ujjivan SMALL FINANCE BANK
Build a Better Life

USFB/CS/SE/2024-25/31

Date: May 27, 2024

To,

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, C-1, Block G, Bandra Kurla Complex,
Bandra (E)
Mumbai – 400 051

Symbol: UJJIVANSFB

BSE Limited
Listing Compliance
P.J. Tower,
Dalal Street, Fort,
Mumbai – 400 001

Scrip Code: 542904

Dear Sir/Madam,

Sub: Transcript of the Quarterly Earnings Call held on May 21, 2024

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform you that the Transcript of the earnings/quarterly conference call held on May 21, 2024 for the quarter and year ended March 31, 2024 is enclosed herewith.

The same shall be available on the Bank's website at www.ujjivansfb.in.

We request you to take note of the above.

Thanking You,

Yours faithfully,
For UJJIVAN SMALL FINANCE BANK LIMITED

Sanjeev Barnwal Digitally signed by Sanjeev Barnwal
Date: 2024.05.27 10:48:37 +05'30'

Sanjeev Barnwal
Company Secretary & Head of Regulatory Framework

Encl: as mentioned above

"Ujjivan Small Finance Bank Limited
Q4 FY'24 Earnings Conference Call"
May 21, 2024

MANAGEMENT:	**MR. ITTIRA DAVIS – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED** **MS. CAROL FURTADO – EXECUTIVE DIRECTOR – UJJIVAN SMALL FINANCE BANK LIMITED** **MR. ASHISH GOEL -- CHIEF CREDIT OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED** **MR. MARTIN P S – CHIEF OPERATING OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED** **MR. M.D. RAMESH MURTHY – CHIEF FINANCIAL OFFICER -- UJJIVAN SMALL FINANCE BANK LIMITED** **MR. VIBHAS CHANDRA – HEAD OF MICRO BANKING – UJJIVAN SMALL FINANCE BANK LIMITED** **MR. SANJEEV BARNWAL -- COMPANY SECRETARY AND HEAD OF REGULATORY FRAMEWORK – UJJIVAN SMALL FINANCE BANK LIMITED**
MODERATOR:	**MR. RIKIN SHAH -- IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Ujjivan Small Finance Bank Q4 FY24 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Rikin Shah from IIFL Securities Ltd. Thank you and over to you, sir.

Rikin Shah: Thank you, Muskan. Good morning everyone and welcome to Ujjivan Small Finance Bank's Q4 Earnings Call. I am delighted to welcome the entire management team of Ujjivan Small Finance Bank who will discuss the earnings and the business performance followed by our interactive Q&A.

The management team is represented by Mr. Ittira Davis, MD and CEO; Carol Furtado, Executive Director; Ashish Goel, Chief Credit Officer; M.D., Ramesh Murthy, Chief Financial Officer; Martin P S, Chief Operating Officer; Vibhas Chandra, Head Micro Banking and Sanjeev Banwal, Company Secretary and Head of Regulatory Framework. With this, let me pass on the call to Mr. Ittira Davis. Over to you, sir.

Ittira Davis: Thank you, Rikin and good morning and welcome to our Q4 earnings call. I am pleased to announce that Q4 has been another strong quarter for the bank, closing the financial year on a strong note. The bank has raised the bar to improve benchmarks, which is evident through its healthy growth and strong profitability. There were several developments post the book closure.

As you know, we have received RBI approval for the appointment of Mr. Sanjeev Nautiyal as the Managing Director and CEO of our bank, with effect from 1st July 2024. He will join us on the 1st of June as President and the interim. He is a seasoned banker with over three decades of extensive experience in retail, SME, financial inclusion, operations, HR, international banking and treasury.

Previously, Mr. Nautiyal held the position of Deputy Managing Director in State Bank of India, handling financial inclusion and micro-markets, and also he was earlier Managing Director and CEO of SBI Life Insurance. I will be stepping down from MD and CEO position with effect from June 30, 2024, but will continue to be associated with the bank as an Advisor.

With the approval of the RBI, Carol Furtado has taken over additional responsibility as Whole-Time Director. She is now an Executive Director of the bank, with effect from 1st of May, 2024. We have successfully completed the merger process between the bank and the holding company. Their shares will be credited to the shareholders of UFSL and trading is expected to start this week.

