"Ujjivan Small Finance Bank
Q1 FY2022 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day to the Ujjivan Small Finance Bank conference call. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Murarka from HSBC. Thank you and over to you Sir!

Abhishek Murarka: Thank you, Rutuja. Good morning everyone and thanks for joining the earnings conference call. We welcome the management team of Ujjivan Small Finance Bank, which is represented by Mr. Nitin Chugh - Managing Director & CEO, Ms. Upma Goel – Chief Financial Officer, Mr. Ashish Goel - Chief Credit Officer, Mr. J. Srinivas Murty - Head Liabilities, and Mr. Deepak Khetan- Investor Relations. We thank the management for giving us the opportunity to host this call. The call will begin with an opening remarks by Mr. Nitin and then we will open it for Q&A. Thanks and over to you, Nitin!

Nitin Chugh: Thank you Abhishek. Good morning everybody. Welcome to our earnings call for first quarter for this financial year and thank you for joining us this morning. I do hope all of you are safe and keeping healthy. I will cover the brief about the first quarter and get into some details of the important elements and then we will try and keep sufficient time for Q&A as well. Q1 expectedly was a challenging quarter as you know all of us were impacted with the second wave of COVID and a lot of our own staff was also infected. We also checked with our customers through our internal surveys and nearly 54% of our customers reported between partial to total loss of income during that time. Our collections dropped to less than 70% across the industry, but now we are seeing quite a good improvement. We managed to get to 78% in June and July has been a remarkable recovery to 93%.

The states and the regions which were more impacted and some others were south where we had stricter and lengthier lockdowns, the three states we operate in Kerala, Tamil Nadu and Karnataka and partially in West Bengal also where there are still restrictions on the suburban trains, which are not functioning as yet, so the recovery is better, but it is taking a little time. Assam as you know has already been impacted for a very long time and while there is improvement, but they continue to lag. In June, south and east collections are at 63% and 78% versus 92% in north and 83% in west so that kind of highlights the difference between the different regions and since we have a larger portfolio in south and in West Bengal our collections were impacted accordingly.

So, we have been taking multiple steps to handle the situation and minimize the impact on our portfolio and also keep preparing for growth. So, the first one is that we stepped up on collections significantly. On the microfinance side, we use a multipronged sort of an approach where there was a very strong field mobilization with field staff, collection agent, household collections teams and also supplemented with increased digital prepayments and different tech touch points that we have through Airtel Payments Bank, PayNearby. In June and July, our collection efficiency was ahead of the industry probably a lot better than the rest of the industry despite having the significant exposure to south and east markets, which are trailing the national average in terms of collections.

Our collections from the digital means was about 16% and another 35% came through our Fintech partnerships where we do not need to handle the cash so roughly 51% to 52% of our collections happen through these alternate means and this has been very helpful for us because we setup this infrastructure or started to setup this infrastructure in Q1 of one of last year. Now we are in the process of also launching some innovative ways of repayments such Whatsapp based collections, which will help our field staff and that will also help us in strengthening the overall repayment mechanism.

On the secured books side, we have really beefed up our legal framework and expedited all the legal recourse processes and we do expect to improve collections and bring down the GNPA on the secured book also in due course.

On the provision coverage, in our last earnings call, I did mention that we will take necessary provisions once we are able to ascertain the impact of the second wave and we were somewhat in the middle of the second wave and we had our last earnings call in mid-May. We have done a full detailed analysis based on how the book has been performing and how collections have got impacted and on that basis we have beefed up our provisions by taking an extra 250 Crores of COVID-related provisions, which is about 1.8% of our total outstanding. With that our book coverage now stands at 8.2% and PCR is 75% against 60% in the previous quarter and I will discuss this in detail when I discuss the NPA and the credit quality.

Also the resolution 2.0 framework, which are they announced on the May 5, we started working on this to help the borrowers who were struggling due to loss of livelihood which I just mentioned to the extent to which we sort our damage and we did see a large base of customers also becoming delinquent who were repaying regularly till March. You know in Q4 we had seen a very good recovery, but they obviously struggled to pay us in Q1, so we kicked off the whole resolution framework in June and our plan is to restructure about 7% or 8% of the book to support these customers who were not delinquent as of March 2021 and we have mentioned that in a lot of detail in investor deck also.

We also had unfortunately 1370 employees who got impacted, many of their family members and we also lost 9 of our colleagues and while this has been very, very unsettling for us, but I think we shown the resolve to rebuild the business and support our customers rather quickly. We continue to take care of our employees by encouraging all kinds of safety precautions through vaccination camps and making sure that their families are also get vaccinated and also supporting the infected employees and their families to the extent that we could when the second wave was at its peak. So as of end July, 72% of our stuff has been vaccinated by at least one dose and considering that we have a much younger population most people became eligible for vaccination much later and we are now making all efforts to cover all our staff, which will not just take care on the health side, but I think it will also help us prepare better in case there is a third wave.

On the regulatory side, there were developments in the quarter rather in the month of July and RBI confirmed the Association of Small Finance Banks which we are a part of on July 9 that the small finance banks can approach RBI three months prior to completing five years of operations from the date of commencement in case we wish to merge the bank with the promoter holding company and what we planned to do is that we would apply to RBI sometime in early November just three months we now finish our fifth year and then go through the whole process of the re-procedural approvals that are required and we do expect that this whole process of the reverse merger can take up to 12 months to get completed and we are working on all those procedural steps already.

