"Ujjivan Small Finance Bank Limited Q1 FY-23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Ujjivan Small Finance Bank Q1 FY '23 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. Alpesh Mehta from IIFL Securities Limited. Thank you, and over to you, sir.

Alpesh Mehta: Thank you, Lizanne, and I welcome all of you to the Ujjivan Small Finance Bank 1Q FY '23 Results Conference Call. From the management side, we have Mr. Ittira Davis, MD and CEO; Ms. Carol Furtado, Chief Business Officer; Mr. M. D. Ramesh Murthy, CFO; Mr. Martin P. S., Chief Operating Officer; Mr. Ashish Goel, Chief Credit Officer; Mr. Vibhas Chandra, Head Micro Banking; and Deepak, who heads the Financial Planning and Investor Relationships. Now without much ado, I hand it over to Mr. Davis for the opening comments, and post which we will have a Q&A session. Thank you, and over to you, sir.

Ittira Davis: Thank you, Alpesh. Good evening, everyone. I am delighted to welcome you to our Q1 FY '23 earnings call. I hope all of you are keeping safe. It is been more than 9 months since we started on our recovery path with a fourfold objective of strengthening the leadership team, growing business volumes, increasing collections, and improving asset quality. We are pleased with the outcome of our efforts on all 4 counts.

We stabilized our business in Q3, turned around in Q4, and this quarter marks growth and profitability. Q1 business volume kept pace with a mammoth fourth quarter, both in terms of assets and deposits. On the deposit side, we focus more on growing granular retail base and also curtailing the overall cost of funds. On the asset quality side, we have maintained the traction as collections are inching up with slippages being under control. Recoveries and upgrades are helping us reduce our PAR and GNPA every quarter, in fact, every month. We have already taken the provisions upfront and thus do not expect major credit quality challenges this year.

As of June 22, our NNPA is just at Rs. 18 crores or 0.1%. Also, our SMA book as well as restructured book have shrunk further indicating the reduced stress. The outcome of all this put together is the highest ever quarterly profit for Ujjivan, which is more than Rs. 203 crores on the back of a strong PPOP of Rs. 271 crores and a negligible credit cost. We are maintaining healthy CRAR of 20%. This quarter, we have considered Rs. 30 crores for floating provision as part of Tier 2 capital and Rs. 220 crores for netting off from gross GNPA.

The entire floating provision continues to be on the books and can be utilized in the future for making specific provisions in extraordinary circumstances, with, of course, prior approval from the RBI. Including Rs. 250 crores of floating provision, total provision of gross advances are at Rs. 1,290 crores.

Now we have achieved the objectives we started out with. We have put our sight on growing the platform further. This year, we would look to restart expanding our physical presence across the country, though we look to make a modest beginning with around 25 branches, largely focused on the liability-rich catchment areas. Physical reach would be supplemented by a strong and focused investment in digital platforms to grow our business volumes, both assets and liabilities. Services to improve processes and the overall reach to our customers.

Our focus this year is to consolidate our business and make them profitable, invest in new avenues of growth. Our economy is recovering. The credit demand has picked up. This is evident from our performance over the last 3 quarters. We look to grow our gross advances by around 30% this year with deposits growing faster than advances. We are monitoring our costs very closely and aim to bring in efficiency through process improvement and productivity enhancement. We look to hold our cost to income ratio at the current levels.

Credit cost, we have already guided would be contained well below 1% as the declining trend in NPA and PAR would continue for the balance of the financial year '23. Return on assets should be north of 2.3%. The risk to this guidance is the inflationary pressure that is brewing up in the economy and the resultant rate hike movements, also, we are monitoring the global geopolitical scenario.

Overall, I see financial year '23 as a strong comeback year for Ujjivan, which would create a solid platform for the next growth cycle. I would like to stop here and request the operator to begin with the question and answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: And I am glad to note the optimistic tone. I just touch up on the issue that you raised of inflation and the two-pronged recovery, especially in the micro banking segment of your customers. How is the restructured book doing? I know the customers cannot make more than one EMIs typically. So, do you expect recoveries from this book with the lag or are the customers still feeling a lot of pain? That is my only question.

Ashish Goel: Ashish here. On the restructured book, let me answer that question first. Under the resolution framework 2.0, which was the May 5th, 2021 guideline, we had restructured about Rs. 944 crores in the micro banking book and a small amount in the housing and the MSE book. Out of the Rs. 945 crores, we have already recovered Rs. 580 crores from the customers. In fact, almost 1.6 lakh customers have also closed their accounts.

And we currently have an outstanding of about Rs. 360 crores on the RF2 book. And we continue to collect from there. In fact, what we have seen is that post restructuring and the moratorium that we had given for about 3 months and immediately post the lockdown customers had indeed started paying very well. And our collection efficiency in the restructured book continues to be above 80%. The current quarter, we have ended at about 79%.

So, this trend has continued. In fact, out of the Rs. 360-odd crores, we have Rs. 148 crores in NPA, which is fully provided. So, we do not see any incremental risk in this portfolio. In fact, we see that the portfolio will do even better as we go into the remaining part of the year because our paying customers are actually paying at a very healthy rate of 80%.

Vivek Ramakrishnan: Sir, if I can just dwell on that NPA part, is it because they are just more than 3 months dues, is it more accounting? Or are the customers, do you feel that they are going to be more written off and they are now going to come back as paying customers?

