# "Utkarsh Small Finance Bank Q2 FY24 Earnings Conference Call"

**November 06, 2023**

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| **MODERATOR:** | **MR. RENISH BHUVA – ICICI SECURITIES** |

**Moderator:** Ladies and gentlemen, good day and welcome to the Utkarsh Small Finance Bank Q2 FY24 Conference Call hosted by ICICI Securities.

As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Renish Bhuva from ICICI Securities. Over to you, sir.

**Renish Bhuva:** Good afternoon, everyone and welcome to Utkarsh Small Finance Bank Q2 FY24 Earnings Call. On behalf of ICICI Securities, I would like to thank Utkarsh management team for giving us the opportunity to host this call. Today, we have with us the entire top management team of Utkarsh represented by Mr. Govind Singh – Managing Director and CEO; Mr. Sarjukumar – CFO; Mr. Alok Pathak – Chief Risk Officer; Mr. Trilok Nath – Head (Micro Banking); Mr. Umesh Arora – Head Assets (Retail & Wholesale Lending); Mr. Sanjay Sharda – Head (Consumer Banking); and Mr. Puneet Maheshwari – Head (Finance).

I will now hand over the call to Mr. Govindji for opening remarks. And then we'll open the floor for Q&A. Over to you, sir.

**Govind Singh:** Thank you very much to everyone for taking out time to attend our Quarter 2 FY24 earnings call. During the quarter, we continued to expand our franchise. We continue to open Banking outlets during the Quarter 2 FY24. We have acquired 2 lakh+ new customers and continue to broad-base our deposit profile. Our loan book has grown by 26% year on year and 3.5% quarter on quarter. If you see our loan book growth composition, our retail loan book excluding OD-FD has grown by 14% quarter on quarter and 88% year on year in line with our expectations. Slower overall loan book growth is primarily on account of lower growth in micro banking at 2.6% quarter on quarter and decline in OD & FD book from Rs. 394 crores as on June 2023 to Rs. 140 crores as on September 2023. Degrowth of OD-FD book lowered quarter-on-quarter loan book growth by 1.8%. Adjusted for decline in OD-FD book, quarter-on-quarter growth would have been a little over 5%.

Even in micro banking business, while the growth has been relatively slower in Quarter 2 FY24, we continue to see healthy new customer acquisition. Number of MB customers has increased by 3% quarter on quarter to 27.2 lakhs as on 30th September 2023, and as a result, average ticket size for our JLG loans declined further to Rs. 33,200 against Rs. 33,500 last quarter and Rs. 34,700 at the end of March 2023. We are seeing pickup in disbursement in micro banking business, wherein micro banking disbursement for the month of October 2023 were about 30% higher than monthly run rate for quarter 2, FY24, which gives us confidence that MB loan book growth will also pick up in H2 FY24, and we are maintaining our overall loan book growth guidance for FY24. Our individual loan product MBIL to existing matured JLG customers continues to see good traction with a year-on-year growth of 140% with strong asset quality of 0.5% gross NPA. We continue to build digital experience for our microfinance customers through complete digital on-boarding, e-sign, e-KYC, digital collections through customer-specific QR code, micro ATM, and other offerings.

On our retail loan book excluding micro banking, as we highlighted during our last earnings call, efforts are on to build MSME lending, Housing and Wheels book further in a little more informal, underpenetrated segment. We have introduced micro LAP product and over time expect granularity and yield of these portfolios to improve. We are also utilizing our micro banking branches to build these portfolios more granularly. On MSME lending wherein we have around Rs. 2,000 crores loan book and currently operating from around 80 locations, there is a significant headroom available to expand retail book offering within our existing franchise. Our core geography has significant potential for this product. Currently, 95% of our MSME loan book is secured loans.

In the wholesale lending segment, we are focusing more on small-ticket SME lending, average ticket size of less than Rs. 5 crores, wherein we become primary sole lender to the customers meeting working capital funding and securing our exposure through a hard collateral cover of over 100% in all the cases. In case of NBFC lending, we continue to operate primarily in entities rated in A or higher rating category by an external rating agency. There are no NPAs in our wholesale lending portfolio. On the liability side, we have focused on strengthening the deposits profile through broad-basing our deposit profile, reduction in bulk deposits, and top 20 depositors concentration.

We have also focused on prudent utilization of surplus liquidity and brought down surplus liquidity to close to Rs. 1,400 crores against more than Rs. 2,000 crores at the previous quarter end. Our retail term deposits have grown by 50.5% year on year, and bulk deposits have declined by 2.4% year on year. Total deposits grew by 19% year on year in our case. We continue to build our banking franchise and opened 20 new branches in Quarter 2 FY24. We have opened 133 branches over the last 1 year. Out of total 269 general banking branches, currently around 42% branches are in less than 2 years vintage. We believe we will gain significantly over time as these branches mature. In order to strengthen our reach among tech-savvy depositors, we have fintech partnerships to acquire retail term deposits in August 2023, which is showing good results with retail deposits through fintech channels at Rs. 45 crores plus as of September 2023.

