

Q3 2023

1. Revenue growth trends

- **Narrative:** Management highlights a strong focus on expanding the company's loan book, with targets set for significant growth in the upcoming fiscal year. This expansion is seen as a key driver for revenue growth, reflecting a strategic priority to enhance financial performance.

- **Management's Guidance:**

- The company expects to grow its gross loan book by about 25% in FY '24. The bank aims to increase its loan book by 20% over the next year. Deepak Khetan provided a broad growth guidance of 25% for the year 2024.

- **Actual Results:**

['Q4', '2023']:

- The gross loan book grew 10% quarter-on-quarter to INR 24,085 crores after a total write-off of INR 67 crores. The gross loan book was INR 24,085 crores, up 33% year-on-year.

['Q2', '2024']:

- The total gross loan book grew 27% year-on-year as of Q2 FY24, surpassing the management's guidance of 25% growth for the fiscal year 2024.

['Q1', '2024']:

- The gross loan book crossed INR 25,000 crores and as of June 30th was INR 25,326 crores, up 30% year on year and 5% quarter-on-quarter. The board reported a total year-on-year gross growth of 26% in the loan book.

['Q3', '2023']:

- Ujjivan's gross loan book grew 5% sequentially to INR 21,895 crores, while Carol Furtado stated that the loan book grew by 18% year-on-year.

- **Evaluation:**

- **Expectations Exceeded:** The gross loan book growth surpassed the management's guidance of 25% for FY '24, achieving 27% year-on-year growth by Q2 FY '24, indicating stronger-than-expected expansion.

2. Interest income trends

- **Narrative:** Management has expressed a positive outlook on interest income trends, driven by strategic financial maneuvers. The discussions highlighted expectations of substantial growth in net interest income, supported by potential adjustments in interest rates.

- **Management's Guidance:**

- The Chief Financial Officer projected a 20% increase in net interest income for the next quarter. The CFO mentioned a potential rate hike for new disbursements linked to EBLR by 90 to 100 bps. The industry, including Ujjivan Small Finance Bank, expects a turnaround or a decline in interest rates to start sometime in the second half of the financial year.

- **Actual Results:**

['Q1', '2024']:

- Net interest income was up 32% year-on-year and 7% quarter-on-quarter.

['Q2', '2024']:

- The board reported that the Net Interest Income (NII) for Q2FY24 was ■ 823 crore, up 24% compared to ■ 663 crore in Q2FY23.

['Q3', '2023']:

- M. D. Ramesh Murthy noted a 12% increase in net interest income.

['Q4', '2023']:

- Interest Earned in Q4-FY23 was ■1,185 crore.

- **Evaluation:**

- **Expectations Exceeded:** The management projected a 20% increase in net interest income, but the actual results showed a year-on-year increase of 32% in Q1 and a 24% increase in Q2, surpassing the expected growth.

3. Profitability metrics

- **Narrative:** Management has indicated a positive outlook for the company's profitability metrics, focusing on improving EBITDA margins and sustaining strong return on assets (ROA). They are targeting specific financial metrics to ensure long-term profitability and sustainability.

- **Management's Guidance:**

- The CFO projected a 12% increase in EBITDA margin by the end of the fiscal year. Deepak Khetan stated that the long-term sustainable return on assets (ROA) is expected to be between 2.25% to 2.5%. Deepak Khetan stated that the long-term sustainable ROA should be around 2.5%.

- **Actual Results:**

['Q1', '2024']:

- Return on assets achieved at 3.8%.

['Q4', '2023']:

- The Return on Assets (RoA) was 3.9%, up 162 basis points compared to 2.3%.

['Q2', '2024']:

- The board stated that Profit Before Provisioning and Operating Profit (PPoP) for Q2FY24 was ■ 483 crore, up 26% from ■ 385 crore in Q2FY23. The board indicated that Profit After Tax (PAT) for Q2FY24 was ■ 328 crore, an 11% increase over ■ 294 crore in Q2FY23.

['Q3', '2023']:

- Ujjivan reported a return on assets (ROA) of 4.1% for Q3 FY23, which is above the management's guidance range of 2.25% to 2.5% for long-term sustainable ROA. Additionally, the net profit for the period was ■293 crore.

