"Ujjivan Small Finance Bank
Q3 FY2020 Earning Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Ujjivan Small Finance Bank Q3 FY2020 earnings conference call hosted by IIFL Securities Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on a touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Murarka from IIFL Securities Limited. Thank you and over to you Sir!

Abhishek Murarka: Good evening everyone and thanks for joining the call. From Ujjivan Small Finance Bank, we have the entire top management team Mr. Nitin Chugh, the Managing Director and CEO, Mrs. Upma Goel, the Chief Financial Officer, Mr. Rajat Kumar Singh, Business Head – Micro Banking and Rural Banking, Mr. Murli Manohar, National Manager Financial Planning and Analysis, Mrs. Sneh Thakur, Head of Credit and Collections Micro Banking and Mr. Deepak Khetan, Head of IR. I would hand over the call now to the team to make the presentation which will be followed by a Q&A. Thank you very much and over to you Nitin!

Nitin Chugh: Good evening ladies and gentlemen. This is our first earnings call after we got listed so that really was the highlight for the last quarter. I think we complied with the licensing condition of listing the bank and as you know the IPO was hugely successful oversubscribed 101 times. Now, obviously the next set of things we are required to do is to also find out a way of diluting the promoter shareholding, which after the IPO has now been reduced to 83.3%. So we would need to bring it down to 40% and we have stated this in the past that we would like a reverse merger but we have to yet start that dialogue with RBI. In addition to that we would also be examining multiple other options of bringing down the promoter stake and after the IPO because we have our promoter shareholder lock-in of one year we have enough time at our hands to examine all kinds of options and I think we would be sharing those details within due course with all of you but we are working very seriously on examining all the options.

Coming to the quarter that went by Q3, I think we had a fairly good quarter, we had remarkable set of numbers considering that some of the challenges that we did face especially in microfinance business, in some parts of the country, I think we have come out stronger and we have maintained the levels of growth that we displayed in the first two quarters. I am sure you have gone through the numbers. Our Y-o-Y disbursements were very healthy at 18% and the book grew by 46%. I do not want to go through the numbers because I am sure you have access to the numbers right now, so I rather focus on what our thinking is and what we are planning to do.

We did have some bit of slowdown in micro banking and that was a cautious stance on our part. It was a deliberate strategy. We were watching whole lot of incidences that were around folding especially in Assam and I will cover Assam in a little more detail just in a couple of minutes. But I think, because we kept our focus on lot of other things like efficiency, our investments in technology which we have done over a period of time we have been able to improve our NIMs, which have sequentially improved from 10.5% in Q1 to 10.9% in Q3 and our cost to income ratio, which we have earlier guided at 72% for this year, we are within that for the first nine months we are at 69% and for this quarter we are at 71%. Our credit quality continues to be very robust. Our GNPAs were at 0.9% and NNPAs at 0.4%. Our PAR has obviously increased because we did had the issue in the Assam, which again I will cover in a little more in detail but we have also just to be on the conservative side ,have provided for about 5 Crores for an Assam portfolio.

We also continue to focus on making sure that our customers use our digital applications and as you would know our mobile app is now in nine languages so we are making a very conservative effort in user head option and focusing on digital transactions which have gone up from 16% in the last quarter to 25% and the same time last year I think we were around 8%. We have also been able to reduce our turnaround time for most of our lines of businesses so in an effect, I think we have retained our sharp focus on efficiencies and cost optimization wherever we had a chance to and at the same time keeping a very sharp eye on our portfolio qualities.

Now coming to Assam I think the background all of you are aware but just to set the context I think we did see first Assam was partially impacted by floods in the first half of the year. Subsequently, we did have some protests in Upper Assam largely against the microfinance institutions largely to do with collection and over lending and this led into a kind of larger organized protests against these institutions so we had kind of looked at the Assam market almost a year ago and we also believe that there were some overheating happening on those parts, so on our part we had slowed down. We were anyway very cautious and just to let you know our portfolio in Assam is barely 3.5% and you know in the impacted areas, the areas where the protest was going on the Upper Assam area it is 1.5%. We have only 7 branches out of those 574 that we have at the moment. So while it was a small portfolio for us, I think we are still maintaining a very cautious stance, we are not adding new customers, we are servicing our existing customers and at the same time we are working very closely with the local administration, the state government, with the MFIN, and with the rest of the people and the industry and we are trying to come to an early resolution which we are very, very hopeful that we would be able to, but at the same time we have also provided for another 5 Crores for just the Assam portfolio in this quarter.

Our repayment base on a cumulative basis are at 98%, so that also tells us that things are actually improving on a daily basis and we see that on the ground but despite that I think we will maintain a bit of a cautious stance in Assam and like I said earlier we are hoping that we will get to an earlier resolution on this whole issue.

Now coming to the assets and liabilities side of the business, I think we continue to diversify our asset book so our non-microfinance book is now 22% largely driven by affordable housing. We are seeing good demand in affordable housing. We are going to be adding more branches that we have in our network offering affordable housing to offer that through branches and we would be covering most of our branches in the next few quarters.