We have also launched instant savings and term deposit account opening through video KYC on our bank’s website. We continue to build digital experience for customers through complete digital on-boarding. More than 95% of our liability customers were on-boarded through digital on-boarding in Quarter 2 of FY24. We have also launched interoperable cardless cash withdrawal wherein our customers can transact and withdraw funds without card on ICCW-enabled ATMs. We are also live on Aadhaar-enabled payment system (AEPS) as an issuer as well as acquirer, wherein our customers can withdraw through AEPS as well as customers of other banks in rural and semi-urban locations can use our micro ATM network at MB branches for routine banking transactions.

We maintained tight control on the net interest margins through reduction in bulk deposits and prudently using liquidity buffers, which, along with repricing of loan portfolio, helped the bank to maintain NIMs at 9.2% in Quarter 2 FY24 despite an increase in cost of funds in general. We maintained tight control on operating efficiency and kept cost to income ratio under control. Overall, we are witnessing stable financial performance as reflected in ROA and ROE of 2.3% and 18.2%, respectively, and successfully building on our strategies of creating stronger franchise for our microfinance business as well as for MSME lending, housing loans, and wheels lending. We continue to invest in our people, presence, processes, products, and technology. Overall, we expect loan book growth to remain broadly in the same range of previous year loan book, a growth of 31% plus, and deposit growth to follow the trend in loan book growth. We expect ROA and ROE to remain at 2% plus and 18% to 20% on sustained basis. I'll now hand over the call to Sarju, our CFO, for taking through the financial performance of the quarter.

**Sarjukumar P. Simaria:** Good evening, everyone. Thank you, Govindji.

Completely on-board, our experience of banking including our edge on MFI that we have gained over the years, coupled with our investments made in growth engine like Govindji just mentioned, roll out of 133 banking outlets, our headcounts and skills in place to fulfill our aspirations, and also importantly, our inclination to ride on superior technology which is led by our transformation project team, it all augurs well with the trajectory of the projections that Govindji just mentioned in terms of current financial year. Now, let me quickly talk about numbers related to the financial results for the quarter ended September 2023. And let me start with our interest income. Bank's interest income was Rs. 442 crores for the current quarter ended September 2023. It grew by 17% YoY and 4.6% QoQ. Operating income was at Rs. 547 crores, which grew by 21% YoY and 6.4% quarter on quarter. Pre-provision operating profit, and this is an important parameter that we track, was Rs.238 crores for the current quarter, which grew by 15% YoY and 7.4% quarter on quarter. Our cost to income ratio was at 56.5% for the quarter Q2 FY24. We just mentioned that we have been investing in our growth engine and the rollout of 133 branches, our headcount increase all gets loaded with a time lag and this Quarter 1 and Quarter 2, we have got this cost loaded in the expenses post which we are generating aforesaid pre-provisions operating profit which up 15% YoY. One more point, strategically we have been speaking in the last call is about the floating provision. We continue to follow making additional floating provision, and in this quarter, we have made Rs. 14 crores of additional floating provision which was same as in Q1. We are adding Rs. 28 crores of floating provision in the half year results. The total floating provision balance as at the September end, balance sheet figure is about Rs. 120 crores. Our credit cost, just to emphasize, is reported at 2.3%. But the floating provision weightage in this is about 40 basis points. Excluding the floating provision, our credit cost is 1.9%, below 2%.

Coming to our profit numbers, our profit is Rs. 114 crores for the current quarter, which increased 30% YoY and 6.4% quarter on quarter. For the 6 months period, for the half year ended FY24, we have reported a profit after tax of Rs. 222 crores, a growth of 25% YoY. All of the business activity culminated in the return of ROA of 2.3% and ROE of 18.2% on the increased capital base, 18.2% is post the equity infusion, the funds that we raised very recently.

In terms of the one key ratio, capital adequacy ratio that the regulator and **Investors** keep eye on, we are at a really comfortable adequacy of 24.8% as of September 2023 providing adequate headroom for our follow-up growth plans. If you recollect, we were upgraded in our ratings by ICRA from A positive to A+ (stable). This September, recently, the CARE ratings upgraded our long-term debt paper from A positive to A + (stable), which indicates that they are endorsing the inherent capability of our business model in terms of income and returns and asset quality management.

Before I hand over to the investor fraternity for the curiosity that they may have some questions, just 2 points that I would like to reflect upon. One is resilience and the other is consistency. If you look at the Slide #29 of our investor presentation, we have given a return on equity average from the beginning FY20 to half year FY24, about a 5-year period, and you would remember that FY21 and FY22 were a difficult period in terms of business environment, and therefore, out of 5 years, almost 2-1/2 years were a very difficult business environment. In spite of that, you will see that the bank has generated 15.3% ROI. So, the resilience of the business is established that we are showing in slide #29. I would also like to draw attention on my second point which is consistency. And if you look at slide #27, we have given a trajectory of recency in terms of the last 5 quarters' performance. And if you look at yield on advances, our middle point of yield on advances is 19% which is continuing for the last 5 quarters. Our NIM's midpoint is 9.4. We are around the same trajectory. Even recently, with hardened interest rates or the mix of secured and unsecured loans changing, still we are at near the midpoint of 9.4 in terms of our NIMs. Our ROA has been static at 2.3%. Even our current quarter's ROA is 2.3% and with our mid ROE at 20%, we are almost around the same. With incremental disbursement that we mentioned that we are gearing up with a higher ROI, we believe that the trajectory of consistency will be maintained.