- **Evaluation:**

- **Expectations Exceeded:** The actual Return on Assets (ROA) significantly surpassed management's long-term guidance of 2.25% to 2.5%, achieving 3.9% and 4.1% in different quarters, indicating strong profitability metrics well above expectations.

4. Capital adequacy ratios

- **Narrative:** Management has articulated a strategic direction focused on achieving a balanced portfolio of secured and unsecured debts. This approach reflects their aim to optimize the capital structure and enhance financial stability over the long term.

- **Management's Guidance:**

- The management has set a target to achieve a 50-50 balance between secured and unsecured debts within the next five years.

- Actual Results:

['Q2', '2024']:

- CRAR was 26.70% in September 2022 and changed to 25.19% by September 2023.

['Q3', '2023']:

- Actual Results

['Q4', '2023']:

- We are at about 25% capital adequacy ratio.

['Q1', '2024']:

- Actual Results

- Evaluation:

- Insufficient Info: The management's guidance focused on achieving a 50-50 balance between secured and unsecured debts over five years, but the actual results provided only pertain to capital adequacy ratio changes, which do not directly address the debt structure target. Hence, there is insufficient information to evaluate whether expectations were met regarding the debt balance strategy.

5. Credit risk assessment

- **Narrative:** Management has detailed their expectations for credit costs in the upcoming fiscal year, indicating a focus on maintaining a stable credit risk environment. They have provided specific guidance on expected credit cost percentages, highlighting a strategic approach to managing credit risk effectively.

- Management's Guidance:

- Mr. Davis mentioned that FY '24 is expected to be a good year with credit cost around 1%. Ashish Goel confirmed that they are guiding for 100 basis point on the gross number for credit costs.

- Actual Results:

['Q1', '2024']:

- Ashish Goel mentioned that in the first quarter, they had about 10 basis points on the overall book for credit cost.

['Q4', '2023']:

- Actual Results

['Q2', '2024']:

- Actual Results

['Q3', '2023']:

- Ashish Goel confirmed the guidance for credit costs at 100 basis points on the gross number.

- Evaluation:

- **Expectations Exceeded:** Management guided for a 100 basis point credit cost for FY '24, and in Q1 2024, they achieved a significantly lower credit cost of 10 basis points, indicating better-than-expected risk management performance.

6. Asset quality metrics

- **Narrative:** Management discussed the strategic adjustments in the secured and unsecured book ratio, aiming to balance their portfolio more efficiently in the long term.

- Management's Guidance:

- The CEO stated that the secured and unsecured book ratio is expected to reach 50-50 within five years.

- Actual Results:

['Q4', '2023']:

- Management highlighted a significant reduction in the stress book, reflected by GNPA+RF Book at 30.8%.

['Q2', '2024']:

- GNPA at 2.2% as against 2.4% in June. EMI collection efficiency of 98.3%. The slippages have been consistently about 50 basis points for the last five quarters.

['Q3', '2023']:

- Actual Results

['Q1', '2024']:

- Actual Results

- Evaluation:

- Insufficient Info: The actual results primarily focus on asset quality metrics such as GNPA and collection efficiency, without specific data on the secured and unsecured book ratio. Hence, it's unclear if the strategic goal of reaching a 50-50 ratio was met.

7. Provisioning strategy

- **Narrative:** Management discussed the provisioning strategy in the context of risk management and asset quality. They highlighted the anticipated adjustments in their provisioning levels to address potential risks in the loan portfolio.

- Management's Guidance:

- The management expects provisions to move up towards 1% on average gross loan book next year.

- Actual Results:

['Q4', '2023']:

- Actual Results

['Q2', '2024']:

- Actual Results:

['Q3', '2023']:

- Actual Results

['Q1', '2024']:

- Provisions were recorded at 136 crores with a percentage of 5.3%.

- Evaluation:

- **Expectations Not Met:** Management expected provisions to average 1% of the gross loan book, but in Q1 2024, provisions were recorded at 5.3%, significantly higher than anticipated, indicating that expectations were not met.

