"Ujjivan Small Finance Bank Q2 FY25 Earnings Conference Call"

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MODERATORS:	**MR. RIKIN SHAH - IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Ujjivan Small Finance Bank Q2 FY25 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 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, Neha. Good evening and a very warm welcome to Ujjivan Small Finance Bank 2Q FY25 Results Call.

To discuss the business strategy and outlook post the results, we have the entire management team of Ujjivan Small Finance Bank.

The Management Team is represented by Mr. Sanjeev Nautiyal – MD and CEO; Ms. Carol Furtado – Executive Director; Mr. Martin P.S. – Chief Operating Officer; Mr. Ashish Goel – Chief Credit Officer; Mr. Vibhas Chandra – Head (Micro Banking) and Mr. Barun Agarwal – Deputy CFO.

With that, over to you Mr. Nautiyal for your opening remarks.

Sanjeev Nautiyal: Thank you so much. Good evening and welcome to our Q2 FY25 Earnings Call.

Total disbursements during the quarter were at Rs. 5,376 crores, slightly better than Q1 FY25, up 2% QoQ, but lower with respect to Q2 FY24, that is down 6% YoY. This resulted into loan book growth of 14% YoY and marginal 1% QoQ at Rs. 30,344 crores as of September '24. Q2 FY25 has been a relatively slow quarter compared to previous ones. This was an outcome of expected reduction in business volumes due to implementation of MFin guardrails and our heightened caution around the microfinance segment. While growth might be visibly slow on the overall book, performance remained robust in the secured portfolio.

Affordable housing business, our second largest asset vertical disbursed Rs.758 crores during the quarter, higher by 40% YoY and 70% QoQ. This made the affordable housing and micro-mortgages book grow to Rs. 5,784 crores as of September 24, adding a book of Rs. 585 crores versus June 24 and registering a book growth of 43% YoY. Systematic group marketing activities across regions, penetrating deeper in select markets with better per capita income, stronger ground team, better connect with customers, and diligent customer retention plan have added to improve business. Micro-mortgages portfolio, a part of housing portfolio, continues to grow stronger with each quarter. This is approximately Rs. 400 crores book now as we speak from Rs. 76 crores in September '23. Customer, branch, and staff referrals added an edge to the business growth. Around 60% plus of the overall disbursements in micro mortgages happened via referrals.

MSME business has now stabilized with all its products, policies, and systems in place. Disbursements have picked up and will continue to see an uptrend QoQ.During Q2 FY25. MSME vertical disbursed Rs. 216 crores versus Rs. 130 crores in Q1 FY25. This resulted in achievement of a book of Rs. 1,514 crores up 5% YoY/7% QoQ, adding Rs. 100 crores of incremental book in H1 FY25. To further strengthen the product suite, we have introduced Elite LAP product in addition to the base LAP offering, and this is helping in increased business volumes. In Q2, we also launched Bank guarantees and the working capital term loan variant, making our working capital offerings comprehensive and full stack. Apart from growing the book, our focus is also in managing asset quality of this portfolio. Our revised MSME strategy has resulted in a better quality, growth, mix and health of the portfolio.

Our FIG book as on September 24 was Rs. 2,042 crores contributing 7% to the total asset book. This book grew by 57% YoY and 13% QoQ and continues to scale as per the strategy of increasing the secured book of the bank.

Vehicle Finance streamlined its business process and strengthened infrastructure in the last quarter and made full use of the upgraded capabilities during Q2 FY25, disbursing Rs. 82 crores leading to a book of Rs. 262 crores up 105% YoY and 20% QoQ. The team is poised well to drive higher business in the upcoming festive months by capitalizing on upgraded technological enablements, dealer tie ups, partnerships, offering competitive rates and better utilizing cross-sell avenues. Similarly, Gold loan business has expanded well, currently being offered from 162 branches across the country and targeting to cover over 200 branches by end of next quarter. Disbursements have been rising incrementally month-on-month and over 40% of the monthly businesses coming from referrals. This has led to a book of Rs. 62 crores growing over 100% QoQ. Going ahead, special focus will be on process enhancements and introducing products and features to better serve our customers.

Our secured portfolio as at September 24 is 34.9% of the total book. The strong growth in the secured book has led to a faster progression towards 60%-40% unsecured-secured book mix. We anticipate that secured book will reach around 40% by end of this financial year. Bank has always followed a risk-calibrated approach. In order to de-risk the portfolio, we had diversified our product suite and continued to make steady progress by offering relevant products to our customer segment. In the last 18 months, we have introduced products like micro-mortgages, gold loans, two-wheeler loans, agri and working capital SME Loans. And it's good to see that these five products alone now contribute 6% of the quarterly disbursements in Q2 FY 25 vs 4% in Q1 FY 25. With this portfolio growing 29% QoQ and 3X YoY.

Let me now come to microfinance:

As mentioned in our Q1 Earnings Call, the microfinance segment has seen some challenges, and the situation continues to evolve for the FY ‘25. This is our current understanding. We believe that business revival on a reasonable estimate will only be visible from Q4 FY25 onwards at the earliest. To steer through this, we have devised a prudent approach and restricted disbursements to New to Credit (NTC), and stop new customer acquisition in problematic clusters of some states.

