybe about ₹60 crore, ₹65 crore per quarter?

Kanishka Chaudhary: So right now our focus is increasing our paying book, right? So if you look at our MFI business, our paying book is somewhere around ₹4,300 crore, and we would want to increase it to anywhere between ₹4,700 crore to ₹4,800 crore, right? And that's the book where I'm earnings on an average around 25.5% to 26%. So that's one of the drivers. The second, which will be key for us is to be able to focus on the recovery on our recent NPA pool. Now that we have been able to stabilize our flow forwards to somewhere around ₹35 crore a month. Our significant focus will be on being able to recover in the recent NPAs of this year.

Deepak: So ideally you would expect a much lower credit cost, right, in the second half?

Kanishka Chaudhary: Yes. From where we stand today, we are expecting that, yes.

Baskar Babu: So just to clarify, the amount when we get a recovery of the CGFMU covered portfolio, 73% will be returned back to the fund. So to the extent, net, we will retain around 24%. We are kind of staying focused in terms of ensuring at least we collect 20% to 25% of that money which we have claimed. So to the extent our share will be 25%. But overall, there will be a collection of 73% of that will get returned back to the CGFMU.

Deepak: And just last point, I did not understand increasing paying book, what exactly we mean? Sorry for my ignorance. So I'm not able to understand what you mentioned on the increasing paying book?

Himadri Das: Yes. See every month, we are adding approx ₹300 crore of our advances, paying book advances. So next 6 months, even if I at the run rate of ₹300 crore, I would add approx ₹1,800 crore in advances. So my growth from ₹11,000 crore, it should be nearly ₹13,000 crore advances. Now that ₹1,800 crore is, I average it out broadly ₹1,000 crore. It will give me for my next 6 months revenue. So this ₹1,000 crore include spread of 17% yield minus your cost of fund of 8%, which is 9%. So it could give me a ₹100 crore of extra operating profit for the next 6 months. I mean ₹50 crore of extra operating ₹100 crore for a full year, ₹50 crore for the half year. So ₹50 crore, that is what KC was trying to say, if my growth in advances, what we are currently having, if we continue that, we will be having ₹50 crore of additional income without any substantial increase in cost. And along with that the credit cost for the half year, whatever we have spent, we are expecting it to be much lower. So advances growth of ₹50 crore and much lesser credit cost would give me whatever you are saying, incremental ₹100-odd crore.

Deepak: Understood. And do we have excess liquidity also? I mean how much do we have because we got some ₹313 crore, right? So do we maintaining the excess liquidity, which we look to deploy maybe?

Kanishka Chaudhary: Yes. So we have excess liquidity of about ₹1,000-odd crore right now. But over the period of this quarter, it will come down as we basically disburse the new business. So we will be looking to reduce our excess liquidity over time in this particular quarter.

Deepak: Okay. Okay. So that will also kind of will help reduce the drag, right?

Baskar Babu: Yes.

Kanishka Chaudhary: Yes.

Moderator: Thank you. The next question is from the line of Arvind Ratan from Capital Land.

Arvind Ratan: I have a couple of questions on the presentation. Firstly, on Slide 8, if I look at the effective yield on advances come down at 320 basis points to about 16.5%. Now I understand part of that is because of the excess liquidity we are holding, the deposits growing faster than advances and the fact that the Non-Interest yielding of the book has increased. I'm just trying to understand how much of the 320 bps reduction in yield is likely to be reversed as we sort of deploy more or the available liquidity as the assets stabilize the quality of the books, the slippages stabilize. Where are we likely to sort of stabilize on the yield? That's the first question. And second question on Slide 24, right para, if I look at the retail assets PAR 30 plus, that's been inching up over the last 4 quarters. So while the trend on the IF book is encouraging. But on the retail assets, we see an increasing trend of PAR 30 plus. These are two questions?

