"Utkarsh Small Finance Bank
Q1 FY2024 Earnings Conference Call"

August 09, 2023

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Moderator: Ladies and gentlemen, good day and welcome to the Utkarsh Small Finance Bank Q1 FY2024 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, please signal an operator by pressing "*" and then "0" 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. Over to you Sir!

Renish Bhuva: Thanks Robin. Good evening everyone and welcome to Utkarsh Small Finance Bank Q1 FY2024 earnings conference call. On behalf of ICICI Securities, I would like to thank Utkarsh management team for giving us the opportunity to host this earnings call. Today we have with us Mr. Govind Singh, MD and CEO, Mr. Sarju Simaria, CFO and Mr. Puneet Maheshwari, Head Finance. I would now request Mr. Govind to take us through the Q1 FY2024 highlights and then we will open the floor for Q&A. Over to you Sir.

Govind Singh: Thanks Renish. Thanks for this introduction. Good evening ladies and gentlemen. On behalf of Utkarsh Small Finance Bank thank you everyone for taking out time to attend our investor call post IPO. At the outset, I want to express my gratitude to everyone for making our IPO a grand success. As you are aware that we started this journey as a microfinance company in September 2009 from Varanasi. Then got small finance bank license in 2016 and then commenced our banking operations from January 2017 and as you are aware that now we are a listed bank. We started from Varanasi as there are significant opportunities in surrounding geographies of UP and Bihar considering the significant underpenetration of financial products in that geography.

Coming to our Q1 FY2024 numbers, we have witnessed a healthy business growth and operating environment during the quarter. Our loan book and deposits grew by 31.4% and 35.6% year-on-year respectively. In terms of loan book composition, we continue to build our microfinance franchise on the back of strong understanding about core geographies and our rural and semiurban franchise. Around 85% of our micro banking branches are in rural and semi urban locations which provide us competitive edge to build microfinance in under penetrated geographies. We have added 15 micro banking branches in Q1 of FY2024 and overall close to 100 micro banking branches over the last one year. We were little cautious in new customer acquisition during COVID phase, with normalcy in operating environment from FY2023, focus is back on acquiring new customers. The number of customers have grown by 2.5% quarter-on-quarter during this period. The current quarter in microfinance segment is one of technical reasons that is the pipeline for our subsequent loan cycle was lower in this quarter. Normally more than 3lakh customers are due for final loan maturity in each quarter while in Q1 FY2024 it was less than one lakh customers as disbursement were low in Q1 FY2022 on account of COVID and more than 85% of our book is with two-year maturity. Our individual loan product which we say MBIL to existing mature JLG customers continues to witness good traction with year and year growth of more than 150% with strong asset quality of less than 0.5% gross NPA. We continue to build digital experience for our microfinance customers through complete digital onboarding, e-sign, EKYC, and digital collections through customers specific QR code, micro-ATMs and other offerings. We continue to build our differentiated branch strategy that is micro banking branches focusing more on microfinance business in rural and semi urban locations and general banking branches primarily in metro and urban location and focusing more on deposit acquisition and other retail assets build up.

There is a significant potential to build our other assets like MSME, HL through our microfinance franchise which we keep exploring as these products are maturing. Our differentiated branch strategy not only helps us in offering relevant products to our customers but also help in ensuring cost efficiency of our operations. We are also building our retail loan products which are MSME, home loans and wheels. For MSME lending currently we are operating from around 80 odd outlets and seeing significant head room available to expand within existing franchise. Our core geography has significant potential for this product after getting good experience and having a book of more than Rs.1700 Crores as of now, we have confidence of building this further in little more informal and under penetrated segment. We have introduced micro LAP product and over time expect granularity and yield of this book to continue. Currently more than 94% of our MSME loan book is secured loans. In the housing side loan segment as well we are operating mainly in one notch or half a notch below the main prime customer. As we build experience, we would be deepening our presence more in informal and under penetrated segments. We have deep franchise available in our core geographies as well as other targets states to build this further. In the wheel segment as well, we started from our core geography of Uttar Pradesh expanded to Bihar, Jharkhand and NCR to begin with through HCV segment and now deepening our presence in LCV segment as well as Used CV segment. Overall we will continue with our strategy of starting the journey from our core geographies and then replicate & build the same in other geographies.