Ashish Goel: On the NPA portion, we have seen that about 30% of our customers are paying on a month-to-month basis. The only problem is they are not able to recover the past EMIs and the arrears which have got built up over a period of time. So, even on the NPA portfolio, we are not saying that we will write off. There will be a small portion of write-off, which may happen. However, as I was saying, 30% of our NPA customers are paying month-on-month. So, we do not see write-offs happening in that segment.

Deepak Khetan: Vivek, also one more thing. Given that what Ashish mentioned, NPA is quite high in that Rs. 360 crores, but the overall collection efficiency is 80%, which means even the NPA customers are paying. They are NPA because 3 months overdue is there, and then they are paying one EMI at a time. So, it is not that, that entire amount, whatever is NPA anyway is 100% provided for will be written off or there is any, which is why we believe there is no pressure on that book.

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

Shreepal Doshi: Firstly, on the microfinance side, our ticket size has gone up significantly in the last 2 quarters to almost 56,000 now. So, could you please throw some color as to what would be the reason behind the same? And in the MFI segment, are we continuing to focus on the urban side only or are we also exploring of increasing our share in the rural side?

Vibhas Chandra: Thank you for the question. As we mentioned in our last quarterly call also, that our ticket size went up mostly because after the lockdown, we mostly focused on repeat loans the customers who are paying during the pandemic period, and we were not able to provide them repeat loans. And ss you know, that in microfinance and repeat loans the ticket size on the higher side.

So, first two quarters went on serving the customers who we were not able to serve them during lockdown. And as we have moved into quarter 1, and we have already served the pending customers, we have moved our focus to new customer acquisition as well. If you compare from the last quarter, last quarter NPA was, the new customer acquisition was close to 24% which is now close to 34% this quarter.

So, our focus has changed and in NPA, the ticket size is on the lower side, which actually are yielded into lower ticket size, average ticket size in the last quarter, Q1 of this year. So, that is one thing. And second, as you mentioned that whether we are focusing on urban only, so as after conversion to a bank, we have also opened branches in urban and rural locations, which is 25% of bank presence.

And we have started focusing on rural areas as well, and we have not only microfinance the product we are selling them. We are selling other products also which is relevant and logical to the rural market. And apart from asset, we also sell liability products in these branches. So, our focus is both in urban as well as rural.

Shreepal Doshi: Just one follow-up there. So, what would be the ticket size bracket for our more than, say, 5-year vintage customer that we would be having?

Ashish Goel: We go up to Rs. 1 lakh for repeat loans after the third or fourth cycle, and our average ticket size is close to for the repeat ticket size is close to Rs. 58,000. But the range is from, say, Rs. 50,000 to Rs. 1 lakh.

Shreepal Doshi: What is the maximum that we give to a new customer, group loan customer?

Management: Rs. 1 lakh is the maximum in group loan.

Shreepal Doshi: Sir, the question was on the housing side. So, that is another segment where we are seeing strong growth. So, there the ticket size is 1.2 million. And so, if you could just give some color as to which geographies are we targeting? Or is the product available at all the branches? And what is the strategy going ahead with respect to the share in the overall loan book mix?

Carol Furtado: This is Carol. On the housing side, our focus has now moved a little bit from the informal to semi-formal and the formal segments. And what we have also done is that we have gotten to state-wise policies, which is helping us get better results there. And yes, so informal is very low as a percentage, but we are focusing on the semi-formal and the formal segments.

Shreepal Doshi: And ma'am, geography wise, we would be broadly doing business in all our stakes or like heavy?

Carol Furtado: Geography wise, we are focusing mainly on the semi-urban areas.

Shreepal Doshi: Just a few bookkeeping questions. So, on the NPA side, so if you could give us the slippage recovery upgrade and write-off number for the quarter?

Ashish Goel: Rs. 156 crores, right? The upgrade was 215, and we did a write-off of about Rs. 63 crores.

Deepak Khetan: That is the technical rate. That is the total write-off is around Rs. 79 crores.

Shreepal Doshi: Slippage numbers, I think I missed that number?

Deepak Khetan: 156.

Ashish Goel: 156.

Shreepal Doshi: Okay. One last question. On the provisioning side. So, what is the provision that we are having on the restructured NPA books?

Ashish Goel: So, on the restructured book, on the NPA side, we have about Rs. 148 crores of NPA in RF-2 on which we are holding full provision. And in RF-1, we have Rs. 130-odd crores of NPA, again, on which we are holding full provision.

Shreepal Doshi: Basically, we are having 100% coverage on the restructured NPA bucket?

Ashish Goel: That is right.

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

Nidhesh Jain: Two questions. First, if you can share the number of customers and group loans and individual loans in the micro banking at the end of June '22? That would be the first data point portion. And secondly, if you look at the segment-wise collection trends, we have seen sharp improvement in collections in micro banking. But in MSE and affordable housing, our collection trends have not improved. They have remained at around 95% for the housing and I think 84% ,85% for MSE. So, what was the reason behind that?

Ashish Goel: Okay. I will take the question on the collection trends. Now the collection that we see is a blend of nondelinquent and NPA collections. So, in secured book, which is the MSE book, we have an elevated NPA as of now, it is in the range of 10%. So, therefore, our overall blend rate collection is in the range 85%. Although we have seen some significant improvement in upgrades in the MSE portfolio also, there is a quarter-on-quarter decline in the gross NPA there.

And on the housing side, the collection continues to be in the range of 95% and above, again a reflection of a much lower GNPA in the housing book. On the nondelinquent portfolio, we continue to have a collection efficiency of more than 95% in both the products.

