Utkarsh Small Finance Bank

SE/2023-24/104 **February 02, 2024**

The BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai – 400001 **Scrip Code:** 543942, 958095, 958226, 959644	**National Stock Exchange of India Limited** 5th Floor, Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra East, Mumbai – 400 051 **NSE symbol:** UTKARSHBNK

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call on Financial Results of the Bank for the quarter and nine months ended on December 31, 2023

We submit herewith the transcript of the Earnings Conference call held on Monday, January 29, 2024 at 16:00 in connection with the Financial Results of the Bank for the quarter and nine months ended December 31, 2023.

In compliance of Regulation 46 of the Listing Regulations, the transcript is being made available on the website of the Bank and can be accessed on the following link: https://www.utkarsh.bank/investors/

Thanking You

For **Utkarsh Small Finance Bank Limited**

Muthiah Ganapathy Digitally signed by Muthiah Ganapathy Date: 2024.02.02 11:15:31 +05'30'

Muthiah Ganapathy
Company Secretary & Compliance Officer

"Utkarsh Small Finance Bank Limited

Q3 FY '24 Results Conference Call"

January 29, 2024

MANAGEMENT: **MR. GOVIND SINGH – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – UTKARSH SMALL FINANCE BANK LIMITED**
MR. SARJUKUMAR PRAVIN SIMARIA – CHIEF FINANCIAL OFFICER – UTKARSH SMALL FINANCE BANK LIMITED
MR. ALOK PATHAK – CHIEF RISK OFFICER – UTKARSH SMALL FINANCE BANK LIMITED
MR. TRILOK NATH SHUKLA – HEAD OF MICROBANKING – UTKARSH SMALL FINANCE BANK LIMITED
MR. UMESH ARORA – HEAD OF ASSETS, RETAIL AND WHOLESALE LENDING – UTKARSH SMALL FINANCE BANK LIMITED
MR. SANJAY SHARDA – HEAD OF CONSUMER BANKING – UTKARSH SMALL FINANCE BANK LIMITED
MR. PUNEET MAHESHWARI – HEAD OF FINANCE – UTKARSH SMALL FINANCE BANK LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to Utkarsh Small Finance Bank Q3 FY24 Earnings Conference Call hosted by ICICI Securities. 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. Renish Bhuva from ICICI Securities. Thank you and over to you, sir.

Renish Bhuva: Hi, thanks [Manuja]. Good evening everyone and welcome to Utkarsh Small Finance Bank Q3 FY24 Earnings Call. On behalf of ICICI Securities, I would like to thank the 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 Jee, Managing Director and CEO, Mr. Sarjukumar, CFO, Mr. Alok Pathak, Chief Risk Officer, Mr. Trilok Nath, Head of Microbanking, Mr. Umesh Arora, Head of Assets, Retail and Wholesale Lending, Mr. Sanjay, Head of Consumer Banking and Mr. Puneet Maheshwari, Head of Finance.

I will now hand over the call to Mr. Govind Jee for his opening remarks and then we will open the floor for Q&A. Over to you, sir.

Govind Singh: Thank you, thank you, Renish. Thanks a lot for this. So, thank you everyone for taking out time to attend our Q3 FY24 Earnings Call. During the quarter, we continue to expand our franchise. We have opened nine new banking outlets, taking total branch network to 880 branches spread across 26 states and UTs. We have acquired around 2 lakh new customers and continue to broad base our loan portfolio and deposit profile.

Our loan book has grown by 31% YOY and 10% quarter-on-quarter. And we are on track for our loan book growth plan of around 30% or so for FY24. In the micro-banking lending, we continue to witness healthy new customer acquisition.

Subsequent cycle disbursement have also been healthy. New technological initiatives that is EKYC and e-Sign are also stabilising. Our micro-banking loan portfolio has grown at a healthy pace of 16% YOY and 8% quarter-on-quarter and crossed milestone of Rs.10,000 crores. We are on track to achieve our planned growth of 20% to 22% for FY24 for our micro-banking loan portfolio. We believe that digital experience which we have brought in form of complete digital onboarding for loan as well as for savings bank account opening e-Sign, EKYC, digital collection through customer-specific QR code, micro-ATM, video PD and other offerings will be backbone for us to build a strong and sustainable franchise with cost efficiency.

Our individual loan product MBIL to existing matured JLG customers continues to see good traction with year-on-year growth of 120% or so with good asset quality with gross NPA at around 0.5% as on December 23. We see significant growth potential towards MBIL lending considering large base of our existing and matured JLG clients. We are also digitising our entire process for MBIL sourcing through LOS which strengthens the process for scalability.

On the micro-banking collection efficiency and asset quality which has been little muted in Q3 FY24 at 96.3%, collection efficiency was impacted primarily during last late October and for the month of November 23 as there were significant number of holidays on account of Diwali, Chhath and similar festivals in our core geography. We have seen improvement in collection efficiency towards month of December 23 and current month of January 24 wherein we have inched towards closer to 97% collection efficiency. We expect collection efficiency to improve to 97 to 97.5% for Q4 FY24.

We continue to strengthen our operating structure and processes to align with business scenarios. We noticed that collection efficiency gets impacted to some extent if there are more holidays in a month as it causes bandwidth issues at field level specifically in post COVID scenario. Considering this we have started keeping one day buffer in every fortnight which is a non-centre meeting day so that field staff can reach out to borrowers who could not pay on centre meeting day.

We have started doing this from select locations for now. We are also strengthening the quality of our collections team. On our retail loan book MSME housing and wheels lending as we have highlighted during our last earning call efforts are on to go more deeper and granular in terms of borrower profile as well as to improve disbursement yield in all these segments and to that we have been successful to inch up yields by 15 to 20 basis points over last quarter and will continue to work on this further.