With focus on productivity and yield, I think that will be something that the second innings of the current year, we will see a performance in terms of at least maintaining the trajectory. With this, I end my commentary.

**Moderator:** We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

**Gaurav Kochar:** A few questions, sir. One is on AUM growth guidance for FY24, if you can refresh that. And if I look at 1H FY24, it has been relatively soft in terms of growth. In the next half, what is the anticipation? And in terms of, let's say, the month that has gone by, October, do you see the disbursements on track for the full-year growth that we are envisaging?

**Govind Singh:** As far as growth plans are concerned, as I mentioned, in advances, last year it was 31%, and it will be above that; it won't be lower than that. It should be much better than that in fact. We have seen the traction, as I mentioned, in case of other than microfinance, we have seen a significant growth in H1 also and further the rate of growth and the percentage of growth will go up in case of H2. Overall growth for this year will be above 31% for this year in terms of overall AUM for the bank. And we have seen already good traction in the month of October. As I mentioned, one of the reasons why the H1 growth numbers are not looking significantly higher was lower disbursement in case of JLG in the initial phase. We have seen, at least in the month of October itself, the microfinance disbursements are around 30% higher than what we have done on monthly average for the Quarter 2. That is a big indication from our side that we will see a significant growth and microfinance around 20 odd percent growth for this year, +20 odd percent plus, and overall, 31% plus growth for the AUM is minimum from our side.

**Gaurav Kochar:** The next question is on margin; there are 2 questions here. The first is on the TD repricing. Last quarter, our TD cost was 7.9%. This quarter, it has gone up to 8.2%. What is our marginal TD cost? Is it similar to 8.2% that we have seen in this quarter, or the marginal cost is still higher?

**Puneet Maheshwari:** Gaurav, the highest rate we offer on the retail side is about 8.5% and the marginal cost, which is basically combined for retail and institutional, was less than 8.2% for the quarter. But still, what we believe is that the market remains tight and liquidity conditions remain tight, and hence the term deposit cost may inch up a little bit from what we saw in Quarter 2, which is 8.2%. And to that extent, the overall cost of funds may increase by about 20 basis points over the next 2 quarters.

**Gaurav Kochar:** So, the pace of increase will be moderate because last….

**Puneet Maheshwari:** Yes, certainly. As we said, last time most of the repricing had happened by now. Maybe about additional 20 basis points in the next 2 quarters.

**Gaurav Kochar:** Similarly, on the yield side, if we talk about the microfinance book which was yet to reprice, can you tell me what is the portfolio yield in microfinance and what is the disbursement yield and the difference between the two?

**Puneet Maheshwari:** Microfinance portfolio yield was close to 23% for the quarter and disbursement yield is about 25%. What we see basically as the full repricing happens, probably overall microfinance it will go up at least by 80 to 90 basis points from where we are currently. And on a balance sheet basis, the yield should go up by about 50 basis points from where we are currently. Another thing, Gaurav, what has happened is because our book is also a combination of microfinance and secured lending, and what we have seen so far in H1 is the share of secured loans has gone up by about 4% and microfinance has come down because the growth for microfinance was also a little slower. As Govind sir had also highlighted, now we are seeing pickup in microfinance and there should not be much decline in terms of the ratio between microfinance and secured from here till March 31st. And to that extent, basically both yield and margins are going to be a little bit positively impacted.

**Gaurav Kochar:** Let's say the repricing happens, you are saying portfolio yield can go up in microfinance from 23 to 23.6.

**Puneet Maheshwari:** Yes, that's correct.

**Gaurav Kochar:** And there can be some mix change in favor of secured which could offset some bit of yields. So, net-net 9.2 margin you can continue to maintain in the next 2 quarters?

**Puneet Maheshwari:** In fact, our this thing is that most likely about 15 to 20 basis points improvement we will see over the next 2 quarters.

**Gaurav Kochar:** Lastly, on the asset quality front, the slippage was Rs. 100 crores, stable sequentially, but there was some inch up in the SMA book: very marginal but slight inch up. How do you see the slippages and overall credit costs for the second half of this year, given that typically the second half is better for banks in general?

**Govind Singh:** Gaurav, we do expect that the overall slippages for the year will come down from this level. And for the year as a whole, we expect around 2%, which is currently around 2.3%. It will come to around 2% overall for this year by improvement in H2. There was some increase obviously in Quarter 2, which is visible, but overall, this number will come down to around 2% for the year as a whole.

**Gaurav Kochar:** The irregular monsoon has had no impact or not a much impact on the portfolio so far in terms of collections?

**Govind Singh:** A very mild impact. In fact, some pockets had some challenges because of drought. Maybe Trilok wants to speak a little bit on that part, but some pockets had a little bit impact of drought. In fact, there was no flood impact this time. There were floods in some of the other pockets which were not our geography. I am talking from the microfinance and MSME angle. Those were not impacted. But some pockets had, as you mentioned, a drought situation or less rainfall. We had some slippages in those cases and that gets normalizes in the next 2 to 3 months' time. And that's why we are seeing that there are some slippages in Quarter 2, but Quarter 3 should be much much better because now things are becoming normal.