We have cautiously acquired only 1.5 lakh new group loans and individual loan customers during the quarter, who had demonstrated better credit behavior. Our approach during this quarter was serving good quality repeat customers.
Additionally, we have also introduced stringent norms for

- New-to-bank customers with 3 existing MFI lenders, 1.5 lakh MFI exposure for all new-to-bank sourcing.
- Pincode/center wise decisioning for repeat loan and top-up loan is in place.
- We continue focusing on the graduation of good customers from group loans to individual loans. (Around 90% of the overall individual loan book is from this migration).

Due to these factors, we will continue to see a degrowth in our group loan portfolio for this year, which will weigh down our overall portfolio growth. We have enhanced our focus on building the individual loan portfolio which continues to show much better health and prospects. We will strive to achieve the lost ground to some extent from our individual loan segment and other businesses.

Coming to liability business:
The total deposits grew on a strong retail footing to Rs. 34,070 crores, up 17% YoY and 5% QoQ. Retail deposits at Rs. 24,746 crores now constitute 73% of the total deposits having grown 32% over September ‘23.

Our deposit strategy emphasizes on increasing the wallet share of existing customers, along with quality acquisition of new customers through a mix of physical and digital reach. Focus on providing solution-based approach continues, and accordingly, we have created the products and features which are relevant for the segment, like introducing non-resident Maxima in Q2 FY25, a variant of Maxima account launched last year. We also introduced Navratna family program focused towards HNI customers and their families. We are targeting relationship management to ensure that at least three to four products/services are added to each customer. This has also added to improvement in ticket sizes and stickiness of the customers.

CASA Book at Rs. 8,832 crores now forms 25.9% of total deposit book, is up 26% YoY and 6% QOQ. Value-add products are showing healthy traction. Maxima SB book stands at Rs. 1,323 crores with 21,000 plus accounts as on Sep’24 with average ticket size of Rs. 6.17 lakhs. Our strategy is to keep enhancing our offerings. In line with this, we had applied for AD-1 license and I am happy to share that we received the RBI approval and secure the license earlier during the month. This will enable us to offer full-fledged bouquet of products and services, like engaging in retail foreign currency deposits, remittances, currency exchange. We shall also engage in foreign currency transactions, borrowings, and in trade finance offerings. This will lead to an incremental avenue of other income, aiding our P&L and also widening of our MSME product offerings.

On asset quality, as mentioned earlier, we are observing stress in the microfinance segment, due to which our PAR has increased to 5.1% in September 24 vs 4.2% in June 24. PAR 0 for our group loan portfolio has increased to 5.5% in September 24 versus 4.1% in June 24. In Q2 FY25, we have seen credit cost of Rs. 151 crores vs 110 crores in Q1 FY25. Due to this, we anticipate full year credit cost may now be around 2.3% to 2.5%. We are strongly monitoring our portfolio quality. GNPA/NNPA as on September 24 stands at 2.5%/0.6%. Slippages for Q2 FY25 were at Rs. 243 crores vs Rs. 192 crores in Q1 FY25.

During Q2, slippages in the microfinance book are at 0.99%, while in secured book, the slippages remain steady at 0.40% for the quarter, same as in Q1 FY25. We have written off Rs. 140 crores during the quarter. We continue to focus on collections and have ramped up the collection team by adding over 300 personnel during the quarter, taking the count to 2,200+. Bad debt recovery continues. Rs. 25 crores was recovered in Q2 FY25. Our target is to collect over Rs. 100 crores this year.

On financials and margins, the NIM for the quarter is 9.2%. Yields on the overall portfolio have declined marginally due to the growing mix of secured portfolio. We are likely to see further compression as secured book will continue to grow at a faster pace. Cost of funds for Q2 FY25 at 7.5% remains at similar levels vs last quarter, going to focused approach on growing retail deposits. Operating cost for the bank is a key monitorable. Cost to income ratio for the quarter ended at 60%. Our objective is to keep this in control in the upcoming quarters. PAT for the quarter was Rs. 233 crores and subsequently ROA and ROE for Q2 FY25 is 2.2% and 15.7% respectively. Similar softness and return ratios will be visible for the full year, FY '25. However, we are very confident that once the microfinance business springs back into a growth trajectory, ROE of 18% to 20% is achievable for next year FY '25-26.

Last but not the least, I will want to highlight my key areas of focus for the coming quarters. Microfinance is the largest portfolio for the bank. We shall continue to do well in this segment once situation normalizes. Profitably expand the non-microfinance secured portfolio.

A) we are giving heightened focus to growing the MSME book. Green shoots are visible in our portfolio, and we are confident that MSME book will do very well.

B) scale up vehicle finance, gold loan, and agribusinesses.

C) continue to expand our housing loan and micro mortgages portfolio.

D) our objective is to make the bank a retail deposit franchise with continued focus on growing CASA, Ujjivan will see stronger growth in this business ahead.

E) Lastly, on the other income, we will garner avenues to enhance our other income. Special focus will be on product services. Just as we added AD-1 license, we also will be adding mutual fund distribution and ASBA facility during this financial year in addition to other insurance product offerings.