Himadri Das: So I'll answer your first question. See, on a steady state, so our GNPA currently is nearly 6% and which is at a yield of 25%. So that 6% of 25% is nearly 1.5%. So if you technically do a write-off when we get the CGFMU money, if I do a write-off, technically, my yield should go up by at least 1.5%. But however, on a steady-state basis, if I have to maintain a mix of whatever we have guided, 45% unsecured and 55% retail, 45% should come at 25% and 55% should come at 12%. So theoretically, the yield should be in the range of 17% to 18%. 17.5%, you can take a steady state kind of yield. So what you are asking is how much it would be reversed, 16.5% currently, at least technically, it should go up by 100 basis to 150 basis points on upper right. So 17.5% to 18% should be our steady-state yield once we do a complete write-off and the business is as usual.

Baskar Babu: And on the retail assets of 30 plus, yes, there has been a marginal increase. As you know, commercial vehicle has been going through a little bit of a turbulence, so to say, there's been a marginal pickup in terms of 30-plus probably because of the extended monsoons, there's has been a little slack and the deferment in terms of GST. Fairly confident, but if we look at the overall portfolio from a flow-through from 30 to 60 plus, it will be moderated. In mortgages, yes, whenever there is one or two large accounts get into it, there is always an increase of that. But completely from a credit cost perspective, since the underlying assets are very robust and it is all cash flow-based lending, either there is a resolution either in terms of customer coming back and rolling back in terms of current or in terms of disposal of property. The disposal of property is the last thing really we look at. Hopefully, with that, we will not see the same trend going from 3.1% to 3.2% to 3.6% in the fourth quarter for sure.

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

Ashlesh Sonje: Sir, a few questions from my side. Firstly, on the cost ratios, can you talk about how you think about the trajectory from here on? Let's say, if I look at the cost/income ratio, it is close to 75% today. How do you think about it going forward? That's one?

Kanishka Chaudhary: Yes. So one of the important things to highlight in our cost is that if you consider the corporate costs, right? So they have more or less remained fairly constant, especially in terms of the number of head count that we have in our corporate workforce, right? So there will be a marginal benefit on the fact that from here on as we grow our book, our corporate costs will not proportionately increase. The other is obviously the fact that there was a drag in the denominator because of the non-paying book and we have now been able to remove. So to that extent, you will see that there is a marginal improvement. We obviously hope to bring our cost to income ratios down in the second half of this year. At this particular point in time, from where we are today, being able to touch 70% along with the CGFMU costs that we have. That will be our first objective.

Ashlesh Sonje: Understood. Okay. Second one is on the credit side. If I look at the increase in disbursements, I see that there is an increase across segments. Is this coming mainly because you see a much higher credit demand on the ground? How are the rejection rates trending? Can you share some insight on that?

Sasidhar Vavilala : So this is primarily our inclusive finance engine is growing quite robustly. And especially the Vikas loan segment, we have grown more than 100% year-on-year. And we said that we also got quite robust growth in commercial vehicles as well as mortgage. So credit per se, demand per se is, it's a very small size and scale to talk about any market share and industry level growth. So as far as we are concerned, there is enough and more opportunity to keep growing at a much faster rate. So that's not at all a challenge. And what was your second question, sorry?

Ashlesh Sonje: How is the rejection rates trending?

Sasidhar Vavilala: Okay. So on the rejection rate front, it has more or less stabilized. Earlier, it used to be as low as 27 percentage in microfinance for the new customers. Now it is more or less trending to 35%, one-third of the customers are getting approved. So there is a little uptick. But in states like Karnataka and Tamil Nadu, there's still a challenge. So the more customers in the market are in par. So there, the approval rates are still in the range of 25%, 27% range.

Ashlesh Sonje: And sir, do you see a possibility to take further steps in your savings or term deposit rates from here on?

Kanishka Chaudhary: So we keep evaluating it on a monthly basis. Right now, it's a very dynamic scenario. We try to maximize our opportunity on that count. You would have noted that our MCLR is also coming down on a month-on-month basis, and our cost of deposits have also reduced, especially in July, August and September. So we will continue evaluating that based on the market demand that we foresee.

Moderator: The next question is from the line of Bhavik Shah from InCred Capital.

Bhavik Shah: My first question was regarding the written-off pool. I mean what will be the quantum of written-off pool? And what would be the aging? And at what percentage of recoveries kind of do you see over the next couple of quarters from here?