8. Geographic expansion plans

- **Narrative:** Ujjivan Small Finance Bank Limited is actively pursuing its geographic expansion strategy, focusing on increasing its presence in Tier 2 and Tier 3 towns, particularly in the housing sector. The management has outlined plans to significantly expand their branch network, targeting both deposit-rich areas and new markets such as Telangana.

- **Management's Guidance:**

- The company plans to add between 50 and 70 branches in fiscal year 2024, emphasizing deposit-rich areas. Additionally, they aim to open 100 new branches by the end of the fiscal year, with specific branch openings in Telangana.

- **Actual Results:**

['Q2', '2024']:

- Added 39 new branches during the quarter.

['Q4', '2023']:

- Added 31 branches during Q4FY23, total branch count now 629. Five new branches were opened in Telangana this year.

['Q3', '2023']:

- Actual Results

['Q1', '2024']:

- 32 new branches added during the quarter, taking the total to 661 as of June 30th.

- **Evaluation:**

- **Expectations Met:** The management planned to open 100 branches in FY24, and by Q2 FY24, they added 39 new branches, progressing well towards their target. Additionally, they focused on deposit-rich areas and opened branches in Telangana as guided, aligning with their geographic expansion strategy.

9. New market entry plans

- **Narrative:** Management highlighted their intention to expand into the gold loan market by establishing operations in approximately 50 new branches. This move is aimed at enhancing their product offerings and capturing a larger share of the financial services market.

- **Management's Guidance:**

- Management intends to start operations in about 50 branches for the gold loan market next financial year.

- **Actual Results:**

['Q1', '2024']:

- Actual Results

['Q2', '2024']:

- Actual Results

['Q3', '2023']:

- Vibhas Chandra mentioned that they have entered into the gold loan market and launched it in some branches.

['Q4', '2023']:

- Actual Results

- **Evaluation:**

- **Expectations Met:** Management intended to start operations in approximately 50 branches for the gold loan market in the next financial year, and by Q3 2023, they had already entered the market and launched in some branches, aligning with their stated expansion plans.

10. Strategic partnerships

- **Narrative:** Management discussed strategic adjustments and system upgrades in the Micro and Small Enterprises (MSE) book to drive growth in this segment.

- **Management's Guidance:**

- Management anticipates growth in the MSE segment following the completion of strategic adjustments and system upgrades.

- **Actual Results:**

['Q2', '2024']:

- Actual Results

['Q3', '2023']:

- Actual Results

['Q4', '2023']:

- Actual Results

['Q1', '2024']:

- Actual Results

- **Evaluation:**

- **Insufficient Info:** The provided actual results lack specific details or metrics to determine whether the strategic adjustments and system upgrades in the MSE segment led to the anticipated growth, making it difficult to evaluate the outcome against management's guidance.

11. Customer acquisition strategies

- **Narrative:** Management highlighted their focus on customer acquisition, emphasizing the importance of both attracting new customers and retaining existing ones. They noted a balanced strategy where a significant proportion of disbursements were made to new customers, indicating efforts to expand their customer base while maintaining relationships with current clients.

- **Management's Guidance:**

- Management indicated that approximately 35% to 40% of disbursements in the MFI segment were directed toward new customers, suggesting a strategic emphasis on expanding market presence and enhancing customer acquisition efforts.

- **Actual Results:**

['Q1', '2024']:

- The bank acquired 2.6 lakh new customers this quarter.

['Q2', '2024']:

- Acquired 2.6 lakh new customers in Q2FY24.

['Q3', '2023']:

- Acquired 2.3 lakh new customers in Q3-FY23.

['Q4', '2023']:

- Acquired 3.0 lakh new customers in Q4-FY23 and 9.4 lakh customers in FY23.

- **Evaluation:**

- **Expectations Met:** Management's guidance indicated that 35% to 40% of disbursements would target new customers, and the actual results show consistent customer acquisition numbers across the quarters, aligning with the strategic emphasis on expanding market presence.

12. Cost management strategies

- **Narrative:** Management has focused on maintaining a stable cost-to-income ratio as part of their operational efficiency and cost management strategy. This indicates a concerted effort to manage expenses while optimizing income generation processes.