We plan to build MSME, housing and wheels lending book further in little more informal and under-penetrated segments and over time expect granularity and yield of these portfolios to improve. We will also be utilising our large network of micro banking branches to build these portfolios more granularly.

On asset quality of retail loan book while it remains comfortable overall we have seen little higher slippages in wheels as well as select MSME secured cases on account of temporary cash flow mismatches. We expect slippages in retail portfolio to come down in Q4 FY24. We have also strengthened our collections team by adding more manpower as well as separate team for bucket wise and vertical wise collections.

This has started showing some results in this end December '23 and January '24 and we are witnessing some improvement in asset quality. Wholesale lending book remains tightly controlled with we had nil NPA in wholesale lending.

Gross NPA increased by 20 basis points during Q3 FY24 to 3.04% against 2.81% as on September '23. On gross advances including IBPC book, gross NPA was 2.8% as on December '23, increased by 10 basis points over previous quarter. Overall while credit cost over last two quarters has been higher than our guidance of 2%, we expect it to come down to closer to 2% in Q4 FY24 as we inched up on our collection efforts.

On liability side our deposit growth is led by retail term deposits as we continue to focus on strengthening the deposits while through broad basing of depositors. Our retail term deposits grew by 46% year-on-year while bulk deposits declined by 6.2% year-on-year. Total deposits grew by 18% year-on-year and crossed overall deposit size of INR15,000 crores. Our overall deposit growth appears to be little lower than credit growth as we utilized surplus liquidity, got IPO funds as well as could raise funding through IBPC route at a very competitive cost.

We are maintaining comfortable liquidity position with surplus liquidity in excess of INR1,500 crores at the end of December '23. While on overall basis liquidity and interest rate environment remains tight, we expect our deposit growth will continue to be led by retail deposits and will be able to maintain cost of funds in our guided range.

We continue to build our banking franchise and opened nine new branches in Q3 FY24 and 86 branches over last one year taking total branch network to 880 branches. Out of total 275 general banking branches, currently around 40% branches are in less than 2 year vintage.

We believe we will gain significantly over time as these branches mature. We are continuously strengthening our digital and fintech presence directly as well as through partnerships. Partnerships on both term deposit acquisition and loan side are progressing well.

We have also launched instant savings and term deposit account opening through video KYC through our bank's website. We are also undertaking a technology and business transformation project to strengthen our technology architecture to make it future growth ready. We believe there are significant growth opportunities available in our core geographies given the good growth potential and relatively low financial penetration.

We will continue to strengthen our franchise and presence and explore significant growth potential through our relevant and suitable product offerings. We have been constructive on passing on increase on cost of funds as a result we maintain our net interest margin well which improved to 9.7% in Q3 FY24, largely at same level of Q3 FY23 despite increasing secure loan portfolio and hardened interest rate environment.

Overall we are witnessing stable financial performance as reflected in ROA and ROE of 2.3% and 18.5% during 9M, FY24 and successfully building on our strategies of creating stronger franchise for our microfinance business as well as MSME lending, housing loans and wheels lending. We continue to invest in our people, presence, processes, products and technology.

Now I will handover call to Mr. Sarju, our CFO for taking you through the financial performance for the quarter. Thank you.

Sarjukumar Pravin Simaria: Thank you Govindji and good evening everyone. Taking the lead from Govindji's last remark, we are always thrilled to see consistency in our performance. Our key growth parameters in this current quarter largely unfolded in line with our expectations.

Let me run you through the quarter and nine month end performance of the bank. Our bank's net interest income grew by 22.6% Y-o-Y and 9.2% Q-o-Q at INR482 crores during Q3 FY24. The net interest income grew to INR1,346 crores for the nine month period, a growth of 20%

Y-o-Y. Our NIM has been consistently upward 9% and in fact our NIMs for Q3 FY24 has improved to 9.7% against 9.2% in Q2 FY24.

The underlying reasons for that is higher disbursement at higher ROI from our microfinance loan book as well as our retail book has inched up yield by about 15 to 25 basis point coupled with prudent utilisation of surplus liquidity. On cost of funds we had mentioned in the previous earnings call where the cost of funds reported was 7.8% for Q2 FY24, we had indicated that may inch up to 8%. This quarter Q3 FY24 our cost of funds has gone up marginally up by 10 basis point and is at 7.9% at Q3 FY24.

Coming to other income, bank's other income was at INR83 crores registering a growth of 16% Y-o-Y and it was at INR280 crores for the nine month period registering a growth of 22% Y-o-Y on a nine month period basis. However you would notice that the other income has been lower compared to Q2 FY24 and let me explain the reason for that. Primarily the reason is PSL book whereas as a natural phenomenon the demand and the premium that the PSL portfolio commands is much higher in Q1 and Q2 and it tapers down in Q3 and Q4.

And that is a reason for a lower other income in Q3 FY24 while on a Y-o-Y basis it is registered 22% growth. Coming to pre-provisioning operating profit it has increased by 22.2% Y-o-Y and 7.8% Q-o-Q to INR256 crores in Q3 FY24. If I were to compute my operating profit ratio to loan book it comes to 6.5% and we believe the operating profit ratio to loan book is amongst the best in the peer set SFBs.

Now coming to cost to income ratio we continue to spend money where we believe we will have a value accretion and with a hawk eye on cost, our cost to income ratio has improved to 54.7% in Q3 FY24 versus 56.5% in Q2 FY24, from immediately previous quarter it has improved to 54.7%.

