USFB/CS/SE/2023-24/105

Date: January 29, 2024

To,

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, C-1, Block G, Bandra Kurla Complex,
Bandra (E)
Mumbai – 400 051

Symbol: UJJIVANSFB

BSE Limited
Listing Compliance
P.J. Tower,
Dalal Street, Fort,
Mumbai – 400 001

Scrip Code: 542904

Dear Sir/Madam,

Sub: Transcript of the Quarterly Earnings Call held on January 24, 2024

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform you that the Transcript of the earnings/quarterly conference call held on January 24, 2024 for the quarter and nine months ended December 31, 2023 is enclosed herewith.

The same shall be available on the Bank's website at www.ujjivansfb.in.

We request you to take note of the above.

Thanking You,

Yours faithfully,
For UJJIVAN SMALL FINANCE BANK LIMITED

SANJEEV BARNWAL Digitally signed by SANJEEV BARNWAL Date: 2024.01.29 15:48:50 +05'30'

Sanjeev Barnwal
Company Secretary & Head of Regulatory Framework

Encl: as mentioned above

"Ujjivan Small Finance Bank Limited
Q3 FY'24 Earnings Conference Call"
January 24, 2024

MANAGEMENT:	**MR. ITTIRA DAVIS – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED** **MS. CAROL FURTADO – CHIEF BUSINESS OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED** **MR. ASHISH GOEL -- CHIEF CREDIT OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED** **MR. MARTIN P S – CHIEF OPERATING OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED** **MR. M.D. RAMESH MURTHY – CHIEF FINANCIAL OFFICER -- UJJIVAN SMALL FINANCE BANK LIMITED** **MR. VIBHAS CHANDRA – HEAD OF MICRO BANKING – UJJIVAN SMALL FINANCE BANK LIMITED** **MR. DEEPAK KHETAN – HEAD FINANCIAL PLANNING, STRATEGY & INVESTOR RELATIONS – UJJIVAN SMALL FINANCE BANK LIMITED**
MODERATOR:	**MR. RIKIN SHAH -- IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Ujjivan Small Finance Bank Q3 FY '24 Earnings Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rikin Shah from IIFL Securities Limited. Thank you, and over to you, sir.

Rikin Shah: Thank you, Dorwin. Welcome, everyone. We have with us today the entire senior management team of Ujjivan Small Finance Bank to discuss 3Q FY '24 earnings performance and the business outlook going ahead.

The management team is represented by Mr. Ittira Davis, MD and CEO; Carol Furtado, Chief Business Officer; Ashish Goel, Chief Credit Officer; M.D., Ramesh Murthy, Chief Financial Officer; Martin P S, Chief Operating Officer; Vibhas Chandra, Head Micro Banking; and Deepak Khetan, Head Financial Planning and IR.

With this, I'll pass on the call to Mr. Ittira Davis to share the remarks and walk through the 3Q performance. Over to you, sir.

Ittira Davis: Thank you, Rikin, and good evening, and welcome to our Q3 financial year '24 earnings call. FY'24, Q3 has been yet another healthy quarter with the bank moving in the right direction. During the quarter, our loan disbursements stood at INR5,675 crores, up 17% Y-o-Y leading to a gross loan book growth of 27% Y-o-Y and 4% Q-o-Q.

Microfinance business continues to witness strong ground level trends being an underpenetrated segment still. We believe the business in this industry has more room to grow, mainly due to increasing number of customers coming in the purview of lending along with growing appetite for credit among existing customers.

We acquired around 2.5 lakh new customers, taking the total count of newly acquired customers to 7.8 lakh in the 9-month period as of April '23 to December '23. During the quarter, disbursement of our group loan and individual loan business were at INR3,294 crores and INR1,029 crores, respectively, up by 7% or 45% year-on-year, but stagnant when compared to the last quarter. This was due to higher number of holidays during the period resulting in some loss of business. However, we have seen momentum picking up very well during the month of December and expect this strong trend to continue in the fourth quarter, which is usually our best quarter.

One of our key focus areas is increasing our secured loan book contribution to our total portfolio. Our concentrated efforts have helped improve our secured loan book percentage to 28.3%, up 83 basis points versus the last quarter. Affordable housing, including micro mortgages, which is our second largest and profitable business continues its strong upward quarter-on-quarter. We disbursed INR595 crores for the quarter, up 73% Y-o-Y and 10% Q-o-Q.

As I had mentioned earlier, we are focusing on a hub and spoke model for the housing and MSME businesses. This has been beneficial in improving our business efficiencies and reducing TAT. Along with this, we have introduced state-wise collection policy for our micro mortgages as we progress to enter into new states and have also started offering new product variants for our customers in this segment.