I end here and handover to the Moderator, Mr. Shah. Thank you. Over to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Sir, your credit cost guidance of 2.3% to 2.5% implies maybe further worsening of trends in Q3 and then even elevated provisioning continuing in Q4. So, have we seen absolutely no improvement in October in terms of collection efficiencies in the NDA account? And if you can also give more color on the microfinance portfolio in terms of what percentage of portfolio would be borrowers having, 4 plus loans and indebtedness of more than 2 lakhs. And then what percentage of this pool is already in SMA and NPA?

Ashish Goel: In Q2, our non-delinquent portfolio, which is the regular portfolio, saw a collection efficiency of 99.23%. And in October, the first few days, there were holidays. But we are seeing a much better NPA collection efficiency in the month of October compared to the month of September. Of course, there are about seven days for the month to end. But the initial trends of the first three weeks are much better than the month of September. So, we are seeing improving collection efficiency. And we hope that in this quarter, our collection efficiency in the non-delinquent portfolio will reach back to Q1 levels. Your second questions, so we have about 7% of our borrowers in 4 plus lenders. And the slippages on that was higher than the borrowers with one, two, or three lenders. The overall slippages from there is about 4% or 5% higher than the regular ones. I will just give you the right numbers on that.

Rajiv Mehta: And the second question is on, has there been any change in the write-off policy which led to higher write-offs? And what is the reason behind reduction in tier one capital in this quarter?

Ashish Goel: There has been no change in the write-off policy. However, we have written off about Rs. 50 crores of our Assam portfolio, which was NPA since 2019, that is about Rs. 50 odd crores and that is, you know, we were carrying that as a NPA portfolio not written off. That is one additional write-off that we have done during this quarter.

Barun Agarwal: We have paid dividend during the quarter that has resulted into a dip in the capital adequacy ratio of Rs. 290 crores.

Ashish Goel: The question on slippages, about 10% of our slippages comes from 4 plus lenders. So, the contribution is 7%, and the slippages are about 10%.

Moderator: Thank you. The next question is from the line of Renish from ICICI Securities Limited. Please go ahead.

Renish: Just two questions from my side. So, let's say on the individual loan side, we have been growing this book a quite aggressively since past many quarters. And as you rightly said, 90% of these customers are actually migrated customers from the JLG book. So, what are the current trends in debt book, and do you foresee asset quality sort of worsening in debt book also in the second half?

Ashish Goel: When we were taking precautionary measures during the first and second quarters of this financial year, we also slowed down the growth of our individual loan portfolio. The group loan to individual loan migration is about 90%, as rightly mentioned. So, the slippages and the NPA of individual loan is much better than the group loan portfolio. So, the impact has been largely on the group loan portfolio. If we look at the September numbers, IL GNPA is below 2%. And that gives us a lot of comfort that the IL portfolio can be grown much more comfortably. And therefore, we continue to focus on that portfolio.

Renish: And would it be possible to share a similar data point for IL book customers as well, like customers with more than 3-4 lenders?

Ashish Goel: In IL, these customers have mostly relationships with Ujjivan. However, we can come back to you whether our customers also have loans outside, if that is what you're referring to.

Renish: Yes.

Ashish Goel: Okay, we can come back to you on that.

Renish: And secondly, on this credit cost guidance, we have been saying that for the full year our credit cost will remain 2.3% to 2.5%. And when we look at the first half trend, it is broadly 1.7%-1.8% type. So, which naturally means that second half will be more elevated, maybe 2.7%-2.8% type. And when we look at the collection numbers, or even in your opening remarks, you are highlighting that our collections are better. So, actually I am not able to connect the dots. At one end, we are saying things are improving. And on the other hand, we are increasing the credit cost guidance.

Ashish Goel: Credit cost typically comes with a 90 to 180 days lag from the date when a customer has gone into delinquency. So, what we were referring to is an improved collection in the non-delinquent portfolio. However, we have seen 99.23% of non-delinquent collection efficiency in Q2. When these customers get into 60, 90, 180 DPD, that is where the credit cost will start to pick up for this set of customers. So, for Q2, whatever has moved into delinquency, the credit cost would be an outcome of that number.

Renish: Then this collection efficiency has no meaning, right? Because it is ex-bucket collection. So, why can't we start giving ex-arrear collection as well?

Ashish Goel: Ex plus arrear collection is 106%.

Renish: No, I am saying collection excluding arrears.

Ashish Goel: You are talking about non-delinquent plus the delinquent fee?

Renish: Correct.

Ashish Goel: That is 97%.

Renish: But that includes overdue collection as well, right?

Ashish Goel: That includes overdue collection, that is right.

Renish: Yes, so I am saying excluding overdue collection.

Ashish Goel: The way we measure our collection efficiency, and this is what we have been putting up on our deck as well, is we have non-delinquent portfolio collection efficiency, which we mentioned in 99.23%. And overall collection, which is due vs collection, at 97%. The additional collection, which could be prepayments or others, that's a separate number. Including that the number goes up to 106%.