Here, I would like to highlight that the merger has benefited all our shareholders. The book value per share has increased by INR2.6, resulting in a book value per share of INR29.06 as of March 31, 2024. Additionally, owing to the strong profitability of the bank for financial year 2024, the board has recommended a final equity dividend of INR1.5 per equity share. This will be subject to shareholders' approval in the ensuing AGM.

Speaking about business, we continue to expand our presence geographically. We have added 123 branches during the financial year, taking the total branch count to 752, spread over 26 states. We aim to add around 50 more branches during FY24-25. During Q4, our loan disbursement stood at INR6,681 crores, growing 11% over the last quarter. This resulted in full-year disbursements reaching INR23,389 crores, with a registered increase of 17% year-on-year.

Our gross loan book grew by 24% year-on-year and 10% Q-on-Q. Customer acquisition remains strong and we have acquired around 2.7 lakh new microfinance customers in the last quarter, taking the total count of newly acquired customers to 10.5 lakhs for FY2024. This is around 12% higher than what we acquired in the previous year. This increasing acquisition reflects the untapped potential of the customer segment.

We have graduated about 1.4 lakh customers from Group Loan to Individual Loans in FY23-24 and the Individual Loan growth will continue to outpace Group Loan growth. More than 80% of the current IL customer base are from our existing GL customers, who continue to have good records and thus have graduated to the Individual Loans. We see strong demand and believe this trend should continue in FY25 as well.

The growth in affordable housing, including micro mortgages, continues to be strong. We disbursed INR730 crores for the fourth quarter and INR2,284 crores for the full year, witnessing a growth of 45% on a year-on-year basis. And our book is now a INR5,000 crores book on the affordable housing. We had piloted a new LOS for the affordable housing vertical in Q4-24, which was successfully launched across the country in April this year. This will help us improve efficiency, reducing manual interventions, enabling digital onboarding of customers, improve productivity and streamline the approval process.

We have added pre-qualified top-up loans to the product suite for our existing customers, and a number of our existing customers are already eligible for this loan. Similarly, our micro mortgages book has grown well. We see this momentum to continue in the next year as well. With regard to the MSME business, the transition is nearly complete. We disbursed INR128 crores in the fourth quarter, which is a significant improvement from just INR24 crores in the first quarter.

Our new Pan India MSME book largely comprises of LAP products. The LOS for the same is planned to be launched in the first quarter. This will lead to significant improvement in critical metrics such as productivity, turnaround time, etcetera, helping us scale the product much faster. Financial Year '25 will also witness countrywide launch of fund-based and non-fund-based working capital offerings.

To further augment the product offerings, we are closely working with four FinTech partners, of which two are already on-boarded in the fourth quarter. And as supply chain finance business from FinTech partners gains traction, it will add to the growth of the MSME vertical, as this is a high-yielding book.

Our FIG business continues to contribute to our secured base with quarterly disbursements of INR546 crores in the fourth quarter. We continue to invest in our emerging businesses such as Gold Loans and Vehicle Finance business. Gold Loan will now be offered from 250 branches by the end of Financial Year '25, up from 60 currently operating branches. And Vehicle Finance will deepen its presence in the existing eight states to more traction to grow their business.

We will continue to invest in technology and human resources to make products readily to be scaled up, in line with our long-term objectives, we continue to grow our secured book, which increased to 30.2% as of March '24, up from 28.3% in the previous quarter. Q4 has been a strong quarter on the liabilities part as well.

Total deposits have grown strongly to INR31,462 crores, registering a 23% year-on-year growth and a 6% quarter-on-quarter growth, reaping benefits from our increasing branch presence, enhanced service levels and improved business productivity. Additionally, our focus towards retail deposits has helped us garner INR778 crores of CASA this quarter, registering a double-digit growth of 10% sequentially.

Our total CASA book now stands at INR8,335 crores. Our CASA ratio improved to 26.5 against 25.5 in the last quarter. The benefits of brand campaigns and introduction of value-added products during the year has also fueled this growth. Our retail term deposit growth continues to outpace bulk term deposits, growing by 7% and 36% for the quarter and the year, respectively.

We have recently increased our term deposit rates by 25 basis points for the 15 months deposit bucket, to offer a more competitive rate to our customers. We believe the key to expand our customer base and reaching a diverse set of customers lies in embracing mix of physical and digital journey. Two digital liability products, namely fixed deposits and savings accounts, were introduced during the second half of the financial year, mobilizing INR75 crores of deposits. During the first quarter of this financial year, we will be introducing digital initiatives such as smart statements, video banking and WhatsApp banking.