Now coming to important item that we wish and will be continuing to say about our ability to create floating provision. We continue to build floating provision and we have made a INR14 crores floating provision in the current quarter. This provision is on a straight line basis similarly we have made a INR14 crores provision in Q1, Q2 and Q3 taking the entire floating provision which is over and above the IRAC RBI norms to INR134 crores as at December 23.

As we spoke and one item probably that didn't go as per our expectation was our credit cost. Our provisions by virtue of that is at INR104 crores in Q3 FY24 against INR87 crores in the immediate previous quarter previous year end and it is increased from INR83 crores from the immediate previous Q-on-Q. Our NPA though remains low at 0.19% as on December 31, 2023.

Coming to the bottom line our profit after tax increased to 24.1% Y-o-Y and 1.4% Q-on-Q at INR116 crores. The profit after tax for the nine month period was INR338 crores against INR271 crores immediate previous nine month period registering a growth of 25% Y-o-Y.

Coming to the return of ratios, return on assets continues to be consistently above 2%. It is at 2.3% reported in the current quarter and on ROE the increased capital base considering the IPO funds that we garnered in July and the clawback of profits on a higher increased capital base we are showing an 18.5% ROE during nine month FY24.

On the balance sheet side, bank's capitalization is comfortable. Our CRAR is 23.18% and we have not added the profit generated in the Q3 FY'24. If one were to ask me to add profit for the last current quarter and to recompute the CRAR, I would answer that CRAR would go up by 100 basis points if I include the limited review quarter end profit of INR116 crores to CRAR.

Now that leads me to overall conclusion to say that the quarter end 9-month period has seen us our loan portfolio at INR16,407 crores, our MB cross INR10,000 crores mark, our deposit cross INR15,000 crores mark and while our composition of deposit is in direction the way we want, our RTD build up has been 46% Y-o-Y, it has been growing at 12% Q-on-Q and CASA and RTD combined is at 68% against 60% in the previous year and quarter December 2022. So overall we believe that this consistency is what we strive for.

Thank you for hearing me and look forward to take your question and answers.

Moderator: Thank you very much. The first question is from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Good evening, everyone and thanks for the opportunity, sir. So I just wanted to understand two parts of our business. One, we started the year with high NBR ratio, CDR ratio, right. And in the 9-months result the CDR ratio has further gone up and considering the overall liquidity situation, there is lot of competition for deposits. So how is management planning to improve on this? And what is the road ahead for FY'25? Where do you see this ratio ending up?

Govind Singh: So the way I mentioned, our liquidity position is quite good and when we started the year we had close to INR2000 crores surplus money with us which we tried to bring it down so that the cost of holding this money comes down. So on an overall liquidity part we are very comfortable as we also mentioned very close to INR1500 crores of surplus money at the end of December also. So on the liquidity part we are very comfortable.

In fact we also got our IPO money this year. We could do some IBPC transactions which were at quite competitive rates and you must have seen our big focus was the changing composition. So it's more of retail and then wholesale. Wholesale has actually come down by 6.2% during this period whereas retail term deposits have gone up by 46%. So entire focus is on building our retail book.

We do expect that our growth for deposits for this year will be in the range of 27%, 28% for sure and next year we expect our – and the CD ratio for this year end will be in the range of 97% or so and next year we expect around 4% to 5% decline in this ratio when we are talking about March '25. So March '25 may be closer to 90% to 93% and around 97% this year.

I just want to add one more thing. In the liability part we have got a significant amount of refinance. Obviously refinance levels have also come down because we are not depending on borrowing. Our borrowing has come down in absolute number but if we add borrowing part which is refinanced for long term and taken from institutions like NABARD, SIDBI and NHB, the CD ratio comes to around 90%. So that's another point I want to highlight here. Thank you.

Shailesh Kanani: So fourth quarter basically you are going to see a huge jump in deposit growth. That is what you are telling right? Because the 9-month numbers are lower and for the year end we are going to see a huge jump in deposit growth. That is what you are highlighting, right?

Govind Singh: That's true because our requirement for initial phase was less and as I mentioned we had a quite significant surplus liquidity as well as we got our equity money also. So we were not trying to grow it that fast but yes quarter four will be much, much significantly higher than what we have seen in previous three quarters.

Shailesh Kanani: Fair enough, so second question was with respect to your opening remarks where you had said the pay period has been higher due to lot of holidays. Now when I see number of employees I think we have not added many employees and our cost to income also obviously have been lower. So can you highlight how things will pan out in future?

Are we recruiting more people and CTI [inaudible] may increase going ahead?

Govind Singh: Yes, so we have when we talk of holidays so it was you know in that specific period and unfortunately it got jumbled in because of few festivals which come in the month of October and November. Our manpower is adequate I will not say it is less. Obviously we are opening more branches and we have opened last year also.

So this will inch up little bit but not significantly up from this number. What we have also done we have also you know created separate teams for multiple type of collections. I mean this was ongoing process not that it was not there but we have further strengthened.

We did micro banking, we did especially in the wheels business where we thought that it is high time to improve the quality of team and the composition of team. So there may not be a significant increase in what we say number of people. I mean 100-200 additional people in the collections team certainly will happen but not beyond that.

And overall you know cost composition will not change significantly from here. There will be very marginal change in the cost composition which will be offset by the yields what we are getting.

Shailesh Kanani: Okay sir. Sir, last question on slippage front. I am sure it is very high, higher than what we have guide earlier as well.

So any read through for asset quality going ahead in light of this because this quarter has seen quite a jump in slippage, cross slippage number. Apart from the reason what we said about quality, anything else to lead into it?

Govind Singh: As I mentioned we had a separate team in collections for micro banking also.

