"Ujjivan Small Finance Bank Limited
Q1 FY'25 Earnings Conference Call"
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MANAGEMENT: **MR. SANJEEV NAUTIYAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED**
MS. CAROL FURTADO – EXECUTIVE DIRECTOR – UJJIVAN SMALL FINANCE BANK LIMITED
MR. ASHISH GOEL -- CHIEF CREDIT OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED
MR. MARTIN P S – CHIEF OPERATING OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED
MR. M.D. RAMESH MURTHY – CHIEF FINANCIAL OFFICER -- UJJIVAN SMALL FINANCE BANK LIMITED
MR. VIBHAS CHANDRA – HEAD OF MICRO BANKING – UJJIVAN SMALL FINANCE BANK LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to the Ujjivan SFB Q1 FY '25 Earnings Conference Call hosted by IIFL Securities 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rikin Shah from IIFL Securities Limited. Thank you, and over to you, sir.

Rikin Shah: Thank you, Sejal. Good evening, and welcome, everyone, to Ujjivan Small Finance Bank Q1 Earnings Call. We have with us today the entire senior management team of Ujjivan Small Finance Bank to discuss 1Q FY '25 earnings and the business performance.

The management team is represented by Mr. Sanjeev Nautiyal, MD and CEO; Ms. Carol Furtado, Executive Director; Ashish Goel, Chief Credit Officer; M.D. Ramesh Murthy, Chief Financial Officer; Martin P.S., Chief Operating Officer; and Vibhas Chandra, Head of Micro Banking. I will pass on the call to Sanjeev sir for you to kind of discuss the Q1 earnings. Over to you, sir.

Sanjeev Nautiyal: Thank you, Rikin. Good evening and welcome to our Q1 FY '25 earnings call. I'm happy to present to you an update on our Q1 FY '25 business and financial performance. On business, our Q1 disbursements have grown to INR5,286 crores at par with Q1 last year. This resulted in gross loan book of INR30,069 crores as on June '24, up 19% Y-o-Y and 1% Q-o-Q. This is despite our cautious approach in acquiring new to credit customers and amid slowdown in business inquiries in micro finance over the last few months.

We acquired around 2.08 lakh group loan and individual loan customers during the quarter, ensuring onboarding of good quality customers with healthy trend behavior. With an endeavor to serve good quality repeat customers, we have also graduated 32,623 customers from group loans to individual lending during the quarter.

While qualifying such customers, we have ensured that these customers had good repayment track record with us, their loan utilization checks were successful and their income and coheir criteria duly met. With introduction of the new guardrails by MFin, we foresee slight reduction in business generation due to rising bureau rejection and lower ticket sizes.

We aim to overcome this by serving our repeat customers, managing customer attrition and lend in areas which are demonstrating good credit behavior. We believe our diversified presence of 752 branches standing across 326 districts in 26 states will help achieve this objective. We do believe normalcy will be restored by end of H1 FY '25 and higher volume generation will be achievable from Q3 onwards.

The micro finance business environment has been evolving over the last few months. We have seen some positive developments from micro finance institutions network and we appreciate their proactiveness in addressing the issue with the newly introduced guardrails for the micro finance sector. These will be beneficial to the industry as a whole in terms of incorporating healthy credit behavior and discipline.

We are also closely tracking our secured and unsecured book mix, which improved to 31.3 percentages as on June '24 from 30.2 percentage as on March '24. Affordable housing, including micro mortgages, which contribute over 50% to the secured book for the bank continues to do well, disbursing INR445 crores in Q1 FY '25, achieving a book size of INR5,199 crores, registering a growth of 42% Y-o-Y and 6% Q-o-Q. We currently have 3 product lines under micro mortgages with introduction of micro home improvement loans and micro business loans, along with previously introduced micro lab.

Prequalified top-up loans launched for affordable housing segment in March '24 has seen a healthy traction with INR6.5 crores business till end of June '24. In Q1 FY '25, the MSME vertical has scaled up on its renewed business strategy. We disbursed INR130 crores during the quarter. Our LAP business scaled up with the newly launched formal segment LAP variant in addition to the semi formal segment LAP offering.

As mentioned, when we last met during our analyst meet, our future-ready loan origination system was launched in Q1 FY '25. This will boost the working capital business scale up and have a positive impact on various critical metrics like productivity, turnaround time and first time right. Our increased focus in enhancing product offering and investments in new age LOS and LMS will be augmented by key API integrations, ensuring improved business volumes.