Kanishka Chaudhary: So we have written off around ₹430-odd crore based on the CGFMU claim of ₹313-odd crore that we have received. Large part of it is a book that was built in the last financial year. If we look at historically, we have been making recoveries of around 6% to 7% in our write-off pool and around 15% in our NPL pool. Those trends will continue. We will try to improve it, especially with our focus on recovery from the recent NPA accounts in the second half of the year.

Bhavik Shah: Sir, just to clarify, so out of the 7% that we recover, 23% is what we keep and the balance goes to CGFMU, right?

Kanishka Chaudhary: Correct. Net of recovery expenses.

Bhavik Shah: Understood. And I just wanted to check your comfort level on the PCR as we maintained on mortgages and lease portfolio?

Kanishka Chaudhary: Yes. So given the kind of LTVs that we work at and the assets that we have in hand, we are comfortable with the PCR that we are maintaining at this particular point in time.

Moderator: The next question is from the line of Rahul Kumar from Vaikarya Fund.

Rahul Kumar: Sir, how much were the MFI slippages in this quarter?

Kanishka Chaudhary: We had a slippage of around ₹206 crore in this quarter as against ₹267 crore in Q1. That is at the bank level. And if you look at MFI, we had slippages of ₹170 crore in Q2 versus ₹237 crore in Q1.

Rahul Kumar: And I think you mentioned something about the current flow, which you are seeing in this MFI book? And what kind of recoveries do you see from the Stage 2 or 30 to 90 DPD kind of book in the MFI segment?

Baskar Babu: Currently, I think what it used to be at the 1 to 30 was risen around 30%, disheartening to know that it has inched up to around closer to 40%, 45% in the 1 to 30. And thereafter, there is a dip in the 31 to 60 and the recovery in 60 to 90, which is what we call as PNPA and heavily, the focus goes on dissolving that, retaining it and rolling back is currently hovering at around 30%, at the beginning of the portfolio. If you look at from the middle of the previous month, then the resolution is around closer to 65%.

Rahul Kumar: And second question, which I had was, would it be fair to say that our yields have actually remained flat during this quarter, and we are sort of seeing the bottom in the NIMs portion?

Kanishka Chaudhary: Yes, that's correct. The yield also had the drag effect of the non-paying book that we were carrying all this while. So from here on, that effect won't be there. So you will see the yields inching up, like my colleague, Himadri said a while ago, the theoretical impact of the non-paying book going away immediately is around 1.5%. And you will get to see that on a quarter-on-quarter basis for the MFI book.

Rahul Kumar: So for overall bank level, where do we expect the NIMs to settle down, let's say, in over the next two quarters?

Kanishka Chaudhary: We will be targeting around 8% from where we are today. That's what we have in mind at this particular point in time.

Moderator: The next question is from the line of Pranuj Shah from 3P Investment Managers.

Pranuj Shah: I'm coming back to the Paytm partnership, you mentioned that you already have 50,000 accounts signed up on UPI credit. So what would be the average sanction limit that you would have on these accounts?

Sasidhar Vavilala: What we envisage is this is one segment, which will quickly solve the un-penetrated market of credit cards. Credit cards is grossly underpenetrated in our country. So this is one product that should scale, that should have a much deeper penetration to the wider segments of the country.

Baskar Babu: It comes to 50,000 customers, ₹50 crore of sanction limit. Utilization is up 15% to start with. Apparently kind of there is a pickup, which happens over a period of time and settles down around 25%. Good thing is that you test the credit of the customer and most of them utilize sub 15%, 20%. Though the limit itself is very small and average is ₹10,000 but it's anywhere between around ₹10,000 or little less than ₹10,000 all the way up to ₹60,000 max.

Pranuj Shah: Understood. So just to get a sense of this because if I look at your disbursement breakdown in the others category, which is where I think this is parked that, right now, you are hitting at around ₹17 crore per quarter of disbursement. And even if I just take the sanction limit that you have over here and multiply it by 3, it comes to around ₹150 crore. So till where are you comfortable scaling the disbursements in this segment on a quarterly or a monthly run rate is where I want to get at?