Now coming to these key highlights of the quarter, in mid-April of course we witnessed lockdowns across all the states and disbursements therefore got impacted because we barely had one-third of the quarter available to us between the first probably 15 days of April and the last 15 days of June in some parts of the country so disbursements were about 1311 Crores, which was down 69% from Q4 which was of course an exceptional quarter for us; however, this is 175% year-on-year growth over the first quarter of the last financial year, which is not necessarily comparable because it was kind of a washout, but nonetheless.

In micro banking we largely disbursed to our existing customers who were non-delinquent and have maintained a good repayment track record and Q2 of course has begun on a much better note with July disbursements being at 974 Crores as the restrictions started getting opened up. In June 2021, our non-micro-banking book is now at 32% versus 28% in March. Secured is now 30% versus 27% while this is inline with our strategy of the diversification of the asset book to steadily increase the proportion of secured, part of the reason also is that the micro-banking book has also degrown. So I would attribute this to both, both are stated strategy and the way we are working around it and the cordial effect of the reduction in micro-banking book.

We did very well on the deposit side. Our deposits grew by 24% to 13673 and retail continues to contribute to 48% as much as what it was in March. CASA is also unchanged at 20%, 20.5% was in March and 20.3% was in June and we grow very strongly by 77% on a year-on-year basis in CASA. Our branch banking is really driving the growth in retail deposits and now also had a large share of the overall retail deposits. Our branch banking CASA actually grew by 130% year-on-year close to 2000 Crores and comprises almost 71% of the total CASA, so effectively we are making sure that the CASA is led through retail new customer acquisition and the retail franchise through our branch banking channels.

Just like assets July has also been a good month for liabilities. The contribution of retail deposits has moved up from 48% to 50% with the healthy growth in CASA as well. We acquired 1.1 lakh new liability customers despite all the restrictions that we had in Q1. Total acquisition was about 2.1 lakhs of which 1.1 lakhs were new to bank customers. We continue to focus on our digital initiatives, on improvement in productivity, cost optimization those were themes that we had started working on the last financial year. There was a whole lot of detail on our robotic process automation, digital collections, which we mentioned in the investor deck and I would urge you to go through that as well. Our non-interest income also remained an area focus to supplement the interest income and PSLC income that we booked in Q1 was 27 Crores.

Treasury operations were very healthy. Net trading income of 40 lakhs and we also benefited from the shift from HTM to AFS portfolio by realizing about 11 Crores in the P&L in the first quarter. Our capital adequacy of course remains high and the LCR is also very healthy. On the fundamentals, I think we are absolutely fine as strong as ever.

On the customer facing channels now while we have been working towards providing multiple channels/touch-points for our customers to provide them better proximity as well as convenience. Our digital platforms like Internet banking, mobile banking are finding very good usage, we prepared that in a lot of detail and in our investor presentation also in terms of what kind of penetration we are seeing and now within these small finance banks, we are ranked number one in number of transactions and mobile and Internet banking and we believe we command the share of nearly 45% to 50% amongst SFBs consistently for the last 12 months.

Now, there are some 407 banks that report their mobile banking transactions to RBI, this is a publically available report. We are now ranked 32nd in March 2021 versus 37th in March 2020 and we are obviously increasing our ranking even out there amongst all the banks present in the country. Our branches and our phone banking channel are now contributing to cross selling in a very meaningful way. We have seen improvement in cross sell productivity across phone banking channel also. It has really doubled of what it used to be about 12 months back. We have continued to expand our reach in the form of tie ups with Fintechs both for acquisition as well as collections that I mentioned across all lines of businesses. In the MSE business we had tie-up our supply chain finance which went live in Q3 of last financial year has scaled up in the last two quarters and nearly 100 Crores was disbursed in the last six months.

The personal loans tie ups also went live in March and May and they are gradually scaling up. We are working with proof and text right now and we do have plans to engage with many more on the back of APIs. I had mentioned that we are increasing the proximity touch points for our customers for collections and through a tie-up with Airtel Payment Bank and PayNearby, we were able nearly 1600 plus outlets in Q1 so the total number of outlets is about 11000, and we will continue to add many more outlets based on where we have a need to provide this proximity location.

Again coming back to liabilities while we are working towards building a granular deposit base with a rising share of detailed deposits driven by the right sourcing mix quality of accounts and improving sales productivity our total deposits like I have mentioned grew by 24%, the retail book now stands at 6515 Crores versus 4929 Crores a year ago in June 2020.

We are now offering also fairly competitive rates much in line with the rest of the participants in the cohort that we operate in, the small banks and some of the midsized banks and that is also helping in our CASA growth, which is now at 2773 Crores up 77% year-on-year. However, due to lower disbarments in our micro-banking book, CASA was impacted. The CASA book in micro-banking is largely linked to disbursals because customers like to keep their money after the money is disbursed into their accounts, so that did see a reduction because of the muted disbursements. So really speaking the right way to look at it is to look at the branch banking contribution to CASA, which grew by 130% year-on-year, which I have mentioned briefly is now close to 2000 Crores and 71% for total CASA.

We have also introduced fairly good number of value added products in our liability franchise and have been focusing on improving the product mix with the objective of increasing and improving the quality of average balances, so that we create a liability base which can be cross sold to over a period of time as we introduce more and more products and there is a fairly detailed mention of the new products that we are launching even in the investor deck and I will also cover that very, very quickly later.

