Management Discussion

Anil Kumar Sharma - Part-Time Chairman and Independent Director, Equitas Small Finance Bank
sir. Good afternoon to you all. Thank you for taking this, uh, your time out to dial into this conference call. I would like to address the issue of our MD and CEO, Mr. Vasudevan's desire to step down from the services of the bank. The background and the reasons for his decision have been spelled out by him in the letter that he has given to the board. And which has been duly disclosed to the exchanges and which I am sure you all would have had time to go through. The Board respects his decision and appreciates that he has acted in the larger interest of the Bank despite there being no regulatory or legal impediment to his family investments in NBFC.

The Board has thanked him for the significant contribution and for guiding the Bank in the last 10 years of -- in the first 10 years of its existence and wishes him all the best. A formal transition process has been initiated, and the board has requested the Nominations and Remunerations Committee of the board to shortlist the candidates for this role. We would be evaluating both internal and external candidates. We would be working to complete the successor identification and due regulatory approvals as early as possible.

Mr. Vasudevan has confirmed that he would continue to discharge his present responsibilities till his successor takes over from him, thus ensuring continuity. The board will ensure that the bank will continue to pursue its long-term vision set out earlier and does not expect this, this transition to have any impact on the same. We would keep the exchanges duly informed of the progress in this matter.

I now hand over to Mr. Vasudevan to take you through the highlights of the performance of the bank for the 2nd quarter. Mr. Vasudevas.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Thank you, sir. Good evening and thank you for taking the time to join us today. The macroeconomic environment remains broadly constructive, supported by healthy economic growth and sustained credit demand across our core retail and MSME segments. While elevated funding cost and competitive deposit market conditions continue to pose industry-wide challenges, borrower cash flows and underlying business activity remains resilient. We are also closely monitoring the evolving drought conditions in parts of Maharashtra and Karnataka following adverse weather patterns.

However, our microfinance exposure to the affected regions remains limited at around 2.9% of total advances of the bank, providing comfort from a portfolio risk perspective. This will be closely monitored over the coming quarters. Coming to our business performance for the quarter, the bank maintained a strong growth momentum Gross advances grew 30% year-on-year to cross 50,000 crores, while deposits grew 19% and also grew -- surpassed 50,000 crores during the quarter. This took the total business of the bank beyond the significant 1 lakh crore milestone, underscoring the strength of our diversified franchise, sustained customer acquisition, and consistent execution across our core business segments.

We continue to see strong tractions across our housing finance, vehicle finance, gold loan, and retail businesses. Our microfinance business continues to demonstrate disciplined portfolio management with collection efficiencies remaining strong at around 99.6%. The net slippage at bank level has declined by 4 bps sequentially to 1.39%. Mr. Jagdish, Head of Assets, will explain in detail our strategic priorities and growth drivers. On the deposit front, the bank has started picking up on the deposit growth once again after a lull in the last few quarters, with the total deposits growing by 19%

year on year and 7% sequentially to 52,483 crores.

Our CASA ratio stood at 26%, while retail deposits continue to account for a stable 68% of the overall deposit base. On the FCNR-B deposit front, the bank successfully mobilized, uh, US$110 million under the RBI FCNR scheme window without -- and, and we didn't have a leveraging opportunity either. Without that, we are able to mobilize $110 million under the scheme, and our total FCNR-B book stands at around $138 million USD. The CD ratio is reasonable at 90.53. Cost of funds increased by 7 bps sequentially, which is attributable to the recent revisions in SAR and TD pricing that we undertook in the beginning of last quarter.

On the deposit mobilization, we are seeing good traction on retail TD and growth momentum is in line with our advances growth. We continue to focus on relationship-led approach to build deposit franchise across retail transaction and NRA segments. Murali Vedanathan, Head of Liability, will explain in detail the strategies that drive deposit growth. In addition to our strong deposit growth during Q2 of, uh, I mean, the last quarter, we also raised funds through refinance borrowing, securitization, and direct assignment transactions, and also through Tier 2 capital.

While these initiatives were undertaken to strengthen the bank's funding profile and support future growth, They resulted in a temporary buildup of excess liquidity at the bank level. The resulting liquidity drag coupled with an increase in cost of funds impacted margins during the quarter. Accordingly, NIM on a daily averages basis stood at 6.69% in last quarter compared to 7.24% in the previous quarter, a sequential decline of 55 basis points. We expect this impact to gradually reverse. As the surplus liquidity is meaningfully deployed over the coming quarters.

We had raised rates on deposits in anticipation in the last quarter, and hence we do not expect the need to raise rates based on the recent repo rate increase. Credit cost has reduced by 43 basis points from 1.37 to 0.94 in Q1 to Q2. However, if you remove the effect of ARC sale undertaken during the quarter, the credit cost for the quarter would have come in at 1.12%, which is still very good, uh, given the 1.5% credit cost guidance that we had given earlier for the full year. During Q2, the bank has reported the highest ever quarterly profit of 208 crores, and the ROA and ROE are good at 1.3% and 13.5% respectively.

I believe at this ROE of 13.5%, we compare favorably amongst many of the banks. During September 26th, the bank raised 500 crores through issuance of Tier 2 bonds for a tenure of 10 years with an option for the bank to put in -- put at the end of 5 years. This has improved our Tier 2 base from 3.43% to 4.57%, and the overall capital adequacy as of September stands at 20.92%. With this capital raise, we have created sufficient headroom to support business expansion for the next few quarters. Because of the 10-year tenure, we would get the full capital benefit of this 500 crores for the first 5 years.