Baskar Babu: Let me clarify. Whatever we speak about disbursement is minus of the short-term revolving products, which include supply chain financing. We don't mix that up because then it gives a very distorted picture in terms of the rotating portfolio, revolving portfolio as well as our term loan portfolio. Mostly what we really speak about in disbursement is minus of this. Currently, it's a new product. 50,000, ₹550 crore limits, average of ₹10,000. Utilize is only ₹6 crore. So even if I added it is not, but currently, the disbursement does not include these products at all and we will not probably include it and we'll show it separately in terms of outstanding and turnover and all of that separately. Otherwise, a mix up in terms of rotating revolving portfolio and the terminal portfolio may not give you a picture.

Himadri Das: The number is sanctioned. So obviously, sanctioned cannot be equated with the loan disbursal. So utilization, that matters.

Pranuj Shah: But is there any number of where you're comfortable to scale this up to or you're not disclosing that at this point of time?

Baskar Babu: I don't think it's really kind of a scale beyond ₹100 crore. In terms of sanction itself, it will be probably a couple of months before it touches ₹100 crore. The good thing about the product is that you are able to acquire high-quality customers with a very small value of sanction and completely KYC than to the VKYC mode. So once you acquire the ability to, then service multiple products completely digital because they come through the digital and you get a good view of the track record because they pay the entire amount, which is due at the end of the month. They don't carry it forward. They don't revolve it. So at this point of time, our pilot is for around approximately ₹75 crore.

Pranuj Shah: And fair to say that your revenue over here would be driven by interchange and late payment charges?

Baskar Babu: Not at all. Not so much off late. In fact, the good thing about the product is structured with a grace period of around 7 days after the billing date, there is no interest charge. It is on the convenience fee, which is charged for every transaction and as well as in terms of the MDR. MDR is currently probably around closer to 0.7%.

Pranuj Shah: So 0.7% would be Suryoday share?

Baskar Babu: It is a share between Paytm and Suryoday because the entire acquiring costs and servicing costs is borne by the partner at this point of time.

Pranuj Shah: And would it be possible to disclose what the breakup of this MDR share is between you and Paytm?

Baskar Babu: No. We'll excuse ourselves from this because it's the commercial contract between 2 parties, but quite profitable for us as a portfolio.

Moderator: The next question is from the line of Vidhi Shah from CRK.

Vidhi Shah: I wanted your guidance on the effect of rate cut on your margins and also your plans as to how you'll improve your GNPA?

Kanishka Chaudhary: So at this particular point in time, we do not foresee any further rate cuts. So that's unlikely to impact us. But if you look at our portfolio, our FIG book and our LAP book are the 2 businesses, which are floating rate loans and are linked to the repo. Those are the 2 books that will have an impact if there were to be a rate cut from here on.

Vidhi Shah: And sir, how do you plan to reduce your GNPA and NNPA further?

Kanishka Chaudhary: So like we said a while ago, our focus in the second quarter with the flow forwards in MFI having stabilized will be on recovering from the recent NPAs. So that will be a key driver of reduction in the MFI NPAs. And there are a few accounts in LAP as well that we look forward to resolving in the current quarter and in the second half of the year.

Moderator: The next question is from the line of Slade Alexander from Artha India Ventures.

Slade Alexander: So my first question is, with the capital adequacy ratio that you have, how much headroom do we have to keep disbursing capital without additional fundraise. And secondly, I saw an announcement where the Board would be considering a fundraise. What is the nature of that fundraise? What would be the effect on ROEs for current investors?

Kanishka Chaudhary: Yes. So see, a threshold for a small finance bank is 15%. So from where we have, we have around a 7.5% headroom, right? And if you look at our risk weights, our right weighted book is around 75% of our nominal book, right? So that's the kind of headroom that we enjoy today. At this particular point in time, in so far as the capital raise is concerned, it's more an enabling provision. We will continue exploring options. But at this particular point in time, we are really not in need of capital and there's nothing that we need to raise immediately.

Baskar Babu: Also to add what KC said, currently, we have around ₹600-odd crore of GNPA, which is having a risk weight of 100%. Once we get CGFMU, we will write it off. So my capital adequacy will jump up by another 1.5%. So currently whatever we have reported 23.54% is actually theoretically if I write it off today, it is 25%. And next year, the profit will also add up. So we don't find the challenge to grow up to ₹15,000 crore kind of advances, which is very in Q2 or Q3 of FY27. We don't need theoretically any capital to grow. And we keep on getting options, we keep on meeting people. So that's a different story. But yes, theoretically, we don't need any capital which is I mean, in Q2 of FY27 or something.