In the wholesale lending segment, we are focusing more on small ticket SME lending where you can say average ticket size of less than Rs.5 Crores wherein we become primary sole banker to the customer meeting working capital funding and securing our exposure through hard collateral, a cover of over 100% in all the cases. In the case of NBFC lending, we continue to operate primarily in entities rated A or higher rating category by external rating agencies. There are nil delinquencies in our wholesale lending portfolio. On the liability side we have expanded our franchise significantly. We have opened 64 general banking branches over last one year and more than 110 general banking branches over the last two years. Out of total 257 general banking branches currently around 44% branches are less than two years vintage. We believe we will gain significantly over time as these branches mature. As a strategy we want to be in top 100 districts of the country for liability acquisition. We have seen good growth in retail term deposits year-on-year as well as on quarter-on-quarter basis. CASA growth and CASA share impact was more on account of interest rate environment. We expect this to build as branches mature. We maintain tight control on institutional deposit as we are having surplus liquidity of more than Rs.2000 Crores as on June 30, 2023, and because of this overall quarter-on-quarter deposit growth was around 2%. Year-on-year deposit growth was healthy at 36%. We continue to build digital experience for customers through complete digital onboarding. More than 95% of customers are onboarded through digital onboarding in Q1 of FY2024. We were the first small finance bank to launch UPI Lite for our customers in the liability segment. There is a significant scope in our home market. We have a strategy of building a significant market share in some of our home markets like Varanasi, Patna, Prayagraj, etc. All these districts have significant deposit potential. Furthermore, we are continuously working on improving granularity and broad basing of our institutional deposits profile. Our concentration to top 20 depositors declined from 28% in March 2022 to 21% as of March 2023. We have raised equity capital of Rs.500 Crores through IPO. With this, we have sufficient capital available for our growth plan. Overall we are witnessing stable financial performance as reflected in ROA and ROE of 2.3% and 21.1% respectively and successfully building on our strategies of creating stronger franchise for our microphone business as well as for MSME lending, housing loan, and wheels lending. We have rolled out salary increments for employees from April 1, 2023, for this year. Last year we did this from July 1 and to that extent additional cost in this quarter. We continue to invest in our people, presence, process, product and technology. Last two years we have opened more than 270 branches and expanded our franchise. We will look to significantly scale up these branches over next one to two years. On our medium to long term strategy, we would like to highlight the following. Microfinance remains our core business for us and we think that still it will be more than 50% of our portfolio at the end of FY2026 and within microfinance the micro banking individual loans which are mature customers so far could gain scale or maybe go to double digit contribution considering large JLG customer base which we have. Our loan book growth which was 31% for the last one year and deposit growth of 36% year-on-year, we see adequate growth opportunity in our businesses and geographies and to that extent growth may remain in the same trajectory. Cost income ratio we expect that it will remain in the same trajectory what we had seen in the FY2023. In terms of ROA and ROE we expect that ROA will certainly be above 2% and ROE will be in the range of around 20% for this next one to two years time. So this is from my side and my colleagues want to add something they can do otherwise we can open for question and answers.

Sarju Simaria: Thank you Govindji.

I will supplement few points along the commentary that Govindji gave. Clearly Utkarsh Small Finance Bank has created a platform over the last seven years and also bringing in more than 14 years of microfinance experience into the bank and with this capital that we have recently raised helps us to augment our expansion plans and play on our strength to capture the opportunities available here from. Two specific points, I would again supplement for what Mr. Govindji said that we are very firm on our focus to continue bringing banking services solutions to the unserved and underserved customers in the rural and semi urban segment and we see a longer growth and profitability path from here. Also point number three to supplement before I give you the little granular details from a financial performance of quarter-on-quarter is our liability franchise that we are operating through our 257 general banking branches in the top 100 cities, complements well with our secured book expansion that we are doing through these branches.

Now let me quickly take you to the quarter-on-quarter results on a year-on-year basis for June 2023. What I will do is very quickly run past the key performance indicators and I have broken up this into four buckets operations, capital, asset quality and profitability. On the operations front, we are currently operating with 851 branches which we call banking outlets. These branches were 690 immediately at the previous year quarter end. We have added 161 branches in last one year from the end of previous quarter to current quarter. Our headcount was 13,300 previous year quarter end which is in current quarter is 15,900. We almost added 2600 employees. The point I am trying to drive is the investment in infrastructure and people augurs well as we see pre COVID days coming back and business is coming back as usual atmosphere. Our total gross loan portfolio as on Q1 FY24 was Rs.14,394 Crores against Rs.10,951 Crores a 31% Y-o-Y growth. The mix of the gross loan portfolio was 75% micro banking and 25% non-micro banking which is primarily a secured book last quarter end, this year current quarter June 2023, the mix while we focus on establishing and more penetration in our micro banking, we also see that our secured advances are growing at a much faster pace on the lower base and therefore the current mix is 63% micro banking and 37% non-micro banking which is primarily materially a secured book. Our total deposits as of current quarter end June 2023 is Rs.13,967 Crores against Rs.10,297 Crores a Y-o-Y increase of 36%. Our CASA on a standalone deposit basis has grown 20% year-on-year and our retail term deposits on a standalone basis has grown over 51% however the CASA to the total portfolio as on June 2023 is around 20% and CASA plus RTD is at around 62%. What we believe is that this 257 general banking branches out of which Govindji mentioned where 64 we have created over the last year and another 50 odd which we have created a year back these branches which will mature and give us momentum and traction in our CASA deposit and RTD, such that we believe that with efforts around three years time we should inch up the CASA to say 35% and CASA plus RTD to 75% to 80% as we grow our base of advances and deposits. On the capital front our net worth is Rs.2110 Crores. Our capital adequacy ratio as on June 2023 quarter end is Rs.19.83%. We have not added the profit that we have earned in this quarter of Rs.107 crore net profit after tax. If we add this profit our capital adequacy ratio stands at 20.88%. Coming back to the third bullet which is asset quality our gross NPA has been improving quarter-on-quarter which is at 3.13% as of the June quarter 2023 which has significantly improved from over 5.73% in the previous quarter of last year and it also improved over Q4 of 3.23% and our net NPA is sub 0.5% which is at 0.33% improved over 1.66% from the previous year same quarter end and it is improved Q-o-Q also from 0.39%. Our provisioning coverage ratio is at 90%.