As of June '24, our FIG business was INR1,800 crores book, growing by 48% Y-o-Y and 4% Q-o-Q. The strategic business formed 6% of the overall asset book. Disbursements have been healthy at INR400 crores during the quarter, lower than Q4 FY '24, but 25% higher than Q1 FY '24. Gold loan and vehicle finance business continues its traction with rising business volumes month-on-month. As we speak, gold loan is being offered in 100-plus branches. Similarly, vehicle finance loans are being offered to customers on risk-based pricing and scorecard-based distribution. These processes have made us market competitive and brought efficiencies to business process. Utilizing our captive base vehicle finance products are cross sold to our customers to meet their vehicle acquisition needs at attractive interest rates.

During Q1 FY '25, 1,779 loans amounting to INR15.20 crores have been disbursed. We have also enhanced our product offering in addition to the commuter segment and plan to cater to mid-premium and Green Funding segment. Our deposits accretion has grown at a similar pace. To better manage liquidity and to reduce the negative carry, we have targeted maintaining our CD ratio at 85% inclusive of IBPC securitization.

Total deposits grew to INR32,514 crores, up 22% Y-o-Y and 3% Q-o-Q. Our focus from a retail liability perspective is to be the primary bank catering and fulfilling the banking needs of the aspiring middle-class segment by offering quality banking services and at the same time, attract and retain individual customers by maintaining and building a long-term relationship with them. The objective is to achieve granular retail deposits at a lower cost. With this objective, retail deposits improved to 74% as on June '24 versus 70% as on March '24. This also includes an upward impact of 200 basis points due to the change in definition of retail deposits recently issued by RBI.

Our CASA ratio at INR8,334 crores saw a healthy growth of 27% on an annual basis, while remaining same sequentially contributed to 25.6% of total deposits for June '24. Our priority is acquisition and retention of low-cost CASA deposits for the bank through segment-focused approach, customer-centric products, partnerships and alliances, relationship management and customer service excellence.

Our value-add product offerings are also showing green shoots of success. Our Maxima CASA product was launched in second half of last financial year, has crossed over INR1,000 crores in the month of June '24. Additionally, through our digital initiatives to enhance the banking services for our customers, we have been able to mobilize over the INR100 crores of business through digital term deposits and savings accounts. We're also in the process of launching digital current accounts beneficial for MSME segment and other enhancements in digital platform, which helps the customers in receiving seamless experience and ease of doing business with us. These digital measures are not just about keeping pace with the industry, but also for setting new standards in our objective of building a scalable and granular liability base.

During the quarter, INR10,000 crores of fixed deposits were rated AA- stable by CARE. This will be beneficial for us to empanel or engage with PSU-led large corporate businesses for our future funding needs. Continually improving our customer experience and enlarging some of customer interaction, our multiple channel offering is now playing a pivotal role in building business and serving our customers.

Hello Ujjivan app, India's first voice visual vernacular app launched for micro finance customers, is available in 11 languages, including English with chatbot facility. Few notable achievements for the app are the downloads for the app have crossed over 10 lakh plus downloads in the month of June '24, 26% repeat and top-up group loans are getting acknowledged through Hello Ujjivan. 17% loans acknowledging customers have opted Hospi Care by Hello Ujjivan.

Other channels like Internet, mobile banking are now loaded with 125 plus features serving various financial and nonfinancial transactions. Additionally, our payment systems are equipped with UPI Lite for low-value UPI transactions below INR500. Our payment systems are also enabled with AePS facility promoting financial inclusion.

Asset quality due to a few isolated pockets of stress visible in some states, our PAR has increased to 4.2% in June '24 versus 3.5% in March '24. Rising credit cost, which we have we've indicating from last few quarters, came in at INR110 crores for Q1 FY '25 versus INR79 crores in Q4 financial year '24. However, we are confident of meeting our FY '25 credit cost guidance. Portfolio quality remains healthy with GNPA at 2.3% and NNPA at 0.4 percentages. Slippages for Q1 FY '25 were at INR192 crores versus INR175 crores in Q4 financial year '24. We have written off INR59 crores during the quarter with our enhanced focus on maintaining healthy collections currently at 98% for June '24. We have strengthened our collection team this quarter, and we'll continue to add headcount as necessary.

Bad debt recovery remained strong at INR27 crores in Q1 FY '25. Our target is to collect over INR100 crores this year. On financials and margins, NIMs for the quarter is 9.3 percentages. COF, cost of funds for Q1 financial year '25 is at 7.5%, marginally elevated from last quarter as Q4 FY '24 had a onetime benefit of reversal of interest expense. But when compared to Q3 FY '24, cost of funds for the bank remained at par.

The stability in our cost of funds was due to our focus on growing retail deposits. To benefit the margins, some repricing of micro finance book is pending to be factored in as the new disbursements take place. This, along with our risk-based pricing will help sustain NIMs at healthy levels despite our secured books accelerated growth. Operating costs for the bank is a key monitorable cost-to-income ratio for the quarter ended at 55 percentages. Our objective is to keep this in control in the upcoming quarters. PAT for the quarter was INR301 crores, resulting into a healthy ROA and ROE of 2.9 percentages and 20.9 percentages.