Moderator: Thank you. The next question is from the line of Ashlesh from Kotak Securities.

Ashlesh: Thanks for the follow up. Just one question. If I look at the NPA ratios in some of the non-MFI segments, especially home loans and micro mortgages, there seems to be a decent inch up over the past couple of quarters. Can you elaborate on what is the situation here?

Baskar Babu: See, there has been an inch in terms of micro mortgages on account of the Karnataka. We have a sizable portfolio. We have ₹500 crore or the ₹490 crore portfolio, closer to around ₹270 crore, ₹300 crore is in Karnataka. So there was a pickup in GNPA. Good thing about the whole thing at least in terms of micro mortgages is that around 70% of the GNPA accounts are paying every month. They will continue to be in GNPA because they're not able to roll back fully. The momentum in terms of 70% of it is paying. So it's a technical adjusted for 2.1. It is around 1.1 is the non-paying book of micro mortgages. In terms of yields, there has been a certainly an inch attributed to probably extended monsoons, fairly confident that this is coming back on track. Measuring by the non-paying GNPA, the ratio is around just 30% in micro mortgages, around 50% in LAP. And yes, LAP. Actually, I don't have the numbers, and seems fairly confident that it will bounce back.

Ashlesh: On the mortgage side, the increase today as of now is visible more in slippages or you see the collections on those NPAs becoming a bit weaker?

Kanishka Chaudhary: We have had a few slippages, which we are working to resolve. And we have initiated legal proceedings under SARFAESI as well. We hope to see resolutions in the second half of the year.

Ashlesh: And the slippages would have now kind of peaked out? Or is that still going up?

Baskar Babu: I think when we look at the LAP as a segment itself, technically, while the credit losses may taper down to 0.5% or less than that, the GNPA even on a growing book usually kind of grows to around 1.5% to 2%. So our intent would be to kind of really keep that out at sub 1.25%. And this is where probably it'll give losses a little leeway, but not really beyond that.

Moderator: The next question is from the line of Shailesh Kanani from Centrum Broking Limited.

Shailesh Kanani: Congratulations on good set of numbers. Sir, a couple of questions from my side. One is that the secured share in overall mix has been gaining momentum. Now I understand we have had a write-off as well in this quarter. So that would have also helped. But considering that we are already at 55-45, and there is some tailwind in MFI business. So are we recalibrating our mix guidance as such between secured and unsecured? That would be my first question. And my second question is on the yield front. What is the yield in the JLG and individual lending book? And some of the lenders have kind of revised it on the upward side. So are there any plans on that front? These are my two questions?

Kanishka Chaudhary: Yes. I think, yes, the mix is 45-55 today also because of the write-offs that we have taken. So from here on, there will be a slight shift back towards MFI in the second half of the year, given the kind of growth that we have in mind. Ideally, I think in the near to midterm, we see ourselves being a 50-50 kind of a mix. And yes, so far as the pricing is concerned, we are constantly evaluating it. And given the credit costs that we have had in the last 18 months, it's something that we will have to recalibrate.

Baskar Babu: What we'll do, Shailesh, certainly for sure, is that even specifically since it is Vikas loan is where we are focusing, it will become risk-based pricing. So we are getting NTB VL not curated for long, there will be an increase in pricing. Equally, on very good customers where our cost of collections is lower, where they're paying on their own, we'll also be considering a margin reduction. So considering that the NTB VL will be a little higher share in the coming months, maybe there will be a certain little bit of increase in pricing on that portfolio.

Shailesh Kanani: Yes. Fair enough. KC, can you share the split of the write-off in terms of secured, unsecured?

Kanishka Chaudhary: Except for some ₹3 crore of write-off, we have had for commercial vehicles, all of the write-off is towards MFI backed by the CGFMU claim.

Shailesh Kanani: And similarly, if you can give a split of the gross slippages in terms of secured and unsecured?

Kanishka Chaudhary: Correct. So at the bank level, if you look at our slippages, we were at ₹206 crore versus ₹263 crore in Q1. Of that, if you look at the MFI book, we had slippages of ₹170 crore versus ₹237 crore in Q1.

