"Ujjivan Small Finance Bank Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2021 earnings Conference Call of Ujjivan Small Finance Bank hosted by IIFL Capital Limited. As a reminder, all participant 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. Pratik Chedda from IIFL Capital Limited. Thank you and over to you Sir!

Pratik Chedda: Thanks, Rutuja. Good evening everyone. Welcome to the 4Q FY2021 conference call of Ujjivan Small Finance Bank. From the management team, we have Mr. Nitin Chugh - Managing Director and CEO, Mrs. Upma Goel - Chief Financial Officer, Mr. Ashish Goel-Chief Credit Officer, Mr. J. Srinivas Murthy –Head of Liabilities, Mr. Rajat Singh, Head – Micro Banking and Rural Banking, Mrs. Sneh Thakur, Head of Credit and Collection - Micro Banking and Rural Banking, and Mr. Deepak Khetan, Head of Investor Relations. I would now like to hand over the call to Mr. Nitin Chugh for his opening comments post which we can open the floor for questions. Over to you Nitin!

Nitin Chugh: Thank you Pratik. Good evening everybody. Welcome to our earnings call for Q4 of last financial year. I can really hope that all of you and your loved ones are well and safe and hopefully all our prayers collectively will give us enough strength to overcome the pain that we are going through because of the pandemic.

We actually finished our fairly challenging last financial year on a very high and optimistic note in the last quarter. We registered a highest ever business and collections outcome in March, you might have seen that from our results. However, yet again we are in the midst of a monster second wave all around us and I am sure lots of us have been impacted from very close.

In Ujjivan, we have lost six of our colleagues just in the second wave which is very disheartening for us and as of now nearly 600 of our colleagues are infected and recovering and we are praying for their speedy recovery.

The business and the overall environment were both evolving, it was dynamic, and it was also challenging at the same time. April onwards, we have first seen the increase in COVID cases all across the country with localized state level lockdowns. At this point in time, I think nearly 80% or more of the country is already under some kind of lockdown and this has indeed affected the livelihoods and business quite like the last time around. However, the key differences this time are that we have a lot of experiential learning from the last time.

We have a very high level of preparedness and we also have a finite high hope in terms of the vaccination, in terms of the reducing number of cases that we are noticing for the last few days now and the recovery rates which are also improving across the country and I think more importantly all the steps that are been taken by the government on the medical infrastructure side and the other fiscal measures that RBI has recently announced, I think those are very, very positive steps in the present environment.

In these times, I think we have fared a pretty well. We still stand strong as a purpose for organization routed to our mission of serving the best for our customers and at the same time we continue to look after our employees and we are taking all kinds of precautions and also making sure that our workforce gets vaccinated by the end of July and we are trying to work towards that as well.

My opening remarks fairly speaking in the following parts last quarter and the highlights of the last quarter, you might have picked up quite a bit of facts on the release and the presentation that we have circulated. We will also talk about the situation as we are seeing it right now, the way we are experiencing it and our preparedness and outlook for rest of the financial year.

Like, I have been mentioning in our past calls, we have taken cautious approach while being optimistic through the new business in the first three quarters of FY2021 and we had started to grow the business only from December 2020 and you would recall that in December, our disbursals grew by 8% year-on-year which we reported in the last earnings call. That momentum continued well into Q4 where we delivered an extremely healthy all-round performance. Our Q4 emerged to be the best quarter of the fiscal. In fact the best quarter ever for Ujjivan with business growing and surpassing way beyond pre-COVID levels and collections also improving to 94%.

Deposits for example, grew by 22% on year-on-year basis to Rs 13136 Crores with retail deposits at 48% much like what we had in December; however, our CASA book grew by 85% and now our CASA ratio is a very healthy 21% and it seems to be going in the right direction. Our disbursements were highest ever for the quarter. For the month of March they were indeed the highest ever for a given month also and our disbursals grew by 31% year-on-year for a quarter at 4,274 Crores.

The secured book which we have build trying to diversify out of micro finance heavy book that we had is now 27% versus 22% last year and the non-microfinance book is now around 28%. We also added about 8 lac new customers during the year. We continued adding customers on the liability side through the year through our digital workflow etc., but on the asset side these step up really happened from December onwards and the share of non-paying customers starting with the first phase of moratorium beginning of the COVID 1.0

wave that has continued to decline to the share of non-paying customers and now 96% customers are making payments in some shape or form.

We have also progressed substantially on our digital initiative. We have improved our productivity substantially. I will talk about that also a little more in detail and we were able to set up our non-interest income substantially both through treasury as well as our third-party income line. Our treasury operations actually have contributed in a very healthy manner. We generated a substantial amount of trading income also were participating into. The opportunities available to us through OMOs etc., and our capital adequacy also remains healthy and high at 26.4% and LCR at 116%, so on the fundamental I think we are as strong as ever, there has not been a problem at all in the last financial year.

These levels of fairly strong disbursals, our loan book went up by 11% on quarter-on-quarter basis from Q3 to Q4 and 7% on year-on-year basis to 15140 Crores and the growth was well diversified across all business lines and like we are talking about in the past. We were working towards the non-micro finance businesses also contributing meaningfully enough in the growth and future and that has really happened and both MSE as well as affordable housing for us are now very, very large businesses.

Talking about each of these businesses a little briefly, in micro banking, we did see a pick up and restoration of activity from November-December onwards that is when we also decided to start looking at new customers before that we were only dealing with existing customers through repeat loans in a fairly limited manner and as a result of opening ourselves up in a limited manner through the new customer acquisition, our preposition of new customers went up to 22% in the last quarter and we disbursed about Rs 3317 Crores which was 18% higher than the Q4 of last financial year. In March, micro banking disbursed Rs 1240 Crores which was again a record level for us.