The bank has continued to deliver consistent performance across all key operating and financial metrics. Given the strong business momentum witnessed during the first half of the year, we are happy to revise our financial year '27 ROA guidance upwards. We now expect to deliver a full-year ROA of around 1.35% compared to our earlier guidance of 1.2%. This improvement will be driven by gradual recovery in NIM as excess liquidity gets deployed, moderation in credit cost, and a lower cost-to-asset ratio which has been coming down quarter on quarter.

With that, I would now like to hand over the call to our CFO Mukund, who will take you through the bank's financial performance in greater detail.

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank
Thank you, sir. Uh, good evening everyone. Uh, the quarter reflects continued momentum in growth and profitability. Gross advances grew by 30% year on year, deposits grew by 19%, asset quality continued to improve, and the bank delivered its highest ever quarterly PAT of 218 crore. We reported net interest income of 1,026 crore, another income of 288 crore, taking total net income to 1,313 crore for the quarter. Total net income grew by 32% year-on-year and 3% sequentially. Gross advances grew by 30% year-on-year and 6% sequentially, supported by disbursements of 7,450 crore during the quarter.

Growth was broad-based across products and the non-microfinance portfolio grew by 24% year-on-year, reflecting continued diversification of the loan book. Deposits grew by 19% year-on-year and 7% sequentially, demonstrating a significant improvement in liability momentum. CASA stood at 26% while retail deposits including CASA constituted 68% of the total deposits. The credit deposit ratio stands at 90.53%, vis-a-vis 92.93% in the previous quarter. NIM stood at 6.69%, declining by 55 basis points sequentially.

The decline was largely driven by surplus liquidity and higher interest expense. Importantly, the underlying yield on advances remained resilient. As surplus liquidity is progressively deployed into earning assets, we expect the liquidity-related drag on margins to moderate. Total operating expenses were 911 crore, increasing by 20% year-on-year and 4% sequentially, in line with the scale-up of the business. Operating leverage is beginning to become visible, with cost of assets improving sequentially to 5.49% from 5.61%.

Asset quality continued to improve. Gross NPA declined by 13 basis points sequentially to 2.29%, and net NPA declined by 1 basis point to 0.70%. Net slippage is reduced to 1.39% from 1.43% in the previous quarter. Provision coverage ratio stood at 70.08%. PCR including technical write-off stands at 86.73%. The reported credit cost stood at 0.94% of average gross advances. During the quarter, the bank sold NPA amounting to 110 crore to an asset reconstruction company. Excluding the impact of this transaction, credit cost improved to 1.12% from 1.37% in the previous quarter.

As mentioned earlier, the bank reported its highest ever quarterly profit after tax of 218 crore compared with 24 crore in Q2 FY26 and 184 crore in Q1 FY27. Return on assets improved sequentially to 1.31% and return on equity improved to 13.5%. Importantly, despite the temporary compression of NIM, ROE improved sequentially, supported by higher other income, improvement in cost of assets, and lower credit cost. As of September 30th, 2026, the capital adequacy ratio stood at 20.92%, with Tier 1 at 16.35% and Tier 2 at 4.57%.

Thank you, and I will now hand it over to Jagdish, our Head of Hey, Rakesh.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
Good evening, everyone. Before I begin the discussion on our advances portfolio, let me briefly touch upon the operating environment. We continue to closely monitor the geopolitical, macroeconomic, and weather-related developments and have not observed any material impact on our portfolio performance or collection trends. While certain districts in Maharashtra and Karnataka have experienced rainfall deficiency, our exposure remains limited. With MFI advances accounting for only 2.9% of the overall advances.

Collection efficiency remains stable, and Northeast monsoon in Tamil Nadu has progressed broadly in line with the expectation, where we have close to 42% of the overall book. Now let me now take you through the key trends in our advances portfolio. We closed the quarter with gross advances of

50,669 crores, reflecting a growth of 30% year-on-year and 6% quarter-on-quarter, driven by the robust disbursement momentum across key products. Let me now highlight some of the key developments during the quarter.

We delivered our highest-ever quarterly disbursement of 7,450 crores with a growth of 38% year-on-year. On the non-MFI front, our disbursements at 6,161 crores registering a strong 31% year-on-year growth, reflecting healthy demand across secured asset classes. Our small business loans continue to be our largest business segment, growing at 16% year-on-year, and vehicle finance grew 16%. Housing finance grew at 27% year-on-year, and MSE finance continued to scale well, growing at 38% year-on-year.

We have delivered consistent growth in both disbursement and advances despite minimal additions to our physical distribution network. With only 3 asset branches added compared to the Q2 financial year '26. This performance reflects our focus on improving productivity and strengthening product distribution across our existing network. In gold loans, for instance, the business was traditionally sourced and serviced to liability branches. Over the past 2 quarters, we have started building gold loan capabilities within select asset branches, which now stands at around 60 locations.

We have also expanded sourcing coverage to nearly 90 additional branches, with servicing being undertaken through the nearest liability branch. This hub-and-spoke approach has enabled us to expand our reach, improve customer access, and drive growth without materially increasing our branch network. Let me now touch upon the yields and asset quality. Our asset quality continued to demonstrate stability and improvement during the quarter. The bank's reported 1:90 DPD stood at 7.42%, while the non-MFI 1:90 DPD stood at 8.31%.

But if we include the recently securitized portfolio of 1,235 crore transferred to DA and PTC transactions during the quarter, the corresponding 1:90 DPD ratios would have been lower at 7.24% and 8.08% respectively. The 1:90 DPD for the microfinance portfolio including DA stood at 1.48%, partially impacted by the denominator effect as the direct assignment portfolio continues to run down. Our credit cost stood at 0.94% compared with 2.16% in Q2 financial year '26. Adjusting for the ARC transaction impact, our credit cost would have been approximately 1.12%.