Moderator: Our next question is from the line of Deepak Agrawal from Param Capital.

Deepak Agrawal: So to start with the first question. So in the longer run, where do you want the unsecured percentage to settle down, as we see bank as they mature, obviously, this unsecured book goes down. So maybe over the next 3, 4 years, where do we see our unsecured percentage of the book?

Baskar Babu: Deepak, I think currently, in terms of mix, we are comfortable with 50-50. However, as you would know, starting from FY23, when the asset quality did not really pose any challenge or was not likely to be posting any challenge, we went ahead and committed ourselves to CGFMU. And we also chose not to do any cherry picking of the portfolio and inclusive finance. All eligible portfolio, we decided to cover services under CGFMU. So currently, we will continue to have a 50-50. But however, once our asset base in terms of both mortgages and commercial vehicle reach approximately, say, ₹5,000 crore, ₹5,000 crore, even with the disbursements remaining the same as of the previous year, usually because given they are long annuity products, the growth will be closer to 15% to 20%. The intent till such time they come and they become profitable, and we'll create a real robustness in terms of VL, individual assessing, individually collecting so that we don't really run the risks of the group behavior in terms of crisis, we will be looking at, say, FY26 at around 50-50 closer to that, a little shade higher probably for secured. Next year will be the same, be in a marginal one or two percentage increase decrease. And in FY28 will be a real year of reset once these portfolios would have become substantial. At that point of time, ideally, it will be around 30%, 35% unsecured and around 65% secured. That would be probably a 3- to 5-year story.

Deepak Agrawal: Linked to this, so now if you look at the cost-income ratio, now I understand, obviously, hopefully the cost-income look high, but still even if on a steady state, if you look for us, compared to more mature banks. So there is a very big gap we have to cover. So one is from here, do we expect at least in terms of incremental growth of the balance sheet being much higher than the opex growth? Is it a fair way to look at it?

Baskar Babu: Yes. Deepak. I think I'll ask KC to overtake things.

Kanishka Chaudhary: Yes. And from here on at this particular point in time, like I said, I think there is a stability in the corporate costs that we have. And so there will be a marginal benefit in the cost-to-income ratio from here on, at least for the next 3 to 4 years. And that benefit will certainly flow through. While, yes, if the mix improves more towards retail, there is likely to be a compression in our yields. But at the same time, the costs are certainly not expected to grow at the same rate as our book.

Deepak Agrawal: Right. And so the next 2 to 3 years, as you mentioned, we were like more like 65% secured. So on a steady-state ROA, ROE, if you have to look, so where do we land up for next 2 to 3 years?

Kanishka Chaudhary: So one, I don't think we are looking at a 1/3, 2/3 split between MFI and non-MFI, I think even beyond medium term, we would look at more like 40-60. And on that basis, I think our immediate goal will be to have an ROA target of at least 2% and with about 7x, 7.5x leverage.

Baskar Babu: So Deepak, we're also now investing in retail assets secured in terms of expansion, putting up branches, infrastructure. I think the steady run rate of either mortgages and this without further investment, we have to look at this around closer to ₹70 crore. Our intent is to really take it closer to around ₹125 crore. So that will be an investment mode in retail assets until we reach around ₹125 crore, which is probably 6 months away max. At that point of time, there will be tapering, exponential of the increase, incremental increase in terms of investments will not be more than the growth expected. That is when your operating costs for retail assets will drop down substantially and sharply, as of now, loaded for corporate costs, they're kind of marginal businesses in terms of profitability. But once that happens, that the cost tapers off and allocation becomes the same, then you will see a kicker on that.

Deepak Agrawal: And then just last thing from my side in terms of just an observation. So you have done extremely well in terms of securing 95% of the book at the toughest time for a lot of MFIs and you have come out much stronger. Now from here, because clearly, we are building the secured side on the mortgages and the vehicle finance and all. Just we want to see that with a growing balance sheet, whenever adverse cycle comes in some of these products. We obviously are hit among the lowest in terms of the pain. So that, I think, would clearly stand out for us if we are able to?