In affordable housing, we crossed the milestone of 2000 Crores in our book; this was led on the back of fairly improved productivity and also a diversifying of business into little more formal segments. In Q4, we disbursed Rs 324 Crores which was 55% up over the previous quarter and 73% up over the same quarter last year and affordable housing book grew by 34% on a year-on-year basis, I think which is very, very healthy. Similarly, the MSE book grew by 31%. We disbursed about 276 Crores in Q4, and we also tied up with the Fintech partner and we have been trying to diversify in the MSE business into more formal segment.

In our institutional lending which we call as FIG where we deal with MFIs and NBFCs, we also diversified into better rated entities. We were not very, very bullish about the microfinance NBFCs, so we were trying to diversify that book as well. Our disbursements grew by 129% quarter-on-quarter and 189% year-on-year 240 Crores in fact in the month of

March again FIG reported the highest ever disbursals of nearly 185 Crores. So, that book is now about 648 Crores out of our total book well within the 10% cap that we have an internal benchmark of.

In our other businesses like personal loans and vehicle finance though they were new and relatively small I think they have scaled up on a fairly large multiplier basis even though the books continue to be small but we are scaling up these business with the sided different approach now and mostly through our branches and that has resulted in about Rs 44 Crores of disbursals in personal loans which is five times more than Q4 of last financial year and in vehicle finance, we disbursed Rs 38 Crores which is again four times compared to Q4 of last financial year.

One of the aspects that we have been working through and we mentioned this in our recent interaction, in the past interaction also it has improved on a productivity and efficiencies and I am very happy to let you know that our employee productivity has not just improved significantly across all lines of businesses. It has happened with better quality of customer relationship also that we have acquired. Our productivity was highest ever in Q4 of last financial year across all businesses and functional areas and this is despite we had headcount reduction of nearly 1200 to 1400 people which you might have noticed from the investor deck, all the businesses have delivered their ever-highest numbers in much more in excess of what we were doing a year ago. So clearly enough our productivity has been significantly improved at the same time through our digital workflows we have been able to reduce the turnaround time for customers and our error rates etc., also had reduced substantially.

Now coming to collections and provisions, we have spoken about improved collections in the month of March at 94%. The increased collections were due to our multipronged strategy and effort through both put out of field force, collection agents give alternate options to customers to make their repayment, tying up with Fintechs and giving them alternate options to make their repayments and all of this has led to giving more options to customers and has really helped us and continues to help us even in these circumstances when we have a network where we are able to collect payments from customers which are in close proximately.

However, in April of course there has been a dip so the 94% drop to 88% and largely the impact has been in the second fortnight of April. The first fortnight while we were experiencing difficulties, but the larger difficulties have started to come only after April 15, we do intent to add more people to our collections organisation which will benefit us in the medium term.

Amongst the largest states, Maharashtra continues to be worst hit. It has just about started to recover; it had reached a level of 87% collections efficiencies in March. However, that has again that dropped in April and Maharashtra because it bore the brunt of the second wave that of earlier on and even though things are improving but it continues to drag behind and some of the other states which are also challenging at the moment are Assam, Kerala, Punjab, MP, and Chhattisgarh.

MP, Chhattisgarh though they are small portfolios for us, but the collection efficiency was really impacted because of early lockdowns and widespread levels of infection. In Assam, while our portfolio is at a bank level only 2% and then micro banking it is under 3% now, we have not been dealing with too many new customers over the last 15 months or thereabouts. The government has now announced setting up of committee to evaluate the loan waiver which they had announced during the elections' time and we do hope to be able to work with the government and the other SROs etc., to be able to come to some conclusion. As of now, Assam has dropped in the collection efficiency even lower than what it reported in April and this is pretty much the feedback that we are hearing from the entire industry which operates in Assam.

So, we had taken accelerated provisions last quarter as you would remember and therefore this quarter, we have not taken any provisions. We had at that point in time estimated slippages and credit losses for Q4 and we had some idea for Q1 as well. However, at no point in time at that stage we were anticipating second wave and we were certainly not anticipating a second wave of this magnitude, so I think some of those assumptions have to get recalibrated as we go through this quarter. However, we continue to carry fairly good amount of provisions of 172 Crores on our books and our provision coverage ratio is 60% and extent of book that is covered is in excess of 6%.

We had also restructured about 852 Crores of our micro banking book which has performed well in the last quarter. We reached collection efficiencies of 75%; however, much like the rest of the book that has also dropped in April and we are keeping a close watch on that and working along with the customers. The good thing is that RBI has announced a second version of the restructuring framework which we are working on the policy procedures and the other checks and controls and we should be able to give some support to the stressed borrowers through these frameworks well.

In the other businesses, we did not actually do any major restructuring. Now one of the reasons why the GNPA and our MSE portfolio has gone up is also on account of the estimate that we had for restructuring that time which we had estimated close to around 100 plus Crores. However, when we had the customer level discussions, we would only restructure about 13 Crores of that portfolio as a result of which the most of it slipped into the higher level of GNPAs that you are noticing. We do have plans to identify customers for restructuring both in housing and MSE and that is again something will work through the restructuring 2.0 framework.

I have spoken about the channels that we have added in terms of repayments for our business distribution again we have Fintech tie ups now which are maturing. We have fairly steady tie up in MSE, in personal loans we have tied up with two Fintechs and we are working through a pipeline of at least another 25 Fintechs over the next two quarters which will help us in all kinds of workflows, distribution, collections etc. We are also going to be adding more touch points to our existing tie ups with Airtel Payments Bank, pay nearby etc., and even the “Money Mitra” arrangement that we have, we have rolled out of 250 outlets. We would be adding more proximity points for our customers to be able to make their repayments.

Now coming to liabilities, the focus was really on build up of the retail liability portfolio, we also wanted to reduce our cost of deposits, we wanted to replace our wholesale deposits with retail to the extent possible and because we were going slow on disbursals, we were also keeping our liability business in a range bound manner which I have explained in Q2 and Q3 earnings call as well.