Nidhesh Jain: And sir, also, just a follow-up on this. If I look at additional collection, additional collection is as high as the collection that we are doing against the due for months for MSE and affordable housing. Does it indicate the balance transfer happening in this portfolio? How should we look at look at the additional collection which are happening on MSE and affordable housing?

Deepak Khetan: If you look at the upgrades which is happening, Nidhesh, take that there is a whatever NPA, out of NPA, whatever collection we are getting and all that, like Ashish mentioned, there is a good amount of upgrade that happened in the MSE also. So, that amount was totally roughly around Rs. 40-odd crores for this quarter.

Nidhesh Jain: And there is the first question on number of customers in group banks?

Deepak Khetan: We do not share segment-wise product-wise number. So, we cannot share.

Nidhesh Jain: I was just looking at the loan outstanding per customer, loan size in group loans specifically because ticket size sometimes, ticket size, I am assuming, is based on disbursement that we have done in this quarter. So, I was more interested in looking at a loan size outstanding. That is why I was asking that number. So, if you could just share that number what is the loan outstanding per customer in only in group loans, that would be useful?

Ashish Goel: So, at any point in time, we would have repeat as well as new customers coming into the bank. And as Vibhas was sharing that there is repeat loan, which is in the range of Rs. 63,000 and new loans in the range of Rs. 44,000. And the blended average of both the loans put together is in the range of Rs. 55,000, Rs. 56,000.

Now in terms of the average ticket size, these are short tenor loans, about 22 months is the average tenure. So, typically, the loan outstanding per customer should be in the range of Rs. 30,000, Rs. 35,000, because we would have amortized by about 50% in the last 6 to 9 months.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: And sir, I just wanted to understand now I think you spoke about cost to income holding at current level with good growth as well as the credit cost well below 1%. But why we are still guiding for ROA of 2.3% plus as compared to this quarter, I think would is about 3.4%. So, is that a conservative kind of outlook that given on ROA front?

Deepak Khetan: Deepak, we are baking in like Mr. David mentioned in his remarks, we are baking in a little bit of credit inflationary pressure and swaps hike on the repo rate hike and cost of fund hike and all that. That is why we are keeping that as a little conservative side.

Deepak Poddar: Okay. Yes. So, that is a little conservative number. But we do expect our NIMs to what sort of outlook we have on NIM, actually?

Ashish Deepak Khetan: So, overall yield should be improving even if we do not take any kind of a rate hike on our lending rates, yield should continue to improve as the NPAs go down, and we expect the declining trend on the NPA and PAR to continue. With that, even if the cost of fund is stable, the NIM should be stable or upward trajectory. But we take that plus or minus as a stable NIM for the year.

Deepak Poddar: That is great. And my second query is on your cost to income over the next 2 to 3 years. So, I think earlier, we were kind of targeting 50% kind of a cost to income on a little medium-term basis. So, any thoughts on that, would be helpful?

Deepak Khetan: So, I would put it like this 50% is the first milestone that we want to achieve within a short term and then the journey should continue beyond that.

Deepak Poddar: Is the first milestone, and what is the timeline we are looking?

Deepak Khetan: Short-term milestone that we do that.

Deepak Poddar: Sure. Maybe so 2 years, maybe something like that?

Deepak Khetan: I do not want to put a year to that.

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

Renish Bhuva: Sir, first question is on this new MFI regulation in terms of the process alignment. So sir, where do we stand currently in terms of the process migration as per the new regulation?

Vibhas Chandra: Yes. Thank you very much for this question. We know that the new MFI regulation came into force on 1st of April. And it is essentially we have also published the FAQs. That clarifies that implementation date is 1st of October. As this regulation came into force and communication came in the month of March. Fortunately, most of the items which are mentioned in RBI policy, we are already following it for the last 10 years. So, it is just a confirmation of whatever we are doing for the last 10 years is something RBI also wants others to follow. There are some items which needs time. For example, to check rate bureau of customer households, there are some still that need to happen at credit bureau end also. For that RBI has allowed us time till 1st of October.

And apart from that, we did not face any issue in the month of April. We were normally able to do business in the month of April as well, which is a good thing that has happened to us whatever we have done over a period of time in microfinance business as we are a very old player in the microfinance business. That has helped us in following the RBI regulations. And we are on line with the pending items which need to be delivered, where the time line is 1st of October. Hopefully, we will be able to do that well within the timeline.

Renish Bhuva: Sir, just a follow-up on this. So, on this 50% FOIR, have you seen higher detection rate once we have implemented the new process?

Ashish Goel: No. In fact, our rejection rates in Q4 and Q1 have been exactly the same. There is been no uptick in rejection rates. In fact, we were also thinking what would the rejection rate look like post the FOIR implementation, but we found that the rejection rates have not gone up, not have they gone down. They have remained to be the same.

Vibhas Chandra: And perhaps, the reason is that, as I mentioned, that we were following more of items which were prescribed by RBI but over a long period of time. So, we are already following this process and rejection which were based on customer income and their dispensable income. That had led to now constitution our registered tenure has not gone up based on the calculation.

Renish Bhuva: And sir, a second sort of question is kind of repeating. So, on the MSE and the affordable housing piece, even if you look at the gross NPA number and PAR 0 number, PAR 0 appears to be on the higher side. So, I mean, in terms of the process, what we have changed, let us say, during COVID to make sure that the incremental growth in both these segments should be of a better quality than what we have seen during COVID?