Furthermore, we aim to offer end-to-end digital services experiences for our customers in select areas. In financial year '25, we will continue to invest in targeted brand campaigns. The focus towards building retail and granular deposit base and leverage our digital channels will continue. Additionally, our MSME business will also contribute towards building current accounts as the product suite is designed towards meeting our customers' requirements. We will also offer Escrow accounts to our current account customers. Our, Hello Ujjivan application is gaining acceptance among our customers, with total downloads reaching around 7.8 lakhs.

The loan acknowledgment from our repeat and top-up group loans has also started to pick up. A total of 1.28 lakh loans were acknowledged this quarter, which forms 33% of total repeat and top-up group loans. We are also exploring offering insurance products via Hello Ujjivan, currently offering one insurance product, but we hope to add a few more in the future. I'll look at the financials and margins. This quarter, we were able to benefit from our past efforts, resulting in expanded margins.

The expansion was a result of three factors: improved cost of funds, optimal system liquidity and continued benefit from asset book re-pricing. The resultant NIMs for the quarter was 9.4%, against 8.8% in Q3 and 9.1% for the full year '24; and this is in line with our previous guidance.

While the asset book re-pricing will continue to benefit us, the cost of funds will stay elevated as a result of our recent hike in the 15 months deposit bucket. The cost of funds for the quarter was 7.2%, against 7.5% in the last quarter. There is also a onetime benefit of 17 basis points in cost of funds due to interest reversal on the term deposit post the reverse merger.

Currently, around 75% of the book is in the highest bracket, while around 15% of the book sourced between September '22 and February '23 and 10% of the book sourced between, sourced pre September '22 is yet to be fully re-priced. The cost-to-income ratio for Q4 '24 remained at 56%, slightly elevated, as investments in infra and technology continue. Going forward, we believe it will remain at similar level as investments continue to form a strong base for the bank. Pre-provision operating profit remained strong at INR519 crores, growing by 26% year-on-year.

Coming to asset quality. The collections continue to be strong around 99% levels. The credit cost continues to move towards normalized levels. Credit cost for the quarter is INR79 crores versus INR63 crores in the previous quarter. Our asset quality remains robust, with GNPA at 2.1% and NNPA at 0.3%. Slippages for the fourth quarter were at INR175 crores, against INR140 crores in the third quarter. For FY24, slippages are at INR480 crores, with upgrade and recoveries of INR224 crores. Bad debt recovery remained strong at INR141 crores in financial year '24.

We have written off INR65 crores during the quarter. We have guided for a credit cost of sub-100 basis points for the last financial year, and the bank remained well within the guidance. During the second half of financial year '24, we have seen credit costs normalizing. This includes an external factor of loan waiver campaigns in some specific pockets of Northern India. Further, as the book vintage increases and with credit costs normalization continuing, we expect credit costs to be in the range of 1.4% to 1.5% for financial year '25. During FY '24, bad debt recovery was INR141 crores on the back of strong collections, a strong collection team and intensified legal activities.

We will want to continue these initiatives during the current year as well and expect to recover around INR100 crores. PAT for the quarter was INR330 crores, resulting in a full year profit after-tax of INR1,281 crores, growing by 17% year-on-year. This has resulted in a healthy return on assets and return on equity of 3.3% and 24.8% for the fourth quarter. For the full year, return on assets is a remarkable 3.5%, and a very good 26.1% for ROE, for the financial year '24. RBI has recently outlined the eligibility criteria for qualifying to apply for the universal bank license. We are pleased to confirm that the eligibility criteria will come out as planned, basis the Board's guidance.

Now a guidance for the current financial year. We estimate our gross loan book to be growing between 20% to 25% for financial year '25. While deposits will grow in line with our asset growth. And our CD ratios will maintain those of the financial year '24 levels. Later in the year, a firmer number will be given on the exact growth, whether we are on the higher end or the lower end of the 20% to 25% growth. Financial year '24, '25 will be a year of sustained business performance and profitability. We expect NIMs to stay around the 9% and the ROE at around 22%. These are early indications, as I said, with firmer guidance to follow at the half year mark. Thank you. Over to you.