MSME business has started to pick up. Apart from offering secured products, we have onboarded 2 new fintech partners this quarter and started dispersing towards supply chain finance. Going ahead, we plan to expand our reach in this segment with our own supply chain finance distribution channels.

The FIG business continues to expand its customer base and disbursed INR379 crores in the quarter. New products gold loan and vehicle finance are ready to scale up in the next fiscal year onwards.

We continue to expand our physical distribution network. During the quarter, we have added 29 new branches, taking the total branch count to 729, spread over 26 states and union territories. We aim to add 23 more branches in the current quarter. Also, we added 5 new hubs to enhance our retail secured business distribution.

Coming to the liabilities. Q3 has been a very healthy quarter. Targeted initiatives like nationwide brand campaign, value-added liability products have started to yield benefits. Quality of new acquisition has improved by the fact that our average savings account balance for retail branch banking customers has started to rise currently at 35,000, which was stagnant about -- around 30,000 for the last 6 quarters.

We garnered more than INR500 crores of CASA this quarter, taking our CASA book up 8% quarter-on-quarter to INR7,556 crores. Our CASA ratio also improved to 25.5% against 24.1% last quarter. This itself underlines the fact that we are focused to add granularity to the book as we continue to moderate excess liquidity, total term deposits remained stagnant this quarter, but the ratio has inclined favorably towards retail TDs, which is up 9% sequentially.

Further, I'm happy to announce that our long-term borrowing has received an upgrading rating of AA- stable from A+ positive. This will be very beneficial to access lower cost borrowings and reducing our cost of borrowings in the future.

Our recently launched application, Hello Ujjivan is gaining acceptance among the customers with total downloads reaching 5.9 lakhs and total repayments of more than INR100 crores, since its launch. The loan acknowledgement of our group loans has also started to pick up, a total of 80,000 loans were acknowledged this quarter.

This serves a dual benefit. Firstly, saves the customer visit time to the branches and secondly, reduces the pressure on our branches. Additionally, repeat loan facility will also be offered through the Hello Ujjivan facility in the future.

Digital TDs has started its course, and we are exploring partnerships with aggregators to increase the business volumes. In line with our digital strategy, we have started offering digital savings account from this quarter. This will further aid us in onboarding customers digitally and build savings account relationships in areas not falling in branch catchments.

The financials and margins. Another focus area during the quarter was to bring down excess liquidity in the system. This provided some breathing room for our margins, which was under pressure due to rising cost of funds and excess liquidity. The rising cost of fund has also started to slow down, rising only 8 basis points against 23 basis points last quarter, indicating that our cost of funds have started to peak out.

Our yields also improved sequentially as repricing of the book continues. As a result of three factors: Lower liquidity, lower rise in cost of funds and improving yields, we are able to sustain our quarterly NIMs. We will continue to reap some more benefit from asset book repricing as currently around 65% of the book in the high bracket, while around 20% of the book sourced between September '22 and February '23 and 17% of the book sourced in September '23 is yet to be fully repriced. Having said that, our PPoP remained healthy at INR457 crores, growing by 18% year-on-year.

Coming to the credit cost and provisioning. We have been receiving many queries from the Street on this topic. To answer this question, the aberration in terms of credit costs you had witnessed in the last 2 years, largely due to unprecedented event in 1 year and a very good recovery from the event in the subsequent year has now all but settled.

Going ahead, our credit cost will continue to move towards the normal levels. We continue to improve our business processes, credit and collection policies. We are confidently -- we can confidently assure this will draw more comfort for quality of the book we have built over the period, supported by our strong collection team.

Credit cost for the quarter is INR63 crores as against INR47 crores in Q2. PAT for the quarter was INR300 crores. Ujjivan has been displaying strength in business and financial performance over a period of the last 8 consecutive quarters. This is highlighted by our RoA and RoE at 3.1% and 24.2%, respectively, for Q3 financial year '24 among the best in the industry. Our asset quality remains robust with the GNPA at 2.1% against 2.2% in the last quarter. NNPA remains negligible at 0.16%. Collections remained strong.

This quarter saw some minor incidents like flash floods in Tamil Nadu and false loan waiver campaigns propagated in certain pockets of North India. But these were largely campaigned in limited districts, and did not have any major impact at pan-India level.

Slippages for Q3 were at INR140 crores as against INR113 crores in Q2. For the 9-month period, slippages are at INR347 crores with upgrade and recoveries of INR198 crores. Bad debt recovery remained strong at INR105 crores for the 9 months. We have written off INR93 crores during the quarter, a substantial sum from the nonperforming MSME book.

Now an update on the succession. As I mentioned in our last earnings call, the bank's Board is working on identifying candidates and submitting recommendations to RBI. The process is moving ahead as per the set timetable, and I can assure you that a smooth transition will be made over the next financial year.