Ashish Goel: Okay. I will this question in two parts. One, what was the portfolio composition when COVID 2 happened and therefore, what was the reason for the increase in GNPA. So, when COVID 2 happened, most of our portfolio and about 58% to 60% of our portfolio was from the informal segment, which got hit very hard due to income-related reasons. So, people were not earning that income due to the lockdown.

So, that led to a very sharp increase in the GNPAs. During the same time, we also started to recalibrate our strategy, started planning for a shift in our customer segment from informal to semi-formal and formal. And during the last one year, we have made significant progress. In fact, on MSE, we had an 8% formal segment. We are now at 22%, and the incremental disbursements on a quarter-on-quarter basis has been 48% in the formal segment. So, therefore, the change of composition of the book has been very significant in the last one year.

And if you want to ask me about the delinquencies, we have seen in the last 24 months, the GNPA is less than 0.5%.

Renish Bhuva: Okay. This is for the MSE business, right?

Ashish Goel: That is right. On affordable housing, if you were to ask me about our change of strategy, we have in the last four quarters done significant work on our salaried segment. So, the salaried segment pre-COVID used to be in the range of about 38%, which is now almost 47% of the book. And our quarter-on-quarter disbursements are almost 54% to 55% on the salaried segment. Therefore, the book composition has also changed and therefore the risk composition has also changed in the entire portfolio.

Again, I would want to say that in the last 24 months, the book that we have disbursed has GNPA of less than 0.5% in the housing portfolio as well.

Renish Bhuva: And sir, just last data point. Again, on the MFI book. So, if you can, let us say, highlight the number of borrowers who are unique to us and maybe the borrowers having plus 1 lender?

Ashish Goel: Okay. On the unique segment, we have almost 35% of the customers that we have are unique to Ujjivan, and 65% of the customers have multiple borrowing arrangements.

Renish Bhuva: Sorry, 35% is unique and 55% is?

Ashish Goel: 65% customers have unique borrowing arrangements, sorry, multiple borrowing arrangements.

Renish Bhuva: And would you like to highlight, let us say, Ujjivan plus 1 lender if you have that data with you?

Ashish Goel: I would not have. It would be there plus 1 or plus 2. It cannot be more than that.

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

Gautam C Jain: My question is related to your growth expansion plans. Since you have stabilized and now you started growing, can you throw some light on your branch expansion plan going forward?

Ittira Davis: Gautam, in which regard you want the expansion? Is it branches or is it book? What is the focus?

Nidhesh Jain: Branch expansion.

Ittira Davis: The branches, yes, our strategy is both brick-and-mortar and digital. So, we will grow the branches in areas where we think it is good to be there. For example, this year, we will be entering Telangana. We have not been in Andhra and Telangana. So, this is an area for us, which we need to look at. So, we are entering Telangana this year. But we will continue to grow the branch network as required, but we are trying to push more in growing business through the digital route.

Gautam C Jain: Okay. And second question pertained to deposit. The deposit growth was very slow in this quarter. I think sequentially, we have added only Rs. 156 crores. My question is, I mean, what is our strategy to grow deposit in line with your loan growth? And what steps we are taking to raise the deposit in a upward interested rate market?

Ittira Davis: Yes, see the thing is that it is important that we have a granular retail growth because that is the type of deposits, we would like to have long term as against bulk deposits. So, that is the focus. We have got our branches now working full gear to increase the deposit base. And we are also looking at different segments in that, including government and local municipalities and all of that. So, we have got a very good strategy in place. And I think the coming quarters will show the growth on that front.

Gautam C Jain: Have we raised the deposit rates?

Ittira Davis: Sorry?

Gautam C Jain: Have we raised the deposit rate?

Ittira Davis: Yes. We raised the deposit rates after RBI changed the repo rates by 50 and then 40 basis points. So, we have made a slight adjustment in the deposit rates.

Gautam C Jain: And last question is, since microfinance industry is doing very good post-COVID, and we are doing, I think, one of the best among the industry. I would like to hear your qualitative comments on your overall collection and how long this industry will continue to do like this? And is there any change in competitive landscape I mean, pre-COVID and post-COVID, any small player left the ground or just your comments on that?

Vibhas Chandra: So, thank you for the question. What we see is we have gone through microfinance industry has gone through various crisis. This is one of them. Before that we have also seen demonetization and other crisis. And what we have seen that after these crisis, the customer segment that we serve in microfinance, we have seen that they bounce that very quickly.

And at the same time, at industrial level, we have also seen that, after any crisis there are a lot of addition that happen especially in the institutions who are weaker. We see a lot of opportunity going forward after this crisis in terms of customer liquidation and market share. And we are all set. As a microfinance lender, we do not only lend the group loans, we have full basket of product that we offer to customers, not only in asset also in liabilities.

And thankfully, we have a lot of activity around digital for these customers. So, we are seeing some time very, very positive. And in terms of growth in microfinance, we see, I mean, sometimes very, very positive for microfinance growth in Ujjivan.

Ittira Davis: And to add to that, I can say that to the microfinance customer base, we will be looking at adding some of the secured products as well. So, we see this as a good base for us.

Moderator: Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital Advisors LLP. Please go ahead.

V.P. Rajesh: My first question was regarding the restructured book. If you can give a little more color on the customer behavior as to how some of them are able to repay? Is it that their businesses have rebounded or they are able to borrow from other banks or NBFCs or something else? That will be just helpful.

Ashish Goel: So, I would not like to see the restructured book as behaving any differently from our overall book. When there was a lockdown, there was a need for customers who had lost their income to get some kind of relief from the bank, and therefore, we had done the restructuring under RF 2.0. Post the lockdown opened, we saw that customers' incomes had come back to normalcy. And therefore, we started seeing some very repayment rates from the overall book as well as from the restructured book.