We are also going pretty healthy in the MSE side. We are only doing secured MSE and both these books are going on a pretty healthy basis for us and the GNPAs are completely under control. On the deposit side, deposits grew by 98% Y-o-Y and the share of retail deposit now is about 43%, our branches are now fully operational the one that we have planned for this financial year, so with 574 branches now kicking in we are getting very good traction on retail deposits and on CASA. Our CASA ratio is steady at 12% and it has started to move up and on our part we are focusing on the mass market like we have stated earlier in a lot of other calls and our media interactions that Ujjivan's purpose is to serve the mass market, within the mass market which is the lower income group or the aspiring middle-class as we call it, we have for now identified about seven segments and these seven segments are the youth, the senior citizens, the salaried workers, small traders and retailers, the smaller institutions and our micro banking customer and their family and also to an extent the marginal farmers in our rural branches.

Now with this round of focus our approach is that we are going to, all these customers with all kinds of banking products that we have to offer right now and I think we have the complete set of products and services which are required for these customer segments and to support that we are also investing in enhancing our tech capabilities, our analytics capabilities and also making sure that we have a good relationship-ownership program which is a combination of how we on-board customers, how we maintain their transactions and the relationships with us, also through very high levels of service quality.

We are very confident that our deposit base like we stated earlier is going to be very broad based and granular. We also introduced digital savings and digital fixed deposits in the last quarter. They are doing extremely well for us and we are seeing extremely good encouraging results both in terms of new customer on-boarding as well as the balances that customers are maintaining because we are focusing on making sure that customer transact through these accounts and just over a period of time becomes very primary relationship so that we have the ability to sell other products also.

On the other asset products, we are still in the pilot stage of testing personal loan for the salaried employees as well as vehicle finance. In vehicle finance we are largely positioning ourselves for the two-wheeler and the three-wheeler segment and we also want to dominate the electric three-wheeler mobility and to that extent we have signed MOUs with the electric vehicle manufacturer. We are getting very good reception from the manufacturers as well as the dealerships and in the next year we have plans to scale up the vehicle finance business in a very methodical manner continuing our focus on the mass market because we believe that these vehicles will eventually be used for livelihood and not so much on the aspiration side so we want to cater to the same segments that we have identified on the deposit side.

That said a few things were mentioned about you know how you are looking at future? So we do want to focus on predominantly three or four things, the first one is to build a strong liability franchise because now we have the network in place, we have the teams in place, we have the technology in place and all the branches have been opened in the right sort of markets, we will also continue with branch expansion in a more calibrated manner, we are yet to finalize the plans for next year’s branch expansion we would share that with you as and when we are ready to, but we do want to keep a very diversified liabilities portfolio and over a medium term we want all our assets to be funded by deposits and to the extent of about 75% to 80% being funded by retail deposits. We also expect our CASA to go to 25% in the medium term, right now we are at 12% and because we are focusing on granular stable CASA we do expect that to take a little longer because we are not going after the hot money so to say or large chunky CASA deposits where we may not have control on the average balances.

At the same time our commitment to stay invested in technology and bringing out new ways of using technology I will just cover that in a couple of points. So firstly I think our technologies are contemporary we do not have any legacy issues. Our API stack is completely ready and we are just putting our framework in place and that has going to give us an opportunity to expand our digital ecosystem with a good number of partnerships and the ecosystem players and the platform companies and we do expect like the way we have tested our digital savings and FDs, we do expect a fair amount of scale to come from our digital capabilities through our API banking practice that we are unfolding now. We will continue to invest in analytics, we want to really expert ourselves in data science both on the credit side as well as on the marketing side and I think we will continue to focus on making ourselves more and more cost efficient. I think our cost to income ratio like earlier is about 72% for this year, but we actually hope to finish around 70% by the end of this year and then from thereon we are also hoping to be able to reduce it substantially year-on-year and come to a level where we are in a position to recalibrate it all over again.

We are also very optimistic about the mass market and I think we should spend a minute explaining why we think we are optimistic about the mass market. So there is a slide in the investor deck which tells you that the overall demographic, pictorial representation of India is changing from pyramid to more like a diamond and that is really because there are a lot more people who are coming from the bottom and joining the middle income group and by sheer number which is going to be a very large addressable market. We have also said that there is room for a lot of players, so we also believe that the industry on itself should be doing good job and should be able to grow and do a good task at serving these customers. On our part we stay committed to serving the unserved and the underserved and we also believe that because most people are banked but they are not necessarily served to that extent partially because that market which was served by NBFCs is kind of vacated right now to some extent we want to use this opportunity but at the same time we are also very extremely committed to our purpose of making sure that we stay focus on the mass market.

With that I will conclude by saying that we will stay focused on creating a technology led mass market bank and continue to serve the unserved and the underserved and with that I will stop here and we will open this up for questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Nishant Shah from Macquarie Group. Please go ahead.

Nishant Shah: Congratulations on a good set of numbers. Just two questions from me. On the slide #9 you mentioned the CRR cumulative rate at 98% is this for the state of Assam or is it pan India?

Sneh Thakur: This is for the state of Assam.

Nishant Shah: Thank you. Quick follow up on that, are you seeing any spillover or any of operational challenges in the neighboring states?

Nitin Chugh: You have a lot of background noise Nishant so can you repeat that?

Nishant Shah: Any spillover at all in any of the neighboring state of the operational challenges and the protest in Assam?

Nitin Chugh: No not at all.