Indicating broadly stable underlying credit costs on a sequential basis and continued resilience in portfolio performance. To conclude, we delivered our highest-ever quarterly disbursements, continued to grow our secured portfolio at a healthy pace, maintained stable collection efficiencies, and further improved asset quality. We remain focused on disciplined growth, portfolio diversification, and prudent risk management, and we expect the positive momentum in business growth and portfolio performance to continue over the coming quarters.

Thank you, and I will now hand over to Mr. Murli.

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank

Good evening. During this quarter, we actually witnessed an improvement in retail deposit mobilization through launch of multiple initiatives which I will cover, and most importantly, it has helped us to get into the trajectory where we want to be in terms of 7% quarter on quarter. And, you know, threshold-wise, we reached actually the number was to serve 52,483. But the most important part is granularization of deposit. And during this quarter, as we discussed during the last time, we will slightly tweak the laddering in terms of savings account.

So savings account and TD, we launched a new product called Maxima on the domestic side, which

is the first branded exclusive TD product. I think that has helped us to expand the base and helped us to reach close to 68% of the overall deposit base coming through retail. We continue to maintain the prudent mix in bulk with 92% of the bulk coming from non-callable base at this point of time. FCNR, it's not only, um, bulk retail customer. We did close to $110 million coming across 4,000 customers from 150 countries.

That shows our depth and spread in terms of NRI customer. And most importantly, uh, AD1 as an investment actually started giving us, you know, return in terms of deposits in dollar. As well as remittance volume and value kicking in. So that's one good, uh, aspect of AD1 which we launched recently. Our cost of funds increased by 7 bps, partly because of sales, uh, you know, focused predominantly on House of Elite, what we call -- we launched, as we are aware, 3 segments of HNI segment. One is called an Elite program for absolute affluent, then we had one to the emerging affluent, and then we launched something called Artha.

Now all these 3 propositions in this last quarter actually was coupled and backed by savings account rates and good relationship management. And for the first time in last 6 months, we are seeing RM managed book actually growing 11% on quarter-on-quarter. So this has helped savings account as well as TD mobilization at this point of time. And in terms of ARTHA, we crossed 2,000 customers. It's an HNI program and we almost crossed now 2,000 crores of relationship value through this segment. So our proposition and strengthening is really helping us in that direction.

CAI would have seen a significant uptake. That is because of our IPO skewed current accounts, and that will continue to hold and grow. And that is actually as by as a proposition through current account is helping us to build actually in transaction and volume and value at this point of time. And till the time IPO-centric approach is there, I think that will propel CAC. And to initiate mass sourcing, we are actually launching digital CAC very soon, and that we will cover it up later. And most importantly, asset-led approach in liability branches is what we are focusing.

I, like Jaggi said, how we are using gold loans from asset into liability. We are using liability branches to cross-sell assets. That initiative is also, uh, throttled among 20 branches, and we'll take it up to 50 branches, uh, this quarter. And TPP and insurance is in line with budgets, what we want to do overall. I think, uh, retail franchisee with the retail focus, differentiated customer proposition, focusing on HNI will help a customer-centric approach through our RM and liability branches.

I think we remain well positioned to support the bank's funding requirements as we move forward. I'll ask now Gopi to give an insight on treasury.

Gopalkrishnan. G - Head of Treasury, Equitas Small Finance Bank
Thanks, good evening everyone. The unusual volatility and unpredictability in markets continues. Foreign investors have continued their exit from Indian assets, exerting pressure on Indian rupee. INR depreciation continues with the Reserve Bank announcing further measures to temper speculation volatility. While rupee ended the quarter at 95.83 to the dollar, the impact of the latest RBI measures in foreign exchange market will also be keenly tracked to ascertain the way forward. RBI MPC has hiked repo rate in response to the uptick in inflation, with further hikes expected in December and before the end of the financial year.

RBI has also taken steps to reduce system liquidity in line with the repo rate hike. Imported inflation and continuing impact of monsoon shortfall risk pushing CPI numbers beyond current projections. Coming to Equitas, we navigated a very challenging quarter. Bank has seen a healthy inflow of RBI FCNR. We have already discussed 110 million inflow coming to the bank. Treasury income stood at

27 crores in QTFY27. We approach the coming quarter with caution given the continued volatility and fluid regulatory environment.

Unidentified Speaker - Unidentified Speaker, Equitas Small Finance Bank
Thank you. With this opening commentary,

Questions & Answers

Operator
Thank you very much. We will now begin the question and answer session. [Operator Instructions] The first question is from the line of Ramesh from ICICI. Please go ahead.

Unidentified Participant - Analyst
Yeah, hi sir. Uh, comments on a good set of numbers. Uh, so 2 things, uh, you know, one, uh, of course on the resignation, uh, so just wanted to understand, uh, you know, obviously I have gone through, you know, the details later also But still, you know, want some clarity around, uh, you know, ideally, uh, you know, the transition would have been -- we might have first, uh, you know, selected the interim CEO, or maybe someone should be hired as a deputy CEO. And then, uh, you know, after him spending maybe 3 to 6 months, uh, post that, you might have thought about, uh, you know, resignation. So just wanted to understand, you know, why this sudden thought of, uh, leaving Equitas, uh, like this.

Hello?

Operator
Yes, sir, you're on.

Unidentified Participant - Analyst
Yeah,

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
yeah. So, uh, I mean, uh, we have to follow a certain process, and so this is the process that we have followed. And we believe that, uh, you know, this is the only way that we could have done this. Uh, you know, we can't really go to the market looking for a CEO before even making an announcement that there's going to be a, uh, you know, change at the -- in the bank. And, uh, so then we will not get the good, the right candidates. If you are not able to tell candidates, potential candidates, that this is a job for which you are looking for, you will not get the right candidates.