Our focus is towards maintaining the guidance given on our previous communication of 20% asset book growth and the full year ROE at 20%. Lastly, on Universal Bank license, we are considering to make an application for Universal Bank license. The Board shall decide the timing of the application in this financial year. I will end here and hand over to the moderator, Ms. Sejal. Thank you. Over to you, Sejal, please.

Moderator: First question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: So my first question is on the asset quality of micro banking. Is the fresh PAR addition stabilizing in July? And whether -- what will be your outlook on rolling back the par, which is already sitting in the early buckets 1 to 30 and 31 to 60 DPD in the coming months? And what is the assessment on slippages in the current quarter?

Ashish Goel: Rajiv, so on your first question on where the PAR is stabilizing. For the month of July, we are looking at a 99.5% collection efficiency in our non-delinquent NDA pool. So that would mean a marginal increase in par. But what we have also done is we have strengthened our collections in the 1 to 90 bucket. A lot of our collection team has moved towards the 1 to 90 bucket. We have also identified our branches where we need to reduce our par, and we are on that path, and we'll continue to do that throughout quarter 2.

In terms of reducing the par, which you were talking about in 1 to 90 bucket, as I said, we have strengthened our collections team. Our efficiencies have gone above 40% in the last quarter -- in the last 2 months of the last quarter, and we expect that these kind of efficiencies can be maintained in Q2. And therefore, we will hopefully see steady slippages during this quarter. I would also like to add that our slippages in the last 4 quarters have been steady between 0.6% to 0.7%. And therefore, that gives us confidence that in Q2 also, we will maintain the same rate of slippages.

Rajiv Mehta: Yes, that is clear. And on affordable housing, I see the disbursement declining by 40% Q-on-Q. Were there any specific reasons? And one more question is on the opex decline. So it is basically, the nonemployee opex, which has come off pretty significantly. So is there anything one-off here why it has come off so significantly?

Carol Furtado: On the housing, the disbursements have been quite steady. It is just that since the introduction of the circular, wherein we have to look at the DD disbursement a little differently, the bookings have taken place, but we will be disbursing the loans to the customers once the DD has been handed over to the customer. That is the only reason why we have seen a dip in the disbursement, which over the months will get corrected. So the amount, I think, is around INR80 crores.

Rajiv Mehta: Sorry, is it INR80 crores?

Carol Furtado: So the difference between the bookings and disbursement for the quarter is not INR80 crores, it's INR110 crores.

Rajiv Mehta: Okay. Understood. But does it disturb our higher run rate of disbursement now in, say, June -- in July, August? Or can we revert back to our pre, say, March or maybe last year's run rate of growth back?

Carol Furtado: Of course, it will come back to normalcy. This is a new thing that has happened across the industry. So this will get corrected. Our disbursements otherwise, our bookings are on a steady mode.

Rajiv Mehta: Got it. And on the opex side, the nonemployee opex being lower in this quarter?

Ramesh Murthy: Our opex is related to our business and the volume. So depending on that, the opex will vary, that's number one. Number two, we are keeping a strict focus on opex to keep our cost ratio around 56%, 57%. So there is a very tight control being exercised on the opex.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, just wanted to understand, I think you mentioned about the credit cost to be normalized for FY '25, right, in spite of this issue that you are facing in terms of whatever you have guided. So can you just reiterate what is our guidance now of credit cost?

Ashish Goel: So last year, we had spoken about the second half credit cost starting to normalize. And the second half of last year was in the range of 0.9% to 1%. And for the -- in the beginning of the year, we had guided that our credit cost would be in the range of 1.7%. In Q1, the annualized cost is about 1.42%. So it is in line with our full year plan.

Deepak Poddar: Okay. Okay. So in the full year, we are still kind of giving an outlook of 1.7% or 1.4% credit cost or in that range?

Ashish Goel: See, there was a little bit of disturbance in the market, which started in Q3, Q4 of last year. And those -- that credit cost will continue for about -- until those accounts are fully provided. And therefore, there will be marginal increase, but we still believe that our credit cost will remain as we have guided.

Deepak Poddar: Okay. So there will be a marginal increase. For example, this quarter, we had about 1.4%. So marginal increase, we can say 1.4% to 1.7% range. That is the range one can see, I mean, in the second quarter or third quarter or fourth quarter?

Ashish Goel: Yes, we should be able to do that range. And we will continue to guide you for the second half. The first half, we are seeing the same range as 1.4% to 1.6%.