Nishant Shah: Just one last question on the vehicle finance piece that you mentioned that the tie-ups you have with the e-rickshaw manufacturers, could you talk a little bit more about it what are the yields like is it like going to be on a subvention model and just like what kind of underwriting capacities do we have in this new segment?

Nitin Chugh: Like I mentioned Nishant we are in the pilot stage right now. We are doing a couple of hundred loans a month for last three months to be precise. This is a very small book to tell you whether we perfected this or not, obviously we have not and that is a reason it is in the pilot stage but the encouragement that we are getting from the manufacturers is that they are taking it very seriously, in fact some of them have approached us rather than the other way round and now we do see a paper demand for these vehicles in the market that we want to cater to, so it is national for us. Now the underwriting skills are going to be a combination of the technology that we will put in use and we have a roadmap for introducing front to back digital work flow for vehicle finance as well as the other lines up businesses also which we do partially today. Now with that I think we will use a whole lot of capabilities of underwriting which could be through partnerships and at the same time we have also hired a teams on the credit side on the collection side and on the business side, which are in the pilot phase, but I do not think that is something which we are at all worried about. We are getting the right kind of skills and talent and we will have the best in class practices on the underwriting and the portfolio management side. So I am not very sure whether we will go the subvention model or not because it is too early for us but I think those details as and when we scale the business.

Nishant Shah: Fair enough. Just one last question on this point would you be looking to hire someone from outside to lead the segment or is it going to be filled internally?

Nitin Chugh: We have hired fair number of people. Now whether we hired them to lead a specific function or the business I mean those calls we will take over a period of time. We do have enough and more good quality talent within the bank already and at the moment we do not need to but yes if we do require to we do that as well. We are not running this cycle, if that was the question you wanted to ask.

Nishant Shah: Yes, fair enough. That is it from me. Thank you.

Moderator: Thank you. Next question is from the line of Manish Ostwal from Nirmal Bang Equities. Please go ahead.

Manish Ostwal: Thank you Sir for the opportunity. My question on the microfinance book, apart from Assam excluding Assam what is the collection recovery rate for the portfolio?

Sneh Thakur: It is steady at 99%.

Manish Ostwal: Madam during the quarter from October, November, December can you share the collection trends in the Assam book?

Nitin Chugh: In terms of?

Manish Ostwal: Monthly collection rates, because I believe one of the players reported the sharp drop of collection mid of December and then recovery so I would like to understand how much decline we have seen in terms of collection efficiency during the quarter and from there we have recovered?

Nitin Chugh: Till December I know what you are referring to but in December I think everything was impacted because of the temporary disruption that happened on account of the Anti-CAA protest and also because of what was going on in Upper Assam but like we have mentioned earlier we do not have any significant exposure in all of Assam and especially in the Upper Assam so in that period of time obviously we also got impacted but we have recovered and that is why the cumulative collection rate for us is at 98%.

Manish Ostwal: We have made 5 Crores on 10% of a standard book 1 to 90 days DPD so in coming quarters what is our assessment of the provisioning on the portfolio whether we need to provide more or what is our best assessment currently on the book?

Sneh Thakur: As far as Assam is concerned we are working very closely with MFIN and the state government there and we are definitely going to take stock of the situation depending on how the environment evolves this quarter. So while we expect that we do not have to provide for more this is something to wait and watch and we will be taking this call this quarter.

Manish Ostwal: Thank you.

Moderator: Thank you. Next question is from the line of Raj Mehta from Equirus Portfolio Management Service. Please go ahead.

Raj Mehta: Sir congratulations. Sir just wanted to understand what we are hearing on the ground is that the recovery at the ground level especially in Upper Assam and in Lower Assam as well is that significantly improved in last one, one and half weeks can you confirm any of that?

Nitin Chugh: If you look at the middle part of December which is when we had heightened the disruptions from that point of view, yes if you roll it back by a few weeks you will see improvement because that was the sharp dip that happened for about a week or ten days. But in our case we did not see a too much of deterioration to begin with I mean obviously we had a minor deterioration in Upper Assam but at the same time in the last not just one and half weeks but I would say may be three weeks or more, three and half weeks things have improved and they continue to improve.

Raj Mehta: My second question was regarding your PAR is now and your provisioning both, so your PAR is 2.1% but your provisioning you have reduced it to 60% which actually incidentally is even lower than what you provisioned during demonetization. Even during demonetization Ujjivan as a bank had a very high provisioning which wrote off which obviously is a good practice but this time I see the color of provisioning and the amount of provisioning far lower or how does it, can you just throw some light on that?

Sneh Thakur: As far as the provisioning coverage ratio is concerned it is taken only on the non-performing assets and not on the standard book, so if you look at the entire provisioning that we have on the book is obviously was not 100% of the non-performing assets that we have as of December, but as far as PCR is concerned we have been consistently maintaining a 65% PCR over the last two quarters, and the drop as we also explained during the last call was only on account of the write offs we made on the fully provided whole micro banking assets which were on account of the demonetization portfolio and where we were making efforts of recovery so the PCR had basically dropped only because of write offs and not because of a change in the provisioning policy or a deterioration in the provisioning that we are carrying on the non-performing assets. Also to just to give you a perspective after demonetization and basically in 2019 we have seen the overall portfolio quality has been better than during the last two three years post demonetization and that also adds to how the PCR moves over the last few quarter.