We have further strengthened that team and we are hiring you know we have been hiring more and more people for that. That is one part. Second as I mentioned you know we learned maybe little hard way that you know some time when especially this happened after COVID when we have more delinquencies because historically it used to be 99.5% collections and after holidays also we used to you know bounce back quickly. But because now 2% to 2.5% are delinquency on a regular basis. So we need to think little differently and that is why we are now creating one non-centre meeting day where the team is completely free to get the collection done for all the area those have been created during last 2 to 3 fortnights. So that is one thing and close to 60%, 70% have already done that part and rest of the tranches will be done now.

That is one part. Second strengthening of the team and third especially in the wheels business. I think one is that we have strengthened the team.

Mostly the initially the team was small and now we have specialized who are for wheels business only and besides the business teams are also especially in you know 31 to 60 bucket they themselves are getting involved in that and we have seen the results in towards the end of December and in the month of January for that. So I think overall you know whatever slippages we have seen in the in quarter 3 as I mentioned we are confident that it will be much better in quarter 4 and quarter 4 should see around 2% or so in terms of overall credit cost for the quarter 4.

Shailesh Kanani: Okay sir, that is quite helpful. Thank you and best of luck.

Govind Singh: Thank you.

Moderator: Thank you very much. The next question is from the line of Sumit Sharma from JM Financials. Please go ahead.

Sumit Sharma: Hi. Thanks for the opportunity. Can you throw some light on the merger with Utkarsh Core Invest where we are in that process?

Govind Singh: Yes, so as far as merger with you know between you can say Utkarsh Core Invest and bank is concerned currently it is at a discussion stage and it is expected that during this quarter I mean both the entity Utkarsh Core Invest Limited and bank would be able to firm up the plans. So by the end of this quarter for sure we will have firmed up plans and which will share with the all the relevant stakeholders. So that is where we are right now.

We have not taken formal steps so far and it is at a you can say decision making stage right now.

Sumit Sharma: Thank you.

Moderator: Thank you very much. The next question is from the line of Rajiv Pathak from GeeCee Holdings. Please go ahead.

Rajiv Pathak: Hello, good evening sir.

Govind Singh: Hi, good evening.

Rajiv Pathak: Sir, a couple of questions. On the MSME and the home loans, so if you look at the quarterly traction in the disbursements, so you are down quarter-on-quarter on both the segments. So any specific reasons that could be alluded to and where do you see this traction now going up especially on the MSME portfolio?

Govind Singh: Yes, so you know when we are having discussions for last 4-5 months you can say, we are very focused or we got more focus on the yield part and the granularity of business. So our focus became bigger that we will not try to do many large ticket deals. I am not saying we don't do large ticket deals at all but we do some deals.

But the ratio of those deals is coming down and we are focusing more and more on the granular business where yield is better and that's why you see there is a 20 basis point increase in the yield for this quarter. And so you can say sometimes aligning your team for that sometimes it takes a little longer time. And also there are holidays also impacted disbursement in the month of November as far as MSME is also concerned.

Getting clients and completing the formalities were a little difficult. If you look at the quarter 4, I think quarter 4 should be much, much better. I mean in the entire year it will be the highest in terms of disbursement under the retail loans for the bank as a whole. So you will see a significant improvement and jump in the disbursement in the quarter 4 for all the retail loans.

Rajiv Pathak: Okay, and if you were to look at your FY25 targets, what would be your AUM target and within that non-microfinance portfolio to grow at what percentage?

Govind Singh: So as you are aware that in past also we have been making that around 20%-22% is the range for microfinance, micro banking portfolio overall that remains there. As I mentioned this year also we will be in the same range. Similarly, current range of around 30% or 30-odd percent for overall AUM, so that remains true for next year also. So around 20%-22% for microfinance and overall around 30% for FY25.

Rajiv Pathak: Okay, and sir we have seen a very good reduction in your cost to income over the past 3 quarters. So now what is the trajectory that you see going forward in FY25?

Govind Singh: So our expectation will be in this almost same trajectory. I mean there may not be significant decline from here. As we have mentioned in past also 54%-56% is our trajectory and we will remain in the same trajectory.

We are seeing good operational efficiency and overall reduction in cost for sure. But at the same time we are spending a lot on the technology front and we have a significant branch expansion plans for next year. We plan that we will have around 150 plus branches open during next FY from now till FY25.

So that will offset it. So in spite of heavy expenditure on IT what we say and also on the branch expansion, our cost to income ratio will not go up. It may marginally come down but in the range of say 54%-55% or that percent.

Rajiv Pathak: Okay, and sir just one last question on your MSME going back to that. So you have around 82 branches doing the MSME businesses. So what could be the top 10 branches contribution to the AUM? How much would that be out of this INR2,200 crores? Any ballpark number will also do?

Umesh Arora: As far as numbers are concerned, I will not be able to give a formal answer on the same. But as far as the distribution is concerned, we are having a good amount of distributions. It is not spread in the top 10 sort of branches. It is equally into this non-metro and Tier 2 and Tier 3 cities.

Rajiv Pathak: Okay, thanks a lot and wish you all the best.

Moderator: Thank you very much. The next question is from the line of Gaurav Fulwani from JM Financials. Please go ahead.

Gaurav Fulwani: Thank you. First of all, congratulations for good set of numbers.

Govind Singh: Thank you.

Gaurav Fulwani: My question is with respect to reverse merger. While you had mentioned during the call that you will decide on this by Q4, but during Q2 earnings call as well you had highlighted that you will come up with a decision with respect to reverse merger by Q3 earnings call? So can we get some clarity on the subject and what is the exact status of the discussion with both the Boards of the company?