Moderator: The first question is from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Yes. Hi, good morning. Congrats on good quarter. Sir, my first question is on the asset quality. So, while the slippages run rate was slightly higher in the quarter, it could be because of Punjab, but the upgrades and recoveries quantum was quite lower in Q4. Any specific reason why upgrades and recoveries were lower? And second, associated question is we are continuously seeing reduction in on-roll and off-roll collection team in micro banking. Can it have any future bearing on collection efficiency? Maybe OD collections or maybe in-field recoveries and upgrades?

Ashish Goel: I'll answer the first question, which is our slippages. So, if you have noticed, our slippages have consistently been in the range of 0.5%. There was a minor reduction, I would not say a reduction, in the fourth quarter. And there is no specific reason for that. It has been more or less flat. And as far as the team size is concerned, we had actually increased the team size in Q3. And we brought it back to the normal level in Q4, so you will see a Q-on-Q reduction, but the team has been based on our assessment of the overall book to be recovered. So, we see that this number will continue, so this, the collection team's trend, is expected to continue during this financial year.

Rajiv Mehta: Okay, so you are implying that this credit cost guidance of 1.4%, 1.5% kind of captures a very usual steady-state slippages as well as upgrades and recoveries run rate going forward, right?

Ashish Goel: In fact, we had even last year said that we will be seeing normalization of the credit cost, and we saw that the credit costs were normalizing quarter-on-quarter. And we expect that this will be a steady state going forward into FY25.

Rajiv Mehta: And just on the average ticket size across products, when I look at affordable housing, excluding MLAP, when I look at MSME, excluding fintech channel. There has been some increase in ticket sizes when I look at Y-on-Y comparison. So anything specific which is driving here? That's number one. And second is this cost of deposit which fell in this quarter and you said there was a one-time benefit of interest reversal. So excluding this, how would have cost of fund moved in this quarter?

Ashish Goel: I'll take the ticket sizes first. The average ticket size in group loans has gone up marginally. New customers contribution reduced from 43% to 39%. And we saw an increase in the repeat loans from 32% to 39%. The increase in ticket sizes in group loans -- in individual loans, ticket sizes have increased across as we are graduating group loans to individual loans at higher ticket size. This increase was about 3%. So it's not a very significant increase in the ticket size of individual loans.

Rajiv Mehta: My question was on the ticket size of affordable housing, ex of MLAP and MSME, ex of fintech which we show in the presentation, so they have gone up.

Ashish Goel: So affordable housing, the ticket sizes in the last year was about 12.6 and we have seen a 14.2. So that's a marginal increase. INR14 lakhs is what we are normally underwriting these days. The range remains, however, between INR12 lakhs to INR15 lakhs. Most of our business is coming in that business segment of INR12 lakhs to INR15 lakhs. Now it could be slightly on the INR14 lakh range or the INR13 lakh range, but that's not a significant movement. The band remains the same. The customer segment remains the same.

On MSME, yes, we have seen a slightly higher ticket size. We launched the MLAP product in Q1 and that has stabilized over the last four quarters. In the last quarter, we saw significant traction and we want to be in that range of INR40 lakhs to INR50 lakhs. So that's the segment in which we have started to see the scale-up happening. We see that we continue to operate in the range of INR40 lakhs to INR50 lakhs.

Rajiv Mehta: Sorry, I just missed it.

Ashish Goel: We see that we'll continue to operate in the range of INR40 lakhs to INR50 lakhs [0:23:00] for MLAP loans.

Rajiv Mehta: Okay. Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Thanks for the opportunity. Firstly, on MSME loans, can you give some details on the fintech partnership that we have? What is the book size that we have from that partnership? What are the average needs, etcetera? And what is the customer profile that we are targeting in the MSME fintech vertical?

Carol Furtado: MSME fintech, we recently started this portfolio and we have already tied up with two partners and there are two in the pipeline. And the book size is very small. We are also hoping to grow this through the fintechs and also on our individual capacity.

Nidhesh Jain: Okay, sure. And in the MSME vertical, what is the business strategy? How are we originating these loans?

Carol Furtado: This is a combination. We are doing the semi-formal LAP. We restarted the portfolio sometime in May of last year. And our strategy is to get customers from the semi-formal, semi-urban areas and grow the portfolio there.