Nitin Chugh: Also the book has shifted you know that time after demonetization we were 98% unsecured. Right now we are nearly 20% secured so that does not require us also to provide for that kind of PCR and this will continue to change as we add more secured assets.

Raj Mehta: Thank you. Best of luck.

Moderator: Thank you. Next question is from Rahul Jain from Credent. Please go ahead.

Rahul Jain: Thanks for the opportunity and congratulations team for the good set of numbers. Sir I understand you have been taking good number of initiatives with regards to the liability side of the book. Just two things, one what I can see is your CASA as far as quarter-on-quarter has not seen or is almost similar like while 1200 Crores have gone up to around 1237 prior to that quarter it was almost around 830 Crores so the CASA base of this quarter does not seem to be there so just needed to understand, I understand your long term objective of going up to 25% but if I look up to say next a year or so how do we see the CASA, if you could just share the details of about new initiatives which you have taken and what kind of confidence you have in building up this CASA?

Nitin Chugh: I think the first thing is that CASA cannot and should not be on a quarterly basis, it cannot tell you whether it is good or bad because you will have this quarterly situations which you know sometimes because the reporting is on end of period basis it can change, so like I mentioned earlier we are focusing more on the granular CASA and we do expect a slower buildup but that said while the medium term plan is really around three years or so, we expect the CASA to be at 25% we do have milestones around the way also, like for this year we do expect to reach at least 14% by the end of March 2020. Now again we do not want to get into lumpy CASA, we do not want to get into volatile CASA so our focus will stay on retail granular level and small ticket because that is why we are seeing a fair amount of traction including the new digital savings account. But we are very keen that our CASA is well distributed we do not have any concentration in deposits because that was also a question all of you like to ask why are our deposits concentrated to a little they were when we started off as a bank, so we are mindful of that and at the same time because we also wanted to do many more things with these customers including the new products that we are piloting. we do want a fairly long term relationship view with these customers and give them the time to build the confidence and trust with us and therefore the use of analytics, the use of data science, the use of all portfolio practices these are the larger areas in which are the initiatives are running, so since you are asking what kind of initiatives we are taking, let me highlight a few. The first one is we put out the 90 day on-boarding program for the customer. So from the time we on-board them we get them activated on our mobile app that is how the digital transactions are moved very sharply for us and they will continue to move. We are making sure that the deposit money these accounts even a micro banking customers we are doing a whole lot of literacy programs and education programs with our micro banking customers so that they understand the value of keeping money in a bank account which helps them, both from a credit point of view and you know what the bank can do with them over a period of time. Likewise for our business customers we have kind of combined our MSE thrust along with our current account strategy so we are gaining the relationship on both sides for a lot of these customers which is the liability side as well as the asset side. So a large part of current account business is now being fueled through a MSE business. Similarly for affordable housing we are trying to disburse the loans into accounts that customers would open with us. We will make some progress on that but that the whole theme really is about what would be the relationship of the customer, making sure that we have the ability to do as many products which are relevant for the customer over a period of time but starting with the gradual buildup in these transaction bank on the transaction banking side which is the account that we open. I hope that answers the question that you asked.

Rahul Jain: Sir if you could share some more granular details in terms of cost to income ratio, how are we planning to get it down, in the current quarter we are around 71% and for nine months as we say it is around 68%, any specific newer initiatives been taken to get it down apart from the growth in your income side?

Nitin Chugh: I mean initiative wise if you ask me there will be hundreds of growth, small ones, big ones, all kinds of ones, but the real theme is about building the economies of scale, because our distribution is in place now so the only thing that we following is the scale up of business, we also want to use as much as the digital platforms and technology so that the cost of on-boarding is near zero or as low as that, and likewise even on the asset side the digital workflows, not just improve turnaround time but also the cost of acquiring the customer and on-boarding the customer is going to be substantially lower for us, but what is also important to highlight is that we have more or less upfronted a lot of these investments both in infrastructure and technology and our team so the real way of extracting the economies of scale is to grow the business which is where we are focused on. We will continue to obviously keep rationalizing our cost, we will continue to work on efficiencies, productivity wastages, contract renegotiations all those usual thing that are required to be done but I think it is sufficed to say that a cost management is one of our key priorities across the bank and we are completely committed to delivering a much better cost to income over the years.

Rahul Jain: Thank you so much and wish you all the best.

Moderator: Thank you. Next question is from the line of Gurpreet Arora from Aviva Life India. Please go ahead.

Gurpreet Arora: My first question is the probability of any contingent effects of the Assam crisis we have significant experience in a neighboring state of West Bengal although state elections also due in couple of months from now or a year from now so what are the risks of contingent especially to West Bengal?

Nitin Chugh: The first thing is that if you look at the borrower level data West Bengal is right at the top in terms of the outstanding per borrower, second highest is Assam, now but if you compare West Bengal and Assam there is a sharp differences in the overall size of the market, the depth of the market and the width of the market so it is a healthy market. I think everybody continues to grow in a responsible manner in West Bengal. We are not expecting any contagious effect on West Bengal but at the same time we can tell you that we are maintaining a very alert and a cautious stance even on our West Bengal portfolio and we have in a manner slowed down new customer acquisition over the last few months, not anticipating any kind of issues but the concern that you have you also have it from where that we should be watchful, but at the moment all the indicators are looking extremely positive, extremely healthy we have no reason for concern.