**Moderator:** The next question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

**Gaurav Kochar:** Sir, if I look at the branches, there are about 20 branches we had opened in this quarter. And if I look at the cost to assets, it was broadly at 6.2 to 6.3. In the second half, do you see more branch openings this year? And maybe for FY25 if you can guide the kind of branch openings we are expecting? And at the same time if the growth is better in the second half, can we expect some bit of operating leverage kicking in and cost to asset actually improving to 6% or lower?

**Govind Singh:** Gaurav, as far as expansion is concerned, yes, we opened 20 branches in this Quarter 2. We have a very limited number of branches to be opened in Quarter 3 and quarter 4. Our business plans are that we are in the process of making expansion plans for the next year and we expect around 125 odd branches getting opened in the next calendar year. So, in the calendar year, maybe some branches might open in the month of February and March based on our assessment, but generally these branches will be opened in the next half year; I am saying April to September, most of the branches. And the number will be in the range of 125. From October till March, the number will be around 12 to 15 only. I don't have the exact number right now but it's not more than 15 odd branches. We might have some of the verticals going to new places. For example that I mentioned that MSME at 80 places, they will be going to more than 80 places where we already have a branch but opening of new branches per se, it will be restricted to within 15 branches for this H2 only, but next year obviously it is around 125 odd branches what we are contemplating.

**Puneet Maheshwari:** Gaurav, on OPEX to assets and OPEX to AUM, which were 6.2 and 8.4 for Quarter 2, as you also said we are basically expecting pickup in business more in H2 than what was the run rate in H1. To that extent, we are expecting about 10 to 20 basis points improvement in the cost ratio as well.

**Gaurav Kochar:** If I look at the ROA tree for the next 2 quarters, if you are building in maybe 10-15 basis point margin improvement and maybe 10-15 basis points coming from OPEX, can we expect 2.5% kind of ROA by FY24 exit, 4th quarter of FY24?

**Puneet Maheshwari:** Gaurav, while what we had said with respect to NIM as well as OPEX to asset, it is visible, but still on the ROA front, we would like to maintain the guidance which we had given. Otherwise, honestly speaking, on credit cost as well, we are seeing ideally there should be some moderation in the credit cost as well which Govind sir had highlighted in the initial remarks as well. So, all-out, there should be some improvement, but from a guidance perspective, we would like to maintain our earlier guidance of ROA.

**Moderator:** The next question is from the line of Jayant Raghavan, an individual investor. Please go ahead.

**Jayant Raghavan:** My question is regarding the staff cost. To get a sense of the scale of the staff cost, I just did a quick comparison with another microfinance player, a small finance bank called Ujjivan. I see a delta between the two. Our staff costs seem to be like 3% or 4% more than theirs. Can you throw some light on this? Because this affects the margins as well. Is it that we operate at this scale or is it that we have hired in anticipation of higher revenues and growth? Is there a chance to bring it down? How does it work?

**Puneet Maheshwari:** The one difference obviously could be the way the staff cost is kind of getting counted as well because a lot of time, it may be outsourced staff which may not be coming in the employee cost from accounting accounting perspective. That may be one reason. But from our perspective, the way we see is basically from a productivity perspective, we find our numbers to be one of the best in terms of productivity in the microfinance business. And other businesses as we had highlighted last time as well, we are building these businesses – MSME, HL, Wheels as well as the Liability. So, some investments are being done in these businesses and benefits obviously will come as we see more improvement in productivity and so on over the next 1 to 2 years. Basically, from a cost perspective, we think our cost metrics is on the better side and we continuously monitor it.

**Jayant Raghavan:** The other income part, is it coming from the investments that you show in the balance sheet?

**Puneet Maheshwari:** The other income is not on investment. Largely, our other income is, one is the loan processing fee income which is very stable fee income, and we amortize this over the loan tenor. Then, another stream which we have is the general banking and the transaction income which again is improving for us as the client activation, overall penetration, account opening, etc., is happening. Then, the third largest stream for us is the PSLC income. Given the fact that we are predominantly in microfinance, affordable housing, and MSME lending which are all priority sector activities as well as the fact that we are in rural and semi-urban locations, we have a good surplus PSL portfolio which we keep monetizing. That is another stable source of income for us. And the last one is the recovery from written-off accounts. We are seeing, basically, I will say, the consistent recovery from written-off accounts as well which had been written off in the COVID or in general. This is basically the large composition of other income. As such, there should not be much seasonality into it.

**Jayant Raghavan:** The last question is, if we look at the road ahead, say 3 or 5 years from now, would we be able to better the ROE that we are doing? Right now, we have projected for around 18%. Would we be able to cross beyond 20% or 22% in the coming years?

**Govind Singh:** Our trajectory, as I mentioned, is around 18% to 20%, and we are confident that we will be able to retain or say maintain this irrespective of composition of our asset mix. We are going more secured now and more non-microfinance also and even on a larger balance sheet. So, we stick to our guidance of 18% to 20% for at least the next 3 to 4 years' horizon. That is how we look at it.

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

**Vijay Karpe:** My first question is on the collection efficiency. What would be our ex-bucket collection efficiency and what would be our credit guidance for this year and for the next year?