Moderator: Thank you. The next question is from the line of Ashlesh Sonje from Kotak Securities Limited. Please go ahead.

Ashlesh Sonje: Firstly, on the MFI book, just wanted to get a sense what proportion of the overall MFI portfolio of Rs.193 billion which you have, what proportion would be outside the scope of the MFin guardrails?

Ashish Goel: So, we have about 7% of borrowers who have 4 plus relationships. So, this translates to 93% which have 3 and below.

Ashlesh Sonje: But would you need to abide by those guardrails for the full 100% of your portfolio? Because some of these borrowers might have incomes, let's say above Rs. 3 lakhs. So, technically they won't qualify as microfinance from a technical definition perspective, and you might not have to abide by the MFin guardrails for that set of customers?

Vibhas Chandra: We have customers with family level income is more than 30,000. And yes, you are right, technically we don't need to abide by the MFin guardrails, but we decided that we will go ahead with that. Earlier also we were using it, and after implementing the guardrail, and our own guardrail is actually stricter than MFin's guardrail, which is implemented for both customers having less than 25,000 income and more than 25,000 income as well.

Ashlesh Sonje: Secondly, you mentioned the slippage number for the quarter at roughly, I think Rs. 190 crores if I back calculate based on the number you have given. Firstly, is that correct? And also, can you give a corresponding number for the previous quarter? The MFI slippage number?

Ashish Goel: So, it was Rs.192 crores for the previous quarter and Rs.243 crores for this quarter.

Ashlesh Sonje: Just one clarification. You mentioned a number of 7% borrowers who are 4 plus. So, that is 5 or above, right? 5 or more lenders, right?

Ashish Goel: 4 and above.

Ashlesh Sonje: That includes 4 as well?

Ashish Goel: Yes, it includes 4.

Ashlesh Sonje: Okay but the MFin guardrail still allows 4 lenders right?

Vibhas Chandra: Yes.

Ashlesh Sonje: Would you have a number for borrowers?

Vibhas Chandra: It's around 7% number that we're seeing, it is 4 and above. This includes 4 also.

Ashlesh Sonje: Would you have a proportion of borrowers who are associated with 5 or more lenders because that actually would be the ineligible set of borrowers, right?

Carol Furtado: We are a little aggressive on that and that's the reason why we count 4 and above.

Ashish Goel: So, we don't have 5 and above as of now. We have been only working with 4 and above because that is something that is the reason for us to worry. Five and above is anyway out of the consideration set.

Moderator: Thank you. The next question is from the line of Shailesh Kanani from Centrum Broking Limited. Please go ahead.

Shailesh Kanani: Just one question on the miscellaneous income side, there seems to be a QoQ a sharp jump. So, wanted to understand and get some color, what is the reason for this jump up and because in the comments say and in the PPT it's foreclosure, late payment and other charges. So, how sustainable it is, just wanted to understand that?

Barun Agarwal: Yes, we have introduced new MAB charges for customers in quarter one that has resulted to the spike by Rs. 12 crores in the miscellaneous income. There's a quarter-on-quarter spike is Rs. 12 crores.

Shailesh Kanani: Sir, I didn't understood. Which charges, you said?

Barun Agarwal: MAB, minimum account balance charges. Non-maintenance of MAB charges.

Shailesh Kanani: So, it is quite sustainable, that is what you're saying?

Carol Furtado: Yes, we will continue charging customers who do not maintain their minimum balance in their accounts.

Vibhas Chandra: Obviously, because this maintenance charges were not there, and we introduced some time in last year and we gave some time and after that we introduced, and charges came in. But with time it will little go down because starts maintaining balance. So, the numbers will slowly decline but it will still be there in every quarter.

Shailesh Kanani: Second question would be on micro mortgages. We have a decent exposure over there and that book is also ramping up. So, any overlap between two products, MFI and micro mortgages what we have in our portfolio? And any issues in terms of asset quality over there?

Ashish Goel: We built a book of Rs. 300 crores over the last 18 months. About 50% of this book comes from individual loan customers who graduate to micro mortgages. In this book, we have not allowed new to credit. In fact, new to credit is only 1%. Everybody else has a history, a bureau history. And the bureau cutoffs are quite high. As of today, we see on-time repayment of 99.5% and full month repayment of almost 100%. In fact, only 9 or 10 customers out of 8,000 customers are in delinquency. So, we are maintaining this very tight monitoring on this portfolio.

Shailesh Kanani: Just last question from my side. So, can you just reiterate the revised guidance if you can? Because last time we have given guidance of growth of around 20%, similar growth for deposits and we have already revised the credit growth guidance. How about ROE, if you can share those three numbers?

Sanjeev Nautiyal: So, actually, on the business side, we are saying that our secured portfolio will grow by 40% plus. Our individual loan in the microfinance book would grow by 17% for the full year. We are not penciling on the microfinance group loan growth or degrowth, because we feel that it is still ambiguous, clarity is still not there. So, we refrain from you know giving you guidance on that and therefore the return on equity is going to soften as you would have seen in the results that we have shown for the half year and again this will be subject to how bounce back we see in the group loan business that will actually decide where we actually zero in. So, on the business side, this is what we say, the credit cost we have already set 2.3% to 2.5%. Secured book would be around 40% to 42%.