Update on the reverse merger. Based on the order received from the Honorable NCLT, our hearing has been scheduled next week on 30th of January. We are confident that this will be the final year in. Once the merger is approved by NCLT, we will proceed with the remaining procedure and regulatory assets, expecting the merger to be completed by March 2024, by the end of this financial year.

The outlook. We maintain our short-term and medium-term guidance given earlier this year. I would like to again add that the fourth quarter historically has been our best quarter for the year and should follow this trend during this year as well. Thank you.

Moderator: The first question is from the line of Renish from ICICI.

Renish: And congrats on a good set of numbers. Sir, just two questions from my side. One on the AUM growth side. So what is our internal assessment for FY '25 growth, given we have been hearing that regulatory is asking SFBs to sort of maintain the CD ratio is 85% odd though you are very close to that. But do you see any downward risk to our guidance getting into FY '25 because of the regulatory pressures?

Deepak Khetan: We do not see any downward push to our guidance. We, in fact, maintained -- mentioned that our guidance remains the same. Our CD ratio as per RBI guidelines is more or less in line around 85% only. I think 88% for this quarter. We will grow in line with what we mentioned in June.

Renish: Got it. Got it. And secondly, on the NIM side, okay, actually, I didn't hear it on the -- let's say, 1% percentage of the book is still yet to raise at the higher rate?

Deepak Khetan: So for the microfinance book, the GLI book, 20% is yet to have a 50 basis points improvement and 17% of the book is yet to have 100 basis point improvement.

Renish: Okay. Which will be in Q4 or -- Q4, Q1?

Deepak Khetan: This will happen over the next couple of months, few months. Q4 and maybe even Q -- a little bit in Q1.

Renish: Got it. Got it. So fair to assume that NIM will sustain at current level, at least for a couple of quarters?

Deepak Khetan: We will continue to be strong, and we are working on cost of funds. If cost of fund, given they are flat, the way they are behaving now, there should be improvement in NIMs.

Renish: Got it. And just last question from my side on the MFI book. So we have been hearing from one of the industry peers at Punjab and Haryana is facing some problem because of this Karz Mukti Andolan and all. And we have some, I think, 8%, 10% of our AUM in both the state, put together. So are we facing any issue? Or those issues has been now resolved and the collection is back to normal in those states?

Vibhas Chandra: So, yes you're right that at Punjab, Haryana and some other part of the country also Karza Mukti Abhiyan is going on, which is completely pretty illegal -- to affect to us is a little limited because we are mostly present in urban and metro pockets. So other Ujjivan is little limited at the time. We are working very closely with MFIN which is self-regulatory body and also RBI also some of its various documents around this, which we are working with various lawyers also for that customer understand that this is something that's illegal in nature. So far, the impact of this is very, very limited.

Renish: No. Okay. And at industry level, I mean, let's say, the collection trend, which you might have seen in September, October, the situation is better in December, Jan? Or it is still the same?

Vibhas Chandra: Our Indian sales is almost on the same line we don't have -- we do not see any substantial impact on our book. As far as industry is concerned, we have heard that there is some impact in some certain markets, especially in rural probably has happened. But at industry level also, it is not -- at this point of time, it doesn't seem to be a very big challenge at this point of time, especially as the corrective measures had been taken and RBI also coming. And as the RBI is coming to we guess and the executive body is also helping to reduce the impacts of this Morcha.

Moderator: The next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: So firstly, a couple of clarifications. So there is a sharp jump in employee cost. Is there any one-off? And second is on the insurance and distribution income. It is yet again higher at INR30 crores plus in this quarter. So has the run rate structurally changed after the commission changes?

Deepak Khetan: Rajiv, on the employee cost, three things impacted it. One, there has been hiring this quarter. Second, there were some med year corrections given for certain employees. And third, cost of ESOP is included in Q3 numbers. So these three has impacted cost of ESOP should be more or less 1x. rest is ongoing costs, that hiring also includes the new branch expansion that we did, 29 branches were opened.

Your second question was on TPP income. There's no change in the structure. Last quarter, we have mentioned that some earlier were there because in Q1, the ruling came in August and the earlier of Q1 were there in Q2 numbers.

Rajiv Mehta: Okay. So the reported run rate should hold up, right, in that case?

Deepak Khetan: The reported run rate should hold up.

Rajiv Mehta: Yes, I understand. And sir, broadly, on the loan disbursement. Yes, on the loan disbursements -- okay. Okay. Got it. And on the group loan disbursements, which has been modest, I think sir, also alluded to things will improve in Q4 because -- so that should come back very strongly in Q4. And that's the expectation we have?