Govind Singh: As I mentioned, there were some more clarifications required in terms of structure and other things and that is why it was taking a little longer time. So, those discussions are through. We are in constant touch with the holding company board, UCL board. In fact, we expect they will have a formal meeting sometime in the month of February. And based on that, we will move ahead with the process. And that is why I am telling you, this quarter four, we will come with a firm complete plan when we intend to go for this process and when we intend to go for various approvals and other things.

So, I will use the word that the discussions have already happened, but it is yet to be firmed up. There are some additional inputs required by some of the investors, some of the board members, which is being done right now.

Sumit Sharma: Okay, thank you. So, if I understand correctly, this is the option which you are evaluating and have kind of discussed and decided you will come up with a plan by Q4, but there is no other alternate option which you are evaluating?

Govind Singh: So, right now, this seems to be the best option available to both the entities and unless something different comes up when we have discussion with the legal counsel and other people who are on this, this remains, I will use the word frontrunner as far as options are concerned.

Sumit Sharma: Okay, thank you.

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

Ashlesh Sonje: Hello, sir. Good evening. Firstly, on the asset quality front, is it possible for you to break out the slippage number for this quarter, the INR136 crores number across segments?

Govind Singh: Can you be a little louder please? I think we are not able to hear.

Ashlesh Sonje: Sir, I am saying, is it possible for you to break out the slippage number of INR136 crores across segments?

Govind Singh: Yes, sure Puneet.

Puneet Maheshwari: So out of INR136 crores, about INR98 crores is in micro banking and balance is in non-micro banking.

Ashlesh Sonje: Okay, can you break out the retail asset slippages?

Puneet Maheshwari: Yes, so about out of this balance INR38 odd crores, about INR16, INR17 crores is in MSME and about INR12, INR13 crores in wheel and INR5 crores in housing.

Ashlesh Sonje: Sir, coming to the deposits front, we have seen the term deposit rate inch up quite swiftly by 20 odd basis points every quarter, and I think it has reached around 8.5% now. Can you just give us some guidance on where this will differ off eventually?

Govind Singh: So as far as deposit rates are concerned, I think last time also – and we think and that is what has happened. I think if rates per se have peaked out, I mean 5-10 basis points plus minus can happen because of each bank's requirement. But overall I think we think that the rates have peaked out and there will not be any further rate increase from here.

What is happening is, suppose if you are seeing around 10 to 20 basis points increase in our cost of deposit is basically repricing of the existing fixed deposits. By now close to 80% plus deposits have been repriced and that is why we think that in case the rates remain at the same level, there may be increase of around 10 odd basis points in quarter four as far as our overall cost is concerned.

But we don't foresee any, from system angle and from the bank angle also, any increase in rate of deposits from here barring 5-10 basis points which might have been some adjustment on some count but not otherwise. So overall it has peaked out.

Ashlesh Sonje: And just lastly one data keeping question. Can you give us the breakup of your deposits by the depositor base across individuals, government, corporate kind of deposit?

Govind Singh: Sanjay can just address that.

Sanjay Sharda: Yes, sure. So any specifics are you looking at or looking at overall?

Ashlesh Sonje: Of the overall deposit base, what comes from individual?

Sanjay Sharda: Individual on CASA side is about 79% and on TASC is another 7%, government is about 2%. On deposits, 60% is individual and 4% is TASC, 2% is government and banks is about 24%. Other financial institutions is about 7%.

Ashlesh Sonje: Okay, sir. Thank you. Those are all the questions from my side.

Govind Singh: Thank you.

Moderator: Thank you very much. The next question is from the line of Vibha from Fair connect. Please go ahead.

Vibha: Hi Govind, my question is on your provisioning coverage. It's been going up and now it stands at 93.8%. If I compare from December '22, it's 80.5. Whereas the share of secured loans has been going up. Is there something that you know of that you are increasing your provisioning coverage or it's just caution because you are also enhancing your floating provisions?

Puneet Maheshwari: If we break our provision is roughly on a book basis, I mean on an NPA basis, our provision is about 65%. And if we break that further between secured and unsecured, we are at about unsecured at 68%-69% and about 47% on the secured NPA. This additional provision is a floating provision which we had highlighted last time as well that we are building this buffer specifically, let's say, considering the microfinance business inside in terms of what we had seen during COVID period and what we have seen during demand period.

So the thought process is that we will build this floating provision cover in business as usual time and on a consistent basis. So to cover for any event risk or any uncertain risk, if let's say, it comes up. As such, there's nothing let's say because of which we are building this. I mean, there is no seen stress or seen risk which is there because of which we are building this floating provision. It's just basically for an unforeseen event.

Govind Singh: I just want to add what Puneet has mentioned. You must be aware that this floating provision cannot be used at our own. We require Reserve Bank of India approval to use this. So we are actually building a long-term provision in case such unforeseen circumstances arise then we can use this amount, not otherwise. So this amount will never be adjusted to if there are profits that are lower or higher. That's not the case.

And this is a Board-directed number now. Whatever number of PAT or PBT may be there, this floating provision will be created. So this is really a plan to create a good long-term buffer, especially for the unsecured microfinance loans.

Vibha: Okay. So what is the standard that you are going by? I mean, it should be as a percentage of unsecured advances or what is it?

Govind Singh: So for the current year, we have taken 1.5% of our microfinance loans as on March '23. And each year we go to Board and discuss with them. This year we are yet to discuss for next year. But the plans or the broad guidelines are that we intend to raise at least 2.5% of our microfinance book. Till such time, we will keep continuing, on continuous basis, we will keep creating this floating provision.