Nidhesh Jain: And how should we think about the cost of funds going forward? This quarter, there is a one-off. So adjusted for one-off, probably the cost of funds is 7.4%, roughly. How should we project cost of funds in FY'25?

Ramesh Murthy: Cost of funds will see a marginal uptake because we have recently announced a rate hike. TD rates have increased by about 25 basis points in March '24. However, when compared to Q-on-

Q, we have seen a substantial reduction in cost of funds. We have earlier said that around 17 basis points reduction is due to interest rate reversal on the holding company deposits, and while the balance 8 basis points is due to improved CASA and retail deposits. So our view is until the repo rates start coming down, we assume the cost of funds to remain elevated. We don't wish to predict, as several external factors come into force on the cost of funds.

Nidhesh Jain: But from a modelling perspective, we should start with 7.4% as the starting number. There should be a marginal increase in cost of funds from that number in FY'25. Is that right?

Ramesh Murthy: We are closer to around 7.3% because of tighter treasury management.

Moderator: Thank you. The next question is from the line of Pritesh from DAM Capital. Please go ahead.

Pritesh: Hi. Good morning. Just two questions. One is on this FIG lending which we have seen a very strong growth. So, if you can give some color, what comfort we are having there? Was it just a liquidity deployment? Is it short term, long term? If you can give some colour on that.

Carol Furtado: So, the FIG lending is doing well for us. We have grown substantially there. Our portfolio size is around INR1,730 crores. We will be taking this up a little further to balance our secured asset book. And the customer segments would be the NBFCs that we are targeting and the AA rated companies and AA plus rated companies.

Pritesh: Sure. If you can just mention what kind of yields we will be getting there? Is it short term or is it sustainable? As you said, you will increase it. But the lending which has happened, is it short term in nature or a decent tenure?

Ashish Goel: On the FIG portfolio, we have exposure coming in from NBFCs lending to MSMEs, vehicle finance, education sector and gold loans. So these are the four. The tenors on all these four segments are different from each other. MSMEs are a slightly higher tenor and gold loans are much on the lower side. The yields again are risk calibrated because 95% of our portfolio remains in A and above. So therefore, the yields are slightly on the lower side. But it is a risk-based pricing. And we have not diluted the portfolio. It continues to be in the range of 93% to 95% A and above.

Pritesh: Got it. Second question was on other opex growth. We have seen this high growth this quarter. Any one-off there and will we see such run rate because suddenly this quarter we have seen a sharp uptick?

Ittira Davis: Yes, I think the other operating expenses there has been HR costs which have been slightly higher because we have made some adjustments. And also the premises costs because we opened quite a few branches in this part of the year, so it is something that is there and the opex costs for the branches will continue primarily by way of rents and the salaries will remove. So it will continue also because that is part of the process.

We have also had some IT expenses which are project related. Some of the IT expenses will continue as we upgrade because, as you know, the regulator is now very, very keen to make sure that the technology is in line with what you are offering and the customers benefit from that and not lose out. So we are ensuring that our technology is state of the art and will come up to the regulator's expectations. So, yes, going forward these are things which I think all banks, the whole industry has to take note of and I think it is something that is very important. So, we will be investing in that.

Pritesh Bumb: Lastly, we mentioned about liquidity usage this quarter. How much going ahead we tend to use more? I mean the LCR. So, what will be the basic scenario we will keep or we will not breach that number?

Ittira Davis: Breaching LCR is not a question. We cannot afford to breach it.

Pritesh Bumb: We have about 130% something right now and will it be at the similar levels or will it go a little bit further down or we will increase the LCR? What is the stance on that?

Ittira Davis: Our average is to maintain it around 140-150. So, 134 is good, 140 is good. That's the level. Not too much liquidity but at the same time something which is reasonable and good and safe.

Pritesh Bumb: Got it. Thank you so much. All the best.

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

Ashlesh Sonje: Hi team. Good morning and congratulations. Two questions from my side. One is just a data keeping one. Can you share what is the outstanding or technically written-off book as on March '24 and also on March '23 if you have the number handy?

Ashish Goel: Sorry.

Ashlesh Sonje: If you have the technically written-off book available as on March '24 and March '23?

Ashish Goel: In March '24, it is in the range of about INR1100 crores. That's the total book. Written-off book. But this consists of what we have done in the last two years plus what we have done during COVID time.