Moderator: Thank you. The next question is from the line of Somil Shah from Paras Investment. Please go ahead.

Somil Shah: Is there any update on the Universal Banking License?

Sanjeev Nautiyal: This matter is under active consideration and once we do that, we would announce it and let you know about it.

Somil Shah: Can we expect it in this quarter?

Sanjeev Nautiyal: It's work in progress. This financial year seems likely.

Somil Shah: And sir, we do have a floating provision of Rs. 250 crores. So, why are we not utilizing it to reduce our NPA?

Ashish Goel: The floating provision can be utilized only in extraordinary circumstances with prior approval of RBI. And therefore, when we took the floating provision, we have taken it for an event which is unforeseen, something like a pandemic or something which disturbs the portfolio quality. We don't use it on a normal basis. Currently, we have utilized it only for PCR computation and NNPA computation. And we still have Rs. 100 crores of unutilized floating provision. We will keep it at this level and as and when required we will use it.

Somil Shah: Last question from my side. So, in the first half, our loan book has grown by a mere 2%. So, now what can we expect to close this loan book by the end of this year?

Sanjeev Nautiyal: I think I just now highlighted how the book is going to pan out. Secured book overall, which is gold loan, vehicle loan, housing loan, micro mortgages, MSME, and agriculture, that will grow by 40 plus percentages, more than 40% for the full year. Individual loan in the microfinance book will grow by 17% for the full year. We are not announcing anything on the group loan side in the microfinance book, because we find that the situation is still very fluid and evolving. And therefore, that number we frame from zeroing in, and the other parts is as I just now suggested to you.

Moderator: Thank you. The next question is from the line of Jay Prakash from L&T India. Please go ahead.

Jay Prakash: I have two questions. Like you said that you have stopped business in most of the clusters where the business has impacted and which strategy you are following there for collection?

Ashish Goel: We have some branches which we call stressed branches. And in those branches, we have put restrictions on growth. And these restrictions on growth are not acquiring new customers, not acquiring new to bank, new to credit customers. As and when we find that customers are showing some signs of delinquency, not giving them repeat loans, no top ups etc. So, these are the kind of restrictions we have put for branches which are showing higher signs of stress.

Vibhas Chandra: If I heard you right, we have not stopped business anywhere. Repeat customers, we have over 40 lakhs borrowers. And at this point of time, in turbulent time also, over 81 customers are paying on time, on date. And they have good eligibility in repeat loans. So, we are serving our existing customers to repeat loans and graduating them to IL.

Jay Prakash: May I know the clusters and which locations are majorly impacted among the states?

Ashish Goel: Okay, this is actually done at branch level. So, we have branches which we find, as I was referring, that these are stressed branches. And that is where we have put restrictions on new acquisitions as well as servicing customers with higher loan sizes or showing signs of stress. So, this is across all states. There could be some branches in Western UP, some in Kerala, some in Gujarat, some in Tamil Nadu, and some in Punjab and Haryana, spread across 5 or 6 states.

Vibhas Chandra: So, just to clarify, once again, we have not stopped business anywhere. We have large number of customers in each branches. We are serving customers, existing customers with repeat load and other products.

Sanjeev Nautiyal: The restriction is only for the kind of customers that we do not want to onboard. Otherwise, the disbursements for the welcome kind of customers is still going on.

Jay Prakash: The second question is that you told that you have something done at pincode level to understanding the opportunity, right? So, whether there is any kind of calls like scorecard at pincode level you have been implemented?

Vibhas Chandra: This is something which is old practice. It is not something new that we have developed during this or trying to do during this turbulent time. This we are doing for years, I think starting from demonetization period, where we not only during the branch opening, we understand the pincode information to understand the credit behavior, but also we do it periodically for all branches we are operating and the pincodes we are operating. And based on the performance of the pincode, we fine tune our credit policy for each branch.

Jay Prakash: But have you done any hard calls on the suggestion basis of pincode or stop any pincode sourcing? Is it like that?

Vibhas Chandra: In pincodes you have a good number of borrowers. But in these pincodes we become cautious. We stop certain products which we feel that is not suitable for the pincode. Those actions we take, we don't stop business in a location because we are present there and we are serving customers there. But we take credit decisions there based on the performance of the pincode.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus Capital. Please go ahead.

Shreepal Doshi: My first question was which are the states where we have seen the collection efficiency being relatively better and which are the states where we are seeing the collection efficiency being lower than your average collection efficiency of 97%?

Ashish Goel: Hi, Shreepal. Like we had spoken last time also, we have the top five states, which is Tamil Nadu, Karnataka, Bihar, West Bengal and UP. Of the five states, we find that our collection efficiency is not at PAR in Tamil Nadu. In other states, we find that the collection efficiencies are 99.4% and above. In fact, in Karnataka, the number is 99.7%. Bihar and UP continuing to be in the range of 99.4% to 99.5%.

Shreepal Doshi: Sir, sorry your voice was not clear. So, are you saying that in the top five states, our collection efficiency is above 97%?