Vibha: Okay. Thank you. That's very helpful. All the best.

Govind Singh: Thank you.

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

Renish Bhuva: Yes. Hi, sir. Just two questions from my side. So one is on the deposit side. So let's say in your opening remarks, you highlighted that we are planning to grow at 35%, 30% in FY25. And then when we sort of look at your expectation on the CD ratio front, which you are planning to take it around 90 to 93 from 97 currently, which means our deposit growth has to be around 35-odd-percent. So how one should look at this trend?

I mean, given the liquidity scenario, given the competition on the deposit side, how confident you are that you will be able to manage 35% plus growth? And in that journey, do you foresee any, let's say, interest rate risk on the cost of borrowing side, given we might have to offer higher TD rates?

Govind Singh: No, sir. We don't expect any increase. As I mentioned, increase the cost of the basic deposit rates from here. These have peaked out. And we are seeing a very good traction as far as the retail term deposit is concerned. And that's happening on a month-on-month basis. It's absolutely a seamless type of thing. And as I mentioned, that we have opened many branches during the last two years. And the branches are yet to reach a certain level.

I'm talking general banking branches. And we expect that these branches will assist us in getting a significant amount of deposits. Plus, we are also doing a lot of work on the fintech side.

I'm talking the digital fixed deposits. We are already garnering maybe around INR30 crores to INR40 crores on a month-on-month basis. And we expect this will be significantly improvement from here. I'm talking in terms of numbers. So, the bigger network and the digital part will also help us in getting these deposits. But having said so, I think two, you can say, verticals will be very important from this angle.

One is the retail term deposit, which will continue to grow from here. And also, we are seeing good traction on the TASC and GIB segment. And especially in some of the geography, we are seeing good traction. It takes a little longer time to get, you know, account funded, funded those accounts. But we are seeing good traction in our, especially in the Uttar Pradesh, Uttarakhand, Bihar type of geography. We are getting good traction on the GIB and TASC segment also.

Broadly speaking, and on the CASA front, yes, I think CASA has been a little challenging for the across the industry, because I think people have moved money from SA to retail term deposit. That is also a trend we are seeing in many of the cases. There, still we expect that around 26%-27% should be our CASA ratio at the end of March '25.

Renish Bhuva: Got it, got it. And, sir, my last question is on our CV portfolio. You know, so when we look at the PPT, it seems to suggest that our focus segment is, let's say, largely fleet operators, you know, with MHCV kind of segment, given the ticket sizes at 3 to 3.5 million. So if you can just throw some light in terms of, let's say, how we source the loan, what is the collection mechanism, etcetera?

Alok Pathak: Yes, so basically we are focusing on this ticket size only, so maximum one to two vehicles. So although we don't, our preference is not on the first-time user or the customers who are having very limited kind of vehicles. But still, so we are not going for the large fleet operator also because we don't want to increase the ticket size in a big way.

One or two cases, definitely we are doing where we are also going for INR1.5 crores to INR2 crores. In terms of sourcing strategy, so we have a good connector model kind of thing where DSAs are helping us for that. So almost 50% cases we are getting from these DSAs, and 50% it is happening through our own team, actually fleet on the street team is there.

And we have a good branch network, so that always helps us. In terms of collection, so we have created a good collection team now. So although it was before June we were not having large collection team, but last five, six months, slowly we have created a good collection team because we also understand this is more a collection business.

So we have created regional collection managers, then under that we have junior collection managers. And we are also discussing with the collection agencies also for this purpose. Already we are having arrangement for our storage of these vehicles in yards, so we have arrangement for that.

So we can safely say that now we are well equipped in understanding this business because initially we were trying to understand. After this specific collection team, I think whatever was the left out thing, so I think now we are good enough to handle this.

Renish Bhuva: Got it. And this last part, so let's say the current outstanding of roughly INR800 odd crores, how much of this would be from let's say UP and Bihar?

Alok Pathak: So maximum part is coming from, because that is our home geography, so our focus was home. So we have started from there only, so I think major portion is coming from that geography only.

Govind Singh: UP, I think UP may be, 60% to be UP, but I don't have exact number, but it will be in the range of 60% to 65% from Uttar Pradesh alone.

Renish Bhuva: Got it. Got it. No, I think this is a good strategy. Anyways, I mean we will take it offline. Yes, thanks a lot, sir. Thank you very much.

Govind Singh: Thanks, Ranish. Yes.

Moderator: Thank you very much. The next question is from the line of Prabal from Ambit Group. Please go ahead.

Prabal: Sir, thank you for the disclosures in the presentation. So my first question was from slide number 23. There is a chart which says only depositors of 1.5 million and both borrowers and depositors of 1.39 billion. Can you explain this chart please?

Puneet Maheshwari: So basically, what happens is we open saving accounts for a large number of our micro-banking customers as well as for our MSME, housing loan, wheels customers, we open their saving accounts. So when we say basically a customer is both a borrower and a depositor for us, and incidentally, another thing which may also happen that, for example, if we have open a saving deposit or a term deposit for a customer, eventually we may offer a credit product as well to the customer. So someone who has taken let's say both the products for the bank is a both borrower and a depositor customer and only depositor is the customer who has let's say either a saving current or a term deposit account only with the bank.

Management: It's only liability.

Prabal: So basically around 60% of your depositor also has some sort of a credit product.

Puneet Maheshwari: So basically if you see in terms of number, yes. So we have about let's say 28 lakhs for the micro-banking customers for about 50% of them we already have saving accounts and hence this both borrower and depositor number seems very large.

Prabal: Sorry, sorry I missed that number [inaudible]?