You will get the next set of, uh, you know, second round of candidates. So this we thought is a better way of handling it, where we announced that there's a change so that we are sure that we'll get the best candidates available for us to look at, and before we finalize the right choice for the bank.

Unidentified Participant - Analyst
Got it, got it. And, uh, so, uh, you know, as things stand today, uh, you know, what are the timelines in your and board's mind to complete this entire transition?

Anil Kumar Sharma - Part-Time Chairman and Independent Director, Equitas Small Finance Bank
This entire transition, as you would have seen from the, uh, from the letter which has been filed with the exchanges, the board has taken note of the resignation and has requested the NRC to, uh,

prepare a shortlist of candidates and thereafter recommend this to the board. And board will take a view, and eventually, as you know, being a regulated entity, it will go to the regulator for the final approval.

Unidentified Participant - Analyst
Correct. But what are the timelines?

Anil Kumar Sharma - Part-Time Chairman and Independent Director, Equitas Small Finance Bank
Timeline is around 3 to 4 months is what we expect.

Unidentified Participant - Analyst
3-4 months before board finalize the candidate and goes to -- within 3-4 months?

Anil Kumar Sharma - Part-Time Chairman and Independent Director, Equitas Small Finance Bank
No, no, 3-4 months for the entire process where the candidate would be approved by the regulator and is expected to take over from Mr. Vasudevan. The board will take I don't think it will take more than, uh, more than a month. It should be much less than that, but definitely not more than a month.

Unidentified Participant - Analyst
Got it, got it. Uh, okay. Uh, and my second question is around, uh, you know, the asset quality trends, right? So obviously on overall basis, uh, this quarter has been fantastic, uh, in terms of asset quality. But when we look at the segment-wise breakup, you know, it seems to suggest that there has been a sequential increase in MFI and vehicle business growth in PA. So just wanted to understand, you know, this drought and everything is more of a third, fourth quarter phenomena. But then why there is a sequential increase in second quarter itself?

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
Yeah, good evening, Raneesh. This is Jagdish.

Unidentified Participant - Analyst
Yeah, hi. Yeah.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
So as far as the EMF has been concerned, both in terms of the gross slippage and net slippage, it was on a decreasing trend. Okay, for microfinance, for the previous quarter, the gross slippage is 3.09%, whereas currently it was 2.57%. Similarly, on the net slippage, it was 2.49% and currently it was at 2.10%. So microfinance, if you see, even in terms of the ex-bucket efficiency, it has been very much stable at 99.6%. Okay, and we don't see any impact as far as the microfinance has been concerned. On the vehicle finance side, yes, there was a little bit of increase in terms of the GNPA, but when you compare with the --

Unidentified Speaker - Unidentified Speaker, Equitas Small Finance Bank
because vehicle finance is a seasonal business, it has cyclical trends.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
If you compare with the Q2 of the last year, it was

Shailesh Kanani - Analyst, Asian Market Securities
effectively

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
better than

Shailesh Kanani - Analyst, Asian Market Securities
compared to what it was. Look at data, what we have shared in the presentation.

Unidentified Participant - Analyst
I am not able to hear you sir.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
Can you hear us now?

Unidentified Participant - Analyst
Yeah, yes sir.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Okay, no. Okay. Just repeat that, vehicles.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
or on the vehicles in answer. If you look at Q2 of the Last year it was 1.98% against, against now it's 1.82%. Okay, so vehicle finance, you're not able to compare on a sequential basis. It should be on a, um, year-on-year basis.

Unidentified Participant - Analyst
Got it. Okay, so there is nothing too much to read, uh, on sequential movement is what you are highlighting.

Unidentified Participant - Analyst
Right, sir. Okay, thank you. Okay, thank you.

Operator
Thank you. Next question is from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta - Analyst, YES Securities
Uh, yeah, hi, good evening. Uh, so my first question is again, uh, to Vasu sir on the resignation decision. Uh, so sir, I think a couple of things you highlighted in your resignation letter being investor concerns and, you know, stocks undervaluation because of those concerns. Uh, but were there any other reasons like maybe a regulatory nudge or maybe your individual realization that your guidance and services would be required, you know, by the NBFC promoted by your family? Uh, because, you know, I'm asking this is because, uh, you know, it's just been, you know, 2-3 months since you got reappointed as the MD&C. CEO in July for 3 years, and this decision has come. Uh, so if you can just clarify on that.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Yeah, there is no nudge or anything from the regulator, that's clear. And, um, so, so, so there's nothing as far as the regulator is concerned.

Rajiv Mehta - Analyst, YES Securities
Okay. And, uh, and sir, what will be then in, in such a situation, what will be your message to the senior management people and maybe the second line of Equitas who would have worked with you

for quite long. You know, how should they be looking, you know, uh, you know, uh, with their roles in the future in this whole management transition? Anything you would want to, you know, what kind of comfort while you are there, uh, you know, in transition period that you would want to provide and by how?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Yeah, I mean, we will be doing our normal communications. I don't think there should be any other issue as far as the rest of the team is concerned, um, because ultimately individuals come and go, institutions have to last forever. And, uh, you know, I am not going to be the MD of the bank for eternity. Uh, there is another 2, 2 years plus that lie -- that I could have had as a tenure, and at some point I would have had to anyway retire or leave the bank. So it's not something that, uh, is never likely to happen.

It had to happen. It happens today. That's the only issue. And I don't see that that should be any issue as far as the rest of the team is concerned. We'll be doing our normal regular communications, uh, with the team. And I don't think there should be any issue.

Rajiv Mehta - Analyst, YES Securities
And just last question is on the uptick in SMA buckets seen in MFI as well as non-MFI in the September quarter. Has there been further increase in the SMA in both MFI and non-MFI in October?