**Puneet Maheshwari:** Collection efficiency is largely the same as it was last time. On a non-NPA book, we are seeing a collection efficiency in microfinance at about 98.5% and for NPA book, it is about 25 odd percent, and the combination is close to 97%. On the credit cost, we had said that including floating provision, we are expecting a credit cost of about 2%. And we would like to have the same guidance for financial year '25 as well. While as we increase more on the secured loan book side, ideally it should come down, but we would still keep a guidance of 2% on the credit cost side. This is including floating provision as we had said last time as well.

**Vijay Karpe:** How has been the performance of our new secured book?

**Puneet Maheshwari:** The new secured book, the way we look at it, let's say, the microfinance and non-microfinance, 2 parts. If you look at NPA, in microfinance book, we have about 3.5% NPA. And if we look at non-microfinance book overall, our NPA is about 1.2%.

**Vijay Karpe:** The last question from my side. Is there any update on the reverse merger side?

**Govind Singh:** Reverse merger part, we have not done any work on that part, and we still intend to evaluate that. Our idea is that the holding company and bank will get into a discussion and then take a course for the future. It is still at the evaluation stage; we have not taken any view, or we have not taken any confirmed view on this part. We do expect that now both the boards and both the sides will have a discussion and they take a view and take it forward from there. Maybe by when we have the next call, we should have a clarity on what are the plans of the bank and the holding company are on that front.

**Vijay Karpe:** So, during the next conference call of Q3, we should have some decision on the reverse merger?

**Govind Singh:** Yes.

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

**Ashlesh Sonje:** Just one question around the individual loan book. Growth in this book has picked up quite robustly now. A few questions there. Firstly, what gives us comfort on the growth in this book and what kind of metrics do we have here in terms of eligibility criteria? What proportion of these customers would be open market customers? If you can just answer some of these questions.

**Govind Singh:** Only last question I want to just mention first that currently we are only doing mature JLG customers. We are here to go for open markets. Obviously, at the right time, we will look at that market also, but currently we have a large set of our JLG customers who are mature customers with us. So, currently we are focusing on our existing customers only.

**Trilok Nath Shukla:** As sir has mentioned that we provide microfinance individual loan to mature clients only, and if they have at least 18 months perfect repayment record, then only we provide them this micro banking individual loan. These loans are in the ticket size of 1 lakh to 2.5 lakhs with a tenure of around 2 years to 4 years. Currently, we have a separate team which is separate than micro-banking JLG team, and the credit part is done by the mainstream team of the bank. The credit is done independent of the business. All the matured clients as one part and then the credit is done by the separate credit team of the bank. This portfolio is performing very good as of now and there we have a repayment track of 99.5% plus and NPA also on very very lower side. And we have this loan book across around 250+ branches and we have plans to expand it further to other branches. We have just crossed Rs. 500-crore mark on this micro banking individual loan. And we have plans to take it forward and grow more fast than our current history.

**Ashlesh Sonje:** Just a couple of followups on that one. What would be eligibility criterion when it comes to delinquency of that customer during that vintage period which he has with us?

**Alok Pathak:** Especially when we talk about the individual loans, as Mr. Trilok has mentioned, these are all those clients which are mature clients and also, they are having better credit scores. This is very different than our microfinance. Initially we were going as a project. Then, now almost 250 branches are doing successfully. This actually also includes the entire credit part. When I'm talking about the individual loans, it means it will always be like my clients who have not done any kind of delinquency in the past. Then only they will be eligible for that. And if you see the overall volume also, this number is very small. It is a very successful project what we have seen. our delinquency is less than 0.5% as on date. I think this is very encouraging and we want to focus more on that. A lot of potential we are seeing in it because the 2 reasons. One is, control-wise, it is having better control. Credit quality-wise, it is having better credit quality. The most important part is the past history. Only for the good past history, we are giving.

The other question what I think previously asked about this is whether we want to go for the open market, that we have still not done because we have seen there is a lot of potential here itself. Probably once we are through with this and the entire team is well versed with this kind of loan, definitely we may think on those lines also.

**Moderator:** The next question is from the line of Rajiv Pathak from GeeCee Holdings. Please go ahead.

**Rajiv Pathak:** Sir, I had a question on the deposit front. I believe while the headline deposit number shows a flattish growth on a quarter-on-quarter basis, you guys have done relatively very well on the retailization of the deposits, as we can see from the CASA and the retail share going up from 62% to 66%. Would you have any internal targets on where you want to take this retail deposit share to by the end of the year and probably next year?

**Govind Singh:** Our internal targets are that retail term deposits and CASA should be at least 70%. Currently, it is around 66% or so. It should be at least 70% for this year. On a medium-term basis, obviously we want this to be around 80% and 20% will be dependent upon the wholesale deposits. You yourself mentioned that we have reduced our wholesale term deposits in absolute number also. The composition as a book, that is what we are focusing upon. And the use of liquidity. These 2 things are very important for us. But as I mentioned, 70% is what we are looking at, at the end of March 2024 in terms of CASA and retail term deposits put together.

**Sanjay Sharda:** If you see, we have also cut down on top 20 depositors from 28% from March 2022 to 18% now in September. And this trend will now gradually come going forward and we are looking at similar or lower numbers. And the focus will primarily on CASA and RTD, which is going to be our fuel for growth as we move along.