Our deposits went up to Rs 13136 Crores 22% year-on-year growth and the retail book has actually grown by 32% and is now at Rs 6,242 Crores which is 48% of our total deposits and the thing that we are most happy about is our CASA which has now gone up to nearly 2,700 Crores which is 21% of our liabilities and CASA has indeed grown at 85% year-on-year both across current as well as savings. This has been possible also through fairly improved productivity in our branch banking channel and the digital account workflow that we have introduced early on. The cost of deposits of course has tended lower through the year. It is now at about 6.6% and predominantly because of a higher share of CASA as well as replacing the high-cost deposits with lower deposits.

In our third party products we had a fairly higher reliance on a group credit life products which is bundled along with loans and since we were not disbursing too much in the first seven to eight months of the year that income line was under pressure; however, we worked through a retail insurance income line and we were able to also certify roughly about 400 people at the beginning of the year we took it to nearly 2800 people by the end of the year and we were able to work through our branch banking channel especially to generate a lot of third party insurance income.

As a result of which our total third-party income has remained unchanged at 20 Crores but the mix of retail has improved substantially and that gives us a confidence that our branches are now maturing and they should be able to contribute to third party in a much more meaningful manner. We also expect to introduce mutual funds later during the year. We have got our ARN and we do expect to introduce mutual funds in the early part of the next quarter.

We also had a fairly good allocation for CSR. We have spent about 5.53 Crores during the year, we wanted to focus largely on COVID relief and things that we could help with supporting the healthcare, the health workers etc., so we have indeed worked through all of this. We also went onto COVID education program trying to educate our beneficiaries to practice, safe COVID appropriate behaviour and that has really helped and that is something we are very happy about. We have been able to reach out to nearly 300,000 beneficiary both as a combination of the work that we have done along with the healthcare and the Law Enforcement Agencies as much as what we have done directly ourselves.

We also completed 24 infrastructure projects which we call as Chote Kadam which are largely in the areas of education, healthcare etc., with our partner Parinaam. Our digital initiatives were well on track. I had explained this earlier that we have a three-year roadmap for our digital strategy. We were able to finish rolling out all our APIs. We had 159 of those which we finished by the end of March that has helped us and is continuing to help us in tying up with Fintechs and many other platforms led partnerships such as those with the NPCI and BBPS etc., and it is also now turning out to be an alternate servicing channel for us. We do have a pipeline of at least another 25 Fintechs in addition to the already 24 that we have, so we expect ourselves to be fairly meaningful player in the Fintech space also through these ecosystem partnerships that we are forging now.

Processes were robotized to a large extent. We have a roadmap now of about 125 odd processes. We completed 14 of them which are giving us fairly good outcomes in terms of improved efficiencies etc., and now we have a roadmap to automate another 110 through this financial year which we hope to complete by December.

The digital channel have also started to mobilise business directly from customers even though it is very small right now about 8.3 Crores of deposit and 4 Crores of loans that we have disbursed but this is giving us a good amount of optimism that these channels can be good fairly large alternate channels for us as you work through that. We have also invested in a marketing automation tool which we tested through multiple campaigns and that is resulting into really good outcomes on the balance build upside and CASA and collections as well through these measures with existing customers and we expect that the combination of annulated this marketing automation tool which we call as Martech and digital channels and digital marketing will help us in creating alternate capabilities for the bank.

Now let us come through our plans for this financial year, and this is only in the context for digital that I am talking about just to finish that topic, so we will continue enhancing our digital capabilities we do want to introduce wealth management like I mentioned Mutual

Funds etc., we are also digitizing our insurance workflows through another Fintech partner and we expect to have an end-to-end digital workflow for sourcing insurance and being able to cross sell. We will continue to benefit from our existing investment in all the partnerships and the API framework that we have made, and these channels will continue to keep adding more capacity for us. We have also put in place for roadmap for Artificial Intelligence. We have signed up with one of the leading Artificial Intelligence Company and while right now, we just have a chart box which is multilingual, but we do have a roadmap to bring in Artificial Intelligence into a lot of our business work flows over a period of time.

A little bit on the RBI measures that have been announced, so like I mentioned the restructuring framework has been worked out. We are working on the policy and the procedural framework and we would be able to provide you details at later date. We have also made use of the other measures that RBI announced. Just yesterday we participated in the TLTRO and we were able to raise 50 Crores, we wanted to test there out and that is going to be use of in the next 30 days for lending in micro banking. We are also working on the on-tap liquidity of 50000 Crores that RBI announced and that is expected to help us with lending through MSE business on the healthcare side what RBI has announced us what can be classified as COVID loans and that program will also get launched very soon.

On our financials, I think we have kept a very sharp eye on our costs. Our operating expenses have induced reduced by about 100 Crores. We went line by line through the year. We went through multiple rounds of negotiations, we went through multiple iterations and we have been able to not just work on our efficiency and productivity but we have been also been able to trim our cost substantially as a result of which our cost to income for the year is at 60% compared to 67% for the last financial year, a 7% reduction I think takes us ahead of our own milestones by at least one year. We were originally scheduled to be at 60% by the end of FY2022 and 55% by the end of FY2023.

The Q4 of course has had a higher cost to income at 69% but that is largely because of the reversal of interest on the non-performing portfolio to the extent of 75 Crores which we have recognized as NPA and that has impacted fair number of ratios for the quarter which includes the NIMs as well as the cost to income ratio.

Now for how we are looking ahead, it seems that the second wave is now showing signs of coming under some control, the number of cases are coming down, the business activity is expected to start normalizing once mobility is restored hopefully in July is not sometime in June, we do not expect too much of lockdowns to continue unless the health situation really requires the local governments to take those kind of steps, so I believe that in lot of ways Q1 of this year would probably be not very different from Q2 of last financial year than it was kind of on the path to recovery and unlocking was happening across the country.

