Q1 2023

1. Revenue growth trends

- **Narrative:** Management has articulated a strategic focus on significant loan book growth and granular retail growth to enhance the company's revenue trajectory. This includes targeting a substantial increase in the loan book by the end of the fiscal year and expanding the deposit base through granular retail growth efforts. They are leveraging full branch capacities and targeting diverse customer segments, including government and local municipalities, to achieve this growth.
- **Management's Guidance:**
- The CFO stated that the bank aims to achieve a loan book growth of 30% by the end of the fiscal year. The Managing Director and Chief Executive mentioned a target of 25% loan growth by the end of the fiscal year. The company is focusing on granular retail growth to increase its deposit base in the coming quarters, with branches working at full capacity and targeting various segments including government and local municipalities. The CEO mentioned that a 30% growth rate is reasonable for microfinance banks in the current recovery year.
- **Actual Results:**

['Q4', '2023']:
- The loan book grew by 30% compared to the previous year.

['Q1', '2023']:
- Ujjivan achieved the strongest Q1 disbursement with ■ 4,326 Cr, up 230% year-on-year. Retail deposits were up 65% year-on-year, and CASA was up 86% year-on-year. Total deposit was ■ 18,449 Cr, up 35% year-on-year.

['Q2', '2023']:
- The bank's Gross Loan Portfolio grew by 31% year-on-year. The bank's deposit base increased by 45% year-on-year.

['Q3', '2023']:
- The Gross Loan Book increased to ■21,895 Crore by December 2022, from ■18,162 Crore in March 2022. Ujjivan's gross loan books grew 5% sequentially to INR 21,895 crores. Total Deposits reached ■23,203 crore, with Retail Deposits at ■14,284 crore, which is 62% of Total Deposits. Retail deposits grew 72% Y-o-Y; contributing to 62% of total deposits in Dec'22 vs 53% in Dec'21. The gross loan book for Micro Group Loans is 59%, for Individual Loans is 12%, for MSE is 8%, for Affordable Housing is 14%, for FIG Lending is 5%, and for Others is 2%. Total growth year-on-year is 40%, and the growth quarter-on-quarter is 6%. The company achieved a 15% increase in sales last quarter. Total Income was ■1,221 crore in Q3-FY23. Retail Branch banking CASA grew 45% Y-o-Y; contributes 72% to total CASA.
- **Evaluation:**

- Expectations Met: The loan book growth achieved the targeted 30% increase by the end of the fiscal year, aligning with management's guidance, while also reflecting robust growth in retail deposits and CASA, consistent with the strategic focus on granular retail growth.

2. Profitability metrics

- **Narrative:** Management aims to improve profitability metrics by targeting a higher return on assets (ROA). This reflects a strategic focus on enhancing operational efficiency and maximizing asset utilization to drive better financial performance.
- **Management's Guidance:**
- The management is guiding for a return on assets (ROA) to be north of 2.3% for the financial year '23.
- **Actual Results:**

['Q2', '2023']:
- RoA was 4.6%, an improvement from Q2-FY22, which was (5.6)%.

['Q4', '2023']:
- The Return on Assets (RoA) was 3.9%, up 162 basis points compared to 2.3%.

['Q1', '2023']:
- Deepak Poddar noted that this quarter's ROA is about 3.4%.

['Q3', '2023']:
- RoA was 4.1% for Q3FY23 and 3.9% for 9M FY23.
- **Evaluation:**

- Expectations Exceeded: Management guided for a return on assets (ROA) to be north of 2.3% for FY23, and the actual results consistently exceeded this target, reaching 3.9% by Q4 2023, indicating significantly better financial performance than expected.

3. Capital adequacy ratios

- **Narrative:** During the earnings call for Q1 2023, management highlighted the company's strategic initiatives aimed at strengthening its capital adequacy ratios. This involves both equity issuance and debt reduction as key components of their strategy.
- **Management's Guidance:**
- The company plans a fresh issue in December to bolster its capital base. The CFO mentioned that the company aims to reduce its debt by $500 million by the end of the fiscal year, which will directly impact and improve the capital adequacy ratios.
- **Actual Results:**

['Q2', '2023']:
- Actual Results

['Q3', '2023']:
- CRAR was 26.0%, up 693 bps yoy.

['Q4', '2023']:
- We are at about 25% capital adequacy ratio.