Baskar Babu: Yes, indeed. In fact, we took the cover for FY23 and the slippages and all of that very, very marginal. Clearly kind of as a risk-mitigating strategy rather than whether the claims will be higher than the premium paid, this is kind of a model that the claims may continue to be much lower than the premiums, but just ever if it were to happen, our capital will be intact. And obviously, that's not even forecasted that it will be so quick, but yes, I think as a strategy will continue having taken. And even when we took it was intended that we'll continue to cover this in the unsecured. So that to an extent it becomes quasi secured.

Moderator: The next question is from the line of Rahul Kumar from Vaikarya Fund.

Rahul Kumar: Actually I just wanted to confirm a couple of data points, which you had mentioned in the call before, but I just wanted to completely confirm. So the MFI flows, which are happening now, monthly is that figure close to ₹35 crore now?

Kanishka Chaudhary: No. So as I said, in MFI for Q2, our flow forwards were ₹170 crore. In Q1, it was ₹237 crore. In Q3, we expect flows to be around ₹35 crore per month. And in Q4, we are targeting about ₹25 crore per month.

Rahul Kumar: Okay. And for the two buckets, 30 to 60 and 60 to 90, what are the kind of recovery rates which we are seeing?

Baskar Babu: As I mentioned, 1 to 30 is a little higher, but it moved up, I think it was very low, it moves up to around closer to 40% in 31 to 60, there is a dip. And Sasi?

Sasidhar Vavilala: 1 to 30 it has now gone up to 49 percentage. So 31 to 60, 61 to 90, we're at 43, 44 percentage.

Rahul Kumar: Okay. I didn't get that 30 to 60 bucket data?

Sasidhar Vavilala: The 30 to 60...

Kanishka Chaudhary: 40% is for 30 to 60.

Rahul Kumar: And One question is if I look at the collection efficiency for the IF book, I think, I mean, excluding the last 12 months book, the prior book is still 98.5%, right? Why is it still not improved much over the last, let's say, 3, 4 months?

Baskar Babu: Actually, they're much lower, a little lower because 98.6% is including the current book, which is at 99.5%, while I don't have the exact split for the prior to 12 months book, likely that it will be around 97.8%, 97.9%. Don't have really a clear answer for that, for two reasons. One, the customer has been current for all these months and taken a loan 12 months prior. Why is the slippage? I think it's kind of across the board, there is a couple of events. In every branch, there are a marginal number of customers dropped cumulatively in 500 branches, 425 branches, the number goes to around 1%. So 1% moves out. And I think the challenge, what at least the good thing has been that once it moves into 1 to 30, earlier, it was a recovery itself dropped down substantially. I don't have the exact numbers, but it was around 25%. Now Sasi has mentioned, it's around closer to 45%, 49%. Now the focus has to be in terms of holding back the customer and staying put at that 1 to 30. So yes, there is I think it is still a marginal stress, which is left and also could be the effectiveness of collection to pursue it on a continuous basis with the collections on other buckets also being focused on. Yes, the prior to 12 months book is a little less than 98% as of now.

Rahul Kumar: Okay. Is there any geographical concentration of this book which is causing us issues or?

Baskar Babu: No, fortunately not. But except for Karnataka earlier and Tamil Nadu a little bit. And Gujarat has been one state, which has been great for all along. It has not been a great run the last 12 months, but it looks like it has stabilized quite a bit, but not as quickly rebounded as Karnataka did.

Rahul Kumar: Okay. One question which I had on the non-MFI part, I think the provision coverage ratio over there is pretty low. Do we expect to increase it going forward?

Baskar Babu: Two reasons. One, I think it's a small value, which you're talking about. On an overall basis it's ₹30 crore. And our overall provisioning basis, if you look at it as net NPA after adjusting for potential claims, it's around 97%. So on a holistic basis, we will recover. Segment to segment if you look at it, yes, little challenged. But conformably all the provisioning at least no lesser than the value of the assets that we have funded and available.

Rahul Kumar: Okay. Thank you.

Moderator: Thank you. That was the last question for today. We have reached the end of the question-and-answer session. I would now like to hand the conference over to the management for closing remarks.

Baskar Babu: Thank you for taking time and joining the call. Thank you very much for your continued support. Thank you.

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