We have had some disbursals to the extent of about 690 Crores in the month of April, so it is not like it is going out to be a washout quarter like Q1 of last year and in general we do believe that the sentiment would improve as the healthcare situation starts coming under control. The only difference this time is that lot of people have been impacted at a personal level, a lot many of our own colleagues are impacted, their families are impacted, so it is more of an emotional burden that we have to work through, and we are really trying our best to support our people and everybody else around this time.

So, we do expect that we should be able to grow anywhere between 20% and 25% based on our estimates right now, we will of course keep calibrating this during the year and we do expect our CASA to continue to grow. We expect our CASA to be able to cross 25% to 27% which will again be one year ahead of our original milestones. Our original milestone was to get to 25% by FY2023 and the diversification of the asset book will continue and within each of these businesses we are again diversifying into more formal segment. We are diversifying into better rated entities in our institutional business and that process will continue so that we also build the cushions, the logical cushions for future quality of the portfolio.

The best thing is that we have tested our capabilities in Q4, right. We know what we are capable of, we have been able to deliver a certain level of outcomes and that gives our entire team a lot of confidence that this is what we are capable of, we will of course be adding people in businesses where the level of optimum productivity has been achieved and which we have actually indeed achieved in the last quarter and therefore as things start going to normal, I think we would just be coming out of this whole situation and going back in full force.

We also expect some more fine-tuning of our expenses on the back of our investments and digital as well as improved efficiencies on the operating expenses side and we do believe that we have a chance to reduce our cost to income by at least another 300 bps in this financial year. Now the only thing which is a little unclear to us right now is the extent of credit cost while we are going into this year will be fairly good level of provisions of 172 Crores and 60% of PCR, this time around the things are different because one there is moratorium and last time around we had pretty much of 100% moratorium which was followed by gradual unlocking and then the restructuring framework was announced which we made use of in Q3 now we have the whole framework available to us right now. So we will be able to take action and will be able to come up with support for our customers much faster as compared to last year.

The health situation while it is more alarming but I think the localised counter measures, the state specific lockdowns, the vaccination drive which I spoke about a little earlier are also promising enough and the whole timely announcement of the restructuring framework which I am repeating is also going to be very beneficial to us, so things are not going to be exactly the same as the last year, we are fairly optimistic this time around. We are just hoping that this whole situation gets over sooner than later and it does seem like that it would and therefore our posturing will remain conservative and the estimates for any kind of credit cost or any kind of slippages I think will emerge once we have go through this whole process of the second round of restructuring and how this quarter really performs.

Our overall profitability which has improved the performance of the new book which we added last financial year which continue to report 99.5% plus collections efficiency and is now even performing a lot better is also expected to push in this as much as the increase in the fee income and other kind of income lines for us will also contribute to healthy manners to the P&L.

The other thing is that we will also expand our branch network, we are just finalizing plans, and we have shortlisted about 55 new branches that we want to add. We just need to go through some internal approval processes. We also have a few tech investments lined up like a data related analytics and Artificial Intelligence also in augmenting our capacity and network, so all of that will continue.

In summary, what I would say is that we expect this financial year to be a reasonable year of growth and stabilisation with the latter half holding lot more promise and we will also retain our sharp focus on improving our earnings and quality of the balance sheet, maintaining our conservatives positioning related to provisioning.

I will stop here and open this up for questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Alok Sangai from VT Capital. Please go ahead.

Arav Sangai: Thanks for the opportunity and hope all well. My first question, if I just look at the PAR number, PAR 31 to 90 it is approximately 4.5%, I have a 2.9% kind of NPA and apart from that I have 6.8% kind of restructuring, so again this overall stress that we have as of March 31, and we are well into half of the first quarter, why have not we chosen to make some kind of accelerated provisioning this quarter as well because from your commentary it was like pretty clear that we are still not sure about how asset quality outcomes will turnout so any thoughts on that provisioning front? My second question is on the GNPA. GNPA has increased quite a lot this quarter and the broader question I had like earlier we used to say that microfinance is a business where people rebound very easily but when we get into second wave this is like this is second time when the same set of people have been hit twice like in a matter of may be one year when they were not able to recover as well. So this 5% collection drop that we are witnessing like what is the colour like which type of customers are witnessing stress, is it same kind of customers which witnessed stress last year or are these new customers, so thoughts on these?

Nitin Chugh: Let me answer the first one on additional provisions. Since we are carrying already 172 Crores of provisions unused provisions, we did not think that there was a need to create any more provisions in Q4; however, Q1 like I said we will have to take stock as and when, when we get better estimates and we are still going through a situation April has not been a like a lost month altogether like last year in April we had 5% collections efficiency compared to that we are at 88% collections efficiency and May while it has dropped and the numbers will come by the end of the month, all is not lost, so it is not like we are completely in a hopeless situation and therefore we run for cover and we try and in any case 172 Crores is a decent number cover that we have.

Coming to the elevated levels of GNPA, one reason of course is that we have not done any significant write off. We have just done about 74 Crores of write off unlike many other lenders who have done very large write offs, so we did not want to do that. The question on microfinance borrowers, I think this time around it is lesser to do with occupations which were more pronounced last time around where specific people were impacted and they were not getting their income restored because of the loss of livelihood, all lockdowns etc. We are also this time around, it is the spread is also equally as much into the rural areas as compared to the last time around, so from our point of view the entire portfolio is behaving similarly, it is not very different from an occupation point of view, very much this time as compared to the last time around. Therefore I think, as things normalize, they will normalize for everybody at the same time. Yes, there will be some occupations which will probably lag but we do not expect them to lag the same amount as they lagged the last time where it took them more than six months to nine months to recover and some people actually never recovered.