Ashlesh Sonje: Understood. Would you have the number available for March '23 as well?

Ashish Goel: I'll just come back to you.

Ashlesh Sonje: Okay. Sure. And secondly, the secured book is now at roughly 30% of the overall advances. How do you expect this to trend over FY '25 and '26?

Carol Furtado: The guidance given for the two years is around 60-40. 60 would be in the unsecured and 40 in the secured. We will be meeting that guidance in the next two years. We have already reached 0.2 and we are seeing an increasing trend there. We have also introduced two secured as verticals like Gold, Vehicle Finance, MSME, and Advise Strategy. It's doing well for us.

Ashlesh Sonje: Understood. And if I can just squeeze in one last question. How are you accounting for the income from the off-balance sheet book, the IBPC and securitized loans?

Ramesh Murthy: On securitization, we take it into income. IBPC helps us in containing our cost of funds.

Ashlesh Sonje: Okay, but the interest spread from the off-balance sheet book, would that be booked upfront or will there be a...

Ramesh Murthy: It's on a cash basis. We don't pay any rate.

Ashlesh Sonje: Okay, but you book the interest spread or the entire interest income and interest expense separately?

Ittira Davis: We're paying for this. IBPC is a source of funds for us.

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

Renish: Yes, hi sir. Just two questions from my side. One on the individual loan side. We've been going this piece at pretty accelerated pace from last five, six quarters. So can you just throw some light on, let's say, the part of the portfolio or maybe some sort of asset quality indicators in this book?

Ashish Goel: For individual loan, you know, these are customers who have mostly graduated from group loans. We do about 10% to 12% of open market acquisition on the individual loan side. Most of these customers have a two-to-three-year track with the bank. So the asset quality for individual loans is better than the group loan asset quality. And that has also given us the confidence of growing this at a rate of 40%.

Renish: Okay.

Ashish Goel: In terms of par, it is lower than the group loan par. Our average remains to be in the range of 1.3- 1.4.

Renish: And what are the yields we charge under this loan?

Ashish Goel: Yield. It is again risk-based pricing that we do. The yields would be somewhere in the range of the group loan rates.

Renish: Okay.

Ashish Goel: Marginally higher footprint but probably in the same band.

Renish: Got it, got it. And my next question is on the NIM guidance which we have given of 9%. Now given we intend to grow our secured book at a faster clip over the next two years. So how do you see this NIM behaving over the next let's say six or seven quarters? I mean, naturally your yields under secured book will be lower. So how one should look at the NIM's trajectory going ahead?

Ittira Davis: Yes, as the secured book increases NIM's will come under a little pressure. But recently we have got an upgrade on the asset on the rating from the rating agencies. So we will be using that to manage our cost of fund and also using treasury to manage the fund process. So, hopefully it will not be much lower but it depends on how fast the secured asset book is building. So we will keep the market advised as to if we see any changes coming up. But for now go with the guidance of 9%.

Renish: Okay. And lastly on the deposit growth run rate. So in PPT we did mention about deposit growth rate will probably track the loan growth. But when we look at the CD ratio which is still at 95%-96%, doesn't it calls for an accelerated deposit growth than loan growth in near term?

Ittira Davis: Yes, in the 4th quarter our deposit growth was quite good. And we see that continuing into the 1st quarter. So yes, I mean our intention is to make sure that our CASA ratio, etc. moves up. Our target internally is towards the magic number of 30. But yes, in terms of the CD ratio actually based on the thing it is 87%. Of course if you adjust it for the IBPC then it's slightly higher. But for all practical purposes IBPCs are used to manage CD ratios. So I think you should look at the 87 rather than the 94 because that's how the regulator looks at it.

Renish: Okay. Thank you, sir.

Ittira Davis: Thank you.

Moderator: Thank you. The next question is from the line of Sukriti Jivarajkia from Laburnum Capital. Please go ahead.

Sukriti Jivarajkia: Hi, good morning. I just wondered your overall view on the MFI cycle. Are there any early warning signals you're seeing in any geography? And even the lone wavier that you spoke about, was it continuing in particular geographies in Northern India or you saw it spreading out more than what you'd initially expected?

Ashish Goel: Can you finally repeat the question? The voice was not very clear.

Sukriti Jivarajkia: I wanted to know your view on the MSI cycle. If you're seeing any early warning signals in any geographies and even the lone waiver that you spoke about in Northern India. Was it contained in particular geographies or did you see it spread more than what you had initially expected?