**Rajiv Pathak:** Sir, on that, if I were to just look at the balance sheet numbers, we are running almost 100% plus kind of a loan-to-deposit ratio. Given the fact that we are crossing 100% and we want to focus on the retail deposits, would you see the cost of funds going up? You are now going to offer more finer rates on the term deposits?

**Govind Singh:** As we mentioned, we think that the cost of deposit part of the market rates have actually bottomed out. So, we may not see any major reduction in the cost of deposit immediately for either we talk of Utkarsh, or we talk of the industry in general. The same is here, as our cost of deposit other than repricing cost will not go up. The benchmark rates will remain in the same range at least for the next 3 to 4 months' time whatever we can see. We are not going to change our rate of interest significantly from here and the cost of my funds will remain almost the same other than repricing, as Puneet mentioned that that may have an impact of around 20-25 basis points till March because of repricing of FD only, but nothing beyond that.

**Rajiv Pathak:** But on the balance sheet management, are you okay with 100% LDR? I know you will have benefit of the small borrowings from, say, SIDBI and all those refinancing lines, but just on a pure loan to deposit, are you okay with running a balance sheet with 100% LDR?

**Govind Singh:** Our expectation or you can say guidance for this year should be around 97% or so when we close the year. It will come down from here and it should be in that range. Actually, what has happened is we have consumed a lot of excess liquidity that we were having during even the last financial year also. As I mentioned, it used to be more than Rs. 2,000 crores. Compared to a little larger balance sheet, now it has come down to almost Rs. 1,400 crores, in fact. And in fact, it is coming down further. That's why we were not taking more deposits because we are having surplus liquidity. Having said so, now we are seeing good growth in advances, and for every advance, we require 125% advance as far as deposits are concerned. So, at the end of March 2024, it should be in the range of 97% or so. And that is what as a guidance we can tell today.

**Moderator:** The next question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

**Rajiv Mehta:** Sir, my question is again on micro banking collection efficiency which is 97% excluding arrears. Sir, it seems to be slightly lower than peers. If I recollect last quarter, we were expecting slight improvement happening in that number. It's been flattish this quarter. So, the question is, is there any regional color in this? Is there a couple of states which are dragging the overall collection efficiency?

**Trilok Nath Shukla:** Basically, this is lower in some parts only. It is not lower in overall. If you see in Uttar Pradesh, we are not working in entire Uttar Pradesh, in fact. If you compare the collection efficiency of peers, most of them are working in the entire Uttar Pradesh. In the eastern UP part if you see 2-3 districts like Mirzapur, Sonbhadra, Sant Kabir Nagar, and Faridabad districts, there we have some issues, and everyone is facing such issues like this one Karza Mukti Abhiyan was there and then some issues related to drought also in Mirzapur & Sonbhadra belt because there is no proper way of canal, irrigation is not there in that belt. There, some hit is there on the collection side. And the second part is if you see like Haryana, Haryana also we are not working in the entire part of Haryana. We have mostly branches in Ambala, Kurukshetra, and Karnal belt and there we have some issues in that part. Again, in few parts of Uttarakhand, there was flood unfortunately this year. Floods not in our core geographies of UP and Bihar, but there was some flood impact in Uttarakhand. There few branches are impacted. And lastly, in the Nagpur belt, we have some issues. Otherwise, if you see Rajasthan or the entire portfolio in Odisha and then Bihar also, most of the part, it is now improving. So, overall, it is improving, and we expect that it will come at the level of like we were last year; it was 97.5% to 97.8%. We will be improving from this month itself, and by the end of this financial year, we will be in the range of 98.5% or something like that. And we are developing the mechanism for that also. It is already being done – like we are putting more people in collections also so that they have a very focused approach on the write-off collection, NPA collection, and SMA-1 & SMA-2 buckets of collections. That also we are doing on those lines also.

**Puneet Maheshwari:** Rajiv, just to add to what Trilok sir has said, wherever we are seeing kind of a lower collection efficiency, specifically let's say in a state or isolated places, we are reducing our exposure as well or let's say we are keeping our stance a little more conservative. Whether it is Haryana or Chhattisgarh or Delhi, wherever we saw lower collection efficiencies, we have reduced our exposure as well vis-a-vis March. That should also help eventually in terms of bringing things to normalcy.

**Rajiv Mehta:** Trilok sir, if you can highlight anything in Bihar to be flagged off? Is Bihar performing as good as it was before? Because, the context is, we have seen many players entering this state and the market is becoming more and more penetrated. Have we seen any impact in terms of rejection, indebtedness, or even customer retention?

**Trilok Nath Shukla:** No, we don't see any challenges still in terms of customer retention and rejection. Of course, with these guidelines of RBI which were issued last year, there are some impact on the rejection because now in the last 1 year, people have given all the data and now the bureau is providing the full information. Due to that, there are some rejections, but still in terms of potential and client availability, Bihar is very very densely populated. Many companies are coming there, and many players are coming there, but they are basically in the urban area, you can say. Or if they are going a bit deeper, then they are going up to tehsil level and taluka level. But in Bihar, we have branches at the block level; even beyond that, we have branches. There, we don't find any such challenge regarding client availability or retention or rejections; we don't find many challenges like that in those areas.