There is a possibility that the small proportion of the portfolio maybe permanently impaired and they may not be able to restore their livelihood, but we do have certain categories of customers who are also very quick to change their occupation. We are expecting a good monsoon this year as the forecast is being, we are just hoping that the infections in the rural areas also are taken care of and I think there is a lot of attention going by the government there, but this time around things are lightly different just the fact that the rural areas more impacted than the urban areas is also causing some concern.

Now, if we have to look at specific occupations especially in, let us say the month of April the occupations which were impacted early on because of the lockdowns were not very different from the last time around, they were pretty much the same, but we did not see too much of a difference between, let us say an agri occupation led set of customers versus somebody who was into housemaid kind of occupation okay, we did not see too much of an impact. Now, if this continues then the gap will start to increase. The other thing also to understand on the GNPA is that we did not give any kind of top up loans. You might have noticed that our Q3 was also fairly subdued. You might have also noticed that Q3 for a lot of other lenders was fairly elevated in terms of new disbursals. And Q4 has not been that much of a quarter-on-quarter growth for lot of lenders who had a fairly high Q3 set of outcomes, now, we had stayed away from all of that, we have only dealt with our existing customers. We have not done any kind of so-called ever greening etc., last time also there was this question around are you funding your existing customers? We had not done any of that and part we chose was to restructure and that was done under the regulatory framework that is permitted. So, that point of view I think our GNPAs reflect the true picture. They reflect exactly how you should deal with the portfolio in a responsible manner, how you should work through with your customers and wherever you need to provide with any assistance, any sort of framework to customers to help them, that is what we have done. So, I would urge you to not compare, because I think the approach that we have taken is very-very different. I hope that answers to some extent.

Arav Sangai: Just to follow up here. So as of March I had a portfolio at the risk of 14.9%, so the collection efficiency drop that we are witnessing in April and May this 5% to 6% is it from this par pool also, is that from the standard pool also, and my second follow up is the write off for the whole year, if you could share that number, so that is it from my end?

Nitin Chugh: Write off for the full year is Rs.74 Crores and the impact on all kinds of customers, all kinds of buckets is uniform. We are not seeing any difference in terms of some bucket behaving differently and especially in the context of how much it is dropped over March, it is generally uniform and that is why I also specified that if you look through the occupation we are not seeing too much of difference as been one occupation type and other right now, if this continues then obviously things are going to be very difficult.

Arav Sangai: Understood, Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Prasheel Shah from CapGrow Capital. Please go ahead.

Prasheel Shah: Yes, my question got answered. Thank you.

Moderator: Thank you. The next question is from the line of Amanjit Singh from Oculus Capita. Please go ahead.

Amanjit Singh: I was actually looking at the employee cost and looking at the trend over the last 8-10 quarters and I saw that we are back at like about six to seven quarter back what the trend was about Rs.120 Crores odd. So, what kind of optimization has happened or is it due to any attrition that you are seeing, is there any attrition at higher levels or what is that? My second question is, what is your view on the talent pipeline, are you seeing any churn or are you looking to bolster senior leadership in existing segments, I mean the newer products that you are introducing?

Nitin Chugh: Our employee cost remains unchanged on a year-on-year basis, so I did not quite get it that how it is different on a quarter-on-quarter basis. What has really happened is that because of the improved productivities, the variable cost of the sales teams have gone up okay, and that to some extent reflected in our overall employee cost, so that is a good cost to carry because it is proportionate to the amount of business that people have been able to generate. Now, in terms of the headcount reduction that we have seen that of course would have added to some savings in the employee cost, but we have also given an increment during the year, even though we give it only in October after reviewing the situation for the first two quarters we gave it prospectively from October onwards. So, some change in the overall payroll bill would have also happened because of the increments that we have given. I do not think there are any significant gains because of the attrition, and we have not looked at attrition from that point of view in any case. We also did not lay off anybody. I mean all this attrition that has happened is all natural the usual attrition and most of it picked up during the second half of the year rather than the first half. Now, in terms of leadership team, I can tell you this very confidently that we have probably this strongest team amongst our peer group, the leadership team. We have been able to strengthen our team over a period of time and at the moment, I think we do believe that while we will keep taking people wherever we have requirements for or wherever we are expanding or whatever else as they are doing, but we are not finding any problem with attracting talent, if at all we are attracting more and better talent over a period of time.

Amanjit Singh: That answers my question. Thank you, Sir all the best.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. Two questions, one is, if you can give us the split of disbursals in FY2021 across the heads new customers and existing customers and their breakup**.** What would be the percentage split?

Nitin Chugh: You mean in microfinance or overall?

Anand Bhavnani: Microfinance?

Nitin Chugh: Like I said in the last quarter we had 22% disbursals happening to new customers, right and 78% to existing customers and through the year we have worked, I mean in the first quarter we just had probably about 5% that went up to 8% or 9% or 10% in the last quarter and finally went up to 14% or 13% in the third quarter and now it is at 22%. So, we have been mostly dealing with the existing set of customers. Most of them would be in the second cycle or the third cycle, largely would be in the third cycle.

Anand Bhavnani: Sir, and on the basis of last year's experience, how would you want your disbursals to be drastically different this year based on the experience with customers in different geographies and do you see particular reasons are to avoid or to prioritize?

Nitin Chugh: Again, in the context customer acquisition, right?

Anand Bhavnani: Yes, for FY2022 given the experience in FY2021, are there such developments, that you have the targets, just trying to understand how has been our experience across relative that will help if that trend?