Ashish Goel: I was talking about the collection efficiency for the regular customers, non-delinquent customers. There I was talking about Tamil Nadu being not at par, but all the other states have 99.4% to 99.7% which is Bihar, UP, West Bengal and Karnataka.

Shreepal Doshi: Just one aspect that I wanted to understand on the customer identification side, related document side. So, how are we, on that end, what documents do we take and what is our processes?

Vibhas Chandra: So, we acquire 100% customers on the basis of eKYC. And that is something which is the most safest way to acquire customers and have full kYC.

Shreepal Doshi: We have that license already sorted.

Vibhas Chandra: Yes.

Shreepal Doshi: And the one last question was on the margin side. So, since the share of secure portfolio is inching up and the growth in the segment is in the second half also is like very, very strong, where do you see the margin stabilizing for the year?

Sanjeev Nautiyal: So, margin compression will happen because the secured business will grow at a faster pace and softness and return ratios would be visible for the full year, FY '25. So, the previous guidance will be missed and therefore in the medium term if you say 18%-20% ROE from next year onwards is very much under our radar. But for this year, we would not like to commit to any specific number because the microfinance book actually is a big book and therefore, we want to be more sure on how it is going to pan out.

Shreepal Doshi: Even on margin front because of the MFI book being larger book, we are not giving a specific number.

Shreepal Doshi: And on the NIMs.

Carol Furtado: Currently I think today we are at 9.2% for the quarter. But full year we will be a little below 9, hovering around 8.6% to 8.8%.

Moderator: Thank you. The next question is from the line of Amit Mantri from 2Point2 Capital. Please go ahead.

Amit Mantri: Can you talk about the OPEX increase that has happened in this quarter? Is this now the sustainable run rate on the OPEX side, or were there some one-offs in this quarter on the OPEX side?

Barun Agarwal: The OPEX increase mainly on front of personal expenses and the other OPEX. The personal expenses in FY24 versus H1 FY25 has increased 31% from |Rs. 273 crores to Rs. 358 crores. Mainly because last year, based on industry benchmarking one of the activity which we did is the effective 1st October 23, salary corrections was performed for all employees. Secondly there is a volume increase in terms of number of employees. We added around from September to September around 2700 people. These are mainly towards the business which we expect to do well, towards the secured business and towards the branches which we added, around 123 branches we added last year. So, this was the main reason why people were added. Our secured portfolio continued to do well. On a quarter-on-quarter basis, we have a 12% growth in the secured portfolio, which is expected to show good result in the upcoming quarters as well. Lastly, we have built up our collection team as well and has been reinforced with the additional manpower. So, that was the reason for the personal cost. On the other OPEX, the fixed cost has increased mainly because we have added again as I mentioned 123 branches last year. Our fixed cost in terms of occupancy expenses towards the rent, electricity, maintenance and IT and depreciation cost because of the capital investment the cost has increased. That's the main reason for the increase. We have been closely monitoring the control aspect, and that's the focus area for the upcoming quarters as well.

Sanjeev Nautiyal: So, as you would see, these are all actually investments. Many initiatives were launched last year at different phases of time, but the full impact is being visible from April onwards this year. But these are all investments for growing our book, strengthening our collection or reaching out to the people in the nooks and corners of the country by opening up branches.

Amit Mantri: Even on a quarter-on-quarter basis, when you compared to Q1FY25, OPEX has increased 10% on a quarter-on-quarter basis. So, what would explain that increase?

Barun Agarwal: As I mentioned, the quarter-on-quarter increase because we have opened last year 123 new branches, the fixed cost has increased, the branches are open during the year over the period at various point in time in last year. This year we had a full year expense, or this quarter is the full year expense that is resulting into the increase in OPEX. From our personal cost as well, there are additional hiring mainly for the secured portfolio which we are doing. And the collection team, we are beefing up the collection team that is adding up to the cost. In fact, on the quarter-on-quarter, we have been having strict control on the cost. For the unsecured portfolio wherever there is attrition, we are looking into and there is a degrowth in the number of employees.

Moderator: Thank you. The next question is from the line of Gautam Jain from GCJ Financial. Please go ahead.

Gautam Jain: Yes, can I get the credit cost separately for microfinance and other business, the secured business?

Ashish Goel: So, as a practice, not been looking at separate credit costs. It's been a blended cost for us. So, that's how we have been doing it. But if you want it, we could send it to you.

Gautam Jain: No, that's for the year we are expecting 2.3% to 2.5%. If it is 2.4&. I just want to know how much is coming from secure business. Is that less than 1% or is it between 1% to 2%?

Ashish Goel: Secured businesses typically it will be less than 1% or in the thereabout region. It is the unsecured business where the credit cost would be high for the year. But yes, you can take a benchmark of about 1% for secured businesses.

Gautam Jain: And when you say you raise the credit cost guidance from 1.7% to 2.3% to 2.5%, so that means you're still expecting a lot of slippages to happen in second half. Is that correct way to understand?