**Rajiv Mehta:** My last question is on the new CV financing portfolio. When I look at the portfolio profile, we do new CV financing. The ticket sizes are Rs. 30 lakhs to Rs. 35 lakhs average and we fund the small fleet operators, and the pricing is about 11% to 12%. What is the thought process? Because the customer profile looks slightly risky and the ticket size is also large and the pricing is, I would say, slightly lower. Do you think that the pricing is fully capturing the risk here?

**Umesh Arora:** As far as CV/CE is concerned or MSME is concerned, we are catering right now to the bits of quality profile customers. Since it is start of portfolio building, we are very cautious about what kind of portfolio we are building. It's like we go a little overboard, then in that situation, we might end up losing on the risk profile front. So, we are a bit cautious on that, but at the same time, we are looking at the customers' expectations and aspirations, and we want to leverage our distributions like branches of MB and GB branches and entering into the areas like for example, used CV or like micro LAP; in those areas where we will be able to get a different rate of interest so that we will be able to cope up a bit sort of it comes like in the near future. But overall, we want to be cautious on that. The way we have been growing and the rate that we are having, I think trajectory is good.

**Govind Singh:** Just to add only one thing to what Umesh just mentioned, still we are seeing an uptick in our yield as far as Wheels business is concerned. We do expect around 20-25 basis points increase in the overall yield. If you look at the overall portfolio of Wheels, maybe these 6 months from Quarter 2 to quarter 4, we will see around 20 to 25 basis points up as far as the yield on Wheels is concerned. That is anyway happening in our case.

**Moderator:** The next question is from the line of Nilesh Jethani from BOI Mutual Fund. Please go ahead.

**Nilesh Jethani:** My first question was on the MFI book. This is a reference to the earlier response you gave to the participant on MFI book to see decent disbursement going ahead and growth to come on that date. I wanted to understand historically, say, over the last 2 to 3 years, has there been a case that MFI book trajectory has been slightly slower in the first half and in the second half it typically picks up for Utkarsh as such because disbursement, etc., seems to be largely flat on a YoY basis.

**Trilok Nath Shukla:** If you see the history of our MFI book in the last 2 to 3 years or even you can say last 10-12 years, normally it is low disbursement in Quarter 1 and Quarter 2 and it picks up with this festive season like Deepavali and Dussehra. All this festive season, it picks up. And then, around 40% of the disbursements are made in Q4. This is the history, and it is like that in the last 10-12 years. We are working since the last 14 years. MFI book's history performance is like that only.

**Govind Singh:** The only one thing I want to add to what Trilok has mentioned is normally historically in Quarter 1 and Quarter 2, it is a little lower. It picks up in Quarter 3 and actually peaks up in quarter 4. That is one part. Second, for microfinance, because the average tenure of loan will be around saying 14-15 months only, average 15-16 months. It runs down very fast. Incremental if I am able to do 30% higher disbursement, that 30% straight goes to portfolio buildup in fact. That certainly helps us. It's not that I am talking of say around Rs. 2,000 odd crores book building during the next 6 months' time. It's not that we are trying to have 40% or 50% increase in disbursement. Even in JLG if I am able to disburse around 20% higher, then we will be able to reach our number. That is the second part. Third part is, what has also happened besides historically in Quarter 1 and Quarter 2, this time we had done a lot of initiatives as far as JLG part is concerned, especially from the tech angle and people here are largely in the hinterland. Our 75% plus portfolio is in the rural and semi urban areas and where we have done things like e-KYC and e-sign and a lot of tech enablement, and we have 100% on-boarding which happens through digital modes only. It has taken a little longer time because we have trained all these people. So, sometimes the pace would have been slower in those cases. That has also contributed a little bit. But now, all these things are in place, and we have worked a lot on this part. That's why I mentioned that in October itself the disbursement under micro banking was 30% higher than the previous month's average in fact. That we are already in track. And these are going to help us in a big way in terms of overall efficiency in the operations and even in the effectiveness of operations. That is what we are looking at.

**Nilesh Jethani:** I wanted to understand the thought process on raising retail TD and Institutional, because a few of the peers are also highlighting that rates may settle or maybe slightly go down, so they want to raise deposits for the interim period. When I see your numbers, the retail TD, which I believe would be 2- or 3-year book, that share is growing at a slightly higher pace. What thought process we carry? And in the long run, this retail TD growth, what benefit we can have on the cost of funds?

**Puneet Maheshwari:** The first benefit of having the retail TD what we see is it is actually the sticky customer acquisition versus let's say an Institutional term deposit. Usually if you acquire a retail term deposit, there is a 75% chance that the customer will roll over, right? That is the first advantage why a retail term deposit is preferred over Institutional in our case.

**Sanjay Sharda:** Also, most of these customers also end up opening their savings account with us. That is the biggest advantage you get because we can get their interest credited to their account and hence it becomes a running account. And with an additional cross sell of a UPI handle or a billpay, it becomes more sticky. That is the reason why we are focusing specifically on RTD.

**Puneet Maheshwari:** Even if RTD, let's say, is 10-15 basis points expensive than Institutional, RTD is a preferred mode.