Our retail branch banking average balances under savings accounts has moved to 18000 in June 2021 from 11000 in June 2020, so that is also a fairly large improvement in the overall portfolio level balances, however, if you look at the new acquisitions that we did in Q1, the new acquisition average balances were at 42000 versus 16000 in Q1 of last financial year.

So, there is remarkable improvement in both the quality and quantity of the balances largely because we are focusing on better quality customers since we are very keen to build a long term franchise, which can keep enhancing and getting enhanced through cross sell. Excluding salary accounts which has again been a very good story for us and there are details of that also in the investor deck. The average balance of retail branch banking accounts is 20000 as of June 2021 and 53000 for the last quarter, which if you include salary is 42000. Our improved productivity levels are also reflected in the 2.1 lakhs customers that we acquired on the deposit side of which 1.1 lakhs like I mentioned would new to bank customers.

Also important to highlight the cost of deposits it is continuing to trend lower at 6.4% declining by nearly 110 BPS in Q1 due to higher proportion of CASA and in July our cost of deposits has come up by another 10 BPS so I think it is a trajectory, which very clearly coming down and we do see the benefit of that in our overall cost of funds as well.

On the third party product side which is largely our strategy for the non-interest income it is becoming gradually a good contributor to fee income for the bank most of it is coming through our branch network on the distribution side and what we did focus on in the last year was to increase the number of people who were certified to source or market insurance and that number has gone up to now 3056 six people who are IRDA certified, this number was closer to 400 something at the beginning of last financial year, so we have really stepped upon this.

We are also now working on distributing this through phone banking and the other digital modes. We did introduce a lot of new life insurance and term plan products in the last year which is again getting good acceptance. We again introduced six new participating insurance products in the last quarter in Q1, while this quarter was subdued with fee income declining as compared to the previous quarter largely because of the insurance income that comes from the credit life product, which is bundled with insurance and linked to disbursals. We managed to generate additional business of 40 lakhs largely due to the newly introduced products that I just spoke about and an overall income of over 3 Crores which was up 86% year-on-year.

In July, we are seeing again very good traction in third party products. The team has increased by 67% over what we did in the month of June and as we mentioned in the previous earnings call, we plan to launch mutual funds. We made a mention of that in the investor deck again. We have short listed 7 AMC to partner in, which will be completed in the next couple of weeks and we do expect to launch this by the end of August.

On the CSR side and on the employee side as a responsible citizen we continue to extend our helping hand to the needy in these times and the last quarter especially and while adhering to our usual CSR practices of community development and disaster relief we also distributed beds, oxygen cylinders, extended support to COVID centers and hospitals and in that process we spent about 80 lakhs during the whole quarter on the CSR side. Along with this the employee welfare was obviously prioritized and we made sure that we vaccinated as many employees which I just covered to the extent of 72%.

Some details on our digital initiatives, our digital framework is now completely aligned with our business processes beginning with the regeneration to customers sourcing, loan generation, deposit mobilization, handling collections digitally and all of these are giving us very good and healthy results. In Q1, our digital efforts have resulted in some of these following outcomes: First of all on the API side, the strategy and Fintechs outreach program with 159 APIs is in place for Fintechs to build prototypes and there is a dedicated portal, which has been established for single window clearance and you can check that out on our website.

In future we do look at creating a sandbox also prototype with Fintechs and this is something that we are now taking out to an outreach programs to partner with as many as possible like 500 Fintechs. As of now we have three life Fintech partnerships for repayments and three on the lending like a personal loans and MSC.

On the process side, which is largely led through Robotic Process Automation we have now 16 professor across business verticals, which are automated through RPA of which two are completely unattended and another 15 are in the development stage to be automated Q2 of this year and we have many more lined up for the rest of the year. We do expect to automate nothing less than 120 odd processes by the end of the year. The good thing is that the RPA set of processes and now handling a lot of transaction so nearly 1 Crores transactions per month is what we have reached and we have mentioned in the investor deck.

This is really helping us in making sure that here is business continuity at all points in time. We have a multilingual bot, which is being made for even more intelligent and this would help us not just in regeneration that it has right now, but also in handling some kind of basic and to some extent even complex queries from customers and even employees. Employees will also stand to benefit from this when they want to access any information about products and services of the bank. We are also in the process of strengthening our analytics practice which is again a place where we have really invested in the last one year and we do plan to transform all our businesses through use of data and insights in the next 12 months.

A fair a number of customer profitability scorecards, collection scorecards, underwriting scorecards, a lot of them were already in place and we have developed and refined quite a few of them and this will help in making sure that we have the ability to offer personalized sort of product to our customers and also make sure that we move towards better profitability at a customer level and even in underwriting we are now gradually moving towards more of score card based processes and this will always keep it refined. With our AI stack in place now we do have plans also use AI for our underwriting and customer acquisition. We also have a framework for marketing to customers and engagement which we had launched a few months back that is also helping us with all kinds of digital campaigns both on the portfolio side as well as new acquisition side.