Now my last bucket of performance I would speak about the profitability. We have got a profit of Rs.107 Crores in the current quarter against Rs.89 Crores comparable previous quarter, which is the rise of 20%. Our yield on advances for the current quarter is 18.8%. Net interest margin is 9.16% and cost of funds is around 7.55%. If I subtract yield on advances at 18.8% to my cost of funds which is 7.55% we are operating in the current quarter at the spread of 11.25%. I would also wish to draw your attention to slide 27 in the investor presentation where we have given quarter-on-quarter trajectory of these three ratios. We will see on the yield basis at the strike base at 19% we are almost 19% through and through the five quarters that we have shown, cost of funds at a strike of 7% plus or minus 25 to 50 bps is consistent around the same numbers around five quarters. And NIMs is also consistent and in fact it has not gone down below 9% over the last four quarters trajectory.

Now quickly moving into cost to income ratio, the cost to income ratio is 57% for the current quarter. If you really look at it, it was 51% the previous quarter one would look at it that it has inched up but there are two points that I would like to clarify. One that we have established 161 new branches over last one year and our addition of head count all the costs is loaded in the current quarter because this has happened from the end of previous quarter to the current quarter. Also the fact that we have yet to harvest the benefits of passing on the hardening of the interest rate to our lending book we are operating currently on our JLG portfolio at 25% which was on the previous quarter at 23% so while we go and do disbursement at a higher yield of 25% including the yield on other products at higher yield compared to the previous year and do productivity measures we will see the cost to income ratio also improve, but while we also continue to invest in our technology which will be a spread of around 54% to 55% range of our cost to income ratio. Mr. Govindji mentioned about return on average asset which is 2.27%. Again on slide 27 we have seen that the return on average that this has always been upward 2% and return on equity has also been upward 20%, which is 21.05% as of the June quarter end. Lastly because we began while this is the first call after the IPO so I wanted to set the preamble I am sure there is a curiosity on business numbers by verticals but lastly you would want to say that during the COVID period FY21-23 we were growing at a CAGR of 28%. Another learning that we have got into the financial from the COVID era as we know that the micro banking business has the highest intent of repayment but COVID does create a stress. The outcome of that learning is that we are creating an additional provision in the FY22-FY23 and continue to do in 2023-2024 which was 1% of our JLG book as overlay provision over and above IRAC norms and is Rs.80 Crores of provision in 2022-2023 and we expect to do 1.5% of JLG book as on March 2023 which is getting us to about Rs.106 Crores of provision as of June quarter over and above the IRAC provision. With this I think reiterating the fact that we would wish to keep our KPIs around ROE 20% around and ROA of 2% and NIM around 9%. Our business model is being structured to see that we continue to give consistent performance. Thank you for joining us. Thank you for making us more aware. I am sure you are looking forward for some Q&A and we will take those questions. Thank you once again.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Congratulations on good performance and thank you for taking my question. Sir my first question is on micro banking portfolio so while you explain why the growth was soft in the quarter so how do you look at growth for the full year and again on asset quality in micro banking we have not seen much improvement in buckets despite we have done some material write off in the quarter so is it the case that our par is higher so as I see our par seems to be slightly higher than our peers despite operating in better markets of UP and Bihar if you can explain this?

Govind Singh: we expect our usual growth to be around 20% especially in JLG part. I mean industry does talk of maybe a little higher growth also but especially because our ticket size is more controlled than many of the players you must have seen, so we expect that is range I am talking of JLG for this year. The growth will be in the range of 20%. As we mentioned during my first interaction that we are also focusing more on the MBIL which is individual lending product where we are expecting a faster growth because of maybe one reason is that it is a low base also. We have around Rs.387 Crores at the end of June. So we do expect that this will have more than 150% growth if you look at this financial year, but overall 20% odd growth is what we expect in JLG on a medium term horizon from our side. In terms of slippages or in terms of par number, par numbers were a little higher if you look from the Q1 angle, but overall I think we are seeing a good significant improvement across and our sense is that if you exclude the non performing cases our overall collections is in the range of 98.5%. The net looks 97% but it is 98.5% and we expect that this will improve from here by maybe another 0.5% or so in the Q2. So overall whatever numbers you are seeing for Q1 with this significant reduction in Q2 across in fact. There will be significant improvement or increase in the portfolio and significant decline in the overall stress or overall NPA numbers for Q2.