Deepak Khetan: Yes, that's correct. So apart from the holidays, there were a couple of other technical challenges also, which impacted this quarter, early quarter, in the month of October, November. And the same so -- which impacted the overall disbursement, which have been rectified. And we are seeing good -- at least January, so far, we have seeing as a good month.

Rajiv Mehta: Got it. And any reassessment of our long-term cost-to-income outlook? I know you're maintaining a long-term guidance RoA, RoE. But given that you have done some med year corrections, so that employee to the ESOPs can be given out slightly frequently and hiring is going up. So would you want to kind of reassess or maybe reiterate what is the cost-to-income outlook for the next couple of years?

Deepak Khetan: There's nothing that has changed course from our internal strategy. So when we met you around 8, 9 months back in Mumbai, the analyst and the Street, all these things were there on our plate. So we would not want to make any significant changes from that.

Ittira Davis: I just want to add to what Deepak said. When we grow our branch network and everything there's leading and lagging. So when we invest in the new branches, lagging effect is that we get inputs and returns the year or 18 months later. We have invested this year in about 100 branches, and that has increased the network. The benefits of that will come in the coming years.

Moderator: The next question is from the line of Manish Ostwal from Nirmal Bang Securities.

Manish Ostwal: Sir, my question on your capital adequacy side. So risk weighted assets has increased almost INR2,085 crores whereas our balance sheet increased on quarter-to-quarter basis, INR850 crores. So can you explain what is leading to this kind of jump in the risk weighted assets quarter-to-quarter basis, sir?

Deepak Khetan: Manish, we have taken adjustment basis the recent RWA guidelines that RBI has announced. So that has also impacted a little bit on the risk weighted asset number.

Manish Ostwal: Okay. So can you quantify the impact?

Deepak Khetan: The impact on CRAR, I remember would be somewhere around 80 bps.

Manish Ostwal: Okay.

Deepak Khetan: Which has been already incorporated.

Manish Ostwal: Okay. The second question on your comment in the press release, which says that we have reduced our excess liquidity during the quarter and still, our NIM is -- that is compared to the last quarter. So I know our full year guidance is 9%, we are maintaining. So -- and quarter 4 seasonally strong quarter, but logically, ex-liquidity should have some positive impact on the NIM, so where the disconnect here?

Deepak Khetan: So for the 9 months, the NIM is already maintained at 8.9%. And we maintain that we will be around 9% NIM. So Q4, Mr. Davis mentioned that generally the best quarter for the bank. And we believe whatever the next 2.5 months will be there for us will be good. And we maintain our guidance there.

Manish Ostwal: Last one small data point. Can you quantify the ESOP cost one-off in the employee cost in the quarter?

Deepak Khetan: I'll have to check that and come back. We'll take it offline.

Moderator: The next question is from the line of Pritesh Bumb from DAM Capital Advisors.

Pritesh Bumb: Just a couple of questions. First of all, the par book seems to be a little plateauing when compared to GNPA. Is there any rise in early buckets as well?

Ashish Goel: Yes, Pritesh, there has been 15 bps rise in the SMA book as compared to the past. This is largely due to -- seasonality plays an important role in the month of October and November other than they are being a little bit of extra holidays. So I think that is what the numbers are showing. There is nothing other than these seasonality and holiday factors.

Pritesh Bumb: Okay. So nothing to worry. So this will, of course, come back basically in our books basically. Yes. Second question was on this bad debt recovery, which we still are having our almost like INR31 crores. Is this from the earlier write off pool only? And how much from that now we have recovered and how much is left? I think we had a INR1,200 crores pool earlier. So how much is left to recover? And how much has been recovered? And is there any potential recovery which can come ahead as well?

Ashish Goel: So Pritesh, on the bad-debt recovery normally, the trend has been a recovery of between 25% to 30% over a 24 months period. And this has been consistent over the last 6 to 8 quarters. We currently have a book of about INR800-odd crores. And the recovery in the first 9 months has been 102 -- I'm sorry, INR105 crores. We expect that by the end of this, we will maintain a similar run rate for this Q4.

Next year, again, I would say that whatever fresh write-off we have done, as you see the fresh write-off has been coming down. Last year, it was in the range...

Pritesh Bumb: Sure. Last question was the new customer mix in the IL the individual lending -- yes. So sorry, one last question was on the new customer mix in the IL -- sorry, can you hear me?

Management: Yes.

Pritesh Bumb: Yes, sorry. So I was mentioning the new customer mix in the individual lending. It's been consistently moving up. It's now 18%. Generally, we thought that this generally is a step-up from the NGL to IL. So what will be the upper cap of that mix you want to generate from new customers? And how do you look at it as a portfolio perspective?