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
This is Jagdish. If you look at, we have clearly mentioned that on the 1290 DPD, the figure shows without the securitization book. If you include the securitization, it was pretty much stable at the bank level. And on the non-MFI front, it was on the decreasing trend. MFI, there was a slight bit of increase which I also covered during my speech. It is basically the denominator effect where the DA has come down. But if you look at even in terms of the client base, 1 to 90 in terms of microfinance, as of June it was 25,200 clients, whereas in September it was only 25,776. So basically it's just a 500-client increase. It's much more stable. So there is no external factors to be going into these ratios in

Rajiv Mehta - Analyst, YES Securities
October movement

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
October it has to complete but we don't see much of changes compared to the September month even in Maharashtra and Karnataka

Rajiv Mehta - Analyst, YES Securities
got it thank you thank you Vasudevan for answering my question

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
thank you

Operator
thank you thank you next question is from the l

Unidentified Participant - Analyst
Yeah, hi. Thanks a lot for the opportunity, sir. So my first question is on the deployment of the

surplus liquidity. Any rough estimate on whether the entire liquidity will be used in Q3 or it will be spread over Q3 and Q4?

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
Yeah, but it will be mostly consumed in Q3. But overall, what we are saying is the complete recovery will be reflected. By Q4.

Unidentified Participant - Analyst
Okay, okay.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Do you want to give any idea of what will be the recovery of NIM because of deployment of this excess liquidity?

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
Yes, so, uh, 6.69 is what we are saying in terms of NIM, what we have reported for Q2. So we are looking at roughly 18 to 20 bps improvement by 4Q.

Unidentified Participant - Analyst
Okay. Fair enough. And, uh, and my second question is on the ARC sale, what was the, uh, income recorded in the other income line item?

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank
So the net income, uh, this is Mukund here. The net income recorded was, uh, 32.5 crores.

Unidentified Participant - Analyst
Okay, thank you. Yeah, thank you.

Shailesh Kanani - Analyst, Asian Market Securities
Thanks.

Operator
Thank you. Next question is from the line of Prashant from SBIMF. Please go ahead.

Prashant - Analyst, SBI Mutual Fund
Hey, hi, good evening. Just 2 data points. If you could tell us what percentage of the company would be owned by the ESOP pool on a fully diluted basis, excluding Mr. Vasa's stake, and that will be divided among how many employees? And on the total term deposits above 10 crores, How much would be non-callable and are FCNR deposits also covered under that?

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank
Hi, with regard to term deposit, bulk 92% is non-callable. We have close to 12,500 crores of bulk. Out of that, 92%, which will come closer to 10,100 crore, which is non-callable. FCNR Out of that 1,100 crore, 50% is on 5-year bucket, 30% is on 4-year bucket, and 20% is on 3-year bucket. As we know, in this entire 1,100 crore pool, for the first 1 year, no customer can withdraw anything for the first 1 year because that's not allowed. So these 2 composition is put together. So these 2 put together gives us the total non-callable Uh, base.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Um, and on this question of, uh, the outstanding ESOP options amongst employees other than me divided by how many number of employees, we don't have that data right now, but when we publish the minutes of this con call, we'll add that response in the minutes. I request you to go through the minutes when we publish it in the exchange.

Prashant - Analyst, SBI Mutual Fund
Sure, thank you. Okay, thank you.

Operator
Thank you. Next question is from the line of Vivek Kumar from Geometric Securities. Please go ahead.

Vivek Kumar - Analyst, Geometric Securities
Sir, am I audible?

Murali Vaidyanathan - Senior President and Country Head for Branch Banking, Liabilities, Products, and Wealth, Equitas Small Finance Bank
Yes, please go ahead.

Vivek Kumar - Analyst, Geometric Securities
On a medium-term, 3 to 5 year basis, what would be the name we should -- I'm not asking the perfect, uh, but on a sustainable basis Even if there is a stress on liabilities, we have room to increase our interest rates and maintain a 7% NIM. Can we assume that to model the bank, or?

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank
Yeah, so around 7% is something which we are also working from a medium-term point of view. Medium term or how many years? One to two years. One to two years. Okay, so in a 2-year time, yes.

Vivek Kumar - Analyst, Geometric Securities
Okay, and how many years? Because as we improve, as we scale from 50,000 crore to 1 lakh and above, so when will you see sustainably our ROAS going above 1.5%? I'm not saying, uh, like when will we see the real benefits of operating leverage? How far away in terms of scale we are? Or 1.5 would be the max? Or so how should we look at this?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
This year we are revising the guidance to 1.35% ROA for the full year, which I think we should be able to deliver. And next year, you know, next 4 years, we have given as part of a long-term plan that on an average we should be able to deliver 1.5%. Um, but that is assuming that, uh, you know, there are certain headwinds and tailwinds, uh, you know, as normal economic factors which affect our operations. But there will be times when things will be good and, you know, credit costs will be benign and markets will be good.

And those are the times when we should be able to look at something more. That could be even times when it may be less. So we are saying basically on an average we should be able to deliver 1.5x.

Vivek Kumar - Analyst, Geometric Securities
And we'll go there in next 1 to 2 years and stay there mostly, or or it will be much sooner

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
will be one and half percent we should hit it next year

Vivek Kumar - Analyst, Geometric Securities
sir sorry this this would look you you in your letter you wrote that we have built a moat given the risk in the segment that we are operating can you be more elaborate what do you call that moat and in what how

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
sh The small business loan segment, which is loans typically starting from 2-3 lakhs going up to maybe 15-20 lakhs, the unmet credit demand in the market as per various government data is something in the range of around 25 lakh crores unmet credit demand. If you look at affordable housing finance, again based on various published data from the government and other agencies, the unmet credit demand is in the range of around 45 lakh crores. So if you just take these 2 alone, uh, just small business loan and affordable housing alone, we're talking of nearly 80 lakh crores of unmet credit demand.