**Sanjay Sharda:** More reliable, more long term.

**Puneet Maheshwari:** And cross-selling is also possible.

**Govind Singh:** And what we are also doing is we are focusing more on more digital also in this case. Of course, it's just beginning only, but we are able to get around Rs. 1.5 crores on a daily basis through digital FD also. Where the operating cost will be much much lower, we do expect that other costs will get neutralized in this case. But having said so, we are not saying we will not take the wholesale term deposit. We keep wholesale term deposits the way accounts they say balancing figure, in fact. Wherever we have a shortfall it might dip into that. But in the medium term, because we are a retail bank from the deposit side, retail term deposit and CASA will be our focus area for you can say medium term and for long term also.

**Nilesh Jethani:** Despite 15-20 basis points higher and retail TD growing at such a strong pace, our anticipation is cost of funds would largely increase by 20 basis points only going ahead?

**Puneet Maheshwari:** Yes, because most of it is already priced and as I said earlier, our term deposit cost is about 8.2 for this quarter. The maximum rate we are offering on the retail side is 8.5. And obviously, deposits will come in all the buckets. To that extent, not expecting more than 20-25 basis points cost of funds increase.

**Nilesh Jethani:** From a loan book mix perspective, the mix is largely moving towards retail loan, be it MSME, housing, or CE/CV. I wanted to understand over the next 2 to 3 years when the mix will largely divert towards these loans, what is the NIM outcome Utkarsh is looking at considering the yields in this are significantly lower versus what yields we are earning on the micro banking side.

**Govind Singh:** Our sense is that the current range should be maintained in the next 2 to 3 years' horizon also. I think 9.2% upward should be possible in NIM. One is that we also get efficiency in operations. We mentioned we have opened a lot of branches during the last 2 years. Those branches are matured, and people are talking about staffing also. In fact, our staffing is enough for the next 25% to 30% growth. I don't require staffing for the next 30% growth from here. So, overall cost will come down from here. The important part is we are also looking at some of the asset classes within retail. For example, we are talking of micro LAP where the yields are much much better than normal MSME or normal LAP. We expect 17% to 18% type of yield in those cases. Similarly, we are also looking at used vehicles where the yields are a little better. Similarly, we are hardly doing any unsecured lending under MSME segment. In the lower-ticket segment – lower means below Rs. 10 lakh segment – we are also looking at the unsecured MSME portion where the yields will be better. So, there will be certain things where yields will be better and also our operational efficiency will take care. Though our mix of microfinance will come down from say 60% by another 7% or 8% or maybe 9% to 10% also in the next 2 to 3 years' time, but NIM part should be in the range where we are today. We don't expect any decline in the NIM range which is around 9.2 or so. It will not come down from here at least in the next 2 to 3 years' time.

**Puneet Maheshwari:** One more thing I want to add. What is going to happen at least over the next 1 year, we are going to get the benefit of repricing of microfinance loan book, which we had said. Maybe next 1 year at least, this only will help us in terms of improving yield and maintaining net interest margin and improving net interest margin from where we are currently even if the cost of funding is increasing. And after that, obviously, there should be some advantage in terms of the CASA also building up further from where it is. To that extent, net-net, we expect NIMs to be in the same range.

**Sarjukumar P. Simaria:** Also, to add that overall micro banking vertical is a great contributor to the PBT line. So, with this growth, our own KPIs will be supplemented much higher than what we are saying, given the fact that it's a good mass of business likely to convert in the next half year.

**Moderator:** The next question is from the line of Jayant Raghavan who is an individual investor. Please go ahead.

**Jayant Raghavan:** Just a couple of questions. Now that we are into the election season, usually it is found that politicians come, and they make these loan waiver announcements that impact the microfinance industry negatively. Do you think that this is going to be any kind of a challenge for us?

**Govind Singh:** We don't expect any challenge. There are 2 main reasons for that. 1) You must have seen even the government is promoting microfinance in a big way now. And wherever our Prime Minister and Finance Minister talk of, I think they talk of microfinance, Mudra loans, and JLG in a big way. There is a big support from the political class now and we have seen especially in our core geography in places like Uttar Pradesh and Bihar also. There is a big support for this movement because they know this is actually supporting the people for true self employment. It is a big plus from their side. 2) As Trilok mentioned, we are doing microfinance for the last 14 years and our core geography for us has been UP and Bihar. And we have never seen an impact because of political issues or because of elections, in fact. There might be some logistic issues at that time because they will not allow you to carry cash. Those things are separate, but from the overall working of microfinance angle, I think there has not been a challenge in the past at all. So, we don't foresee any issue as far as the general elections in April or May 2024 are concerned on microfinance activities.

**Jayant Raghavan:** The book value currently is 24.5, if I remember correctly. By March, where do you see us in terms of book value per share?

**Puneet Maheshwari:** Sir, what we have basically guided is about 18% to 20% ROE. To that extent, obviously about let's say 9% to 10% accretion to the current book value from now till March should happen.

**Moderator:** As there are no further questions, I would now like to hand the conference over to Mr. Puneet Maheshwari for closing comments. Go ahead, sir.

**Puneet Maheshwari:** Thank you everyone for taking out time and joining the call.

**Govind Singh:** Thanks Renish and ICICI team and to all the investors for attending this call and being a part of this journey.

**Moderator:** On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.