Now coming to restructuring 2.0, we kicked of the framework in June like I mentioned for the non-delinquent customers as of March and largely who were regularly paying us in the first phase. These customers are personally met to discuss the situation on the ground and provide solutions like I did mention 54% of our customers were indeed impacted through either a partial or a total loss of income during that period, so EMI holiday or a principal holiday or a tenure extension or a combination of these are being used to restructure and the whole process of restructuring and the work flow were also digitized so that we make sure that there is nothing which is prone to any kind of human error and we are able to also do it in a more efficient and broad based manner.

In micro-banking, we restructured 16138 account about 39 Crores in June including 8 Crores from the resolution 1.0 bucket and other 750 Crores to 800 Crores of potential restructuring by September 30, 2021 is pipelined and may include 100 Crores to 150 Crores of restructuring from the first bucket.

In MSE 165 accounts to the extent of 20.7 Crores was restructured and I think another 78 Crores is planned to be restructured by end of September. Likewise in housing, we restructured 126 customers amounting to 10.6 Crores and we expect another 94 Crores to 100 Crores are planned for restructuring by the end of this quarter. In July, we have overall restructured 501 Crores of the portfolio of which 480 Crores is micro-banking and the balance is MSE and affordable housing.

Collections as I mentioned we witnessed very encouraging improvement in July. South had a remarkable pullback and across all the states I think we have seen a remarkable improvement with the exception of Assam, which also did improve, but continues to lag behind the rest of the country. So our overall collections improved to 93% from 78% in June and the collections from the restructured portfolio were at 50%, which had dropped to 37% in June. We also saw a good traction in the early delinquency bucket nearly 150000 customers who were NPA as of June 2021 have started paying us in July and we saw an overall upgrade of nearly 300 Crores excluding restructuring and the PAR now in June, which we mentioned was at 30% to 31% has now been reduced by nearly 800 Crores and is now at about 25% as of July. So there is consistent improvement in our both on the back of collections, restructuring and the customers who have now started to pay us who were earlier NPA as of June.

Credit costs, I will cover quickly, so while the collections went down to 72% in May from 94% in March and they have indeed recovered in July like I just spoke about, it will take some time for us to go back to the normal pre-COVID levels of 98% to 99%; however, we have witnessed a good base of customers who were non-delinquent as of March who struggled to pay their EMI and so for such customers we had launched this restructuring program and like I had earlier mentioned we will have roughly about 7% to 8% of the book, which would get restructured by September.

I would also like to highlight that the tightening of credit policy framework and the underwriting standards, which we took on the basis of a fairly cautious and conservative stance in the last financial year, the new book that has now got built to the extent of nearly 56% of our overall outstanding is behaving extremely well with very high collection efficiency and the GNPA in this book is just about 0.4% so really speaking the pain is coming from the book which was prior to March 2020 and this is actually a very good positive sign and as the new book replaces the older book especially in the business of micro-banking, I think the portfolio quality will only become stronger and better for us and I think this also reflects our conservative posture in terms of new business and we will make sure that we are not taking on any unnecessary risks just to grow the topline.

So, based on all of this our estimated debt I know all of you would like some kind of a guidance on the credit cost, unfortunately we do not have a way to do that because things are still evolving and things are playing out every month while there have indeed improved, but we do expect to be able to at least manage in a similar or a better range provided we do not get into any other unpredictable and uncontrollable set of external circumstances like a third wave and also not work for too long. I had mentioned in my previous call also that if we get three clear quarters we will have a very strong recovery. I also mentioned that we are looking at growth of 20% to 25%, we are sticking to that, it could be closer to 20% rather than 25% as things change, but it could also go back to closer to 25% if things actually pick up a lot better than what we are estimating.

We are also since we are vaccinating our people and there is a large vaccination drive across the country and I am sure all of you are following that. We do hope that the impact of the potential third wave is going to be a lot lesser and restricted as compared to the first two. We also think that we would be able to afford the provisions through the operating profits and we will not have to depend into the balance sheet and that is one thing that I think we have been clear about even in the last financial year.

On the financials, I think especially on the cost side, we are focused on making sure the costs were in check and we are continuously improving on them through various cost optimization initiatives and despite the increase in NPAs, which has effected our income recognition, we have been able to reduce the cost to income to 65% from 67% in the previous quarter.

The yield and the NIMs were also affected due to the higher NPAs and all those details are mentioned in the investor deck so I would not spend too much time here. We do plan to open 40 branches. Our original plan was 55 that I spoke about in the last quarter, but since we lost quite a good amount of time in the first quarter we are rationalizing that plan and we do expect to add at least 40 new branches in this financial year and at the same time also keep investing in the API based distribution infrastructure through our tie-ups with Fintech. At the same time, on the tech side, we will have a lot of new initiatives and investments especially analytics, data, artificial intelligence, in capacity augmentation in network organization so all those decisions on the investment side are also being taken some of which we are held back in the last financial year.

Now, coming to some of the new products that we do plan to launch and this really the last part of what I want to talk about, the whole philosophy is that we should be able to give meaningful and relevant products to our customers, which help us in building long-term and profitable relationships with them, so that really starts with a good liability franchise or on the other hand good asset franchise we have the ability to cross the liabilities and other third party fee based products. So the first one that we are going to be launching in this year, which we have spoken about and we made some progress on that is our credit card product where we have finalized tie up with a Fintech partner and we would be sharing details of how that whole arrangement will work and when we are going to be launching in due course.