Puneet Maheshwari: Yes, so what I was saying, we have a micro-banking customer base of more than 28 lakhs. Out of these customers for about 50% of the customers we have open saving accounts. So obviously about 14 odd lakh customers are there in both depositor and the creditor category. And then additionally as we said, we have open accounts for Wheels, MSME, housing for borrowers as well.

Prabal: And which other asset products can we cross-sell to these deposit customers, say for term deposit customers? Which other asset products other than MFI can be cross sold?

Management: That is also correct, yes.

Prabal: No, actually my question was that for a term deposit customer, which other credit products other than MFI can be cross sold?

Govind Singh: Other than sales.

Sanjay Sharda: Yes, so we are selling MSME loans, housing loans, micro loans, micro-lap loans and soon personal loans and credit cards. This is in pipeline.

Prabal: Okay, sir on second question will be on based on microfinance asset quality. So what parameters are you tracking [inaudible]? My question was on microfinance asset quality. So I was asking which parameters are you tracking for yourself as well as for the industry to watch that stress is within manageable limits?

Puneet Maheshwari: Okay, so we had highlighted this last time as well. So for us, I mean the first is the asset quality in a particular district or particular locality. So wherever we see asset quality deteriorating for us, obviously we reduce our disbursement as well and to that extent our exposure doesn't increase in that geography.

We also look at the centre level. If we don't see let's say the asset quality of a centre very good, then obviously the new customer addition etc. into the centre also kind of controlled. So to that extent the disbursement or let's say the new sourcing is linked with the asset quality of our own portfolio in the particular geography or let's say the centre.

Prabal: Okay, and with respect to early warning signs, any parameter like say leverage or household income, anything that you are tracking to watch early signs of stress?

Puneet Maheshwari: So obviously early signs of a stage, I mean early stress point of view, obviously we take credit bureau data for all the borrowers when we do the disbursement. At the same time, there is lot of time, I mean what we are saying is the local connect or let's say the local understanding of the geography, which along with data work, which is the credit bureau data and then you know in the geography if the stress is building up on account of whether let's say the over penetration or the over indebtedness, so that we continuously track along with data.

Alok Pathak: And the mainly early warning we get from centres itself, so if at all my JLG is getting triggered, so if one customer is not paying, the other group members are paying, so all these things are always the trigger for us. The second early warning signal comes from the business side on the ground level, if at all something is happening at very local level issues are happening, so that time they become cautious in further disbursement and monitoring goes up.

Prabal: Okay, and any particular state because we have reasonable presence in Uttar Pradesh and Bihar, any particular district or maybe state that you are seeing some signs of stress or over leveraging build up?

Trilok Nath Shukla: So basically in Uttar Pradesh there are few districts like Sonebhadra, Mirzapur, Ballia and Deoria, which are showing some kind of stress, some local issues only. Then in Haryana we have some issues, we have some issues in Jharkhand also, in Garhwa and Sahebganj district, otherwise there are no particular issues. And all these issues are local issues, not the widespread at the bank level, these are the local issues only.

Prabal: Perfect, perfect. And how is our collection mechanism, so we do it on weekly basis, fortnightly or monthly, how is it?

Trilok Nath Shukla: We do on fortnightly basis, but in some places we do on bi-fortnightly basis, like in NCR, Haryana and Rajasthan we do on bi-fortnightly basis, but otherwise largely we do on fortnightly basis.

Prabal: Sir, and just have one question, so we have been introducing multiple products, MSME housing as you mentioned, how easy is it to convert an MFI branch into a branch which has all these products?

Govind Singh: So what happens, as you mentioned we have two types of branches, one we call general banking branch and second we call micro banking branch. General banking is a deposit led branch, micro banking is a micro finance led branch. Now besides this, we have a dedicated staff for any other activity, so suppose MSME wants to operate from one of, as someone mentioned that we have 82 locations for MSME.

Now they want 83rd location, they will choose the location, if there is general banking branch, then general banking branch will be a – you can say a business point for them, but they will have their own staff which operates from there. It's not the micro finance staff will operate for them or the general banking staff will operate for them. Similarly, but most of the cases, I think because these are you can say not deep interior, these are the semi urban and rural centres, sometimes metro centres also, most of the cases is general banking where we have other retail assets like MSME, housing, wheels, businesses or wheels, these staff operate from.

And we will have a specialised staff for these activities which will not be done unless in some specific cases or the volumes are very low, unless that is the reason, otherwise it will be done by specialised people who are for MSME or wheels or housing business only.

Prabal: Perfect. Okay. Thank you so much sir and all the best.

Govind Singh: Thank you.

Moderator: Thank you very much. The next question is from the line of Jagdish Sharma, an individual investor. Please go ahead.

Jagadish Sharma: Sir, congratulations for the good set of numbers. Thank you for this opportunity. Just I have one question which is that what is your assessment on micro finance asset quality at the industry level, entire industry level?

Govind Singh: So, if you look at the industry level, I think there have been improvements during post COVID and we are seeing across in fact, it's not only in one geography, other geography, we are seeing improvements across. If you really ask me at industry level, I think pre COVID, levels will be difficult to reach, people were 99.5%, 99.6%. Those were the levels pre COVID. I think things have changed from that angle.

So, earlier the credit cost could be in the range of 0.5 or so. And now the real, I mean, the actual credit cost for micro finance on a stable basis, maybe 1% to 1.5%. That's the reality of, we can say micro finance, but otherwise it's a very, very stable business model and working very well across and we have seen a good growth, good traction. And we think that, this will continue to, operate this way only because the requirement of micro finance or the requirement across the country, not in some geography is very, very huge.