So, I would say that the restructured book has not behaved very differently from the overall book because the customer segment was the same and the incomes had got back to normal. So, therefore, I would say that restructured book has behaved very well for us. And it was indeed the set of customers who were looking for some kind of relief had been given relief.

V.P. Rajesh: Right. But if they are lagging in their payments and they have prior EMIs, obviously, we will have to have extra money or extra funds to pay that back. And where is that coming from? If you have any sense on that?

Ashish Goel: I am sorry, there was a little bit of disturbance in the line. Could you please repeat the question?

V.P. Rajesh: Sure. So, what I was saying is that when the book was restructured, we probably would have prior EMIs that were unpaid at that point in time. So, as their businesses are coming back, are they coming back that strong that they can clear all the past dues as well very quickly. I mean I am just trying to get a sense whether they are borrowing more from other institutions to clear their dues with you or some informal sources or it is just that their business has come back very, very strong?

Ashish Goel: So, there are indeed, I would say that about 5% to 7% of the customers who went back into NPA because their incomes had not come back to normal. But we have not seen any behavior in the restructured book, which is any different from the overall book. So, as I was saying, the restructured book behaved quite well in spite of the first 3 or 4 months of setback that the customers have had. And they have continued to pay their EMIs. In fact, as I was saying, from the Rs. 945 odd crores, we have collected Rs. 580 crores already. The overall book has come down to Rs. 360 crores now.

V.P. Rajesh: And my second question, any guidance on the fundraise?

Deepak Khetan: So, the fund raise is just enabling resolutions we have taken, we have taken two, one on the equity side and one of the debt sides. Both are enabling resolution. And we will see as and when we want to get the funding from the market. Right now, we do not want to give any time line to any of the activity. We have a timeline of December, that by December, we need to meet the SEBI requirement of minimum public shareholding, so we will meet the SEBI requirement.

M. D. Ramesh Murthy: Apart from the equity side, which Deepak has covered, we are also looking to raise some sub debt. But as Deepak has mentioned, we would not like to right now put a time line to it, but it is very much on a radar and very much on our cards here. And we have the enabling resolutions as he has mentioned before.

Moderator: Thank you. The next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.

Harsh Shah: This is Harsh here. So, just wanted to understand the macro situation that is going on in the rural and semi-urban side, because we hear a lot of commentary from the FMCG companies that there is some sort of slowdown that is happening. So, just wanted to get a sense from your side. I mean, since you are saying that the credit demand is picking up, how is the business environment that is there in the macro, in the rural India.

Carol Furtado: On the rural areas, we are mainly in the unbanked rural areas, and that is our licensing condition also where 25% of our branches need to be unbanked rural areas. We are not seeing a slowdown there. We are seeing that the credit demand is equally high and things are going on well there. We are, in fact, opening branches in these unbanked rural areas here again. On the semi-urban side, also, as of now, we do not see any impact . We are going strong in those areas, too.

Harsh Shah: Okay. And when we guide this growth rate of 30%, so is it the entire industry is going to grow at that rate or is it Ujjivan who is going to take the market share? And will it be from the organized player or from the unorganized to organized that sort of migration are we expecting?

Ittira Davis: I think the 30% is a reasonable level as far as, I do not know about the full industry, but the microfinance banks, which are active in the micro banking area, as indication in a recent seminar, which was held a couple of days ago, 30%, 35% seems to be a rate which is doable. So, for the SMBs, who are operating in the micro banking area. But MFIs, I do not have any figure on that.

Harsh Shah: Okay. Sir, so when we say SMB is growing at 30%. So, I mean just wanted to understand from where is the demand being generated because I mean you have the GDP which is growing at 10%, 11% at the best. Then how is the 30% growth coming in? Is it that the unorganized segment is too large and some demand is coming out from there?

Ittira Davis: The one thing you have to keep in mind is that last year was a very slow year because there was COVID. From that base, when you say 30%, it looks reasonable. So, I think we are not. When the industry gets back to a normal run, then 30% maybe a number which looks ambitious if the environment is not strong. But in a condition where you are coming from a low, some people degrowth to some extent, 30% this recovery year looks reasonable.

Harsh Shah: And if everything remaining stable, what kind of growth can we see over the next 5 years or so, I mean, just a ballpark guess?

Deepak Khetan: That is too futuristic to comment, Harsh.

Harsh Shah: I mean just if there are no hiccups, no major headwinds?

Ittira Davis: Harsh, the industry has had a good. If you look back at a period when there was no constraints, the industry has done very well. If you look at the 2018-19 period before demonetization, it was okay.

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

Ashlesh Sonje: Just one question from my side. So, wanted to get an assessment of the ex-NPA provision buffer that we are carrying. There is, of course, a Rs. 220 crores floating provision. But outside of that, what are the standard asset provisions and the restructured asset provisions outside of NPA?

Deepak Khetan: So, the total provision that we have on the book is Rs. 1,290 crores. Of that Rs. 1,290 crores, Rs. 909 crores is my NPA provision and Rs. 250 crores is my floating provision. And the balance is my standard asset provision. Roughly Rs. 131 crores would be my standard asset provision.

Ashlesh Sonje: Okay. And the restructured provision would be part of the standard assets, is that right?

Ashish Goel: Yes, it is part of the NPA provision. As I have said that we are carrying 100% provision on both RF-1 and RF-2 book, which has turned into NPA. So, that is part of the Rs. 909 crores which Deepak mentioned.