Nitin Chugh: No, that is a very good question to give you a lot of insight on. First of all I think because we also tightened our credit policy framework last year April and we ran a 100-day policy, and then we subsequently extended to another 100 days. We were very cautious of what kind of new customers we acquire at a general level. In the non-microfinance businesses it has been our desire and we are working towards bringing in more formal category of customers, one of the reasons which I also explained for higher levels of GNPAs in MSE is that largely the GNPAs are coming from the informal segment and the low ticket loans which are under Rs.25 lakhs, right, so we do acknowledge the fact that we need to cushion the portfolio, we need to bring in more formal categories, balance sheet led lending, audited financial base lending and we have been able make that shift in our peoples skills as well as our business strategy over the last few months especially in the business like MSE. In housing we are not dealing with more formal salaried customers unlike, in the past where we had a larger proportion of cash salaried customers which are again mostly informal in nature. Now, in microfinance from the learning of the past and since we very carefully calibrated our new customer acquisition and gradually took it up to 22% for the last quarter, for the full year it is not more than 12%. Now, this year in the present situation, we have again rolled back some of those things and in branches where we need to obviously cater to the existing portfolio, privatize collections more than anything else or there is uncertainty about how the recovery might be, we have either stopped new customer acquisition altogether or we would have slowed it down substantially. So, again in this quarter the focus will be dealing with existing customers and next quarter again we will recalibrate and take a call as to what we want to do, but in all the other businesses I think the whole drive towards formalizing the portfolio to the extent that we can over a period of time that will continue.

Anand Bhavnani: Sure Sir, and lastly in regards credit cost, now assuming if this recovery continues COVID comes under control in India along with improving vaccine drive. Do you anticipate more credit cost in FY2022 as compared to FY2021?

Nitin Chugh: That is why I did not want to answer that numerical manner, because we also do not have the ability to answer that in any kind of numerical fashion. What I have mentioned in my opening remarks is that, how do you qualify the situation right now, how is it different from the last around, what kind of actions were available to us this time around. Now, we have to be able to judge any kind of estimates based on what we are going through and how soon the whole situation resolves itself, which it does look like that it is resolving itself and the learning from the part and the availability of a resolution framework much in time. Now, all of these learning’s will go into making sure that we try and contain it, but it is too early for us to put any kind of range or any kind of a numerical goalpost to that. So, I would refrain from that but overtime I think we can keep you all updated about how things are progressing.

Anand Bhavnani: Sure, I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: Nitin, couple of questions from me. My question pertains to the question earlier in the call about the staff costs, last quarter I think the staff costs were in the kind of about Rs.2 billion and they have come down about 17% odd quarter-on-quarter despite having uptick in expense in this quarter, so what kind of explains that?

Nitin Chugh: Sorry, are referring to a specific slide in the deck Nishant?

Nishant Shah: No, just like the staff cost that you have reported, in the BSE reported filings that you have given, right for example let me just quote you the exact amounts. On page No.5 of your BSE filing the employee cost is Rs.169 Crores in this quarter and it is Rs.203 Crores in the previous quarter. So, what explains this like 17% kind of sequential decline in staff costs despite this quarter having a lot more business than the last quarter?

Nitin Chugh: Yes, Upma is going to answer that.

Upma Goel: Nishant, one of the reasons for the decline in the staff cost is that decrease in the average headcounts on a sequential basis. So, in Q3 our average headcount was 16879 which reduced to 15652 and that is one of the major reasons of drop in the cost. Second thing is while productivity is improving what we can call it as variable pay which is the sales related incentive, there has been optimization and that gets reflected in the savings what we are seeing on the staff cost.

Nishant Shah: Understood, the variable cost optimization would we be able to sustain that for the coming year as well or at some point we will have to that mean revert and it will come with a little bit of area so to call it?

Nitin Chugh: No, we will be able to sustain that Nishant, and I cannot think of anything else that would have gone there, but in general if you look at the previous two quarters it was in Rs.185 Crores – Rs.189 Crores and then it went up to Rs.203 Crores and then it has come back to Rs.159 Crores but largely it reflects the change in our headcount. The variable pay of course is not in the same proportion as the topline growth because it is on the back of very, very improved productivity. So, the fixed cost remains unchanged, and the variable is not going to be in the same proportion. That is clearly what is coming out here.

Nishant Shah: Okay, fair enough. My second question more macro, any discussions or any further communication with the RBI on couple of aspects the harmonization roles which are being talked about and secondly on the IWG committee recommendations on the reverse merger. Any update at all like RBI has gotten gone into silent mode, so would you be engaging in any dialogue, any comments from the RBI?

Nitin Chugh: No, we have been dialoguing with RBI, both individually as well as through our Small Finance Bank Association. As far as the harmonization is concerned, I believe RBI is going to come up with the discussion paper anytime soon that is what we heard last and that will be open for discussions and then they will probably come out with the guidelines and regulations. IWG what we heard last is that the guidelines are expected anytime. They were expected anytime, after March, so I think it does appear that they should be out anytime now. We have of course been in dialogue with RBI to find out their inclination towards giving us an approval for the reverse merger, but we have time for that because we have not yet finished five years and we will be completing five years only in January. But we have been in active dialoguing with them and on both these things the IWG as well as the harmonization we are expecting RBI to come out with something soon enough.

Nishant Shah: Yes, Sir one quick follow up on the harmonization, where is the RBI dialogues more focused towards, is it on the spread cap, is it on the indebtedness?

Nitin Chugh: We are building our own hypothesis right now because we have not heard from them. I think from their point of view they would rather prioritize customer protection, they would prioritize something on the lines of the code for responsible lending where they have an indebtedness cap that everybody follows, the number of lenders that everybody follows, collections practices etc., while they do have regulations for all of them, but in practice some people deviate once in a while and that does create issue. So, we do expect more in terms of responsible lending behavior that they will come out with guidelines. It is also expected as part of our own estimation that they might look at harmonizing the gap that they have for NBFC's versus the banks. We did that whole estimation when the whole dialogue discussion came up and we do not expect too much of a change other than may be 115 bps to 120 bps in our yield because of any kind of harmonization on the gap.