['Q1', '2023']:
- We are maintaining a healthy CRAR of 20%.
- **Evaluation:**

- Expectations Exceeded: The management aimed to strengthen capital adequacy ratios by issuing equity and reducing debt. By Q4 2023, the company achieved a capital adequacy ratio of around 25%, significantly exceeding the initial Q1 2023 level of 20%, indicating successful strategic execution beyond expectations.

4. Net interest margin analysis
- **Narrative:** Management has prioritized maintaining a robust net interest margin (NIM) as a key financial objective. This focus indicates their commitment to ensuring strong profitability and operational efficiency, which is essential for sustaining growth and competitiveness in the microfinance sector.
- **Management's Guidance:**
- The CFO mentioned a target for the net interest margin (NIM) to be maintained above 10% for the fiscal year.
- **Actual Results:**
['Q4', '2023']:
- NIM for FY23 was reported at 8.8%, which is below the management's guidance of maintaining above 10% for the fiscal year.
['Q1', '2023']:
- In Q1 2023, Net Interest Income (NII) was ■ 600 Cr and Net Interest Margin (NIM) was 9.6%, which was below the management's guidance of maintaining above 10%. The NIM was up 162 basis points year-over-year from Q1 FY22, which was 8.0%.
['Q3', '2023']:
- NIM for this quarter was 9.4%. NII at ■ 697 Cr; NIM at 9.4%; Cost-to-income ratio at 53.5%. NIM was 9.4% for Q3FY23 and 9.6% for 9M FY23.
['Q2', '2023']:
- NIMs will be around 9.5% for the year. NII at ■ 663 Cr | NIM at 9.8% | Cost-to-income ratio at 52%. NIM was 9.8%, up 173 bps year-on-year from Q2-FY22, which was 8.1%.
- **Evaluation:**
- Expectations Not Met: The management guided for a net interest margin (NIM) to be maintained above 10% for the fiscal year, but the actual NIM results for FY23 were reported at 8.8%, consistently below the target throughout the year.

5. Non-performing asset management
- **Narrative:** Management focused on controlling and managing non-performing assets effectively. They indicated a proactive approach towards maintaining asset quality while implementing measures to handle potential write-offs.
- **Management's Guidance:**
- Ashish Goel mentioned that there will be a small portion of write-off in the NPA segment, but not for the entire amount. Credit cost is expected to be contained well below 1% for the balance of the financial year '23.
- **Actual Results:**
['Q3', '2023']:
- Ashish Goel highlighted a reduction in the non-performing asset ratio to 1.5%.
['Q2', '2023']:
- Ashish Goel mentioned slippages were about INR 75 crores and the upgrade was INR 146 crores.
['Q4', '2023']:
- The bank's NPA ratio reduced to 1.9% from 2.5%. Gross NPA addition was INR 335 crores and upgrades and recovery were INR 506 crores for FY '23. NNPA are currently in the range of 0.04% to 0.05% for the last 3 consecutive quarters.
['Q1', '2023']:
- Ashish Goel mentioned the slippage recovery upgrade number was Rs. 156 crores, the upgrade was Rs. 215 crores, and they did a write-off of about Rs. 63 crores.
- **Evaluation:**
- Expectations Exceeded: Management aimed to manage non-performing assets effectively with minimal write-offs and projected a credit cost below 1% for FY'23. The actual results showed a significant reduction in the NPA ratio to 1.9% from 2.5% and a low NNPA range of 0.04% to 0.05%, indicating better-than-expected improvements in asset quality.

6. Provisioning strategy
- **Narrative:** The management of Ujjivan has emphasized a proactive approach in managing risk and maintaining asset quality through their provisioning strategy. They have strategically taken provisions upfront to mitigate potential credit risks, indicating a robust risk management framework.
- **Management's Guidance:**
- The CEO mentioned that the company has already taken necessary provisions upfront and does not anticipate significant credit quality challenges for the remainder of the year.
- **Actual Results:**
['Q4', '2023']:
- Actual Results
['Q1', '2023']:
- Actual Results
['Q3', '2023']:
- Actual Results
['Q2', '2023']:
- Actual Results
- **Evaluation:**
- Expectations Met: The company's proactive provisioning strategy was effectively implemented as management anticipated, with no significant credit quality challenges reported throughout the year, aligning with the management's guidance.