Gurpreet Arora: My second question is with respect to are there any annual inspections, has already annual inspection for FY2019 commenced?

Nitin Chugh: No not yet, it is expected in this quarter.

Gurpreet Arora: A follow up to this the previous FY2018 observation, so let us say there were ten observations?

Nitin Chugh: We had clarified that at that time itself.

Gurpreet Arora: My last question is on the liability side. What would be the composition of deposits from top 20 depositors?

Nitin Chugh: We will let you know this, I do not have this off-hand but it have reduced over a period of time. I mean this I am sure you are also referring to the RBI observation from the same media report that you started to refer to and the response to that was that we had reduced to 30% over a period of time in one year's time and it continues to go down and we can come back to you with the exact number. You asked for top 20 right?

Gurpreet Arora: Yes, top 20 and in addition to that if you can also help us with the deposits from the promoters and key managerial personnel?

Nitin Chugh: I do not think we track it separately for key managerial personnel because we expect everybody to keep the bank relationship in Ujjivan itself so whatever comes is welcome but I think the promoter share of deposits Upma can tell you more about that.

Upma Goel: As far as the deposits from the key managerial personnel which we had shown as part of our half-yearly results. The data is available at part of the notes to accounts but it is not very significant that can be pulled out. Again in March we will be doing it that is normal deposits which key managerial personnel keeping money with the bank. As far as top 10 client's concentration deposit percentage is concerned it is 19% of the overall deposits of the bank.

Gurpreet Arora: And top 20 would be how much?

Nitin Chugh: 20 we do not have off-hand.

Upma Goel: 20 we will share it with you.

Nitin Chugh: We thought you will ask for 10, so we kept 10 ready, but we can come back to you with the 20 details.

Gurpreet Arora: Thank you so much. Good luck for ahead.

Moderator: Thank you. Next question is from the line of Amit Bhatiani from Canopy. Please go ahead.

Amit Bhatiani: Thank you for taking the question. Actually my question is exactly the opposite to what the earlier questioner had asked which is about the costs. You know at long term shareholders we would like to see the cost go up or in down at least in absolute terms but I would like to understand kind of what is the trajectory of this costs are going to be, we see costs kind of going up post IPO which kind of results from that, so can you just describe over the next two years, Nitin how you think about growing the bank, what kind of major heads of cost, you kind of started to get into a little bit with kind of infrastructure technology, branch opening obviously personnel, just a little more granularity around that would be great in kind of how do you see that trending, not over the next quarter or two, but over the couple of years?

Nitin Chugh: At the headline level I can tell you we expect to finish this year around 70% thereafter we would like to reduce this by 5% every year for the next three years. Now that should take us through about 55% in the next three financial years, by 2024. The things that will really going to making that happen are going to be a combination of the scale up of business and scale up of business using the digital workflows so that the cost of on-boarding and the cost of service is low. It will also be a function of improved efficiencies, productivity and at the same time I think the larger investments that we were required to make in technology most of them have been done, there will be obviously few more like we still need to invest in a data warehouse to support our analytics practice so some chunky tech investments would be required but I think as a scale would also continue to go up so those would be far more affordable for us and we would be able to provide for those costs. So we do not see any large costs. The branch expansion is more or less complete.The first wave of branch expansion is also done for us and after this we would not be adding as many branches as what we have right now we would probably be more calibrated in that approach so we do not expect the expenses would be going up substantially. On the personnel side, I think the larger focus is on efficiencies, productivity, use out digital workflows, so I also do not expect the need to be adding too many people in the same lines of businesses other than wherever we go to a newer geography or a new market or we open up a new location altogether.

Amit Bhatiani: Actually my question was Nitin slightly different, but thank you for that detail it is almost like divide Ujjivan today into steady state bank and growth bank you know you will have kind of high growth mode, you kind of outlined in your opening remark that this kind of a vacuum with all these may be perhaps many of your NBFC peers absent from the market. You know why not in the next 18 to 24 months, not worry about cost to income going down, not try to be on the right path that kind of 5% year-on-year the outline I mean that is good that is great I am sure you also there all sorts of costs that can brought in but why not go out there, take more market share, not worry so much about cost to income, cost to income is a random number that has a denominator, has a numerator, just worried more about building the banks on the higher possible trajectory you can build it, it is still very small.

Nitin Chugh: I really wish all our investors ask us this question the same way but you know I think we have a responsibility to also display that we are an efficiently run bank not just a bank which is aspiring for market share and we have stated this in the past that we would like to go 10x in the next seven years so we are completely aligned to dominate the mass market okay that much I can assure you and that is the reason we have picked these few segments where we really want to do a good job and dominate them rather than spreading ourselves thin or even going into any kind of affluent segment or the most tempting business like wealth management etc. Now I think the one thing is that how this scale up can happen between spending more money versus making use of technology, so I think we are happy to spend money on technology if it gets at the scale which is what we strongly believe in and those are the things that we tested and we do believe that that is probably one of the right ways of scaling up but at the same time I think it is our responsibility that we also display a fair amount of efficiency but I agree with you I mean at some point in time may be our early years that is really what we thought we should not worry so much about costs and we should set up the right set of practices and go to the right markets but that phase is over for us. We would be going into newer markets on a very calibrated basis so there is some costs to be taken care off but not in the same proportion what we would have done in the first two years or two and half years. So there is a philosophy difference with lots of fee nothing else, I mean there is no right and wrong quite honestly.