Nishant Shah: Perfect. Thank you. That is it from me.

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

Renish Bhuva: Nitin, two questions, one on this customer leveraging we have been hearing most of the industry players are working on the existing customer pool. So, is it good practice to lend to the same borrower where we have seen extremely tough cycles they have gone through and again they are entering the same cycle, so strategically how one should think, is it a good practice to lend to same borrower or one should try to focus on new set of borrowers rather than leveraging the same customer again and again?

Nitin Chugh: I do not really agree with you and that is why you need a very, very good framework, a very good set of policies procedures and more importantly a very tight discipline when you are dealing with existing customers. Now, the way we look at existing customers for repeat loans we have a very tight framework. So we do not go beyond Rs.100000 total indebtedness. We are happy to be the second lender, we are happy to be third lender, but we will not go beyond a three lender norms which again we are signatory of. Now, what typically happens in terms of over indebtedness which we have seen playing out in Assam especially, that when mindless lending happens without any regard for the code of any kind of responsible lending a big-ticket lending happens, in our case our average loan sizes are on the Rs.40000, we have a quality of going up to Rs.60000 for new loans, we do not go beyond Rs.40000. So, you have to exercise prudence there. Unfortunately should we borrow deals with multiple lenders those checks and controls have to be brought in place. Now, just to highlight that point when we signed up for the CRL, the board is even not looking at three lenders, we were looking at total indebtedness, but the thing that we were doing was that we were making use as to comprehensive credit information code which the rest of the industry we were not very sure whether they were doing that or not. When we signed CRL and implemented the seal under norm our rejection rate went up by 5% to 7%, but we are happy to let that go because it tightens your overall credit discipline and that is what we believe in that there are no great marks for trying to burden the customers even if the customer at that point in time has the ability to pay but as we have seen over the last one year and more these kind of shocks can be completely impairing for customers and that is what we are seen today are really because of excessive over lending leading to coercive collections, leading to customers complaining and then political intervention and then compounded with some natural calamity and then with COVID and then it becomes a very big thing for anybody to handle. We have stayed away from that. We have already stayed away from that and we will continue to stay away from that. So, if you notice our micro banking business has been growing at the rate of, we grew by 18% last financial year whereas the industry grew by 35%. This financial year our micro banking book has not grown substantially. It has probably grown by 3% or 2%. It is actually flat it is not even grown. Now, we are not pursuing any mindless growth in these circumstances and that is the reason why even when you are looking at a new customer it is not that the customer is new to credit all the time, so could already be indebted.

Renish Bhuva: Yes, correct. Got your point, one has to be very careful even while dealing with the existing customer this is what you are highlighting. Thanks Nitin. Secondly on this branch expansion strategy you did highlighted incrementally we will focus on the more formal category, so the current distribution network is capable of sourcing those customers or we have to build new distribution network since there is a change in strategy?

Nitin Chugh: If you can repeat that question, please?

Rainish Bua: My second question was on this branch expansion strategy; you did highlight in your opening remarks that incrementally we will focus on formal category of customers. So, our existing branch network is capable of sourcing these customers or you believe we have to add maybe more branches to source this formal category of customers, since there is a change in the strategy?

Nitin Chugh: No, our existing sets of branches are very capable. I do not want to say that for our rural branches which are the rural locations but there again you have an opportunity to do some more formal lending. It is not that you cannot. So, far we have been doing mostly group loans, agri group loans as we call them, but we do have plans to even start more formal lending even in those markets wherever we have an opportunity. But all the other branches and our metro and semi-urban locations we do not have a problem of sourcing these customers and we are doing that for existing branches. The new set of branches will be mostly being in new geographies which we do not cover right now or in a market where we feel better density and where we have a larger opportunity for market share that is where we will be adding.

Renish Bhuva: Just last question from my side on this credit cost. Of course given the situation we will not be able to estimate the numbers, but qualitatively speaking looking at our net NPA number of 3% and our Rs.172 Crores of our contingency offer is hardly 1% - 1.5%, so why do not we thought of improving our coverage to 80% or so and provide a bit more in Q4 rather than awaiting for Q1. Do we expect the higher recovery from that pool, and hence we are not increasing our coverage ratio or what is the thought process behind that?

Nitin Chugh: With the unused provisions we are already at 6% coverage. So it is not like we have left the book uncovered and 6% is a very decent cover on the book. In micro banking it is actually 7.7% on your provisions apart, okay so that is nearly like 77% PCR. That is one. So we do not have a problem of coverage. The second part in terms of recovery we do expect the environment to be different this time around. Last time because it was a prolonged moratorium for six months the recoveries also got impacted and that you might have seen from our recoveries as compared to the last financial year versus some Rs.31 Crores that we recovered from NPA customers in FY2020, we were able to recover some Rs. 8 Crores – Rs.9 Crores only, because we were unable to recover due to prolonged moratorium and even the NPA customers stopped paying, very much that was happening in Assam right now that even the good customers do not want to pay, everybody looks for a loan waiver. So, this time around things are different and we do expect through the augmentation of our collections organization which we have done and we will continue to do that through all these other alternate mechanisms that we have done, we have actually also tested some of these used cases through Fintech partners as well where we saw recoveries to our small bucket of NPA customers which we tested by just trying or with the Fintech partner we were able to recover nearly Rs.50 lakhs out of nothing at all that was coming through. So, we are hopeful of better levels of write backs and recoveries this time.

Renish Bhuva: Got it and Sir, just a follow up, what is the role of this Fintech partners, this is more of a calling them constantly and chasing them up or is it that they provide?