Deepak Khetan: Pritesh, we would not want to prefer upper cap individuals -- right now. The industry trend is that IL is growing faster, and it even is one of the pioneers in the individual loan business. And we have been saying that this will pick up faster, and this will be growing faster than [inaudible 0:27:49] for a very long time, which is just the industry when the industry wants to catch up with what we have been saying.

So as of now, we'll leave it there, that group loan growth will be from a new customer acquisition. IL will be growing basis, the movement of existing GL customers to IL and also new customer acquisition from market -- open market. So we'll leave it there, right?

Vibhas Chandra: Also to add to what Deepak said. You are right that historically IL was GL to IL phenomenon, there were some customers from GL to IL but as industry is now old and we have credit bureau information for about 10, 11 years around the customers. The customers who are coming in open market also have experience in microfinance. maybe not Ujjivan, but some other organization.

And if you see practically, they have experienced and then they are are graduating to IL. In that way you can acquire the best customer, the team of microfinance customers and that's how we are trying to grow. And we'll keep growing in open market as we go ahead.

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

Deepak Poddar: So you mentioned employee costs are higher 2, 3 reasons. So one of the one-off was the cost of ESOP. So what was the -- can you quantify that cost?

Deepak Khetan: I do not recall the number, but we can -- before we can talk offline and I'll get the number by that time.

Deepak Poddar: Fair enough. I mean this will not reoccur, right? I mean this is onetime cost?

Deepak Khetan: We have a ESOP policy that we issue ESOPs every year. So based on the performance of the employees. And basis the pool available.

Deepak Poddar: Okay.

Deepak Khetan: Issuance is done once a year.

Deepak Poddar: Okay. Okay. Understood. So -- I mean in terms of your total opex cost, I think this quarter, our opex cost is close to about INR587 crores, right? Which was a start jump from INR529 crores that we have done last quarter. So quarter-on-quarter, we have seen a big jump in opex cost. So is there any rationalization in this cost that can happen in coming quarters? Or this is the base that one can look forward to?

Deepak Khetan: One thing that I could mention is the EPOS cost. Other than that, it's mostly -- quarter only or nothing major that is one-off or anything of that sort. But yes, in terms of rationalizing that you are mentioning, as Mr. Davis also mentioned, there's a lead in the last -- as a business itself. Again, the cost-to-income ratio, if you are looking at the ratio, they will start to fall behind.

Deepak Poddar: Okay, okay. And 2 years -- in next 2 years, what sort of cost income target we have?

Deepak Khetan: We have given our guidance in the month of June 2023. We maintain our guidances. The business stays due course.

Deepak Poddar: It was sub 50%, right? That's what we had targeted, I think 2 years, right? If I can recall, right?

Deepak Khetan: We have mentioned around 50%.

Deepak Poddar: Come again.

Deepak Khetan: We had mentioned around 50%.

Deepak Poddar: Around 50%.

Deepak Khetan: We had mentioned around 50%, 50% to whatever, 51%, 52%, we have mentioned that only -- actually, there was a lot of query that why we are mentioning that.

Deepak Poddar: Okay. I think -- I mean just one last thing on the deposit side. I think in terms of growth, we have seen a lower growth in this quarter, right? I mean because of the challenge that I think most of the financial player has faced in terms of garnering deposit side, I mean, liability side. So how do we see that going forward?

Deepak Khetan: Our deposit growth being lower quarter-on-quarter. Is that the question you are asking?

Deepak Poddar: Yes.

Deepak Khetan: Yes. So it's 2%. That is because we have reduced our bulk deposits. If you see the retail deposits and the CASA shown very strong growth. The CASA is up 8% Q-on-Q, and that is the focus of the bank. And it will be like that. And also, we mentioned that we are moderating the excess liquidity. So that continues, and that is why we did not want to grow deposits too much.

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

Ashlesh Sonje: The first question is on asset quality. Can you just give a breakup of your slippages for the quarter across segments?

Deepak Khetan: Ashlesh, we don't give segment wise slippages.

Ashlesh Sonje: Okay. Okay. Then coming to deposits, we have seen the term deposit rate being fairly constant over almost a year now for Ujjivan. Do you see a need to hike term deposit rates from here?

Deepak Khetan: It's more of a market-driven phenomena. Right now, we do not see any kind of pressure. Basis the requirement that we have we are seeing deposits coming in.

Ashlesh Sonje: Okay. And on the outstanding term deposits, you would see that the repricing is largely completed?

Deepak Khetan: To a large extent, it is. There will be some bit of bunch of coming up next two fiscal. By that time, we'll need to see how the rate cycle is there and what behavior we'll see in the market. We can't comment on that now. But I can say that the cost of fund has been stagnant for the past couple of quarters. It has been absolutely no movement.

Ashlesh Sonje: Okay. And just lastly on the microfinance business. How good is the demand on the ground from the borrower? And in that context, do you also see a possibility to take a further increase on the lending rate in the microfinance business?