Rajiv Mehta: The second question is on the new products, the retail, your MSME housing, CV-CE so when I look at your pricing, the pricing is almost near the prime customer pricing but when I look at our NPA performance on the lagged basis, say one year or two year basis, our NPL seems to be slightly elevated versus the pricing we charge so then how are we looking at the contribution from these products in terms of profitability over the medium term? Will they become significant contributors and by when?

Govind Singh: So we expect that in next 18 to 24 months' time these will be contributing in the bottom line also. Today they are contributing in topline, but these will contribute in the bottom line also, that is one part. Second, you rightly mentioned that we started with not near prime customers. These are maybe one 1 point lower than what you see with banks are offering and that is why maybe our returns are little lower than some of the peer group but after getting experience of last few years time, we have got a base in terms of whether we talk of affordable housing or whether we talk of wheels and we talk of MSME also. Now we have close to Rs.3000 Crores overall book from these segments. Now we are also going to more granular book and that is also starting happening gradually in fact because in overall balance sheet it may not be visible but that has also started happening. So our growth in terms of overall the return on these portfolio is going to grow from here and at the same time you also mentioned about the stress. When we started in some of the pockets or some of the cases, there is no set pattern for this. But in some of the cases when you initially start this, there may be some issues and that is also reflected because overall the book size is small. We do not expect any surprises as I mentioned in case of microfinance in this case also we expect a much lower NPA number or DPD number. Now going forward even in Q2 we see a significant reduction in the overall whatever slippages we have seen in the retail loans also. So on the growth rate will improve from here. The yield will certainly also improve because gradually we are able to pass on these costs to the customers and overall slippages or the overall NPA numbers will come down from here so all these will contribute and as I mentioned in next 18 to 24 months time we expect significant contribution of all these three verticals which we have started during last three to four years time in the overall bottom line of the bank also.

Rajiv Mehta: Got it Sir. Thank you so much for answering my questions and best of luck.

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

Gaurav Kochar: Good evening Sir. Thanks for taking my question and congratulations on successful listing. Sir I have three questions, firstly on overall growth while you guided for the JLG book to grow 20% and within that I mean if I look at the overall book do you see 30% kind of growth in the medium term?

Govind Singh: Yes, certainly yes. As I mentioned our AUM growth has been in the range of 31%. Even CAGR for last few years if you look at three years' time it is around 26% to 27% so we are confident 31% will be better only and it will not go below this. At least when you are looking at next two to three years horizon for sure and the way you also mentioned Gaurav 20% is coming from micro banking part and because in other asset classes our base is low so the growth rate for those asset classes would be higher so on a blended basis certainly it will be above 31% what we have achieved during last financial year.

Gaurav Kochar: Sure thanks. Sir the second question is with regards to margin and here I would like look at some data points that you have shared in the presentation, the cost of funds has inched up to 7.6%. Within that I just wanted to understand you have mentioned cost of term deposits is at 7.9% so is the TD repricing completely done? I mean whatever rate hikes that has happened on the TD side is it completely reflecting in that 7.6% the cost of funds that we reported or there is some bunch of TDs which will come up for repricing in the next couple of quarters?

Puneet Maheshwari: we will break this into the institutional term deposits and the retail term deposits, repricing on institutional term is largely over. On the retail term deposit our broader maturity is at about 20 months to 24 months. So within retail piece about half of the term deposit repricing has happened and the balance half will happen over the next two to three quarters.

Gaurav Kochar: Okay so you are saying by Q3 you should see the peak of cost of funds?

Puneet Maheshwari: That is correct.

Gaurav Kochar: Okay let us say from 7.6% will it be like a 20 to 30 basis points or will it be higher than that? Let us say the cost of funds that we are seeing today 7.8% to 7.9% that should the peak based on your calculation?

Govind Singh: It should be below 8%. This is our sense.

Gaurav Kochar: Okay understood and on the yields side simultaneously if I look at the growth trajectory in this year, you are saying the JLG book will grow at 20 and the remaining portfolio will grow much faster so the share of microfinance will come off? So in that context what kind of yields should we look at and also on the repricing of the MFI book has that completely happened, have we first increased our card rate due to the change in norms and now that we are allowed risk based pricing? Have you changed the yield in the MFI book and if yes, what kind of repricing is left in the MFI book?