Deepak Poddar: First half, we are looking at that same range?

Ashish Goel: As we have guided, we will stay within 1.7%.

Deepak Poddar: Yes, yes. So for the entire year as well as for the first half, right? And what about the credit cost for FY '26 next year?

Ashish Goel: We will come back to you on that as the year progresses.

Deepak Poddar: Okay. Understood. And what sort of ROA we are looking at for this year FY '25?

Ashish Goel: So we currently have an ROA of 2.9%, which is significantly better than the peers. But ROA is a function of how much secured, unsecured book we have.

Deepak Poddar: Correct. Yes. So considering...

Ashish Goel: But our ROE is what we have guided for, that should remain in the range of 20%.

Deepak Poddar: 20% ROE. And now given that we are focusing more on secured book, right? And we have a target to reach 40% by year-end as well. So now -- so what would be the normalized ROA once you reach at 40% secured book. I mean, what is the, I mean, sustainable ROA for higher and secured book for us? So what would be aspirational range that we might look at?

Carol Furtado: This, as Ashish said, is a factor of our secured and unsecured percentages. The unsecured percentage is gradually coming down, and we are able to increase our secured book percentage. And over the year, we will be meeting the guidance that we have given over the next 2 years, which is 60-40, 40 in the secured percentage. And this year, we should touch 35% of secured asset portfolio. So I mean, we will have back calculate that, I guess.

Moderator: The next question is from the line of Abhishek Murarka from HSBC.

Abhishek Murarka: So my first question is regarding the micro individual loan book. And so the question is what is giving you confidence to grow this book? Overall, the commentary about low unsecured personal loans remains given that segment is showing a lot of stress, how is your book behaving? And can you share some trends in terms of bounce rates or asset quality, the delinquency? Who's giving you confidence to grow this book going forward?

Vibhas Chandra: So the individual loans, they are given to our group loan customers after typically, they have crossed about 3.5 cycles of repayment with us in the group loan -- with the group loan product. So customers already have a significant tenure with the bank before they are offered an individual loan product. That's point #1.

Number two, each loan is assessed through a PD and through a credit process by credit officers who go to the field and do every launch due diligence. So for us, the behavior of individual loan portfolio has been better than the group loan portfolio since we started this business. And this is a very tightly controlled business. The customer base is met month-on-month. So that gives us confidence that this portfolio will continue to be good with us.

Abhishek Murarka: So the collection efficiency number...

Vibhas Chandra: Sorry, we are 16 years into this business. So our processes have matured, our people have understood this business well.

Abhishek Murarka: No, I don't doubt that. At the point of underwriting, your loan would be pretty good, that's why you've given the loan. But currently, what are the trends? So because if you look at the collection efficiency that you report, MGL plus IL, that's 98. So what you're saying is IL is actually higher than 98. Is that how do we guess this?

Ashish Goel: Yes. And when you look at the non-delinquent portfolio, where we say that our collection efficiency is in the range of 99.5, the individual loan collection efficiency for the non-delinquent bucket is higher than group loan as well.

Abhishek Murarka: Understood. So at the moment, you're not seeing any kind of increase in stress here?

Ashish Goel: No.

Abhishek Murarka: Got it. Second question is on the ability to increase disbursement yields. Now your bank just reported that they saw an increase in disbursement yield in housing, business loans, yields. Of course, you don't have yields. But in housing or business loans, are you seeing any opportunity to increase disbursement yields? Or do you think the market is too competitive and for you, it is not possible?

Sanjeev Nautiyal: We are in the tier 3 kind of markets. For yields, today are comparable to the yields that -- to the companies who are disbursing in tier 3 markets are offering. We are very competitive there. But any change in yield could only happen if we change our market or our customer segment, we don't see that happening in the immediate term.

Carol Furtado: Also in the micro mortgages section we have, the segment that we have introduced recently, that has a higher yield. So that sort of compensates for the higher yield overall.

Moderator: The next question is from the line of Saumil Shah from Paras Investments.

Saumil Shah: Last 3, 4 quarters, NPA numbers are gradually increasing. So I do understand these numbers are lowest among the industry, but still since it is increasing, can we know what would be your normalized NPA number going forward or maybe by the end of the financial year?

Ashish Goel: See, we have seen -- you look at it this way, we have almost 60% of the portfolio in markets which are mature, which is West Bengal, Tamil Nadu, Karnataka, Bihar and Uttar Pradesh, and the sixth being Maharashtra. And this contributes to almost 60%. These markets are mature. We don't see an increase in NPA in these markets. The increase in NPA has happened from Punjab, Haryana, Gujarat, Kerala, Odisha and Rajasthan.