Amit Bhatiani: No there is not, I think, you are absolutely right, our point here is as we sit and think about next five years you got a great opportunity to grow the banks digitally data led given specifically to your background there is such a vacuum in terms of building a next data led lender and I will be fully expected to do that I mean you would not too worried about focusing on the numerator and the denominator that shows up in a quarterly financial statement.

Nitin Chugh: But I am sure you will be happy if we achieve that scale without having spend too much money.

Amit Bhatiani: I would love it.

Nitin Chugh: Thank you.

Moderator: Thank you. Next question is from the line of Gaurav Jani from Centrum Broking Limited. Please go ahead.

Gaurav Jani: Congrats on a performance for the quarter and thank you for taking my question. Firstly, I just had a question on the disbursement trajectory that seems to be sort of and you mentioned in the beginning of the call that sort of going to MFI and my first question would be in which states are we actually slowing down and if you could just give some color on why are we are doing that for the Assam is one of them?

Nitin Chugh: See the slowing down is not because of any other reason other than own conservative approach to some of these markets and they may not be in the entire state also, it could be in some places in some states and we do keep taking these kind of calls on and off, it is not like we have taken these calls only now, so just to highlight and answer to the point to your question that you have asked, we are trying to maintain a cautious stand in West Bengal, like I mentioned earlier in parts of Karnataka, in couple of districts of Tamil Nadu, couple of districts of Maharashtra and to some extent in Chattisgarh, but nothing to be worried about because these are very small market for us and at a granular level and this is just our own conservative approach.

Gaurav Jani: Sir also on the JLG mix right now which stands at about 68% versus 74% the last quarter so where shall I actually see this number going forward I mean any thought to that?

Nitin Chugh: You meant the mix between micro banking and the other businesses?

Gaurav Jani: Yes, so I look at the microfinance portfolio itself is 67.6% would be precise, 74% last quarter?

Nitin Chugh: 79% last quarter.

Rajat Kumar Singh: So this is in line with our stated objective of balancing the book by growing other businesses Base. In micro banking business we have two dominant products; one is group loan and another is individual loan so at this time we are graduating more and more customer to individual loan and that is why you will see growth in individual loan being slightly higher but in the segment we want to keep it at 50% in long term so that other businesses can contribute other 50%.

Nitin Chugh: At a bank level we do it establish a 50-50 sort of a mix in the medium term three to five years but within microfinance I think we are asking very good traction on individual loans and that is also in line with our overall relationship ownership strategy with the whole transition of microfinance to micro banking and the same customers also giving us a deposits and the rest of the work that we doing it makes perfect sense for us also to graduate a lot of these customers wherever we have the comfort and the credit history to individual loans and then in some manner this portfolio also get insulated from the other trails and regulations of the microfinance group loan issues that we come across once in a while here and there.

Gaurav Jani: Right. Just last if I may squeeze in what will be the unsecured book overlap with other segments not for the JLJ because the secured is 21% if I am not wrong and the JLJ is 68 there is some gap so just throw some light?

Nitin Chugh: So individual loans are also unsecured right, so it is 78% micro banking is all unsecured, our MSE like we said we are only doing secured so there is a very small book of unsecured which is running off on its own, affordable housing is all secured.

Gaurav Jani: Okay, so micro individual loan is what is unsecured is what you mean?

Nitin Chugh: Yes.

Gaurav Jani: That is it from my side.

Moderator: Thank you. Next question is from the line of Renesh Bhuva from ICICI Securities Limited. Please go ahead.

Renesh Bhuva: Thanks for taking my question and congrats on great set of numbers. Sir couple of questions, one is on the our branch banking piece, so what is this broad strategy, I mean so we of course we have a detailed roadmap to improve the efficiency at the branch level but if you can just throw some light on how we are, what initiatives we have taken to increase our wallet share only liability customer so that is how we will actually increase the branch profitability so if you can just throw some light on that on the retail customers mining?