Deepak Khetan: There is a small portion of the restructured provision, which is there in the standard asset provisioning right now. Not very big portion, but a very small portion.

Moderator: Thank you. The next question is from the line of Vikram Subramanian from Spark Capital. Please go ahead.

Vikram Subramanian: I just wanted to get some clarity on the equity raise that you had mentioned. So, I know it was an enabling resolution. But this equity raise would be completely towards meeting the NPA's requirement, right? So, do we at least have a number of shares locked in, in terms of how much we would be raising?

Ashish Goel: No, we do not have any number of shares locked in that we will be raising so and so number of shares. It is but your understanding is correct that the reason for doing this equity raise right now is for meeting NPA's requirement. However, I will also add that given the kind of growth that we are expecting, it is always better to have a little extra capital. And thus, we are looking for this equity raise. And like Ramesh mentioned, we might also look to supplement with a little bit of sub debt if required.

But nothing concrete right now. So, we would not be able to give quantum and time line for either of those things.

Vikram Subramanian: And I think you had mentioned something like December to be a deadline by which we might do the equity raise?

Deepak Khetan: Yes. That is the 3-year time period that we have from SEBI because we got listed in December 2019. And within 3 years, you need to meet the NPA's requirement. So, our 3 year ends on 11th of December 2022. So as per the regulatory requirement we need to finish this equity raise by that time. And we are hopeful we will be able to meet the regulatory requirements.

Moderator: Thank you. The next question is from the line of Eric Chan from Buena Vista Fund Management. Please go ahead.

Eric Chan: I have two questions. The first question is on the strong disbursement in 1Q. Can you talk about what would you do? How do you adjust your process to take care of the RBI harmonization requirements for income and liability check for household in microfinance?

Deepak Khetan: Eric, actually, Vibhas actually mentioned a couple of questions back, that we have been following all the norms required by RBI under the new requirement. And thus we did not have to tweak our processes to comply with that. And thus, we were able to do the disbursement in line with whatever we have been doing so far.

Ittira Davis: And Eric, the other thing is that we have been disbursing over Rs. 4,800 crores in the previous two quarters. So, this pace is now sustainable.

Eric Chan: Sorry. I was under the impression that the RBI Rs. 3 lakhs household income check and the 50% maximum servicing ratio was a new requirement that came out in March this year?

Deepak Khetan: Yes. The requirement is new, but Ujjivan as the process has been following it for a very long time. So, as per our process, it is in line. For the industry, it is new. And thus, a lot of other players will have to make shift or make arrangements or changes in their process to comply with the requirements. And like Vibhas also mentioned, RBI has recently announced that the regulations are implemented with an effective date of 1st of October.

Eric Chan: Got it. Second question is, can you talk a bit about your PSL certificates? We heard that RBI has been tightening their audit checks and now require for some of the MFI loans to have various paperwork and support proof. For example, agri loans require proof of either land ownership or land lease contracts. I wanted to just check whether you have been seeing some of that challenges and how does that impact your PSLC eligibility?

Vibhas Chandra: Yes. Thank you for your question. As far as PSL is concerned, we have been following RBI policy around that in latent spirit, both in micro finance and other books also including housing and MSE and whatever business we do. We do not see any challenge in that. We have a robust process and mechanism to qualify our loans into different PSL categories.

So, we have also heard what you were telling in the market. But at the same time, we are confident that whatever we are ways and process we have to qualify loans into different categories is something which is in line with RBI requirements.

Moderator: Thank you. The next question is from the line of Moin Danawala from Tata Opportunities Fund. Please go ahead.

Moin Danawala: I have three questions. Question number one, would you be able to provide us a summary of the overall kind of actual plus estimated losses that we would have seen from the time COVID started to today? And question number 2 would be could you just give us an update on the merger?

Deepak Khetan: I will answer on the merger part. And while Ashish frames his answer on the first part. He will have to do a little bit of digging on the number. So, on the merger, the first step is to meet the NPS requirement. And like I mentioned to the previous caller question that we would be meeting the SEBI requirement by December as the time line is there.

And only post that we can take ahead the reverse merger process. In parallel process, which we are seeing, we have not seen that the SSB had any challenge in getting the regulatory approval from RBI or SEBI or exchanges. So, that process should not take much of time.

Ashish Goel: On the overall impact during the year, we had overall slippages in both micro banking as well as the other segments, housing as well as MSE. And on micro banking, specifically because the slippages were higher, we had overall slippage in the range of about Rs. 1,500 crores. We recovered Rs. 700-odd crores from the NPA pool, and we had a write-off of about Rs. 780 crores.

So, the total inventory has actually come down by about Rs. 60 crores between March to June, between March of last year to June 30 of this year, this is what we would say as the first year, that is the last full financial year and the first quarter of this year. In terms of write-offs, I could give you the number, it was about Rs. 780 crores that we did in the last financial year.

But one more important data I would want to share. Out of the Rs. 780-odd crores of write-off we have actually also recovered Rs. 65 crores in the last 4 quarters. So, the write-off, as I was saying earlier, is not something that would not come back. We are seeing some signs of recovery from there and close to 8% of the overall write-off for the year has been recovered already.

Moin Danawala: That is great news. So, would it be right to summarize this as saying that we would have approximately Rs. 1,715 crores of write-offs between April '21 to today and a similar number in the year prior to that?

Deepak Khetan: No, I do not know how did you get a Rs. 1,700 crores of write-off. We had roughly Rs. 780 crores of write-off last year.