Now the total banking credit in the, in the country is around 250 lakh crores. So if you compare the unmet credit demand, it's almost like one-third of the entire banking credit in the country built over the last 70, 75 years. Post-independence. Okay, now the question is, when banks have been able to scale up so much in all fronts, in all parameters, in all industries, in all areas of the economy, why is it that this 85 lakh crores, uh, of credit demand, even after 70-75 years of independence and 60 years of bank nationalization, why is it still remaining unmet? That's a large amount of demand. Small demand.

And the reason is because of the difficulty of both assessing the credit as well as in terms of managing the customers and the collection part of it, the difficulty. And that is why it remains unmet for such a long time. And that is where a bank like Equitas, we really excel because that's our core area and we have been able to perfect that over so many years. And Our credit cost at 1.2% or 1.12% without the ESCL for second quarter, for example, uh, is after having given loans to this profile of customers. And so that's where we believe is our moat, that we are able to understand and deal with a segment of customers which is, uh, which has not been possible for the other banks to do over the last 75 years. I'm not passing any comment on any bank But all I am saying is it's data. This market of 85 lakh crores remains unmet after 75 years of independence. So that is our mode. That's what we are referring.

Vivek Kumar - Analyst, Geometric Securities
So the underwriting, the whole, the whole underwriting part of --

Operator
sorry to interrupt, sir. Should you have a follow-up question, please rejoin the queue.

Vivek Kumar - Analyst, Geometric Securities
Thank you, sir.

Operator
[Operator Instructions] Next question is from the line of Ashlesh from Kotak Securities. Please go ahead.

Ashlesh Sonje - Analyst, Kotak Securities
Hi team, good evening. A few questions from my side. Firstly, on the drought piece, in these drought-affected areas of Maharashtra and Karnataka, what is the behavior of these microfinance borrowers right now? Has their -- have their incomes been impacted? Are they asking for more time to repay? And is there any political activism there? That's the first one. Second one, if you can share the segmental breakup of gross slippages between MFI, vehicle finance, and SBL. And last one is on the succession piece.

Uh, what is it that makes you feel confident that identifying the successor should not take more than a month? And any thoughts on whether you would prefer an overlap between Vasu sir and the next CEO in case it is an external person? Those 3 questions, yeah.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
Yeah, hi, this is Jagdish. On the drought-related question, what we have done is that we have identified certain districts both in Maharashtra and Karnataka. Let's say an example, Maharashtra, we have identified some 29 districts where it has been clearly identified as drought and also some kind of political intervention. So we have been tracking on the branch-wise collection efficiency, okay. But if you look at between September and October, it's hardly we are looking at any kind of impact in terms of the microfinance, okay.

So here and there, there are some political interventions but not on a large scale. But Karnataka, even that, we don't see any kind of impact. It has Um, almost we are seeing a better efficiency compared to the month of September as on date. So we need to wait and watch how things unfold, but as on date, uh, we are not seeing any impact.

Unidentified Speaker - Unidentified Speaker, Equitas Small Finance Bank
Okay,

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
uh, on the second question of on, uh, slippage, uh, we have mentioned for our MF it is at 2.64. And non-MF, it is 1.21 for Q2. We may not be able to give further breakup in terms of product sizes and now, so we'll give it to you.

Ashlesh Sonje - Analyst, Kotak Securities
Okay. And the last one on the subsidy.

Anil Kumar Sharma - Part-Time Chairman and Independent Director, Equitas Small Finance Bank
Sir, in terms

Ashlesh Sonje - Analyst, Kotak Securities
of -- Hello.

Anil Kumar Sharma - Part-Time Chairman and Independent Director, Equitas Small Finance Bank
So with regard to the timelines, Anil Sharma here.

Ashlesh Sonje - Analyst, Kotak Securities
Yeah,

Anil Kumar Sharma - Part-Time Chairman and Independent Director, Equitas Small Finance Bank
yeah. With regard to the timelines, uh, we have started -- we have contacted the agencies and we have asked for the list of candidates which possibly we can look at. Uh, and as I said earlier, the NRC has already been asked to start the process, uh, put the process in place. So we don't expect it to take more than a month. We in fact expect it to take a bit earlier, but nevertheless, uh, we are taking it as 1 month as a normal Normal part of process. And insofar as the overlap is concerned, uh, it is -- we will see.

I mean, I, uh, as of today we don't see any need for an overlap, even if it's an external candidate. In case it comes to that, we will take a view at that point in time, but as of today we don't see a need for an overlap.

Ashlesh Sonje - Analyst, Kotak Securities
Understood, sir. Perfect. Those are all the questions. Thank you.

Anil Kumar Sharma - Part-Time Chairman and Independent Director, Equitas Small Finance Bank
Okay, thank you. Thank you.

Operator
Thank you. Next question is from the line of Shailesh from Amsec. Please go ahead.

Shailesh Kanani - Analyst, Asian Market Securities
Uh, good evening everyone. Thanks for the opportunity. Uh, just to continue on this, uh, transition, sir, uh, is there any hard stop date for you which, uh, you have in mind or you have communicated to the board in terms of in case if the, uh, appointment of new candidate doesn't kind of satisfy the time frame what we are looking at? No, there is no such hard stop for you, sir?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
No.

Shailesh Kanani - Analyst, Asian Market Securities
Okay, fair enough. Thanks. Uh, my second question is with respect to, uh, uh, overleveraged or customers more than 3 lenders. In the last call, we had highlighted that, uh, we had kind of an exposure of around 88 crores with an extra standard asset provisioning of around 44 crores. Can you provide the number as on Q2 end? How that number stacks?