In fact, the other point is what is helping the micro finance is that mainstream of micro finance. Till 10 years back it was not a mainstream, today it's a mainstream. I think there are a lot of, I mean, you are aware that investors and there are listed companies, the technology has really gone very well, the credit bureau have really done really well. So I think if you look at the growth, I think we should do, we should see a significant and reasonable growth of micro finance over a period of time.

And the asset quality will certainly improve from here further. It may not go to 99.5% level for the way it looks like, but certainly it will improve from here, pan India, I mean, for all the players in the country.

Jagadish Sharma: Okay. Okay. So, but why I ask this question is most of our peers have a little bit of GNPA increase in quarter-on-quarter from September to December quarter. Even we have our own GNPA increase. That is a main reason I asked that question. Do you see any problem occurring in particular states or something like that all over India?

Govind Singh: No, I don't think that is a, there is any specific problem across, as Trilok also mentioned, in some villages, some villages, some district levels, some block levels, some issues might be there. So, and it was a little challenging in the month of November and that's because the actual working days was very, very limited. And it's a very regimented approach.

So, that's why even we are looking changes in terms of more and more digitization and also trying to have one day buffer in every fortnight. I think all our -- all other players are also must be trying for their own ways of handling this part. And that's a very confident and we have seen also in the month of January, there is some certainly improvement from the quarter three and especially from the October and November month.

I may not have details about the other players, but my sense is there will be improvement across.

Jagadish Sharma: Okay. Sir, thanks. Congratulations for the good set of numbers. Thank you, sir.

Govind Singh: Thank you.

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

Ashlesh Sonje: Hi, sir. Thank you for the follow up. Just one last question on the deposit front. I'm looking at the state wise breakup of our deposits and it seems like in the state of UP, you have done fairly well in this quarter. Can you qualitatively talk about what has worked here in terms of deposit acquisition? The number has gone up by roughly 14% Q-o-Q?

Govind Singh: So, Sanjay can speak about a little more, but only on the outside, I can say that, you know, this geography, especially the Uttar Pradesh, we have a large network of branches and we have the benefit of home market. Now, we have all the products available. I mean, we have worked a lot on the digitization part. So, I think that is helping us.

And our sense is that Uttar Pradesh, I mean, the way we are seeing a good traction, overall growth of Uttar Pradesh is also giving some benefits. But our share in the home market is certainly improving from here and we expect this momentum will further be continued. And Sanjay wants to add something. Please.

Sanjay Sharda: So, I think in some markets, we are going to be close to 1% already. And others, we are moving up as our branches mature. Especially Varanasi and Lucknow and all, we should be there in that range. And as we progress, I think we get to that minimum 1% and over the next two years, 3% over the next two years on total deposits. That's the general output.

Govind Singh: So, just to summarize, we have focused on this geography and we do expect that overall business share of this geography should improve for us because we understand it very well. And being a home-grown bank from that area, we should get, you can say better traction, better benefit, especially when we are talking of Uttar Pradesh, Bihar, Jharkhand, Uttarakhand, that geography.

We are also getting good traction in the government, I mean, GIB and the TASC business also in this geography. In fact, Uttarakhand is among the top five states, though from the size, size-wise, it's a tiny state, but we are still among the top five from that angle. So, I think Uttar Pradesh and Uttarakhand are really helping us in terms of deposit front also.

Ashlesh Sonje: And can you share the proportion of deposits in Bihar, you have not disclosed –

Govind Singh: Bihar I think Puneet will just tell -- our Bihar overall number is lower. We can say the Bihar number is a little lower because Bihar ticket size is lower and that's the only reason. Whereas, it had improved in case of Uttar Pradesh and, in fact, in Uttarakhand also when you go to places like Rudrapur, Haldwani, Dehradun, these places, it is significantly higher than what we are finding in Bihar. Number of accounts will be large in case of Bihar.

Puneet Maheshwari: Bihar is about 5% of our total deposit.

Govind Singh: It's mainly because of ticket size of deposit what we get in Bihar.

Ashlesh Sonje: Thanks a lot.

Moderator: Thank you very much. The next question is from the line of Sarvesh Mutha from Antique Stock Broking Ltd. Please go ahead.

Sarvesh Mutha: Sir, my question is, since our disbursement yield is – disbursement rate on microfinance is 25% right now, do you see any pushback coming from the regulator on that rate?

Govind Singh: No, not really. I think we have not heard or not seen anything from the regulator. I think the rates were increased based on post-COVID on account of higher delinquencies. We had seen that part, higher cost of funds. That is across, in fact. We all have seen that the cost of deposits have gone across and it's not gone up for us only. It has gone up across, in fact. So, there is no discussion on those lines by the regulator so far.

Sarvesh Mutha: Okay. And also, we continue to maintain that in the near term, in the near to medium term, our microfinance book would come towards 50% or so, right?

Govind Singh: Yes, so the way we mentioned that currently we are around 62% or so and in next three years or so, we expect that microfinance book will be close to 50% and 50% will be contributed by the non-microfinance book. And that we have talked in past also and we continue to hold that.

Sarvesh Mutha: Okay, sir. Thank you. Thanks a lot.

Govind Singh: Thanks, Sarvesh.

Moderator: Thank you very much. As there are no further questions, I would now like to hand the conference over to management for closing comments.

Govind Singh: Thanks everyone for joining our call. It was wonderful interacting with all of you. And we will always be available for any further query, questions and any clarifications on this part. We have been growing well so far and I think the trajectory looks very good from asset side, from the liability side. And I think the way, the type of guidance we have given today, we hold, those hold good. And please feel free for any query, questions in future also. So, thank you very much for attending this call and Renish, thank you very much for organizing this call. Thank you.

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