At the moment, I can tell you that through are analytics scorecard modeling, we do have substantially large customers on our books who we believe are going to be eligible for providing pre-approved or some kind of cards, which also can on the new acquisition side in future we would have the ability to bundle with our savings accounts. All of this is also going to happen through a seamless digital on-boarding workflow, so we do not expect costs to go up in this business because of customer acquisition, which is largely the largest cost in a business like credit cards. On micro-banking, within micro-banking we were incubating the gold loan business, we pilotted in about 5 branches, now we are in phase of scaling it up to 25 and then to 100 in the rest of the year.

On the ECLGS scheme, we have begun disbursement in July. The tickets size is actually a very small especially in micro-banking, so it does not appeal very much with our customers, nonetheless we are trying that on our best effort basis and making sure that whichever customers are willing to and are eligible, we are offering them the ECLGS as well. In MSE, micro and small enterprises business loans, we launched term loans overdraft and cash credit facilities under the credit guarantee trust scheme, which is CGTMSE scheme and this will also be our first cash credit product under the MSE. We are working on term loans, overdraft and cash credit for the healthcare segment, you will remember that RBI guidelines have been announced in May 5, 2021. There is a provision to create COVID loan book by lending to healthcare segment, so we have prepared for that and we should be launching that very soon in this quarter itself.

Mutual funds, I have already covered, so I will skip that. Personal loans again we are introducing a few variants largely on the back of digital preapproved loans, which will give us a far better turnaround time with our customers and also greater efficiency and we will also be launching products like bank guarantees for our capital commodity market clients, corporate banks, etc., and a few others of course include used car loans, the WhatsApp based, EMI repayments, paperless Hospicash, our digital FD's who are partnerships and foreign exchange products.

So I think there is a lot that we have for the rest of the years both on the collections as well as in the business side, but the way we have seen the month of July play out, we are extremely confident, we will continue to remain cautious and since we are operating in a fairly evolving dynamic sort of environment also under the threat of a potential third wave, our efforts are going to be largely targeted towards improving collection and minimizing slippages and continuously enhancing our products and services to make sure that they are relevant in our target customer base. In digitizing our workflow for better efficiency and productivity as much as also focus on cost optimization and increasing our reach with the balance of physical and digital touch points.

In the end, I would just say that we remain on sharp focus on improvement in earnings and quality of the balance sheet and maintain our conservative positioning related to provisioning. I will stop with that and handed back to Mr. Abhishek for opening this for Q&A. thank you very much for a patient hearing.

Abhishek Murarka: Thank you. Rutuja, can we open up Q&A, please?

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Arsh from Dalas Capital. Please go ahead.

Arsh: I have a question for Mr. Chugh. I will just put a few numbers, so in Q1 FY2021 we took 140 Crores of COVID provision and you mentioned that the provisions was taken after three weeks of analysis done by the team, in Q2 FY2021, you again took a 100 Crores of COVID provision and you mentioned basis of analysis and analytics and management overlay, you have arrived to that number and you quoted that 3.4% of the book is reasonably comforting and in Q3 FY2021 you took a massive 550 Crores of provision and you said that we believe that we have taken this bold call by one acknowledging the fact that it could take longer to resolve the impact and also to protect the P&L from any future damages, in Q4 FY2021, when the results were announced during the second wave, you did not take any provision when obviously the other banks, NBFC and MFIs were adding to the provision and in Q1 FY2022 you have again taken a very big provision and now you are on a defensive front saying that it is only for the near term slippages, so I just wanted to understand that did the analysis go wrong somewhere or you misunderstood the pulse of the business and looking at the stock prices also each and every BFSI and MFI has recovered from the 2020 lows, but Ujjivan somewhere is in the similar range, so can we expect some logical move from the management on this?

Nitin Chugh: Let me explain that clearly enough. So in Q1 of last year we took 140 Crores based on our estimates of the things that were playing order that point in time, we supplemented that by another 100 Crores in Q2. By Q3 I had also very clearly mentioned that the impact of the moratorium having got over in August and since we did get three clear months after the moratorium, we were in a better position to estimate not just for Q4, but also to an extent for Q1; however, there was no inkling of it for second wave at that point in time, I think that we have mentioned that in the previous earnings call also. Now when the second wave came in April and in May, you mentioned that we did not take any provisions in Q4, we were carrying 172 Crores of the provisions even at that point in time. The estimates cannot be determined in advance all the time and to the extent that we could we have also assess the situation as it is evolving and on that basis you take a call. So I do not think our estimates have gone wrong in any manner, but you need to be a little more dynamic in taking your decisions to decide as to when you want to take those provisions and since we were carrying 172 Crores of provisions in Q4, which we carried over on Q1 there was reasonable comfort that yes, we would be able to take more provisions if we have to. Now this 250 Crores of provision of course we are taking as a conservative posture and I am yes, saying I agree with you that we are taking a bit of a medium term kind of a view or a short term kind of a view, but things are evolving and things are only improving, so I think that is the reason I also did say that there is going to be a difficulty in terms of estimating the credit cost for the entire year, we will have to make sure that we are generating enough profitability and income to supplement, but at the same time also respond to the changing market situation, things do look like they are improving as they are in July and we do hope that things will continue to improve, but none of us know that whether there is going to be a third wave or not, and I think that was perhaps one of the things that nobody estimated when we were talking about our Q3 numbers because we were in the middle or beginning of Q4 which was looking extremely promising and nobody anticipated, the second wave has taken everybody by surprise. Now, coming to the stock price, I really cannot comment on that because these are market movements and there is nothing that I can say more or less on that and I really do not want to compare ourselves on that basis, but you know what we can discuss in a very, very clear and transparent manner is what we are doing, what we have done and what our thinking is.