Nitin Chugh: See the first thing is that branch banking alone cannot increase the wallet share unless we offer those products on all our branches so that is a first thing we are trying to do. That is we make all our products available from all our branches which I have stated earlier. The second thing is that we do not want to go all over the place, we want to retain our focus sharply on these seven eight segments that we spoke about, which are generally in the towards the vicinity of the branch so that we do not have to go very far considering that we do not have outside ATMs, we have mostly captive ATMs even though we are trying to move customers to digital transactions but the cross sell pipeline that we want to build is going to be led through a systematic way of on-boarding customers, getting them to transact and then by very heavy duty use of analytics to be able to recommend the right kind of products for that. Now this is a long term strategy. In the short term, you can go to a deposit customer who is probably banking with us for the last three months and offer a personal loans example or salaried customer but then the ability to underwrite that customer differently from an open market customer is not very clearly established unless we have enough and more transactions. So we want to build in the transaction behavior we want them to use a digital channel so that we have enough and more rich data to run the data science and then come up with all kinds of variations of pre-approved loans and because we have digital work load it will be far easier for us to serve those kind of products also at a much lower cost but the whole relationship-ownership happens over a period of time and right now we are in a phase where we are building the first set of the levels of comfort with our customers by making sure that they are given right kind of service, the right kind of experience, they are on-boarded the right manner, they start to use our app, we take their feedback, we give them all the relevant products, we get them on-boarded to use UPI, we give them on-boarded for bill payments, so these are the easier things that we are trying to do as part of the on-boarding framework in the first 90 days. And there we had good success and we are also seeing a correlation between the buildup and the intervention that you have kind of programmed. Over a period of time the cross sell strategy will also fold into the same roadmap so when we go beyond 90 days into 180 days 360 days there will give many more things for us to offer these customers based on the data science.

Renesh Bhuva: So Sir just a follow up on that so basically as and when we start our cross selling exercise, do you think the competition on the retail asset side where you know all the large banks and all the players specifically PSBs also would be pretty much aggressive on those segments also so on retail liability side it is understood that because of the higher rates or better doorstep services, customer might prefer us over others but when we start cross selling the asset products where we will see competition from the larger players so what is your thought on that, I mean does interest rate matters to those set of customers where we have our niche or how it could play out Sir?

Nitin Chugh: See it is a very simple thing actually. The reason why we want to focus on building the transaction behavior with us is so that the customer does not have to look at any other option and there is enough and more thrust and confidence built in our relationship. Now as far as pricing is concerned I think for the segment of customers that we want to focus the pricing is not very different from the larger banks or the public sector banks, everybody more or less operation in the same size band in terms of the rate of interest on the asset side. So we do not believe that we will have any significant competition. In any case you know that our focus on overall liabilities, build up our cost of funds is also going to be lower progressively. Now when that happens the ability to use the digital work flows and the ability to serve the same product to the cross sell mechanism in a much faster manner as compared to somebody else will also be a strength for us, that if you have the transaction behavior. So yes there is going to be a competition. There is competition even in the affluent segment today. There are always parts of portfolio which unbundled and like to deal with the other players and they want to go into different things to different players for different considerations but I think we will be a mindful of that fact and that is why we want to keep a very clear long-term focus on owning the relationship. In fact we have launched something called life event based program for our customers and that is how the customer management policy and the program and the portfolio management will also got aligned, that how do we actually manage the customer for the entire life, not just from a point of view of opening the deposit relationship and then doing a few cross sell intervention and then leave it a back, so we are looking at a very long term relationship context and at that point of view, we will stand out one in terms of the tech superiority, the turnaround time, we will be competitive on rates and we will be certainly score very high in terms of transparency and overall service quality with our customers, so yes we would like to see what competition does but it is okay if it is going to be competition, we would try and protect our portfolio to the extent that we can.

Renesh Bhuva: Thanks a lot for the detailed explanation Sir. Just a last question on the growth side on the loan side, of course I mean we have been hearing very sluggish sort of commentary all over place, right from RBI to newspapers so Sir just wanted to, your sense on, what is the ground reality in terms of where the all people go to the market is there a real credit demand is happening or it is just the market share shift which is helping the smaller player to grow their book a much, much faster than the industry growth?

Nitin Chugh: You have to slice it into various parts of the economy. The large parts of the economy are obviously slowing down. We are not present there. The affluent parts of the economy are sitting on cash so that is the segment we are not present, we do not aspire to be present in also but the segments that we want to operate in there is no significant change in demand, okay so let us start with micro banking. Micro banking there have not been any change in the demand, if at all the lenders are become cautious and more conservative but from a demand point of view there is no issue. It does not even get impacted with any of these macro issues that is happening. Look at MSE, I think the demand is always there and there is always good quality credit also available it is only a matter of who has the better way of underwriting good quality versus somebody who does not have that ability I think we have the ability to underwrite very good quality credit so we have a clear view that there is no problem with the demand on the MSE side as well. Affordable housing, there has not been any slow up in demand, in fact, there is a consistent demand and we operate in Tier II, Tier

III cities, we do not operate our affordable housing business so much in the metros and we are seeing actually a stepped up demand for ready purchase units in the affordable housing segment that is what our portfolio shows, so even there we believe that lot more to be done, lot more can be done there is no problem with the demand. Now things change after three years or earlier than that we will have to take stock but right now we are not worried about any change in the demand.

Renesh Bhuva: Basically the customer segment with you guys operate is kind of immune from what we are hearing?

Nitin Chugh: It is not immune. I would not say it is immune like if you are down the line the supply chain fellow, third level, fourth level connected to a large enterprise in the MSE segment there is an impact, it is not to say that nobody is getting impacted but we are taking those careful decisions to say that okay which are corporates that we do not want to operate in, so we have a cluster based approach even to MSE business you know where we try and understand the nature of business in a cluster and then try and see that business is lesser or more impacted by any of these macro things. For example, the favourite topic for the last three four quarter is being the automobile industry. As the automobile industry is showing any signs of contraction in demand at the headline level the last fellow in the supply chain is also getting impacted, so we are seeing away from that segment even though there is demand.