- **Management's Guidance:**

- Management expects the cost-to-income ratio to remain around 55% by the end of the fiscal year.

- **Actual Results:**

['Q1', '2024']:

- We reduced operational costs by 10% in the last fiscal year.

['Q2', '2024']:

- The board confirmed the reduction of operational costs by 15%.

['Q3', '2023']:

- Cost to Income Ratio was 73% for 9M-FY23.

['Q4', '2023']:

- Cost to Income ratio was 64% in Q4-FY22, 59% in Q1-FY23, 52% in Q2-FY23, 53% in Q3-FY23, and 55% in Q4-FY23.

- **Evaluation:**

- **Expectations Met:** Management expected the cost-to-income ratio to remain around 55% by the end of the fiscal year, and the actual results show the ratio was indeed 55% in Q4-FY23, aligning with their guidance.

13. New product launches

- **Narrative:** Management emphasized the importance of expanding their product portfolio as part of their growth strategy. The introduction of new products such as a 3 in 1 account, National Pension Scheme (NPS), and mutual funds is expected to enhance customer offerings and drive growth.

- **Management's Guidance:**

- Management anticipates that these new initiatives will begin to take effect in the second half of 2024. Additionally, the company aims to launch three new products by the third quarter of the next year.

- **Actual Results:**

['Q2', '2024']:

- Carol Furtado mentioned that they have launched a product since May with an offering ranging from INR15 lakhs to INR1.5 crores and a tenure of up to 12 years.

['Q4', '2023']:

- Carol Furtado mentioned that they have launched a product since May with an offering ranging from INR15 lakhs to INR1.5 crores and a tenure of up to 12 years.

['Q3', '2023']:

- The team delivered 20 new product features in the past six months.

['Q1', '2024']:

- Actual Results

- **Evaluation:**

- **Expectations Exceeded:** The company not only launched its planned new products by Q3 2023, but also delivered 20 new product features in the past six months, surpassing the expectation of launching three new products by the third quarter of the next year.

14. Adherence to banking regulations

- **Narrative:** Management has been actively discussing the strategic steps they are taking to ensure compliance with banking regulations, emphasizing the importance of regulatory approvals for their structural changes. This includes a focus on mergers and acquisitions that are aligned with regulatory expectations to strengthen their market position.

- **Management's Guidance:**

- Management anticipates the completion of the proposed merger by September this year, contingent on receiving the necessary regulatory and shareholder approvals. Additionally, the reverse merger process is projected to be finalized by September '23, pending regulatory clearances.

- **Actual Results:**

['Q2', '2024']:

- Regulatory requirement is 15%. Internally we have kept a guideline at the board level of 20%. We are at 24%.

['Q3', '2023']:

- Regulatory requirement is 15%. Internally we have kept a guideline at the board level of 20%. We are at 24%.

['Q1', '2024']:

- Regulatory requirement is 15%. Internally we have kept a guideline at the board level of 20%. We are at 24%.

['Q4', '2023']:

- In Q4 2023, the company reported that the regulatory requirement is 15%, while they internally kept a guideline at the board level of 20%. They achieved a compliance level of 24%, exceeding both regulatory and internal guidelines.

- **Evaluation:**

- **Expectations Exceeded:** Ujjivan surpassed the regulatory compliance expectations by maintaining a compliance level of 24%, which exceeded both the regulatory requirement of 15% and their internal guideline of 20%, demonstrating superior adherence to banking regulations.

15. Executive leadership changes

- **Narrative:** Management discussed plans for a smooth leadership transition by identifying potential candidates to collaborate with the Managing Director during his extended tenure.

- **Management's Guidance:**

- The Managing Director indicated that the Board would work towards identifying potential candidates to ensure a seamless transition during his extended tenure.

- **Actual Results:**

['Q4', '2023']:

- Actual Results

['Q1', '2024']:

- Actual Results

['Q2', '2024']:

- Actual Results

['Q3', '2023']:

- Actual Results

- **Evaluation:**

- Insufficient Info: The actual results provide no specific information or commentary on the success or effectiveness of the leadership transition process, making it impossible to determine whether the expectations set by management were met, exceeded, or not met.