Arsh: Great, Sir. Thank you. The second point over I want to make it that I read a post on social media yesterday or couple of days back that the teams flew to Pune to meet the portfolio management company, what I think it does not have a very significant stake in the bank, so my question is that, are you trying to raise money from them or you are meeting such PMS and HNIs otherwise, also?

Nitin Chugh: No, these are regular investor interactions. The company that is mentioned and we are aware of all of this is a long time investor with Ujjivan through their clients and this is not the first time that we are interacting with any investor or any AIF for that matter, so this is pretty routine for us, so we are not going out in the market to raise money. If we were going out in the market to raise money, we would have obviously notified that through many other ways and that would have been a normal conversation in the market, so I do not think there is much to read into all of that. This is very, very normal usual business operations that we have as part of our communication and interaction with investors and yes, because it is come out in the social media or whatever else there is some bit for examination that is being undertaken at the bank.

Arsh: Thanks a lot.

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

Renish H. Bhuva: Nitin, thanks for the opportunity. So, couple of questions, one on this entire MFI group loan ecosystem since we are now collecting almost of 50% of the money via third party or I would say a non-traditional Ujjivan channels, so how you are maintaining the relationship about the communication with the customer in the same effective manner, which we might be having let us say a year back?

Nitin Chugh: See, that is a very simple thing. Let me explain that. So 16% like I said is coming through digital where customers are using one app or the other to make those payments, GooglePay, PhonePe, PayTM whatever else and these customers obviously have been on-boarded and trained by us, so we have not lost touch with these customers. We still meet them at the center meetings. It is just that at those center meetings we encourage them to pay digitally rather than handing over the cash to us, so the interaction is not going away. The second part which is the balance 34% to 35%, which is coming through the touch points, there are two ways that work here, one is customers have a proximity point so they are free to go and deposit cash, but this usually happens when we are unable to meet them. If we are unable to meet them because of lockdown restrictions that we have had for the last 15 months or 18 months that is when that is very, very helpful where we urge customers that there is a store next to you 100 meters away from you where you can go and deposit your repayment and it is all tech enabled; however, a large part of that is our own people who go and collect cash at the center meetings and rather than coming back to the branches, they will go on deposit this cash as the payments outlet. That helps us in making sure that we are handling lesser cash, our people are free of a lot of productive time and they are able to spend more quality time with their customers and if in any case there is a situation where our person is unable to go and meet these customers for whatever reason or a center meeting does not take place you have the option of the customer also walking up to that payment point and making the payment that is step one. In the long run our plan is to also use these points for distribution. Today, we are only using them for collections, but in the long run we also want them to be distributing for us and that is why we have done a tech integration on the back of our APIs. This is not a manual process. Everything is real time and we have continuously improved on that. So it is a fairly long-term thing and this is no manner going to in any manner or impact the discipline that people talk about a center meeting where center meeting not taking place and when they do not take place like they were not taking place during lockdowns, etc., or customers were unwilling to turn up or we were required to go and meet them door to door then obviously these outlets help because it saves a lot of time for us.

Renish H. Bhuva: Got it, Nitin, is it right to assume that in a quarter ideally would be meeting 100% of our customers base of course not considering the second wave, but let us say between October-November till March?

Nitin Chugh: Yes, I do not think that has been a problem. We do not have a problem of non-contactable customers in our portfolio.

Renish H. Bhuva: Got it. Sir, second part of course some sort of reconciliation so you did mention about PAR zero in July falling to 25% wherein our collection in July has sort of improved significantly to 93%, so I mean logically then the collection is ideally coming from the regular customers who were paying in June and the customer acquisition from the delinquent pool is still challenging, is that the fair assumption?

Nitin Chugh: The only thing collections have improved across all our buckets, I mean I cannot think and cannot see any single bucket where our collection have improved including the NPA buckets so it is fairly well distributed yes, the non-default accounts NDA as we call them, that was holding up in any case, but that also went up to nearly 99%, so it is fairly evenly distributed, there is no such thing that it is only coming from the early buckets and the base can be different let us say one bucket in the later stage was at 20%, improvement from 20% to 30% is as good as improvement from 85% to 95% for another bucket, but it is improvement all across.

Moderator: Thank you. The next question is from the line of Pratik Chheda from IIFL Securities. Please go ahead.

Pratik Chheda: Thanks for taking my question. I just wanted to understand you disclosed your portfolio has reached at around 30.8% on an overall level, can you break this down on a segment basis and given this portfolio of 31% what kind of slippages are you expecting in the next quarter in the long-term way it is difficult to give, but what is your expectation is there for the next quarter and secondly the microfinance book has been running down, and run down quite a bit in a quarter, where do you seen the microfinance book settling by the end of the year, the mix of the book?