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank
Right, the exposure remains very close to 84 crore, which is 82 crore, and we carry a 50% provision on that.

Shailesh Kanani - Analyst, Asian Market Securities
So there is a release of around three crores.

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank
Two crores approximately.

Shailesh Kanani - Analyst, Asian Market Securities
Okay, okay. Thanks a lot. That's all from my side.

Anil Kumar Sharma - Part-Time Chairman and Independent Director, Equitas Small Finance Bank
Okay, thank you.

Operator
Thank you. Next question is from the line of Umang Shah from Kotak Securities Please go ahead.

Umang Shah - Analyst, Kotak Mutual Fund
Yeah, hi, uh, good evening. Thanks for taking my question. I've got 3 questions for Vasu sir. So first one is, uh, this time around, I mean, if I recall last time, uh, about, uh, 2 or 3 years back when you rejoined or took over as the MD of the bank, um, there was a situation where the board was not able to find a suitable successor. This time around, do you think, if, if at all unfortunately that situation has to arise, I mean, can you come back and resume the role, or you don't really think that is a possibility this time around?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
No, I don't think that situation will arise this time.

Umang Shah - Analyst, Kotak Mutual Fund
Okay. All right. So the second question is, as per your, um, as per your letter, right, I mean, um, um, basically your reappointment and the license of the housing finance company that your daughter runs, both are legit and RBI approved, and I believe this was also the arrangement at the time of your appointment as well as the recent reappointment. Then in that case, was there anything, any specific trigger which caused or rather forced you to take this decision? We are just trying to wonder because if it is RBI approved, situation, then, then what, what would have caused this?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
See, there are -- this has been an issue which has been going on for, uh, last 2-3 years now. So someday it had to happen, it had to happen, so it's happened today. Um, so, so that's it. I mean, there is no particular trigger, uh, it's just that this has been going on for quite some time and there has been a lot of pushback from some of the investors that I have been meeting over a period of time on this issue of the perception. And then every time I meet investors, people have asked me, I have tried to explain my best, but at the end of it, it always ends up by the investor saying that while in reality there may be no conflict, but the perception is still very strong.

And how do you handle that perception? How will you be able to manage that perception, which is difficult because you don't know who is thinking what in their mind? So it's something that was going on for some time, and, uh, now the bank is, uh, doing, uh, touchwood, doing extremely well on all parameters. I think we are really poised for a good level of growth. Our Q2 has been again a very good, uh, performance, uh, at 13.5% ROE. I believe is one amongst the best from the banking industry. And, um, you know, our profit also is the highest for the second quarter.

Uh, credit cost is very much under control. The portfolio quality is very much under control. And we have a full range of products, be it on the liability side or on the asset side. I think we have a complete range of products, and now it's all being scaled up. Most of the products which have been launched have turned the corner, and they are all now generating profit for the bank. So I think on all fronts we are doing very well. And so I thought that this is the best time that we do the transition, uh,

so that the incoming successor gets a bank which is, which is performing well and he doesn't have to do any firefighting while he's trying to settle in the system.

So we just thought this is the best timing to do it.

Umang Shah - Analyst, Kotak Mutual Fund
Okay, all right, uh, thanks for that. And just one last data point, uh, sir, what would be your daughter's, uh, and, and your shareholding in the bank today? And And what was it, uh, when you resumed the office 3 years back?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Um, our shareholding will be very little. I don't really know, it may be 0.1% or something like that, but actually I don't know. And it was, uh, 1.5% or so, um, which is at, uh, in 2022, uh, my daughter had around 1.5% in the bank. My shareholding in the bank always has very little, but my daughter had around 1.5% in the bank, uh, which she had exited and put into that NBFC.

Umang Shah - Analyst, Kotak Mutual Fund
Okay, okay. All right, thank you so much, sir. Thank you.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Thanks.

Operator
Thank you. Next question is from the line of Pritesh from Ilara Securities. Please go ahead.

Pritesh Bumb - Analyst, Elara Securities
Good evening. Uh, just a question on the cost of funds and the deposit cost side as well. You've seen that there has been a sharp rise versus, uh, the industry being slightly, you know, better off. Uh, what do you think, um, can be the trajectory from here on? Will be more steadier or we'll further see some pressures on the cost side? I know of course we've raised rates in some of the buckets in different, uh, you know, savings account and term deposits, but anything, uh, you know, if you can guide on the trajectory.

Mukund Shamrao Barsagade - Chief Financial Officer, Equitas Small Finance Bank
Right, so this is Mukund here. So we had the increase of 7 basis points in Q2 FY27. We expect 8 to 10 basis points over next 2 quarters.

Pritesh Bumb - Analyst, Elara Securities
Sorry, 8 to 10 basis points more increase for the next quarter. Okay, and this is without any, uh, you know, pressure which can come from the industry in terms of raising rates, or, uh, you know, uh, so is that a possibility, or that is an additional headwind which can come over time?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
No, see, actually we had raised our deposit and SAR rates, uh, you know, slightly ahead of the repo rate increase. And so because of the repo rate increase, uh, we don't plan to change our interest rates at this point in time. Uh, if there is going to be another repo rate increase at any point in time, that's something we'll have to look at at that point in time. But for the present, we don't have any plans to raise the rates again.

Pritesh Bumb - Analyst, Elara Securities
So sorry, my question was on the deposit funds itself, or cost of deposit itself. The 10 basis points odd increase will happen without any increase or pressure from the ESI, right?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
That's right, it will increase without any further increase in rates, basically because of repricing of whole deposit as they mature.