Puneet Maheshwari: Right, so considering the hardened interest rate cycle, we had increase lending rate in microfinance by 1% from November 2022 and by additional 1% from April 1, 2023. So as of now the re-pricing has not happened so if you see only about 20% of our book at current rate of interest and balance 80%, I mean 40% is 1% lower and additional 40% is 2% lower. So maybe in about nine months to a year time, we would see microfinance lending yield improving by at least 100 basis points from where we are as of now. Just to clarify on the microphone so basically what we are saying the JLG growth is about 20% and MBIL growth would be obviously higher on a smaller base so overall micro lending piece may grow by 22% to 23% and both the pieces as of now are running at the same rate of interest. So, to that extent this will support overall yields on advances.

Gaurav Kochar: Understood. So is it fair to assume that over let us say next one year whatever inch up in cost of funds that we see or that we may see in the coming quarters that could be partially or fully offset by improving yields so net, net on?

Govind Singh: Actually, not even partially, fully.

Gaurav Kochar: So 9.2% margin that we have seen broadly we will maintain for full year FY2024?

Govind Singh: Yes actually it will go up. . 9.2% I will say it is a lower side because of maybe we had a lot of expenses new expenses during Q1 and which will start yielding results in next Q2 and Q3. So we expect that this will go up and this may be in the range of 9.4% to 9.5% for sure for this full year.

Sarju Simaria: I was adding up that also on account of the fact that we have this capital which is coming in and our CRAR improved significantly and the higher rating. I think our cost of funds which is on the refinance side should be better repriced favorable to the bank so that should also play in upward move effect.

Gaurav Kochar: Okay understood sure and just the final question on asset quality and just extending Rajiv’s question is there any seasonality to the slippages that we see in 1Q for your portfolio and hence you are saying that in Q2 and Q3 this stress will moderate?

Govind Singh: So there is no specific seasonality maybe some pockets and some places we had some delays and as I mentioned the level was little lower. So it is not specifically seasonality barring a very small portion but we are seeing that in many of the cases we are seeing a good collection happening or the repayment or the collections which are already in the DPD, there is a significant improvement. In fact this will be on the lines of what happened during last year. So there is elevation if you look at NPA or overall credit cost number in Q1, FY24, this will come significantly lower than what we have seen in Q1. If you look at the whole year, we expect that costs would be within say 2% or so and that is what we are confident of.

Gaurav Kochar: Sure and the 2% that you are guiding includes the floating provisions, whatever we make?

Govind Singh: Yes so whatever number we give, I mean even for month or quarter floating provision is a part of that cost.

Gaurav Kochar: Okay so Sir today the floating provision is around 1%, slightly higher than 1% of the MFI book and by the end of this year you are seeing it will be 1.5% of the MFI book?

Govind Singh: Correct but just to clarify it will be around close to Rs.135 Crores only for JLG and then there is some special requirement also. So it should be in there is Rs.150 Crores or so, I mean a few Crores here and there at the end of March 2024.

Gaurav Kochar: Okay understood. So this 2% credit cost guidance includes the additional Rs.40 Crores to Rs.45 Crores that we will be making?

Govind Singh: Absolutely correct.

Gaurav Kochar: Great. Understood. Thanks a lot Sir and all the very best.

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

Nilesh Jethani: Good evening gentlemen and thanks for the opportunity. Sir first question was on the collections and any delinquencies are you facing in North India considering the flood situation so any pockets or any regions where we are facing any difficulties in collections?

Govind Singh: So far the pockets where we are having our microfinance portfolio, we have not faced any abnormal delinquency. We had some delays. One of the reasons why there are some slippage, we had some delay in handling some of the repossessed vehicles and those type of things but that is very, very small & isolated place but if you look from over all our business and more importantly the microfinance our entire geography is not having any issue as far as the floods are concerned. There is no impact of floods this year so far I mean obviously we do not expect future also because it is already first week of August is over. So this year we do not expect any impact even temporary which is normally temporary any impact of floods this year.

Nilesh Jethani: Got it Sir. That was really helpful and Sir one piece on the provision, what kind of extra provisions do we carry on the book?

Puneet Maheshwari: we have additional floating provision of about Rs.106 Crores and standard provision which is little higher than what is required as per RBI norms so overall standard provision we had about Rs.65 Crores.

Nilesh Jethani: Got it and one last question from a three to five year perspective so when I draw parallel from other bank from a mid size bank many of them have been talking about say we would like to reduce the share of gold loan or X kind of category of loan but that has not been the case so what gives us confidence that we might go slow as far the MFI is concerned that we still grow at 20%? Is the category penetrated in our regions or we are going slow in particular kind of category of loans so just wanted to understand the broad perspective from a three to five years timeline?