Vibhas Chandra: In some pockets, we have seen, especially in Punjab, Haryana, as we mentioned, that the portfolio to some extent is impacted due to Karza Mukti Abhiyan in the second half of financial year '24. We expect this to subside by Q2 onwards. Our portfolio overall is performing well as we are mostly into urban and semi-urban but seems to be a temporary thing.

Sukriti Jivarajkia: And apart from these lone waivers, you don't see any signs of any early warning signals in other geographies or for some other reason?

Vibhas Chandra: Apart from there, our portfolio in Kerala has a little underperformed.

Sukriti Jivarajkia: And apart from these loan waivers you don't see any signs of any early warning signals in other geographies or for some other reason?

Vibhas Chandra: Apart from there our portfolio in Kerala has a little underperformed and it is at industry level as well and to an extent in Tamil Nadu as well and we have slowly where we have little slowed down as well or our MCA strategy here to contain our repeat loans and repeat customers, but it is something which again I would say that it is kind of temporary in nature, but we need to take cautious steps to ensure that our portfolio is safe.

Sukriti Jivarajkia: Can you pinpoint a reason for Kerala and Tamil Nadu underperforming an industry level reason maybe?

Vibhas Chandra: There is no specific pocket it's Kerala that is we have limited number of branches, limited presence in Kerala and at industry level also we see a little stress and kind of little over borrowing and as a cautious step we have a little slowdown in Kerala, but as far as a specific pocket where concerns are easing out there is no specific pocket.

Sukriti Jivarajkia: My next question is on other income. We have done really well on other income. There has been sort of a catch up with more focus on cross sell treasury has done well. Going forward do we expect this line item to continue outperforming in the next year do we now think it will grow in line with the disbursement for NII?

Carol Furtado: The other income will mostly be in line with our business growth and we see insurance as an area where we could do well including the PSLC and maybe a few more third party products would come into the picture. This is a line item that would continue doing well for us.

Ittira Davis: I think there was in terms of the full year there was a onetime effect in the insurance income. That will not be there in the current year that's about INR30 crores.

Sukriti Jivarajkia: Can I just ask one more question? If you expect any operating leverage to play out in the next financial year because I think you have upped sorry what is the number you have given for the number of branches that you want to open in FY25 and then related question on operating leverage if it's going to play out this year?

Ittira Davis: Number of branches next year FY25 is 50 additional branches.

Sukriti Jivarajkia: Got it. And overall operating leverage at the company level do we expect in FY25?

Ittira Davis: What is your definition of operating leverage?

Sukriti Jivarajkia: If cost to income will fall below 55%.

Ittira Davis: Cost to income may pick up a little bit as I said we have got additional cost which we have put in place because of the manpower requirement and the competition in the market and the market is a bit heated. So that will have some impact and also the premises costs which will be slightly elevated compared to the previous year.

However, you can be rest assured that we are currently among the best in terms of cost to income in the small finance bank industry and we hope to remain in that position or near the one or two in terms of the best, in terms of that ratio.

Sukriti Jivarajkia: Got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Shailesh L Kanani from Centrum Broking Limited. Please go ahead.

Shailesh L Kanani: Good morning everyone and thanks for the opportunity. So all my questions are answer only one question. Sir, on the recovery front from written off accounts we had guided during the start of the year that the number would be lower than last year, but this year we have done well. So any guidance from that front? How would be the recovery from the written off accounts?

Ashish Goel: Last year we said that we will probably try to achieve about INR120 crores -- INR110 crores to INR120 crores. But during the year we found that we had a very favourable environment in terms of the intensified legal activities that we had planned during the year. So on the micro-banking side we had Lok Adalat. So there was a very supportive environment there and most of the recoveries that we have got from the written off pool has been from either micro-banking or from the affordable housing segment.

So it is because of the traction on Lok Adalat and the sale of possessed assets on the housing side that we were able to get a slightly higher number than what we had initially thought. This year again we are saying – this year we are talking about anything between INR100 crores, INR110 crores. The earlier pool which we had written off during COVID is now quite aged. So we expect much lower much lower recoveries from there.

But from the return of pool which is immediately in the last 2 years we will probably get much higher recoveries. So something in the range of INR100 crores to INR110 crores is what we will target this year.