Vibhas Chandra: As far as demand is concerned, this is a cyclic thing that happens every year. That's why there's a little demand on the lower side because of the holidays. And also, the demand because of the holidays actually comes in the month of July, June, July only because of the least time required. But last quarter is generally very good for the industry and for ourselves also. And so far, this quarter has been very, very good for us. And we hope to continue in the next quarter for the financial year.

Vibhas Chandra: As far as lending?

Deepak Khetan: As far the lending rate is there, we do not see any hike in lending rates.

Moderator: The next question is from the line of Tushar Sarda from Athena Investments.

Tushar Sarda: I wanted to check in terms of net profit growth with the credit cost coming back, how should one look at it? Would we have flat profits that's what most of the brokerage reports are projecting.

Deepak Khetan So Tushar, I can say that last year, when we gave guidance for this year, we said that we will have beaten net profit growth for this year, and we maintain that guidance. Given when we mentioned about FY '25, '26. These are RoA, RoE guidance and we maintain those guidance.

Moderator: We have the next question from the line of Saumil Shah from Paras Investments.

Saumil Shah: Sir, as per our guidance for FY '24, we were to grow our loan book by 25% and deposits by 30%. So which means for next quarter, we have to grow our loan book by, say, 9% and deposits by 12%. So is this doable?

Deepak Khetan: Deposits depending upon how much we require will be there. On the Q4, in terms of disbursements, are good. So basis here and there I would not be able to comment, but overall, Q4 will be good.

Saumil Shah: So we can see a higher single-digit growth in our loan books?

Deepak Khetan: Sorry?

Saumil Shah: We can see a higher single-digit growth in our loan book for Q4?

Deepak Khetan: We can see a good growth in the next quarter. I would not want to say high single or low single, but Q4 is a good quarter for us.

Saumil Shah: Okay, okay. And sir, any guidance on the NPA front, where we would like to close FY '24?

Ashish Goel: In the beginning of the year, we said we would be in the range of 2%. Currently, we are at about.

Saumil Shah: I'm sorry, I cannot hear you.

Moderator: Sir, sorry to interrupt your line is muffled in between sir.

Saumil Shah: We are not able to hear you.

Ashish Goel: Okay. So in the beginning of the year, we had said that we will be in the range of 2%. Currently, we are at 2.1%. And we expect we will be in the same range in the range of 2%.

Saumil Shah: Okay. Okay. And sir, finally, any update on our floating provisions? I mean we still have about INR250 crores of floating provisions, which is still unutilized. So what would be the update on the same?

Ashish Goel: We continue to have floating provisions of INR250 crores. This is about 0.9% of our overall book. This will be used in terms of whenever we have any contingency in the future. This floating provision is to cushion our balance sheet from any future one-off or events, any unforeseen one. So, this will carry for about 1% of the book. Actually 0.9% of the book.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund.

Vivek Ramakrishnan: I have two questions. Picking up on the earlier question individual loan. How much would be new to credit and -- or new to Ujjivan and given that -- I mean, I understand you're not placing a cap on that. In terms of credit bureau score for guidance you can give? That's question number one.

And question number two is you also mentioned some write-offs of the MSME book. So can you describe in terms of how the MSME book is looking at? What particular part of the portfolio you're concentrating on? And is the write-off more guaranteed in the retail portfolio? That's it from my side.

Deepak Khetan: First question, cost question, we could not...

Management: We have to -- the first question.

Vivek Ramakrishnan: Okay. So on the individual loan, it was a pickup from the previous question. Are you seeing how many of the customers are new to credit and how many are new to Ujjivan if you have some color or is there new to credit, is it like higher bureau scores? Or is there any difference in customers compared to the past? That was the first question, sir.

Ashish Goel: On the individual loans, right, we have new to Ujjivan is about 17%. And new to credit would be, I would say, I don't have the exact numbers, but in the range of 10%, not more than that.

Vivek Ramakrishnan: Okay. So...

Ashish Goel: On the individual loan.

Vivek Ramakrishnan: Okay. And the profile of the customer remains the same pretty much in the sense there's no difference since you are migrating to a bit higher credit quality customers or something?

Ashish Goel: So as far as our acquisition practice is concerned we continue to have – bureau score above a particular threshold. These are very hard cut off. So we do not take any low bureau scores as far as new customer acquisition is concerned.

Vivek Ramakrishnan: Perfect, sir. Sir, my second question was on the MSME book. In terms of -- you had mentioned some write-offs. So how is that book behaving? And where do we expect to see growth in that book coming?