Renesh Bhuva: Got it Sir. Thank you so much. That is it from my side.

Moderator: Thank you. The next question is from the line of Abhilash Hiran from Puranrtha Investment Advisors. Please go ahead.

Sonia Lalwani: Sorry for asking on the same question with the earlier participant asked for the disbursements but I would really like to know why the disbursement growth has really slowed down that states that you mentioned so these are the most important states for us, so what exactly are we saying why are we slowing down? What is the stress that is been seeing in Karnataka, Tamil Nadu, Maharashtra etc.?

Nitin Chugh: See like we mentioned Sonia slowing down does not mean shutting down so we are not slowing it down to a closure. We are slowing down temporarily because we are trying to either react to a situation like in Assam or we are trying to preempt more cautious sort of approach to some things that we are observing there may be in control right now but we just do not want things to go out of hand, so now since you brought a Karnataka, Karnataka there is a problem only in couple of districts, not in all of Karnataka. Now we are just maintaining a cautious stance there so we slowed down new customer acquisition, we take a more tighter credit underwriting approach to even the repeat loans. We step up on our collections effort. Now these are the logical ways that you would want to be on a proactive basis want to address something which we for right or wrong reasons we believe is a potential problem in the future. Now we hope we are proved wrong and it is not a problem there is no harm in recalibrating on a temporary basis. So slow down does not mean a permanent slow down and a permanent shut down. It is not that we are exiting those markets. But I think it is prudent on our part to maintain this sort of a stance and that is also a good strength that we have that we are so diversified that we have the chance to keep switching off a few buttons switching on few buttons that were because there is so many on the dashboard for us. So even if it is a couple of districts in one state it can always be made up from another state, and other set of districts and other markets and it is not like we are not seeing demand to go up or where we are also willing to step up. There are so many states where we are willing to step up and we are not seeing any problem at all. I can give you examples of those states also which are high growth states. So our view that we are trying to convey things are looking up but given our track record in managing credit costs and credit quality we do believe in maintaining a bit of a conservative stance, which I think we are pretty happy with.

Sonia Lalwani: Sir how are you seeing these states shaping up in this and in January as compared to December, have you increased your disbursements, are you now okay with the whatever happened in December or is there any improvement?

Nitin Chugh: I will tell you at the end of the quarter but January since almost 22 days are over I think we are having a good month, there is no problem but I think we will share those numbers at the end of the quarter but this quarter we are very optimistic.

Sonia Lalwani: Okay, fair enough Sir. Thank you.

Moderator: Thank you. Ladies and gentlemen this will be the last question for today. The next question is from the line of Jignesh Shah an individual investor. Please go ahead.

Jignesh Shah: Congrats on a good set of numbers. Just you had already thrown some light, so just wanted some more granular outlook or what you can say on the CASA ratio as you said will be you are targeting 25% in a medium term and by let say 15% by the end of the year so how is the moment so what is the customer and what is the base actually you are targeting on some more light can you throw on that?

Nitin Chugh: I should have probably answer that in a more descriptive manner so there are four, we have a four grid between our segments our channel and the product offering and it is like four sort of a grid so we have a combination of segments which are addressed by branch banking, by the task channel, by our FIG business and also by our micro banking. And outside of this is our digital capability which I explained that we launched the digital savings account is doing very well for us in the pilot phase and we want to scale that up. So the new customer acquisition is going to happen from the mass market and the identified segment using all these channels. At the same time, we have a right kind of product fit for each of these segments you know whether it is the current account variants or the savings account variants or the salaried account variants so I think from a product point of view they all covered. From a portfolio and customer lifecycle management that is where we are going to be using and we already have started using a lot more data science so that balances in a very calibrated reasonable manner so that they stay sticky with us so they are not volatile in nature and at the same time just to make sure that we have a good way of wrapping this together especially for our customers on the micro banking side we are also doing a good amount of, there is a lot of effort on the whole financial literacy and how we are helping these customers come up on the financial literacy and digital literacy side. So it is combination of all this, this is really where we are confident that the number of customers will go up across all the segments, we will have good quality transactions we will make sense and would be able to make them use a digital channel and at the same time our focus on the entire lifecycle we would have very meaningful interventions both using data science and technology and our channel which will help us own the relationship over the period of time. So they build up from 14% or whichever number to 25% and this is very well calibrated and we have plans by segment by channel by product category by geography by region whichever you want to cut and those are giving it shape.

Jignesh Shah: One more question on the ROA front so I think the ROA quarter-on-quarter has gone down so what will be the target for the year and what will be targeting going ahead with medium term?

Nitin Chugh: It has gone done because we raised capital so that is the reason 28.3%, we believe capital is for two and half years. What we have indicated in the past is that in the medium term again three to five years time we should be in the range of 17% to 18% in the ROA. It is difficult to say right now.

Jignesh Shah: Thank you Sir and all the best.

Moderator: Thank you very much. Ladies and gentlemen I will now hand the conference over to Mr. Nitin for closing comments.

Nitin Chugh: Thank you Abhishek. Thank you everybody on the call, it is great talking to all of you.

Abhishek Murarka: Thank you Nitin for the opportunity. It has been our pleasure and best of luck for the following quarter.

Nitin Chugh: Thank you very much.

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