Pritesh Bumb - Analyst, Elara Securities
Right, got it, got it. Second question was in terms of asset quality. Uh, I just wanted to check on the vehicle finance. Uh, though the, you know, headline numbers do not, uh, give out any large stress, but what we are seeing is there is agri stress cropping up in some of these states. Uh, also there is, uh, certain microlending-related issues still pertinent in some of the states. What do you think about our vehicle finance book?

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
Yeah, on this, what we have done during even the, uh, the West Asia crisis and the macroeconomic, uh, during the Q1 itself, we have started reducing our exposure in the HCV segment. We have started focus more on the HCV and a little bit on better profile customers. Okay, so, um, even Q2, if you look at compared to the last financial with all these challenges, we can -- we, we are able to perform in a better manner, whether in terms of the GNP or also on the credit cost. There are few states like, uh, in Rajasthan specifically, like a cement and cement segments, there are few, uh, LFO customers they have limited stress.

Apart from that, whereas in South or in my -- even in Maharashtra, we don't see any kind of stress as such. It's more of, uh, based on the product-wise, uh, performance we can able to see.

Pritesh Bumb - Analyst, Elara Securities
Sure, sir. Uh, thank you, thank you for that. All the best.

Jagadesh J. - Head of Assets, Equitas Small Finance Bank
Thank you. Thank you.

Operator
Thank you. Next question is from the line of Prawlin from Edelweiss Public Alternatives. Please go ahead.

Prolin Nandu - Analyst, Edelweiss Public Alternatives
Uh, yeah, hi, thank you for taking my question. Uh, you know, large part of the question, uh, has been already asked by some other participant, but again, Mr. Vasu, the question is to you, right? Uh, uh, you know, uh, what specifically changed again since August, uh, you had come out and said that I want to lead this company, uh, right? Uh, and, uh, these questions by investors have been asked, uh, you know, frequently before that as well, right? So, uh, was it, uh, what -- and, you know, how do you -- how did you arrive at maybe the resignation was the best solution to, uh, arrive at, uh, you know, remove this conflict so to say.

And this whole opportunity of even after 75 years, there is such an untapped opportunity in India on the financing side. And maybe the financing reaching to this untapped is also a social cause. Does this not excite you enough to continue with the bank? So slightly very difficult for most of the

investors to understand. And given the stock reaction, you know, uh, ideally according to your release, the stock should have reacted positively, right? But see what the stock reaction has been. So, uh, Vasu sir, what, what exactly changed?

And does this opportunity which still lies ahead of us not excite you, uh, right? And was resignation the only solution, uh, was this discussed with the board that there could be other ways to safeguard, uh, governance safeguards could be put in, there could be other ways to, you know, resolve this conflict?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Um, so, uh, yeah, I mean, this question of timing is always a very difficult question to answer as to why today, why not tomorrow. It's very difficult to answer that question. You know, these things just happen over a period of time, and then one day it just becomes clear what exactly you should do, and then you end up doing that. Um, so I'm not going to be able to, you know, very clearly pinpoint as to why it should be today and why not say tomorrow, or why not after 6 months or 1 year. Very difficult to answer that question.

It just builds up over a period of time, and then one day it just becomes clear what, what you should actually do. And that's what happened now. And second thing is that, you know, we are -- and, you know, generally I am also very sensitive to any kind of a finger being pointed at me, and you don't want that. And, you know, we don't want to really be in a position where, you know, where we, we believe that we are trying to somehow earn money irrespective of who points fingers at you. I mean, that's not the situation you want to be in.

And so someday something breaks and you take a call. So that's what has happened. And beyond that, I won't be able to tell you why, why couldn't have been done 6 months from today. I'm -- it's very difficult to answer that. It just happens. Um, that's one thing. What are the second question? What's the second question?

Prolin Nandu - Analyst, Edelweiss Public Alternatives
So the second question would be that, was this the best way to, you know, resolve this conflict and stop this, right? And also, you know, the opportunity that lies ahead, is that not an exciting enough opportunity for you to, you know, get over these, uh, alleged questions or conflict?

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Yes, sir. So the opportunities in front of the bank is very large, and we have 28,000 members in the bank. So I'm sure that we will pursue -- as a bank, we will pursue that opportunity. We will deliver inclusion strongly going forward. I know that we will not make a serious dent on that 85 lakh crores. I know that we can't as an individual bank do that. But definitely we will pitch in and chip away as much of that, uh, unmet credit demand as we can. And that's something definitely exciting, and that's what we have been driving. And I've been in Equitas for 20 years now, so it's not like, uh, you know, and it's a short tenure

and that I'm switching. So 20 years is not a very short period of time, and we have been -- this entire 20 years has been been a period of great excitement for us in the kind of work we do here and the inclusion that we have been able to bring. And just for your information, for an additional data point, almost I would say 80% of our borrowers are NTCs, new to credit, to the industry, right? Almost 80%. That's the kind of business we do. So we genuinely are extremely happy and satisfied with the kind of inclusion that spreading in the -- through the bank. And that journey, I'm sure, will

continue because that's our strength and that's our moat.

Prolin Nandu - Analyst, Edelweiss Public Alternatives
Sure, Mr. Vasu, thank you so much, and hope in your new role you are able to contribute more to the society. All the very best.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Thank you. Thank you.

Operator
Thank you. That was the last question for today. I now hand the conference over to Mr. P.N. Vasudevan for closing comments.

P. N. Vasudevan - Managing Director and Chief Executive Officer, Equitas Small Finance Bank
Thank you. Thank you for joining the call and taking us through all your questions, and which always helps us to, you know, review and relook at what we do in the bank and keep improving ourselves all through the time. So thank you very much and look forward to seeing you again next quarter. Thank you. Bye-bye.

Operator
Thank you. On behalf of Equitas Small Finance Bank Limited, we conclude this conference. [Operator Closing Remarks]