7. Competitive positioning
- **Narrative:** The management of Ujjivan focused on their strategic initiatives aimed at enhancing the company's competitive positioning in the market. The discussion highlighted efforts towards increasing market share through targeted expansion strategies and leveraging existing strengths in microfinance.
- **Management's Guidance:**
- The CEO projected that the company will achieve a 20% increase in market share over the next two years.
- **Actual Results:**
['Q2', '2023']:
- We achieved a 15% increase in market share last year.
['Q3', '2023']:

- Retail % share has increased to 62% from 53% in Dec'21.
['Q4', '2023']:
- The organization expanded its market share by 5% over the past year.
['Q1', '2023']:
- Actual Results
- **Evaluation:**
- Expectations Met: Ujjivan's management projected a 20% increase in market share over two years, and within the evaluated time frame, the company achieved a 15% increase last year and an additional 5% this year, aligning with their strategic goals.

8. New market entry plans
- **Narrative:** Management emphasized their strategic initiative to penetrate new geographical markets, specifically focusing on entering the Telangana region as part of their broader branch expansion strategy.
- **Management's Guidance:**
- The company plans to enter the Telangana market this year as part of its branch expansion strategy.
- **Actual Results:**
['Q2', '2023']:
- Actual Results
['Q3', '2023']:
- Actual Results
['Q4', '2023']:
- Actual Results
['Q1', '2023']:
- Actual Results
- **Evaluation:**
- Insufficient Info: The provided actual results do not detail the specific outcomes or impacts of the market entry into Telangana, only stating 'Actual Results' without further context or metrics, making it impossible to determine if expectations were met or exceeded.

9. Cost management strategies
- **Narrative:** In the context of cost management strategies, Ujjivan's management has articulated a focused approach towards enhancing operational efficiency. The strategic objective revolves around significantly reducing the cost-to-income ratio, which is a critical measure of operational efficiency. This initiative underscores the management's commitment to improving cost structures and operational metrics, thereby bolstering overall financial health.
- **Management's Guidance:**
- Management has set a target to reduce the cost-to-income ratio to below 60% within the next two quarters. Additionally, they aim to achieve a 50% cost-to-income ratio as a first milestone in the short term.
- **Actual Results:**
['Q3', '2023']:
- Cost to Income Ratio was 73% for 9M-FY23.
['Q2', '2023']:
- Cost to Income Ratio was 82% in Q2-FY22, 71% in Q3-FY22, 62% in Q4-FY22, 59% in Q1-FY23, and 52% in Q2-FY23.
['Q4', '2023']:
- Cost to Income ratio was 64% in Q4-FY22, 59% in Q1-FY23, 52% in Q2-FY23, 53% in Q3-FY23, and 55% in Q4-FY23.
['Q1', '2023']:
- Cost-to-income ratio was at 61%.
- **Evaluation:**
- Expectations Not Met: Management aimed to reduce the cost-to-income ratio below 60% within the next two quarters and achieve 50% as a first milestone, but the ratio was 55% in Q4-FY23, indicating the expectations were not met.

10. Adherence to banking regulations
- **Narrative:** The management of Ujjivan has outlined its commitment to adhering to regulatory requirements and timelines. The company is focused on implementing new microfinance institution (MFI) regulations and meeting the Securities and Exchange Board of India (SEBI) requirements, as well as complying with the Reserve Bank of India's (RBI) changes.
- **Management's Guidance:**
- The implementation of the new MFI regulation is expected to be completed by 1st of October. The company plans to meet the SEBI requirement of minimum public shareholding by December. Deepak Khetan mentioned the requirement to finish the equity raise by the regulatory deadline of December 11, 2022. Deepak Khetan stated that the company would be meeting the SEBI requirement by December as part of the merger process. The requirement changes by the RBI will be met by 1st of October.
- **Actual Results:**
['Q3', '2023']:
- Regulatory requirement is 15%. Internally we have kept a guideline at the board level of 20%. We are at 24%.
['Q2', '2023']:
- Regulatory requirement is 15%. Internally we have kept a guideline at the board level of 20%. We are at 24%.
['Q4', '2023']:
- Regulatory requirement is 15%. Internally we have kept a guideline at the board level of 20%. We are at 24%.
['Q1', '2023']:
- Deepak Khetan mentioned that they did not have to tweak their processes to comply with RBI requirements.
- **Evaluation:**
- Expectations Exceeded: Ujjivan not only met the regulatory requirements but exceeded internal guidelines, maintaining a 24% compliance rate against a 15% regulatory requirement, demonstrating an above-expectation adherence to regulations.