And we also see some 5 to 6 districts of TN, Southern districts where there has been an increase in NPA. So when you look at it from the overall portfolio perspective, we are currently at about 2.3%, 2.4%. We expect that this will peak out to about 2.7%, 2.8% by the end of this financial year and then starts showing the reducing trend.

Saumil Shah: Okay. At the max, it can go to 2.7%, 2.8% by the end of this year. Okay. And sir, my second question is on your guidance of 20% ROE for this year. So does that mean that it will be a flat year in terms of profit? Or do we expect some improvement in numbers?

Carol Furtado: So towards the latter half of the year, we will see some improvements in the numbers, and that's how we have also pegged our growth guidance.

Saumil Shah: Okay. Because last year, if I'm not wrong, we were on 27% ROE. And this year, you have guided for 20%.

Carol Furtado: Yes.

Ashish Goel: 27% was because we had come out of COVID, and there was a lot of recovery happening, there was a lot of disbursement happening. There was a filling up of the gap happening during that time. And therefore, increased disbursements and increased collections have given us a very high ROE of 27%. But this 27% is obviously not a sustainable number. So therefore, we are talking about a normalized number in the range of...

Moderator: The next question is from the line of Shreepal Doshi from Equirus Securities.

Shreepal Doshi: My question was pertaining to PAR increase in the MSME segment. So if you look at it in the last couple of years, you've done a lot of homework in terms of getting things right in terms of product processes, policies, yet the PAR continues to be elevated for this segment. So which states or which districts are creating issues here? Just if you could throw some light on that front.

Ashish Goel: So our LAP portfolio, our MSME portfolio is largely the LAP portfolio, it's about INR1,400 crores, of which INR700 crores is the old portfolio and INR700 crores is something that we've built over the last 2 years. Our old portfolio has degrown from INR1,000 crores to INR700 crores in the last 2 years, and the new portfolio is showing an NPA of less than 1%. The PAR number, which you are referring to, was a slight increase for the month of April only. But in the month of May and June, we have been able to normalize those cases from bucket 1 and 3. So increase in NPA is not happening for the old portfolio. It's stabilized now. The new portfolio is showing a much better asset quality. So the portfolio, we can say, is stable with no increase in NPA over the last 2 quarters, I would say.

Shreepal Doshi: Okay. Okay. The other bit was on micro individual loans, I think one of the earlier participant also touched upon that. So my question is, again, what is it that is giving us comfort? I understand that your underwriting process and so forth. But majority of these customers are transitioned from group loan to a micro individual, right?

And even when you acquire it from the outer market, these customers typically fall in the same category from the income perspective. So in that case, like since GL itself is showing such a high level of PAR across industry, is the thought process clear to be a little aggressive on this front? Or would we be a little prudent and cautious incrementally for the segment as well?

Vibhas Chandra: So yes. We covered this, but I would again reiterate that you are right. This is the way we used to think when we started IL long back, about 15 years back. But it's a high ticket sized product and it would be more risky compared to typical group loan, where there is a growth dynamic as well.

But what we have seen in our experience in the last 5 to 6 years, especially during demonetization and after that and during pandemic that IL behaved much better than GL and reason being if you have a base of 40 lakhs to 50 lakhs customer base in GL and you filter out cream of micro finance customers from there and give them IL loan, the chances of these customers behaving better is something which you also expect.

Second, you see in the group loan, the average number of loans per customer at industry level is close to 2.1 at this point of time. That means a customer takes 2 loans. And we have seen through our data that the customers who take higher loan, the affinity towards taking further loans from somewhere else goes down. And that also helps you in collecting -- have a better portfolio quality.

These customers, as I earlier mentioned that our IL process is just not an extension from GL to IL from the same team, but we have an independent business team and independent credit team who assesses these loans. And in these loans, even family members are involved. We also take co-borrowers, so husbands also get involved. And these all together ensure that our IL portfolio is robust and actually behaves a little bit as NGL.

We have a strong plan for IL to grow as we see a lot of upsell opportunity from GL customer to IL customer, and this is something which we'll continue to do. We have been able to grow over 40% for the last 2, 3 financial years. And this trend, you will see will continue in the coming years as well.

Shreepal Doshi: Got it. Got it. Just last question on the strategy front. So if you look at in the -- like we had coined this idea to get into the secured business 3, 4 years back, wherein at that time, we had thought that we have 50%, 50% secured and unsecured. But then during that time, there was a very strong momentum in the micro finance segment. Therefore, we didn't really aggressively bring up the share of secured products. However, lately, we are seeing the micro finance segment issue, and therefore, the tilt towards secured product has seen decent traction. So will we continue to stick to that strategy of 40-60 now? Or if the micro finance landscape sees revival, then we will sort of moderate our aspiration to have the 60-40 ratio getting achieved in the said timeline?