Govind Singh: I think 20% growth on our base, we have 26 lakh customer base so our idea this is a reasonable growth and we keep repeating that you know this micro banking individual lending that is what we see the future the customer are matured customers with five, six and seven years with the bank so that portion we think will grow faster. So we are not looking any lower growth of microfinance. Our ticket size normally is lower than industry historically and one of the important reason is that we are more in semi urban and rural area. So we are not, I mean microfinance is one thing we understand the best in fact so will always be focusing on microfinance for sure. Besides we may not be looking that much in things like gold loan. Our sweet spot will be more about the smaller ticket size loans and the MSME segment, the affordable housing segment and wheels segment where I think especially the geography which understand the best there is a good demand and we can do really good in these segments. So if we are taking about say three to five year horizon, I mean obviously things will evolve over a period of time but besides microfinance MSME, housing, largely affordable housing, wheels and the small corporate where we are able to give collateral based loans or hard collateral based loan and where the customer becomes our primary customer for working capital. These are three or four things which will be focus area. We will have product improvement in this. For example, we have started micro LAP. we started with the normal lap but we're also looking at micro lap especially the big market we can see in our core geography of UP, Bihar, Jharkhand and Chhattisgarh in that area so micro LAP and we have done limited unsecured lending. We are relooking at unsecured lending so that our yields can go little better so this is how the type of composition of at least lending that we are looking at. Gold we are not looking that aggressively because anyway we are not seeing gold, overall book also on the industry level is growing that much. Important point is that one of the important things for us remains that the differentiator in terms of the geography will always be helpful to us. We all are aware that there is around one % share of credit overall for Bihar type of states which is almost 9 Crores plus population. UP is around 4% of overall credit so I think it is a good opportunity in these and after becoming bank, I think we have seen good growth in other verticals also beside microfinance.

Nilesh Jethani: Got it Sir. That was helpful. Sir one question on the ROE tree, so we are moving from a MFI category of loans which is a 20% to 21% yielding loan to other categories of loan where yields could range anywhere between 13% to 17% or 18%, so from a ROA perspective and to maintain the current ROA what kind of credit costs are we expecting in the regions where we operate the state of Bihar and UP and even if we move and fill some other categories what kind of credit cost do you anticipate not from now but say if the mix significantly changes from MFI to other categories?

Puneet Maheshwari: So for FY2024 we are talking about a credit cost of sub 2% and let us say the portfolio move more in favor of the secured businesses like MSME the credit cost will come down and another leverage to ROA tree would be the cost income ratio or let us say the operating costs., Operating costs for microfinance business is higher and for these businesses which are new like MSME the processes which we have set up, the team is set up so these costs will also come down as these businesses get scaled up so to that extent from ROE perspective One is lower credit cost maybe by 30 to 40 basis point as the business mix is changing and an additional 30 to 40 basis points coming down because again the lower operating cost in the MSME, HL and other businesses.

Nilesh Jethani: Got it Sir. Sir that was really helpful and one last question from my side. Sir historically banks which are largely MFI heavy they typically have in terms of and they are seeing some provisions going up, maybe not every year but every third or fourth year so according to you at what mix of MFI we believe that volatility in the provision number will go off?

Puneet Maheshwari: So one thing we have done basically to create this floating provision buffers, the thought process behind this floating provision is to basically come out of this vulnerability or volatility in the provisioning requirement. So what we think we should definitely set aside something every year from a normal profitability to keep a buffer if there is event impact. So with this, this uncertainty from a higher provisioning perspective or impact on profitability perspective goes out from P&L and balance sheet. Secondly, as you also said as we are moving towards more diversified loan book which is better secured and unsecured mix. The right mix anyway will help us keeping the volatility little less than what probably we have been seen in a portfolio which was about 90% microfinance so both these will help us to a very large extent in terms of this volatility in provisioning and the profitability.

Nilesh Jethani: Got it Sir and what will be our write off 270 days, 540 days?

Puneet Maheshwari: In the microfinance segment, we do write off once NPA is more than one year and there is no significant collection and in a secured business, we assess write off basis the security available to us, basis the collection effort / collection feedback.

Nilesh Jethani: Got it Sir. Sir thank you so much for replying to all of them and all the best for the future process.

Moderator: Thank you. The next question is from the line of Marutinandan Sarda an Individual Investor. Please go ahead.

Marutinandan Sarda: Good evening. Congratulations to the management for a great set of numbers and thank you for taking my question. I just want to understand that the amount which we are writing off every year, I believe majorly it will be on account of unsecured loans? So if I compare this with the average loan book, average unsecured loan book what percentage it will be and what is the industry standard for this and then one more question in addition to this is this once we write off these loans from our books, what is the probability of getting in the system based on your last let us say five to 10 years experience what will be all these things? Thank you.