Ashish Goel: Our MSME book has the mini book that we have done in the last 24 months is behaving quite well. In fact, which has been completely in line with the industry. We still hold a book of about 4% to 5%, which is a pre-COVID book. As you know, the NPA on that is 4% to 5%. That is the book on which we have initiated a lot of legal initiatives including SARFAESI and other legal measures.

That book has taken some time for us to recover. Most of that book now is in advanced legal stages. in this case, I would say 90% of the advances legal stages. We expect that in the next 2 to 4 quarters, we should see some significant deposits coming from there. So that's a sticky pool we have pre COVID, which we continue to have on the book.

Otherwise, on the new acquisition, it has been very good.

Deepak Khetan: And in terms of the growth of the book -- that the book of MSME business has started to see pickup, product launches have been done and hirings has been done -- technology upgrades in process and statewide they will also get capitalized and the launch. And in terms of fintech partners, we have already started working with 2 fintech partners. One more added this quarter. And we are looking to add more. So this business will see a good pickup in the coming quarters.

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

Shailesh Kanani: All my questions have been answered. Only one question, sir. Just wanted to understand post the NCLT verdict. Assuming that the verdict goes in our favor. So what is the next steps from Jan to March, if you can highlight those steps?

Deepak Khetan: We'll receive the NCLT order -- and basis that we'll move for other -- we'll notify the other regulatory bodies and we will set up for a record date. The shares will be issued, and there will be a small window where the trading will be suspended for the existing shares and the new shares will be invested. All in all, as Mr. Davis mentioned, we should be able to finish it by March of this year.

Shailesh Kanani: Just to clarify, there will be no further approval needed, right? After this approval? I just wanted to clarify that.

Management: Sorry, Shailesh, we couldn't hear you.

Shailesh Kanani: So I was asking there will be no further approvals needed, right, after this order -- be more of administrative work or...

Deepak Khetan: Yes, yes, yes. It's more of procedural in nature.

Shailesh Kanani: Fair enough. And also one question, our book value stands to be increasing by the same percentage around 2% to 3% post this reverse merger. Is that understanding right?

Deepak Khetan: Yes. So the book value you are asking, right, post reverse merger?

Shailesh Kanani: Yes, yes, yes.

Deepak Khetan: The book value should go up by 2.4% to 2.5%, one-time increase should be there.

Moderator: The next question is from the line of Himanshu Taluja from Aditya Birla Sun Life AMC.

Himanshu Taluja: Just one question at my end. Sir, since it is the start of the year, you have given the credit cost guidance of 1% for FY '24 and most of you are going to fold within that. Based on the current trends, is the credit cost is also normalizing, how do you -- any guidance if you want to give for FY '25, how one should see the credit cost for the next year?

Ashish Goel: Himanshu, it's a little early for us to give you guidance for next year, but anything in the range of 1.25% -- is what we can say…

Himanshu Taluja: Deepak, can you speak a little bit louder? Sorry, I can't hear you.

Ashish Goel: Impacts have been very minimal in the last few years. The upgrades in the next financial would be lower than what we have seen in the last 6 quarters. So to that extent, the credit cost could be move up marginally. This year, let's say, 1%. Next year, it will be higher than 1%, maybe in the range of 1.25% or something. But it's a little early for us to give you an exact number. We can talk about the range of 1.25%, 1.3%.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, most of the questions have been answered. Just one thing on the bad debt recovery. So this year, we have done around INR105 crores, and you mentioned that you have a pool of INR800-odd crores left. So what could be the sort of a recovery that we are pencilling in for the next couple of financial years from now?

Ashish Goel: So bad debt recovery typically in the range of 25% to 30% within 48 -- sorry, 24 months is what we have experienced. Now a lot of the pool that we have written off is more than 24 months. So we believe that it will be lower in that time.

Our incremental bad debt write-off has been very low this year. It's in the range of 0.6%. So our budget recovery for next year is going to be lower than what we were going to make this year.

Sarvesh Gupta: And that should continue for a couple of more years from there, right?

Ashish Goel: It will be lower than what we got last year…

Moderator: Sorry to interrupt, but you are not audible at this moment.

Ashish Goel: Last year, we talked about bad debt write-off recovery of about INR130 crores. This year it will be marginally lower than that was in the same range. But next year, the bad debt recovery would be lower than this and -- because our write-offs have been going down. So the recoveries in terms of absolute numbers, will have to come down.

Sarvesh Gupta: Understood, sir. And one thing on the cost to income. So it has gone up in this quarter. Is there any change in the mix also which is causing this higher sort of cost to income? Or this is more to do with the higher number of branches and personnel that you have hired, which has caused this?

Deepak Khetan: The couple of things that you need to see when we talk about cost-to-income ratio. One, the income -- on the other income this quarter was flat, given the insurance income was high last quarter. So there is no one-off in this quarter on the income side.