Ashish Goel: Rs. 63 crores this quarterly.

Deepak Khetan: Yes, total Rs. 80 crores this quarter, including everything. And prior to that, the write-off amount was very limited. So, the write-off amount if you are looking at would be roughly Rs. 870-odd crores, not more than that. And like Ashish mentioned, out of that Rs. 870-odd crores, roughly Rs. 70-odd crores has been recovered already. And we expect that recovery should continue as this year proceeds.

Moderator: Thank you. The next question is from the line of Vijay Karpe from Shriram Life. Please go ahead.

Vijay Karpe: I had two questions. One was, if you could talk about your top state, which is Tamil Nadu. And also, if you could talk about Uttar Pradesh and Bihar in terms of business environment there and also in terms of disbursements, AUM growth and collection?

Ashish Goel: Sorry, Vijay, we did not get the first part of the question.

Vijay Karpe: Yes. My question was, how has been the business environment in the state of Tamil Nadu, Bihar and UP? And also, how has been the disbursements, AUM growth and collections there?

Vibhas Chandra: Yes. I think you are coming from the point that these states are retail in terms of OSP and these are first, second and third states in terms of OSP or both top 5 they belong to, I think Tamil Nadu and Bihar in top 3 in terms of OSP. However, the market is concerned. We always had a policy that we do not grow to a certain extent or beyond certain extent in any state.

And that is why we have grown business in almost everywhere in the country. And these states also have that limit. We do not grow beyond certain limit. We do not grow beyond 10% to 15% of our OSP is not residing in any particular state. As far as the business environment is concerned, as we mentioned earlier that most of the branches are urban and semi urban focused as they were it was microfinance branches converted into banks. And we do not see any particular challenge in terms of credit quality or political risk in these states, Tamil Nadu, West Bengal, Bihar and UP. In terms of portfolio quality also all these states are in line with or a little better than our overall portfolio quality at pan India level.

Vijay Karpe: Great. And how has been the collection efficiencies in these 3 states?

Deepak Khetan: So, as I mentioned that I do not have exact number, but all these states are performing like the overall pan India performance, if not better. Especially Bihar and UP is a little better than our national average. Tamil Nadu is in line with our national average. So, there is no much difference.

Vijay Karpe: And the last question from my side. So, in December, the dilution which we are doing, will that be a fresh issue? Or will it be also an OFS?

Deepak Khetan: It will be completely fresh issues.

Moderator: Thank you. The next question is from the line of Akash Jain from MoneyCurve. Please go ahead.

Akash Jain: Yes. So, first of all, I think a huge congratulations for the team. I think, excellent set of numbers. I think we are very quick to criticize management when numbers are bad. I think we should be equally open to congratulating them when numbers are good. So, huge congratulations. So, I have just two clarifications. One is, when you say 80% collection efficiency on the restructured books, so is it on that month's EMI? Or is it on the whole base where old past EMIs are also being considered?

Ashish Goel: It is on that month EMI, Akash.

Akash Jain: So, in that case, there would be slippages coming from the restructured book into GNPA on a monthly basis, right? So, there will be some slippage from restructured book on a monthly basis on the NPA book. And then there will be some recoveries potentially from the GNPA book. That is the way this whole thing will work, right?

Ashish Goel: Your understanding is correct. Yes, Akash. However, one point I would want to make here is the SMA book, SMA 0, 1 and 2 on the restructured book is in single digits. So, even if there is any slippage, it is a very minor small number.

Akash Jain: But when there is 80% collection efficiency, then theoretically 20% of the book is the non-provided book is going into GNPA every quarter, right?

Ashish Goel: So, let me put it this way. So, the 80% collection efficiency is a blend of nondelinquent and the NPAs. If I were to look at the collection efficiency on the NPA, that would be in the range of 30% and the collection efficiency on the nondelinquent and the SMA book would be in the range of 98%, 99%.

Moderator: Ladies and gentlemen, the line for the management has got disconnected. Please stay connected while we reconnect the management. Over to you, sir.

Ashish Goel: So, Akash, as I was saying, the collection efficiency of 80% on the restructured book is a blend of nondelinquent as well as NPA collection. And out of the Rs. 360-odd crores of restructured RF-2 book, we have Rs. 148 crores already in NPA. That is giving a 30% collection efficiency. The nondelinquent book is giving more than 96%, 97% collection efficiency. So, the overall average comes to about 80%.

Akash Jain: Okay. So, because you have already provided for practically the whole restructured NPA part, we do not see too much slippages coming from the non-NPA book because there the collection efficiency is broadly in line with the overall book as well?

Ashish Goel: That is right. So, in fact, as I was saying, our SMA book, SMA 0, 1 is in single digits. It is a very small number.

Akash Jain: And on the NPA book, I think earlier, you guys had mentioned that 30% of the customers are giving every month EMI. But if I just broadly want to understand what is the collection efficiency of the GNPA book, including the restructured book GNPA as well as overall book GNPA, what will that correction number look like?

Deepak Khetan: Akash, let me put it like this. The entire book that we have NDA or PAR or GNPA or restructured, everything put together, collection efficiency is 99%. So, whatever NPA also or restructured also is there, there is very limited scope where the payment is not coming. Rest, the overall collection is 99%.

Akash Jain: So, if I want to just clarify one thing here. So, when we talk about 99% collection efficiency on our slide I think 21, it basically means all the customers which are 0 to 90 and even more than 90, which have not been fully provided for. Is that the base that we have to take in to account?