Puneet Maheshwari: So taking your second question first, basically which is the recovery prospect from the written off pool so what we have seen so far is there is recovery of about 15% to 20%, which comes even from the written off pool so whatever we have written off during the demonetization period or let us say now in the covid period potentially we are seeing about 15% to 20% collection eventually coming over a period of two to three years. write offs in relation to the overall loan book during the COVID period have been higher, but if you go back let us say before COVID period our credit costs in write offs were less than 1%, even when our book was about 90% unsecured. So the write off we have seen in in 2023 and now, this is coming from COVID and so on an average basis we have highlighted the collection efficiencies, microfinance business on the regular contract have moved to about 98.5% and so to that extent in a normal business environment, not a significant proportion or percentage is expected to be written off.

Marutinandan Sarda: Okay, great and I have one more question which is basically regarding a longer timeframe, let us say next three to five years timeline can we grow this business at the CAGR of let us say minimum 25% to 30% on topline and bottom line basis?

Govind Singh: Yes, certainly if you look at the medium term horizon i.e. next three to four years time, certainly yes. As I mentioned we are growing. We have grown last year 31% plus and we expect this growth should be higher than that. So if you look at a CAGR for the next maybe three years or so, certainly 25% to 30% is certainly doable and we have created enough machinery for doing that during the last three to four years time. The new verticals we have created and the type of team we have created and the type of geography we operate where there is immense requirement and opportunity, I think 25% to 30% on a medium term basis is not a challenge?

Marutinandan Sarda: That is great to hear from you guys and you are doing really fantastic work and I wish you all the best. Thank you. Thank you for answering my question in detail. Thank you.

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

Ashlesh Sonje: Good evening and congratulations. A couple of questions from my side. Firstly on the deposits front, you mentioned that you are looking at targeting some of these urban centres like Patna, Varanasi and Prayagraj. Can you talk about what is the traction on deposit acquisition here? Maybe you can share some numbers around what is the market share that you currently have on deposits in these centres and where do you expect that market share to go from here?

Govind Singh: So what has happened initially when we started our liability franchise, we were focusing this area as well as the entire country to be there in 26 states and UTs but we later realized that obviously what happens typically in case of deposit we get a much bigger number from the geography when I say UP, Bihar and that area because we are there for long time and when you go to other places like that is Maharashtra or NCR or Chandigarh and Jaipur type of places there we get less number of accounts but the ticket size is higher that is how the composition of deposits have happened. Maybe around one to one and a half year earlier we realized that some of the geography where we are deep into and where we have good brand because we are there for last 14 years now we should focus more upon these geographies. So currently we have some branches and the penetration level of these markets share in terms of deposit is maybe less than 1% also because we are a new bank and it takes a little longer time to build value in accounts but our idea is in places like Prayagraj, Patna, Varanasi or even we are talking about places like Dehradun and Gorakhpur adding to some of these centre we expect that we should be able to reach maybe around 2% to 3% market share in next one to one and a half years time at these places. We have put specialized teams in those places so that we can acquire customers in a very focused way. We are trying to do more of more marketing activities in these places especially I am talking from retail side, we are not competing in wholesale in this area. I am talking of the retail size and that is what we are doing. We have a larger sales team we have put in place in these places where we acquire more and more customers and also there is a big focus on the value accretion in the existing accounts so our idea is that next maybe 18 months or so, we should be able to have 2% to 3% of retail market share in some of these markets.

Ashlesh Sonje: Perfect. Thank you. Another question on the loan mix front if I look at the geography wise split of the micro banking book around 73% of the book is from UP and Bihar how do you expect that share to change over time?

Govind Singh: So what is happening, we have seen some changes in these market so if you break into two parts. One is the value and the second is the number of customers. Actually share of book basis number of customers is coming down faster than value for a simple reason because we started UP and then we started Bihar so these are the oldest geography for us. These are higher ticket size loans because they have taken three cycles, four cycle, and even sometimes even eight and nine cycle also so the ticket size for this area is bigger. So that is why in terms of overall amount this is not coming down faster whereas in terms of number of customer it is coming down faster than the value. We do not expect much significant reduction in geographical composition if you look at only microfinance space. Overall our advances share will come down faster in UP and Bihar but if you look in terms of only microfinance UP may come down a shade lower than this because you know UP is a large state and we are only currently in the Eastern UP only and we do not intend to really go in terms of market share below this. In fact currently we are not even one third of UP that we cover from. In the case of Bihar we expect that around 3% to 4% decline in our geographical mix for micro finance over next maybe one to one and a half years as far as the share in value of this is concerned because we are seeing now subsequent cycle loans are coming from new states like Odisha or some of the states which we have servicing for last few years like Jharkhand or Chhattisgarh, some pockets of Madhya Pradesh and last the states of Rajasthan also so it may come down by 3% to 4% in case of Bihar and maybe around not more than 1%, 1.5% for the State of UP that is in terms of value what I am talking of.

Ashlesh Sonje: Okay Sir. Thank you. One last data keeping question, if you can share the proportion of your micro banking customers who are unique to us, proportion of customers who have are currently borrowing from one of the lender, two other lenders and so on if you have those numbers handy?