Cost of fund continued to move up, so which is why there was a decent jump in finance cost. And on the opex side, there was ESOP cost, which was there. So netting all these three the movement in cost-to-income ratio was not as steep as it looks like. It's like 275, 280 bps, this is the reported number, but netting off the numbers that 3 reasons that I mentioned, it would not be as high.

So it is in line with what we have guided earlier that we will be in this range for the full year. And Q4 should see improvement.

Sarvesh Gupta: And what could be the rough range of the ESOP cost that you're talking about? Very rough number.

Deepak Khetan: I have mentioned that price on the call, I need to check that and come back.

Moderator: Ladies and gentlemen, we will now take three more questions. The first from the line of Amey Ashok Kulkarni, an individual investor.

Amey Ashok Kulkarni: One of competitors from Karnataka. See, one of our competitors from Karnataka has reduced interest rates. Are we seeing any significant increase in competitive intensity would you expect to reduce the interest rates for the group?

Deepak Khetan: Yes, one of the large competitor has recently announced the rate cut in the microfinance business. We do not expect too much of a change on the ground in terms of competition exhibit.

Amey Ashok Kulkarni: Okay. And see, we have been guiding for credit cost of approximately 1% or less than 1%. That comes to approximately INR250 crores. So do you mind when we have done a credit cost of about INR160 crores. So any guidance on what could be the tentative credit cost for Q4?

Deepak Khetan: We'll maintain the guidance that we have given rather than giving any absolute number.

Ashish Goel: It will be -- we will continue to be below 1% is what we have said and we will -- yes, we will be -- below 1% only for Q4.

Moderator: The next question is from the line of Aravind R from Sundaram Alternates.

Aravind R: I would just like to understand what are the new product launches that are coming up, obviously, outside MFI, we are growing our affordable housing loans very fast. And as you said, we will be launching gold loans and vehicle finance loans, I'd just like to understand what other products are in the pipeline?

And I would also like to understand what would be the yields in those cases because there is a significant difference in yields on MFI loans and affordable housing finance notes. I'm just trying to understand if these products would be somewhere in between is my first question.

Ashish Goel: Okay. So we've been into this business, catering to the needs of the aspiring middle class. So our new products are also designed for the same segment. Therefore, a logical extension to that is we do gold loans, which we have tested and we'll be scaling up in the next financial year. Two-wheeler loans is something that we are already doing well, and we will scale up again that product in the next financial year.

In the same segment, we also launched a micro mortgage product, which we have already started to scale in this year, and we have started to see very good response to the product. This is, again, a product which is going to scale in the next financial year.

Other than that, on the MSME business, we will be launching the working capital product for manufacturers and traders. That is expected to be launched in the beginning of the next financial year.

Other than that, we've been doing secure agri products, which is in the form of KPC. This is something that we've been testing. So we believe that we are ready for a scale of this products also.

Aravind R: And what would be the typical yields in these products because we have like two completely different levels of yield? I understand the nature of the product. I'm just trying to understand where would the yields be in this new set of products. What kind of range it will be?

Ashish Goel: Voice was a little... Could you please repeat the question?

Management: Relates to the market competitor.

Deepak Khetan: Is it question on the interest rate, yields and all that?

Aravind R: Yes, yields on these kind of these new products that you're going to launch or -- which is in the industry -- up? I'm just trying to understand what would be the typical yield on these products -- yield or interest rate on this product?

Deepak Khetan: The interest rates would be industry competitive interest rates. Typically, 2-wheeler and micro mortgage are on a higher yield businesses. Gold is a medium kind of a yield business. MSME, as you are aware, would be very competitive and on a -- and within our product basket on the lower yield.

Aravind R: Okay, okay. And any guidance on like mix of MFI and non-MFI by FY '24, FY '25, FY '26.

Deepak Khetan: We had in the March '26 secured, unsecured guidance of 40:60.

Aravind R: Okay. And just one last question. Any long-term guidance, any change in long-term guidance on cost-to-income, like since we are industry in the franchise, do we see any upward revision to cost-to-income ratio in the test?

Deepak Khetan: Our long-term guidance for FY '25 and '26 was given in our analyst meeting done on -- in June 2023, and we'll stick to that. We had given an RoE guidance of 22% plus and we stick to that.

Moderator: The next question is from the line of Manish Ostwal from Nirmal Bang Securities Private Limited.

Manish Ostwal: All my questions are answered.

Moderator: Ladies and gentlemen, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Ittira Davis: Thank you very much, Dorwin, and I'd like to thank IIFL and Rikin Shah for organizing and sponsoring this. And thank you to all the participants for joining and appreciate all the questions. And we look forward to seeing you in the next quarter. Thank you.

Moderator: Thank you. On behalf of IIFL Securities Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.