Carol Furtado: We have initially said our guidance are up 60-40, 40 being the secured asset portfolio, and we continue to do it because we are seeing a good momentum happening even in the secured asset side. Our new business lines like the vehicle finance, the gold loans, micro mortgages are all seeing good growth potential, and it is growing. This is also including the affordable housing, the MSME now, which has got into a lot more segments, LAP, working capital, fintech partnerships, various things. So we will continue to grow this and also grow our micro finance portfolio.

This is a year where we have taken a cautious approach because of the industry situation. This will also continue to grow at a healthy pace. And even earlier, we had said that FY '26, we would have a 60-40 composition, and we will continue to stick to that.

Moderator: The next question is from the line of Pritesh Bumb from DAM Capital.

Pritesh Bumb: Just a couple of questions. First is on upgrades. So this quarter, the upgrades have been slightly better. Just wanted to check, do we first do slippages and then upgrade or the slippages will have upgrades during quarter?

Ashish Goel: We do slippages and upgrade separately. So any account which has slipped during the quarter is counted as slippages and subsequently, if it gets upgraded, it is counted as upgrade.

Pritesh Bumb: Sure. So this upgrade, which is slightly better, does this have anything to do from this quarter? Or these upgrades are bit older ones which have come in?

Ashish Goel: So these -- most of it is slippages on the previous quarters. If I were to take a break up, it's almost 85% to 90% is from previous quarter slippages.

Pritesh Bumb: Got it. Second question was on the FIG lending, we have been a little bit gango there. We've been growing that book quite decent. Given the situation in the MFI book is slightly cautious, how is the lending there happening? Is it to NBFC, which are in MFI? Or is it -- and how is the book performing there?

Ashish Goel: We have 95% of our book is A- and above rated corporates. And we see that this trend will probably continue for some time. And we had set ourselves -- 5% to 7% of BBB and below. So we've seen that growth happening in A- and above rated corporates. And that gives us confidence that since there is demand on that side, this growth will continue. Most of our growth is coming from vehicle finance and MSME NBFCs. Some of it has also come from gold loans. In micro finance, I think our exposure is about 12% to 13%.

Carol Furtado: 12%. So we have various segments, and we continue to do well in that portfolio.

Pritesh Bumb: Got it. Last question was on the ticket sizes of the micro finance and indivdual loans. Generally, they fall when you have a slightly higher -- new customer acquisition. And from the graph of new customer acquisition, it's generally down. So what has led to the ticket size being lower from a quarterly perspective?

Ashish Goel: So yes, you are right, that if you do more and in first cycle your ticket sizes are lower. So your average ticket size will go down. At this point of time, as you know, that for the last 3 or, say, from December onwards, we have been cautious in locations where we are seeing some stress, not necessarily within Ujjivan customer segment, but at industry level. And we have fine-tuned our credit policies so that our book is protected. And for that reason, we have also ensured that ticket size, wherever it requires to be trimmed down, we have trimmed down also, we will include slightly lower ticket size at this point of time.

Pritesh Bumb: Just to clarify, the existing customers have been given a lower ticket size than the earlier cycle, that's how we'll have to look at it?

Ashish Goel: No, no. You -- when you repeat cycle loans, you give cycle loans to customers from previous cycle, if you're giving higher ticket size loans also our same level as well. But there are a lot of customers who go from first cycle to second cycle also. So these customers, if you are -- if you start giving in certain locations slightly lower ticket size, you are moving from first to second. But average will go down. So that will even do little lower average ticket size, which is showing here.

It's not the question of giving lower or highest processing ticket size per cycle, a ticket size is based on customer family income and their coheir. So it can't go up, go low or can remain constant based on customer family level income.

Moderator: The next question is from the line of Ayush Wimal from Clearview Capital. Due to no response from the current participant, we will move on to the next participant.

The next question is from the line of Shreyans Jain from Electrum PMS.

Shreyans Jain: I just have 2 questions. We have seen the growth slowdown in Bihar and UP after the RBI comments. So like what is the impact of that? Would you see them communicating from them? Or is it just broad observations? And like what are we doing about it?

Ashish Goel: So in Bihar, we have a growth of 0.5% over March '24. We have about INR1,800 crores of portfolio and 9% concentration in the state. Our portfolio is doing quite well there. PAR has remained in the range of 1.5% to 2%. Nondelinquent collection efficiency has been in the range of 99.7.