Deepak Khetan: Everything that was due for that month is counted. So, if you look at the June number on that slide 21, if that is that Rs. 1,121 crores include every money that is due in the month of June, for the month of June.

Akash Jain: I got it. One last question here, sir. So, unfortunately, with the way the RBI regulation is that once a customer goes into delinquency, even if he is paid one or two past EMIs, he is still remains in as a delinquent customer. If I for ones forget or ignore the RBI requirement. I just want to understand how many of the actual book not from an RBI norm perspective, how much of the actual book is actually 90 days plus? Is that number significantly different from the 5.9% we have as per RBI norms?

Ashish Goel: No, it will not be very different. See when customers miss 2 or 3 EMIs and they start touching 91 or 121 DPD, they could actually pay 1 or 2 EMIs and come back to 61 or maybe 31%, but they still continue to be tagged as NPA customers because till the time, as you said, the arrears are completely repaid, we will not be upgrading any of these to standard assets. So, therefore, the quantum of customers who are in 30 or 60 DPD, it is a small number. I would say it is not more than Rs. 40 crores to Rs. 50 crores.

Management: The overall SMA book itself.

Ashish Goel: The overall SMA book itself is 1%. I would say this is a fraction of that, maybe 0.2%, 0.3%, which is NPA but with maybe 2 EMIs pending.

Akash Jain: So, most of the customers are barely able to pay even on the NPA book, they are barely able to meet that EMI requirement for that month. And hopefully, over a period of time, they will be able to pay, but asking them to pay more than one EMI is a difficult scenario for a MFI customer?

Deepak Khetan: Yes. Also Akash, there would be customers who is an NPA for more than 3 EMI payable.

Moderator: Thank you. We will move on to the next question that is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sure. So, apology, sir, if this question has been answered earlier. I wanted to check what is the total stock of provisions in the balance sheet, which is specific plus floating, plus restructured? Is this what you are giving on Slide 23?

Deepak Khetan: So, Jai, the total provision on the book is Rs. 1,290 crores. Of that Rs. 1,290 crores, Rs. 131 crores is standard asset provision, Rs. 909 crores is my NPA provision, specific NPA provision and Rs. 250 crores is my floating provision. So, out of that Rs. 250 crores of floating provision, Rs. 220 crores is being counted for a PCR calculation and Rs. 30 crores is being used for my Tier 2 capital.

Jai Mundhra: Total is Rs. 1,290 crores?

Deepak Khetan: Rs. 1,290 crores. If you see Slide #23 on the bottom of the Slide 23, we have mentioned that Rs. 1,290 crores.

Jai Mundhra: Sure. And second question is, sir, on one of your peer banks had shown that RBI in their instruction had called out for people who have taken MFI loan, but they did not qualify for PSL because of, let us say, inconsistent land record, et cetera. I wanted to check if you would have faced similar problem? Or could that be a potential sort of a risk?

Deepak Khetan: So, we have not had any such observation from RBI. What I understand in one of the recent peer bank's call there was a discussion regarding agri book being classified as PSL they needed some bit of documentation and all. And this question was also discussed and Vibhas clarified. The requirement came in September '20 onwards, and we have all the documentation required wherever it is required. And also, there is a RBI point where the documentation is required for agri-allied only if the ticket size is above Rs. 2 lakhs. For us, the ticket sizes are not there. So, for that category for MFI category, we would not require that documentation.

Jai Mundhra: Understood. And last question, sir, I just wanted to clarify. The RBI new recent guidelines on MFI lending, which asked you to calculate the household savings, et cetera. This clearly does not seem to have any impact, right, because your disbursement has been fairly good, but I just wanted to double check that, I mean, does this new regulation had any business impact if at all?

Vibhas Chandra: Yes. So, as I mentioned earlier that household income or household liability, et cetera, this is something which we is in practice Ujjivian and given for last 10 years. So, that is something we are already doing. So, we did not have to stop for that. There are certain changes for which RBI allowed the time till 1st of October, on which we and other partners credit bureau are working. And we will meet the requirement on time. But yes, as far as income and liability is concerned, this was already in place before the RBI came up with their requirement and the policy.

Moderator: Thank you. Ladies and gentlemen, we will be taking the last question, that is from the line of Sameer Bhise from JM Financial. Please go ahead.

Sameer Bhise: Strong quarter for Ujjivan. So, just wanted to get a sense on the provisioning policy. Would it be more prudent to create some buffer given that we have kind of had a significant stress in the past, we are probably heading into very good times in terms of growth and profitability. So, just wanted to get management's thoughts there? Right now, I think the floating provision buffer is around Rs. 250 crores. Would it be more prudent to create some more buffer before just to kind of shield off some of the unforeseen events in the future.

Ittira Davis: Yes. I think at the moment, you are right, we have the Rs. 250 crores that is sufficient for the time being. We are coming out of a crisis. But in the future, we will look at the model again and see what we have learned from the COVID situation. And if required, we will set aside if our model is to be continuing to focus substantially on the micro banking, we will look at the risk factors from that perspective and set it up accordingly. It is something that we plan to discuss at our board level.

Sameer Bhise: Okay. But it is on agenda, but so far, I think nothing is finalized. Is that a fair assessment?

Ittira Davis: And right now, we are continuing with the guidelines, which we had from before, which I think is also quite prudent because it takes care of all the risks at the present time. But whether we need to prepare for another COVID situation, that is something that we can look at later on.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Please go ahead.

Ittira Davis: Yes. Thank you very much. I appreciate all the questions that we received and the interest shown by the participants. I appreciate the support provided by IIFL. So, thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Securities Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.