Nitin Chugh: Let me first answer the PAR that you asked and this is the data where I am sharing for the month of June not for July. July I have shared the overall number as 25%. On June at a bank level we were at 30.8%, micro banking was at 37.1%, housing was at 16.6%, MSE was 29%, personal loans were 15% and vehicle finance was 16.6% that is broadly the PAR 0 for all our businesses; however, PAR 0 actually make sense only for micro banking business, most of the discussions and the correlation really is established around PAR 0 for micro banking not so much for the other businesses, but nonetheless I am sharing this with you. On the second question that you have where do you see the slippages in this quarter, I do not think we have a good way of answering that in a very affirmative way. We will have to keep updating you on our earnings calls quarterly and you have to estimate from the improved collections to begin with and as we see things the August things are looking better than July also at least in the first week of August, so there is a lot of optimism that we believe that we will be able to have a much better quarter in Q2 both on the business side as well as on collection side. The book on an overall basis like I did mention we do expect growth of 20% to 25% and we are sticking to that guidance and therefore the micro banking book would be a subset of that and since it is also our stated strategy to grow the other businesses a lot more than the micro banking business. Micro banking business will also grow in a certain range as compared to the other businesses, which would have a larger growth over their base as of March 2021.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Sir, good morning. Sir, my question was with respect to restructuring, so in MFI book what kind of restructuring are we doing and what is the maximum monthly holiday that we have given to the customers and the other question with respect to that if we look at the collection efficiency from the restructuring book even in January, February, March was very low, so if you can just throw some light on that aspect also?

Nitin Chugh: Very lower is relative because if you look at the non-restructured standard book then obviously it is low, but we had restructured a set of customers where the collections efficiency before restructuring was 49% that went up to 75%, so it was a very good recovery on that basis. Yes, it went down to fairly low levels in June and then it has improved back to 50% in July, but see all those customers who were impacted in the first wave, a lot of them or I would say most of them would have been impacted. I was saying that the customers who we have restructured in the first wave I would think all of them would have been impacted by the second wave also, so when people get impacted by two consecutive waves obviously it is going to show up in collections, I think we are not surprised with that. Now the only thing that we can do is that we can provide for a higher coverage, which we have indeed for the restructured book to the extent of 35%. Now, the other thing that you asked was that to what extent do we expect restructuring in micro banking, I did mention in my opening remarks that we have an estimate of about 750 Crores to 800 Crores of potential restructuring of which we have completed 480 Crores in July and roughly about 39 Crores in the month of June and this will also include maybe around 100 to 150 customers in the first round of restructuring.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: Thank you for the opportunity. My question pertains to credit cost again, what I find is that total collections for microfinance is around 11560 Crores, the amount due for FY2021 against that what you reported is collection of 8600 Crores, so there is a deficit of 3000 Crores against which provision last year is only 800 Crores, so are we under providing for the credit cost?

Nitin Chugh: Collections due is from day zero onwards.

Tushar Sarda: I am taking the month wise figures that you have provided in the presentation.

Nitin Chugh: I am also coming to that only. Nobody starts providing from day zero because you have time to collect from customers and because of the situation that was there in all of last financial year continuing into this financial year, I mean nobody starts providing on day zero, there are norms that we are required to follow certain provisions and at a certain stage is when you start providing provisions again are towards a certain extent of the book that you estimate to go into NPA and that is the whole reason why metric like PCR is used, so I do not think we have under provided at any point in time and I did clarify that to the first speaker also who also asked the same question and it is mentioned very clearly and that is the stance that we have maintained even in this quarter, we have taken accelerated provisions only on a basis of a conservative posturing.

Tushar Sarda: Now, if you take month wise let us forget the full year, Q1 FY2021, the amount short collected is 2256 Crores right, 3000 Crores was due, you collected 700 Crores, so 2256 Crores is the short collection after that the additional collection which you have reported month wise comes to only 600 Crores or 700 Crores so there is 1500 Crores, which is due from Q1 FY2021, which is almost nine months right?

Nitin Chugh: I am sure you will remember that in Q1 of FY2021 and two months of Q2 of FY2021 there was moratorium and we had offered a blanket moratorium to our entire portfolio much like the rest of the industry so there was no demand only to begin with, this is a demand only on paper, but if you offer moratorium to your entire base that is zero demand, then you are not collecting against the demand whatever is coming is over and above what is the demand generated for that month because the portfolio is under moratorium, so it has to be seen in that context also and when the moratorium got over in August and then how many customers were able to pay or not able to pay that is when we did restructuring in the third quarter on that basis we decided to take accelerated provisions in the third quarter, the only thing that we did not know at that point in time was whether they were going see a second wave or not and that is indeed which again cause damage and that is again the reason why we are taking more provisions it is reasonably simple in our head that way.

Tushar Sarda: No, what you are saying is that what was due in April, May and June and because moratorium was there you did not collect it, but it obviously become due and the moratorium is over, right?

Nitin Chugh: Yes, that is what I said, in September, October, November after the moratorium got over in August, we saw how many customers were unable to pay, how many customers needed assistance through the restructuring framework, which was again announced in August of last year by RBI, which we implemented in Q3 on that basis.

Tushar Sarda: But you have a figure of what is due in Q1 when the moratorium ended what was the amount due and how much have you collected against that?

Nitin Chugh: See, the dues are always on the monthly basis, if you have offered moratorium then nothing is due, when the moratorium gets over then you start the whole clock for that month which happens for the month of September, so you will have to look at the demand for a month of September, which could be in the range of 1000 Crores or thereabout similar numbers for any subsequent months and during that time in September, October, and November when we had a good estimate and a good view of how many customers were able to pay, how many were not able to pay that formed the basis of both restructuring as well as the provisions.