Ashish Goel: Yes, so all cases, all the borrowers who have been, who have entered into delinquency in Q1 and Q2, the credit cost would only happen with a lag of 90 to 180 days. Because that is when they get into GNPA, and they get into the provisioning buckets. So, therefore, there will be a, in the second half, the impact of that would be felt. So, yes, there will be a higher credit cost because delinquencies and the PAR numbers have gone up in Q1 and Q2.

Gautam Jain: Can you give us a ballpark number? Suppose you have Rs. 430 crores slippage in first half, what could be the slippage in second half? Around mid-number or it may be higher?

Ashish Goel: So, we were maintaining slippages in the range of 0.5% for many quarters. This quarter, the slippages have been in the range of about 0.8%. So, you could expect that the slippages would be in that range for the remaining two quarters.

Gautam Jain: I just want to ask whether our secure business has broken even in terms of profitability or still not making money?

Sanjeev Nautiyal: There are different variants. It depends on, how mature that business has been in the books. So, yes, Housing is in profit. Gold loan and Agri and Vehicle we have just started to do those businesses. And MSME is likely to break even by this year end. And the other three have just taken off and they are a very small portion of the business. And therefore, I would say they would still need a 12-month period to actually show that profit is coming in.

Sanjeev Nautiyal: And FIGs, of course.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec India. Please go ahead.

Nidhesh Jain: Thanks for the opportunity. The first question is on slippages for first half. So, in first half 430 crores of slippages, how much is from secured and how much is from unsecured?

Ashish Goel: About 80% of the overall slippages are from microfinance.

Nidhesh Jain: And secondly, in the microfinance group loan segment, your PAR zero is 5.5%, which is a quite decent number if you compare with some other peers. How do you see this number trending over Q3 and Q4? And when do you see that this number will peak out?

Ashish Goel: So, the way we look at it, PAR basically is NDA collection efficiency. So, yes, we did see the NDA collection efficiency, which is the non-delinquent portfolio collection efficiency dip from 99.46% to 99.23% as I said. But this time, in Q3 and onwards, we feel more optimistic because the guardrails have been implemented, the changes in policies and other things, customers would get adjusted to it. And therefore, the collection efficiency is likely to improve from here on. PAR would be just a derivative of that.

Nidhesh Jain: And are you seeing any trends because of the guardrails being implemented and a couple of players have been asked to stop disbursement from immediate effect? Do you see any spillover of that in terms of collection behavior and collection behavior from the customers?

Ashish Goel: There is very little overlap in the customer base of the players that you are referring to, and our customer base. In fact, it is in the range of 1% to 1.5%. You just need a rough understanding of that. So, there is not too much of an overlap there. So, we don't expect our customers to have major impact due to this slowing down closure of disbursements in other players.

Nidhesh Jain: And lastly on the vehicle finance segment, which segment of vehicles we will be focusing on?

Ashish Goel: So, we have about 80, 90 good dealership tie-ups where we are getting very good volumes and there are about 300 more where we are expecting good business to come in as the months progress. The manufacturers are all the, you know, all the large manufacturers.

Carol Furtado: It’s mainly the two-wheeler segment that we are focusing on.

Ashish Goel: In two-wheeler we have tie-ups across manufacturers.

Moderator: Thank you. The next question is from the line of Arvind from Sundaram Alternatives. Please go ahead.

Arvind: One thing I understand, like we are a growing bank, we need to invest in the franchise, either in deposits or in technology and everything. But do we see any slowdown in expenses, either in terms of branch addition or in terms of IT expenses or like in the product? What I am trying to get is, can we expect any moderation and cost to income ratio in any ways for the next few quarters?

Carol Furtado: Current year we are not foreseeing any additional branches. We are not opening any branches. So, to that extent, whatever the expenses are, we will continue. We continue to have investments in technology. That will continue because as we upgrade, we need to, I mean, as we get into newer and newer lines of business, we need to keep upgrading our technology systems. So, that will also continue.

Sanjeev Nautiyal: On the IT side, there are investments or expenses, as you may call it, will necessarily have to be done on an annual basis or the renewals of the service agreements, etc. All that will continue. So, we are not withholding or stopping these investment activities. Cost optimization from a general sense is what every enterprise would look at. And the cost optimization we would certainly look into. But as we said, we are hiring because we feel collection needs to be strengthened. We are hiring for the secured book, which we are now trying to grow. So, all essential expenses and investments continue to happen. And that's the way we would like to end the year with.

Arvind: But like we were talking about 100 branches, more than 100 branches in the recent time. What I understand is like obviously as you said, you need personnel for security work and other services. I was trying to understand like would the employee edition or the branch edition would slow down at least for some time, or will it continue at the similar pace? But as you said, the branch edition, you are not having any plans. Is it the same case with employee addition?

Sanjeev Nautiyal: I would like to clarify is, the branches have already been opened. They have been invested with people, process, technology and everything that a branch requires. So, those expenses have started kicking in. What we will have to do is to ensure that business happens, and they are all becoming a profitable venture for us and that we continue to invest in, right?

Arvind: I understand that we are a growing bank, and we need to consistently show our deposit franchise, especially in retail deposits. Would we be open to use of, let's say, if there is a rate cut or something like that, to use wholesale deposits to manage margins or improve margins in a short-term manner or will we continue to focus on retail deposits even if it comes under a slightly higher cost?