The state has tremendous potential, it has now the larger for micro finance for all lenders put together. We continue to grow at a healthy pace, not at a very fast pace. And we expect that this year, we will end up in the range of about 10% kind of a growth. The second you mentioned was UP. UP, we have had a flat 7% kind of concentration of our portfolio in that state. In UP, as we had told earlier, there are areas in which we found delinquencies going up. We have Agra, Firozabad, Aligarh belts and after. So there are some 4 or 5 districts where we have slowed down. In other districts, we have not seen an increase in the PAR or NPA. So we'll continue to be doing business as usual in other states in 5 -- sorry, on other districts, in 5 districts, we have slowed down.

Shreyans Jain: Okay. Got it. And you mentioned something about like 60% in mature markets. Like can you just repeat those states in which you have mature book? And the other states wherein that is mature, like Punjab, Haryana. Can you just repeat those?

Ashish Goel: So we talk about Tamil Nadu, Karnataka in South; Bihar and UP in North; West Bengal in East and Maharashtra in West as states which have matured and have shown consistent portfolio quality over many years now. So this is where we said earlier, we have seen very small pockets of stress. And the emerging markets have seen deterioration in asset quality.

Moderator: The next question is from the line of Yash Dantewadia from Dante Equity.

Yash Dantewadia: So if we assume that Ujjivan applies for the universal banking license and that does go through, what is the kind of ROE improvement you're kind of factoring in?

Ashish Goel: No, I think this issue is not is not germane at this point in time because we'll be applying -- say, in this financial year, we'll have to take stock of how we design our process. We are in discussions as to what our portfolio mix would be, which segment we would like to give a thrust more. So those are all matters of internal discussions. And therefore, once we decide the proportions of different businesses in different years that we will do, we'll actually -- then will be the outcome of ROE and other factors coming into play. So at this point in time, we're not in a position to communicate this.

Yash Dantewadia: Could you comment more on Kerala, specifically Kerala and Tamil Nadu? Because these are like the most matured micro finance markets in India, I believe. Could you comment on how they're doing right now? You know the first half of quarter 2, how has the collections been?

Ashish Goel: So w\we have about INR400 crores of portfolio in Kerala. That's about 2% concentration for the State of Kerala in our portfolio. As a strategy, we had started reducing our exposure there. And therefore, quarter-on-quarter, we have seen a degrowth of [inaudible 46:36]. Our PAR is upwards of 5% there. So therefore, we continue to be a little cautious in the state. We are present in about 9 districts, and we hope to see improvement in the second half of the year. As of now, the portfolio has not shown much improvement over the last 2 quarters.

Yash Dantewadia: Could you give some guidance on the branch -- sorry, you were saying something?

Ashish Goel: So we are present in 9 district, 14 branches. That is what I was saying.

Yash Dantewadia: Yes. And what about Tamil Nadu?

Ashish Goel: In Tamil Nadu, we have about INR2,800 crores, that's about 14% of the portfolio in the State of Tamil Nadu. Our collection efficiency in the nondelinquent buckets has been 99.4% consistently in the last 3 months. And we're present -- our spread is very good. We are present in 33 districts. MP is in the range of 2% to 2.4%.

And while we have seen some slowdown in disbursements, but this is attributed to about 6 districts, which is Virudhunagar, Madurai, Coimbatore, Tirunelveli to Tenkasi. So 5 or 6 districts in the Southern part of the TN is where we have seen some slowdown in disbursements. As the market conditions start to improve, we will start to grow our portfolio again. But at this point in time, we are really cautious in the 5, 6 districts.

Moderator: The next question is from the line of Ayush Vimal from Clearview Capital.

Ayush Vimal: I just have 2 questions. You alluded to certain disturbances occurring in quarter 3 and quarter 4 of last year in the micro finance segment. Can you elaborate a little on the right reasons for these differences? Were this general overrating of the market or some state-specific issues that arose?

Ashish Goel: So in the states of Punjab and Haryana, there were some -- there was some Karj Mukti Abhiyan which was running. And that led to a lot of people believing that they will not pay the loans, and a lot of people have actually enrolled in that Abhiyan. That spoiled the credit culture and the industry as a whole suffered. We have seen the numbers of the industry also, they seem to be in double-digit PAR.

So consequently, we also had similar experience in the states of Punjab and Haryana. In Gujarat, which is the other state that we mentioned, there was an increase in the number of lenders in the last 2 years. And there, we would say that there was some kind of overlending. And so therefore, we became cautious in the third and fourth quarter of last financial year. Our portfolio is now stable. We have about 6% concentration in the State of Gujarat. And PAR is now stable. We don't see the PAR and NPA growing. It was 20 basis points over March '24.

Ayush Vimal: Got it. Got it. And what about Kerala, UP, Bihar, some of these states?

Ashish Goel: So Kerala as I was saying, we have about 2% of portfolio. We have degrown about 6% quarter-on-quarter in Kerala because we have been a little cautious in disbursements in the State of Kerala. We are present in about 9 districts. Our experience is similar to the industry's experience, where the NPAs have grown in the last 2 or 3 quarters consistently. So we continue to be cautious there, we kind of slowed down disbursements.