Govind Singh: So broadly speaking we have more than 25% customers who are unique clients to Utkarsh that is the number we have got.

Puneet Maheshwari: So basically about 25% customers are unique to us. Then additional about 40% to 45% customers are basically Utkarsh plus one and overall up to Utkarsh plus two which is the three lender mix is about close to 95% to 96% and the balance 5% piecewhich is 3+ lenders.

Ashlesh Sonje: Okay. Thank you, Sir.

Moderator: Thank you. We will proceed with the next question which will be from the line of Shailesh L Kanani from Centrum Broking. Please go ahead.

Shailesh L Kanani: Congratulations Sir for a good set of numbers and thanks for the opportunity. Sir had only one question with respect to reverse demerger, anytime known on that and way forward given that our holding company is a unlisted company so if you can share some light on that?

Govind Singh: This is something which is not yet thought through completely. The bank and the holding company board as well as the bank board, they intend to explore this possibility and contemplate when to do this part. So there is no final decision taken on this part. So I may not be able to go beyond that as far the reverse merger is concerned. Certainly now RBI says that 26% you have to achieve in 15 years time so there is much longer window from RBI side also, so currently no decision has been taken at either of these places. So maybe we have to come to you once discussion happens at both places and we decide about next course of action in this case.

Shailesh L Kanani: So just a follow up on that say it safe to assume that is not something which is going to happen in the short to medium term?

Govind Singh: Not in short term, I mean medium term difficult because even suppose someone decides to go for it, it takes around 15 months time, so it cannot happen in short term, but yes medium term it is difficult to predict right now.

Shailesh L Kanani: Okay Sir. Thanks a lot.

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

Vijay Karpe: thank you for giving me this opportunity and congratulations on the strong listing. My first question is actually on the collection efficiency commentary that was made earlier actually I missed that commentary, the collection efficiency had come in at 97% and we have talked about a number of 98.5% if you could just explain?

Puneet Maheshwari: If you just break this 97% collection efficiency between let us say the regular or standard customer or the NPA pool, collection efficiency for the standard pool is about 98.5% and NPA pool it is about 30%. So the combined collection efficiency is 97% but if we look only let say the standard pool it is close to 98.5%.

Vijay Karpe: Okay and going forward, we expect this collection efficiency on an overall basis to improve?

Govind Singh: Yes, we expect that I mean again, subject to a lot of things, but the way we are seeing traction in the market with the client, we expect this to grow, improve at least 0.5% in next two to three months time.

Vijay Karpe: Okay and I also wanted to understand what is the mix of borrowers in terms of vintage so the disbursement that we are doing, how much of that is going to the old customers who have seen two to three cycles of disbursement and new borrowers both in terms of disbursements as well as the AUM?

Puneet Maheshwari: So in terms of if you see the first time and subsequent cycle mix in terms of number of customers so as we said that we started focusing on new customer acquisition from last year so right now the mix is about 30:70 with respect new customers and the subsequent cycle customer in terms of number of customers and if we are seeing cycle wise break up, so right now the customers which are there in about two plus loan cycle are about 70% of our portfolio and one and two is about 30%.

Vijay Karpe: Okay great and my last question pertains to the reverse mergers last question answered, so the reverse merger process, we have not started it because if we have not started it yet, then it will still take 18 months, right? So when are we expected to start the reverse merger process?

Govind Singh: No, as I mentioned that it is based on the boards of both the companies and investors so that decision is yet to be taken. It is not that we have started the process. They are contemplating and they're exploring whether, which I mean what are the other options and when to start and whether to start or not to start a decision is yet to be taken on this part. You are right, it may take up to 18 months once it is decided may be 15 months time normally it takes to complete the whole process I mean broadly speaking, but that decision is yet to be taken. So

I think maybe when investors and the board members at both the places take a decision then we will be able to tell you the timelines it can actually take.

Vijay Karpe: So when can we expect that decision to be taken?

Govind Singh: At least not in this quarter. Normally my sense is there will be meeting and discussing this in the next two to three months' time. That is my sense.

Vijay Karpe: Okay. Thank you and all the best.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I would now like to hand the conference over to Mr. Govind Singh for closing comments. Over to you, Sir.

Govind Singh: On behalf of Utkarsh Small Finance Bank, the board and the management, thank you very much all of you to attend this call, you have always been extremely helpful and supportive of the institution. We have tried to build a very good institution out of Varanasi and we see a lot of opportunities in this space where we are operating from and you must have seen in terms of governance, terms of transparency, and in terms of overall performance, we have been among the better ones or the best ones in the industry over a period of time and that is what we can assure all the investors that we will continue to that part. In case you have any follow on queries or questions you can come to us directly or through ICICI Securities also you can come and we will be more than happy to respond to you. So once again thank you very much for attending this call and for putting your faith in Utkarsh and the management so once again thank you very much and see you very soon again.

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