Carol Furtado: We will continue our focus on retail deposits. We are growing our deposit base through granular retail deposits, and that will continue. And our interest, I mean the rate of interest out there, we are closely watching the situation. Wherever required, we are reducing our interest rates. But this is something that will keep evolving and we are focused on that to keep our cost of funds also constant.

Arvind: And just one last question, I see the MSME loans have started growing recently well. But MSME loan, when I look at the collection efficiency, is actually below even something like MFI, it is close to 90% only. I'd like to understand what are the efforts being taken here to improve that collection efficiency, and why is that collection efficiency actually lower there?

Ashish Goel: In MSME, we have two books. One is what we had during the pandemic and immediately after that. We recalibrated all our products and policies last year. So, for the last 18 months we have been working with the recalibrated product and policy. This has worked very well for us. In fact, this is almost now 40% of the overall MSME book and this continues to have zero delinquency, not a single case in one DPD and above. It is the old book which had got seasons, some of it got into delinquency during COVID. That is what we are now wanting to, it's a de-growing portfolio, it's now about Rs. 600 odd crores. And this is something that is leading to this delinquency. So, the new book is completely pristine. We are not worried about what we are, the new product and policy, how it's responding with very, very clean portfolio now. The old book shall continue to have lower collection efficiency because most of it is in SMA and in PAR.

Moderator: Thank you. The next question is from the line of Pritesh Bumb from DAM Capital. Please go ahead.

Pritesh Bumb: Just a couple of questions. One is this guidance of credit cost. This includes a desire of PCR to be above 70%, right? So, will that improve our PCR to (+70%).

Ashish Goel: Yes, Pritesh, so our PCR currently is at about 78%. At the end of Q2, if you look at the unutilized floating provision, we are almost fully covered. It would put together this would be about 97% PCR. So, even if we see an increase in NPA, the PCR will continue to be above 70%.

Pritesh Bumb: The whole point was that we are not able to utilize the floating provisions until we ask RBI and RBI gives permission. But the incremental book is the slippages are coming in, and that's where I think the PCR is jumping. But the credit cost, which we are guiding at, just wanted to check that. That includes PCR because there will be write-offs certainly because of the policy right. So, in terms of that PCR will remain above 70%.

Ashish Goel: Yes, PCR will remain above 70%. In fact, when we compare ourselves having 97%-98% PCR for the last eight quarters, 90% and above PCR for the last eight quarters, 78% looks a little low. But 78% by itself, as a number, is a very decent PCR that we are maintaining.

Pritesh Bumb: The second question was just wanted to get the thoughts on ticket size perspective. We have seen this quarter ticket size move up, and which is natural that we are limiting growth in certain pockets and new to credit customers are not being roped in. But then generally thinking that we are one of the highest in terms of ticket size, and basically we have not seen ticket size coming down for a long, long time. So, what are the thoughts here? Basically, how do we see that we get more conservative in terms of ticket size, especially in the JLG side?

Ashish Goel: So, on the JLG side, you know, the reason for the ticket size looking a little high is because the blending of new to new-to-bank customers is not happening. In this quarter, we did almost 50% of our loans as repeat loans on the group loan side. And we did not see a sizable number of new customer acquisitions, which is why our ticket size looks a little high. But if you compare ourselves with Q1, the ticket size has been in more or less the same.

Pritesh Bumb: My perspective was that we are at a very high-ticket size and let's say for example some of our peers will be in a range of 28,000 to 40,000 maybe below that. But we are at about 58,000 and of course that maths which we are talking about is absolutely right. But when we were growing the new ticket or the new-to-bank customers, the ticket sizes had not fallen and now we are seeing a ticket size getting a little bit higher. So, any thoughts on that? How do we bring down the ticket size overall?

Ashish Goel: This is a repeat of what happened around two years back, when we were doing a lot of customer retention plans, and we were servicing our existing customers, and we were very immediately after COVID that how should we go about doing new customer acquisition? The environment was not certain. We saw that at that time the ticket size had gone up. But as we opened our new-to-bank customer acquisition, the ticket size came down. Remember it was about 58,500-59,000 during that time when we used to be focused on repeat. It's the same thing that we're seeing today also. As the NCA has come down, the ticket sizes have started to go up a little. But once we start opening NCA, the blending of new customers would happen, and the average ticket size would come down. So, it's a repeat of what we saw immediately post COVID.

Moderator: Thank you. Ladies and gentlemen, we will take this as a last question. I now hand the conference over to the management for closing comments.

Sanjeev Nautiyal|: Thank you, friends, for a patient hearing and for your way enterprising questions which made us think about our responses. Hope we are adequately satisfied your queries. As I close this session, this very engaging session, the key highlights that I would like to conclude with is that we would continue to invest growing in our secured books. We would continue to do the individual microfinance lending where we see opportunities growing. We will stably also grow our group loan microfinance book. On the liability side, we would focus on CASA and try reducing the cost of funds. And digital and analytics is an area where we would like to invest more and focus more. And cost to income is another where we would like to focus. So, with these, I would like to conclude and thank you for joining us for a very engaging session with our team.

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