Tushar Sarda: I will take it offline. Thank you.

Moderator: Thank you. The next question is from the line of Krishnan ASV from HDFC Securities. Please go ahead.

Krishnan ASV: Many thanks for taking my question. Sir, just wanted to understand from the severity of the second wave and how it has affected life and livelihood, what might be the permanent impairment that might have taken place in the customer base. It need not just be your customers today but also the potential addressable market that you had as a small finance bank, what is your assessment of the permanent impairment that may have happened?

Nitin Chugh: See our view is not going to be any different from any economist that you talk to. There are people who were saying on one end because of the first wave and not taking into account the second wave, there were people who were saying that 20% of population will slip into below poverty line alright, so our estimates of X million jobs that have been lost, X million of income that has been lost, so when you cut through the whole clutter and when we look at our portfolio there are certain occupations which we have been highlighting even in the past which has indeed had a permanent impairment, however, these people do not get impaired to the extent that they do not have means to come back because most of these people on the marginal side, they are also very quick to go back to some other occupation that is one number. Number two, many of these people have multiple sources of livelihood within the family and when we assess them also for loans we look at household income and that is also one of the things that the harmonization paper also talks about from the RBI on household level income assessment. So when you are taking the household level income assessment unless all the income earners in the family have been impacted equally and at the same time, the impact of impairment is a lot lesser severe, however, in the second wave the one different thing that we did see very clearly was that even if people had the money and we did this through a customer survey and that is why I am telling you very clearly that 54% customers did report partial to total loss of income. Even if they had savings or money they were holding onto it because that was also a time when we have shortages of all things, shortages of bed, shortages of cylinders, shortages of ambulances and people just did not know where they would have had to pay in black for whatever and everybody was worried because COVID second wave came very close to all of us, so we did see that sort of a behavior also getting displayed during the second wave; however, like I said permanent impairment does not happen to the extent that the person will be dependent only on government grants and subsidies, permanent impairment can happen for a shorter period of time, the loss of livelihood or a loss of a certain occupation gets replaced through something else that may not be income earning to begin with, but I think all these people are resilient enough to reset rather quickly, now unfortunately because it has been one event after the other almost in quick succession with just a break off maybe three months in between people who have been impacted have been impacted very deeply. So we just need to be patient with them and give them all the support through the restructuring framework or other ways and just make sure that we help them to get them back on their feet that is it. So I think permanent impairment I would argue that we should wait for this estimate to come out only by the end of this financial year at a country level, not even just at a portfolio level.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today. The next question is from the line of Abhijeet Sakhare from Kotak Securities. Please go ahead.

Abhijeet Sakhare: Good morning. First question is, there is one other MFI focussed bank which indicated that there is there is a central government guaranteed fund where the loss is more than 3% kind of absorbed to the extent of 75%, are we also evaluated something similar for us?

Nitin Chugh: Yes, we have indeed evaluated that and we are in discussions with a fair number of MFIs and I think in due course as we feel comfortable because we also need to have that kind comfort to be able to extend any kind of credit to these entities, but we are in discussions with a lot of the long tail MFI the smaller ones and periodically, we are taking those calls, most of those calls so far have been on the side of caution, but at the same time, I think we are really open-minded about examining each and every propose.

Abhijeet Sakhare: Nitin, this is something different what they said is that the losses on their book about 3% can be absorbed by this central government fund to the extent of 75% and this is available for the MFI book as well, the non-agri part of the MFI book? No, there is something as the credit guarantee fund for micro units?

Nitin Chugh: Yes, so that is the CGT MSE right. I did speak about that, that we have launched certain category of products there and even more than that now we are also looking at the whole COVID portfolio healthcare kind of books that we are planning to introduce, so that one we are on, I do not see too much of a problem with that.

Abhijeet Sakhare: But there is no guarantee cover that is available for our MFI book, the book that is sitting today?

Nitin Chugh: See, the MFI book can only get covered through the ECLGS and the limitation there is 20% of the outstanding and when you look at a microfinance category of borrower that 20% is not a very meaningful amount if the outstanding let us say at that point in time is Rs.25000, I mean what will Rs.5000 make a difference to those kind of a customers, but nonetheless I did mention that we are trying to even work on that scheme; however, the response is not something that people are running to come and ask for it.

Abhijeet Sakhare: Sure and just one number question what is the NPA ratio in the micro banking vertical?

Nitin Chugh: In micro banking I think it is 11.6%.

Abhijeet Sakhare: Last one, what would be the NPA and restructured numbers look like across the top three states that have West Bengal, Karnataka and Tamil Nadu? That will be it. Thank you.

Nitin Chugh: We do not have that handy quite honestly for the state and for the restructured book. We can come back on that one.

Abhijeet Sakhare: Great, thanks a lot.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I will now like to hand the conference over to the management of Ujjivan Small Finance Bank for closing comment.

Nitin Chugh: Thank you and thank you everybody who have joined this call. I am sure we were not able to answer many of your questions, many people might have asked. Please do reach out to us, you have our coordinates for the IR desk and do reach out to us and we will take them offline. We will try and answer as many questions that you might have. Thank you once again for joining us today.

Abhishek Murarka: Thanks, Nitin. We thank you for giving us the opportunity to host the call and wish you all the best for the coming quarters. Thank you everyone and have great weekend.

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