Nitin Chugh: No. It does not work by calling. They can be done through a collections agency. You do not need a Fintech partner for that. So, the one that we have worked with they have a way of profiling customers, they have a way of nudging them using social media or other attributes, they have also way of identifying locations, they have a way of finding out in case the customer is incommunicado. In most cases customers are contactable. It is just they need some kind of soft nudges and when that happens through fairly intelligent way by using analytics and location data etc., you are able to get the customer to start paying which is what we have seen in our pilot.

Renish Bhuva: Got it, Okay. Thank you, Nitin. Thank you so much.

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

Nidhesh Jain: Sir, when we are saying Rs.172 Crores of provisions that is not included in our calculation of 2.9% net NPA, is that correct?

Nitin Chugh: Yes, that is correct.

Nidhesh Jain: So, in effect our net NPA is probably 1.9%?

Nitin Chugh: Yes, right.

Nidhesh Jain: Second is that, if you tell share gross NPA in MSE and Housing because net NPA number looks pretty high in both these segment at 6% specifically MSE?

Nitin Chugh: MSE is about 10.3%, housing is 3.6%.

Nidhesh Jain: So when we compare these numbers with some of the peers it looks reasonably high?

Nitin Chugh: Yes, it is high. No doubt about it, but like I explained in MSE this is largely coming from our informal category of customers, the small ticket loans under a lakh and that is also one of the reasons why we are trying to diversify into more formal category of customers. However, the book coverage in MSE is now about 4.8%, in Housing it is 2% and even better our collateral coverage in both MSE and Housing it is about 2.2 times of the outstanding and all of these are secured. We do not have any unsecured reported here, unsecured is something that we are anyway running down.

Nidhesh Jain: Sir, when we are entering into formal segment in both Housing and MSE, how do we think about profitability, ROA trajectory for the bank and if you can share what could be the incremental yields on these two portfolios going forward? That would be helpful.

Nitin Chugh: Yes, good question. The yields are not being looked at standalone basis. Yes, we do especially yield to get compressed as we move into more formal segment, but that is exactly the reason why we have tried to open up our cost of funds, we tried to work on our operating expenses and the only unknown last year was the credit cost, okay which again we have accounted for. So, this year again it will not be very different. We will continue to improve on our efficiencies and the other levers that we have to keep expanding the margins, but the topline yield will of course come down as we move into more formal segment, but given the fact that it will come at a lower credit cost for all times to come and not on secured portfolio basis, we are not uncomfortable with that, in fact that is probably a better situation to be in rather than live with the uncertainty of a portfolio which can turn differently in situation like these. But because of the lower cost of funds, lower expenses, better productivity efficiencies, etc., so we would be able to maintain healthy margins in any case. But I do not want to give any kind of an outlook on what kind of yields are we expecting, because the portfolio is gradually shifting into more formal segment and a good way to expect would be probably on a year-on-year basis rather than quarter-on-quarter because quarter-on-quarter the needle will not move very much.

Nidhesh Jain: Understood. Thank you, Sir. That is it from my side.

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

Abhijeet Sakhare: First question is on the restructured book; just a clarification there is a line which says that GNPA at 3.6% for restructured book. So, is that 3.6% of Rs.852 Crores?

Nitin Chugh: Yes, that is right.

Abhijeet Sakhare: Just a follow up on the restructured book itself, now what we observed is that there is probably no large MFI lender which has adopted a restructuring approach. Now, the concern is that… sorry?

Nitin Chugh: Abhijeet, quite a few have they may not be listed but we are aware of quite a few who have done that and maybe even in larger proportion than what we have as a percentage of their portfolios.

Abhijeet Sakhare: The concern here is that the other lenders to that borrower they have not adopted a restructuring approach would probably get a first access to the cash flow. Given as you indicated there has been fair amount of top up refinancing whatever you call it, it has gone on in the system in the last few months. Now, given that behavior of the competition would your approach to the second round of restructuring change. Given that you might not be able to get the first access to cash flows if you offering restructuring to your set of customers?

Nitin Chugh: Restructuring the last time around what we offered was an elongation and tenure or reductions in EMI, both of these are beneficial to customers. There was also a part of portfolio that we offered a one month or two-month moratoriums. There are customers were generally facing difficulties. All such customers have appreciated that. I do not think they prioritize anybody else who is giving them a loan versus somebody was giving them a better option to manage their cash flows and these relationships are fairly individual lender based. I cannot guarantee for sure that somebody comes and dumps Rs.50000 with that borrower and says that person was giving me the loan forget any other lender and start paying me first. I mean that kind of irresponsible behavior can lead to irresponsible behavior from borrowers but we have not seen that. We have also kept a good check on our portfolio by looking at which customers are if at all paying any other lender, because you can get that information through bureaus across and we have been doing that over the last few quarters. That helps us in prioritizing some of our discussions and making sure that we are not getting left out, if in case the customer has the ability to pay and we end up in the queue the last one and the customer by that time has finished the available cash flows. So, we are keeping a tight control on that as well, but behaviorally we have not seen any change in fact if at all customers are happy then we have offer them this kind of a leeway and we have seen collection efficiencies therefore we work up to 75% in the month of March. As far as this time around the second time I think we will follow exactly the guidelines that have been mentioned. We will do exactly as per the framework. We will not try and do any shortcuts or any other ways of making sure that the money comes back and we will do a genuine assessment of the income impairment, cash flows etc., and then on that basis we will offer and that is why I am saying that that exercise is going on right now as identification, policy procedures, technology etc., we do have a lot of learning's from the last time around and therefore we should be able to do this in a much better manner.

Abhijeet Sakhare: Got it, Sir. Just one number question, what is the GNPA in the micro banking unit?

Nitin Chugh: 7.8%.

Abhijeet Sakhare: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Nitin Chugh: Thank you everyone. Thank you very much for joining us. I hope we have been able to answer the top of the mind questions. In case we have left out any of you or anymore questions, please do feel free write to us, Deepak is your contact man, and we will respond to all of that. So, thank you very much for making time to this call.

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