Ayush Vimal: Got it. And just one question. Sorry, you were saying something?

Ashish Goel: We have in Bihar just 2 districts where we have seen higher PAR, and we will be about 5 or 6 districts. But otherwise, it is business as usual in both the districts -- in both the states, I'm sorry.

Ayush Vimal: Got it. So besides Punjab and Haryana where there was this Abhiyan that was running, most of the other states are suffering from a normal overlending issue that keeps on happening once in a while, right?

Ashish Goel: Gujarat, I would say, yes, and Kerala, yes. But other states have not seen those overlending issues. Kerala, we would say, yes. In Gujarat, there were some -- too many players, and therefore, that led to oversupply. So if you -- there are 2 issues. One is that the local political level issue in pharma within [Mukti Morcha] and all. But Punjab, Haryana and some part of Rajasthan was affected. But there also we are seeing -- especially after election, things are improving. And Punjab and Haryana, both of the states are doing much better than previous quarter.

At the same time, if you see how one of the things that has helped us during this crisis and previous crisis also your branching strategy and our customer selection process. If you compare our Ujjivan PAR versus industry PAR, as of March number, which is available, our PAR is close to 6.5% versus the industry PAR which is at 20%. A similar story you will see in Gujarat and Kerala as well. So that has helped us. The banking strategy has definitely helped us.

Kerala, we were aware that this is a state where we don't want to expand 3, 4 years back only, and we have restricted our number of branches in the state. But you're right, there is issues related to not to overlending but something else, which is temporary in nature. As far as overlending is concerned, it is not something which will get solved in one month. Good news is that it has come up with the guidelines, which will help us curb overlending. And as 87% of the industry is registered with Mfin, we are hopeful that in coming 3 to 6 months, the issue that is pertaining in the state will truly go away.

And also, we are paying state, this is not entire state. For example, there are certain locations where we are facing issues, the industry also facing issues. Similarly, other states also, there are particular districts where we are facing issue. And that will also fade away as we move it in the financial year, especially after the advent of new guardrails from [inaudible 0:53:29].

Ayush Vimal: Got it. Got it. Also one more thing, you expressed confidence in the fact that your asset quality will be much better than some of your peers. What gives you the source of the -- I mean, what is the source of this confidence? I mean, are systems or incentives very different for our loan officers versus other peers? Or what makes you -- or what gives you the edge to maintain asset quality better over some of your peers?

Ashish Goel: Actually, the state that we were referring -- having a discussion on same topic during analyst call also. Actually, everything starts from branch selection. How do you select your working area, where do you want to open a branch and work because if you see, most of the overrated locations not only now, but in the previous crisis also, it happened because most of the players went to the same location and started micro finance. And as a result, you overcrowd the location.

So there are a lot of white spaces available where you can go have branches there and serve customers who are unserved or underserved. So banking strategy is very important, and that's what I was saying in Punjab, Haryana, Kerala, et cetera, it has helped us.

Second, after that, I think independent credit team is something which is very, very unique with us, which we had from day 1 when we started micro finance in Ujjivan. And that helps you because your decisioning becomes much more logical because we're a very independent team who is also assessing loans.

Third, what we have learned, especially after demonetizing ahead is something how to build a collection team, which is specially catered, specially designed for micro finance customer segment, which is very, very sensitive. So these 3 combined help us and so far has helped us, and we have confidence that this will also help us. Yes. And at the same time, as we are -- right now, as we are talking about the states, we have also categorized our branch into different categories.

For example, as you talked about the customer -- loan officer case load and their work efficiency, in these 3 categories, red, orange and green, we have different productivity expectations so that our team members can unlock their time so that our collection and our book remains intact and then we slowly build on business. So we have a strategy around it. We have tested it during the pandemic and demonetization and we have been very, very successful. We were one of the first who came out successfully after the crisis. And this time also, we are seeing that this thing is working for us, and we have started seeing some green shoots as well.

Moderator: Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Mr. Sanjeev Nautiyal for closing comments.

Sanjeev Nautiyal: Thank you, Sejal, and thank you for all the participants on the con call for a very meaningful and quite expressive interaction that we had. I would just like to conclude by saying and reiterating that we are looking for this financial year to grow our outstandings by 20%, to maintain a 20% return on equity, 9% NIM, credit costs within 1.70 percentages, exercising due control on the costs, increasing our secured book to around 35% by the end of this financial year, and looking to actively go for a Universal Bank license within this financial year.

So in brief, I would say that these are the points that we would be focusing on to build outcomes which are good for the bank and good for all the stakeholders. Thank you so much.

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