Shailesh L Kanani: Thanks a lot. That's useful. So just last question from my side. Since our individual lending book has grown very smartly this year and some of our peers have taken CGFMU. So is the management contemplating anything on that side and any views if you can share with us?

Ashish Goel: We have had meetings to understand the entire CGFMU, the product, the entire offering. We are continuing our discussion with them, but we don't see that happening in at least the first 6 months. If at all we decide to take the CGFMU cover it will be in the second half, but nothing decided as of now.

Shailesh L Kanani: Okay sir. Thanks a lot and best of luck.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from B&K Securities. Please go ahead.

Rakesh Kumar: Thank you sir. Sir the question was related to the refinance that we are availing number has slightly come down. So if you can elaborate on that what is the plan that we have on the refinance settlement?

Ittira Davis: The refinance that we are taking from the various agencies we are in discussion with the National Housing Bank and a few others. So we expect during this year there will be an increase, but our loan book is also growing. So if you look at it as a proportion of the loan book you might think that it might be coming down, but absolute numbers will be increasing. And wherever it is advantageous for us and wherever it makes sense we will be looking at the refinance, but the refinance doesn't come cheap it's quite expensive. So we have to manage the cost as well, but it's a good source to have as a backup.

Rakesh Kumar: So just to get a differentiated view that what is the cost of borrowing that we have excluding refinance and for the refinance itself if you can provide us the figure the borrowing cost for both these things?

Ittira Davis: We'll take that offline and my colleagues will get back to you.

Rakesh Kumar: Just a related question sir other than big lending we have almost all the loans against which you know we can get a refinance. So is there any issue that we are not going ahead on this front or if you can tell us because I'm not able to understand that why we are not going ahead with this refinance thing so much.

So if I add your IBPC I don't know like because the number is clubbed IBPC and securitization numbers is clubbed. So if I take the IBPC number and your refinance number as a percentage to your assets basically your loans against which you can take this refinance that number looks quite low as compared to other banks or the peer set. So just to understand that that's slightly better sir?

Ittira Davis: Yes IBPC we have around INR2500 crores so INR2360 to be precise and from other sources it's not very much, but as I said it's the cost which we have to consider. You see the thing is that we are very highly capitalized. So the thing is that with a 24% CRAR and all that we don't really need this refinancing as a source because net-net it's a bit expensive. As I said we have to look at the cost of funds. We cannot just do refinancing for refinancing sake.

It has to make sense and also when there is an asset liability mismatch yes some of these refinancing's are useful and we will do so. As we grow our MSME book and our housing loan book yes we will revert we will be looking at these refinancing to take care of the maturity mismatch. So, yes going forward you will see more utilization of those sources but for now you know with our present level we are quite well funded.

Rakesh Kumar: Just another point here sir, just sorry to extend this further. So, it can also help you in the LDR number basically like so the more refinance that you take it will help you at that front also I think.

Ittira Davis: Which number sorry?

Rakesh Kumar: So the higher refinance number can also help at the LDR level right LDR calculations. So actual LDR which I think regulator will consider as considered to what you report in general. So higher LDR it will get like to that extent your LDR will also look lower.

Ittira Davis: Okay now we will take your point we will have an internal discussion with the treasury and others and see whether it really will help us. But yes good point.

Rakesh Kumar: Thanks a lot sir.

Moderator: Thank you. The next question is from the line of Mahesh Kabra from BSK Group. Please go ahead. Yes please Mr. Mahesh go with the question. Hello.

Mahesh Kabra: Hello.

Moderator: Yes please go with the question.

Mahesh Kabra: Yes, good morning sir. My question is about dividend. We are distributing almost this quarter's profit as dividend with the growth that we are projecting soon we would need probably more capital to raise. My question was about what is the idea there?

Ittira Davis: Our profitability has been good in fact if you see the level of profitability the CRAR has been able to keep up with the profitability levels and take care of the asset growth. Now in recently the RBI had asked for additional capital to be put aside against some of the consumer lending which is why there has been a slight adjustment in the CRAR.

But we have enough profit generation to take care of the growth in the balance sheet and we don't anticipate based on our current growth expectations to be coming to the market for any additional capital in the near term. Regulatory requirement is 15%. Internally we have kept a guideline at the board level of 20%. We are at 24% so I think there is adequate cover there and during the year 24, 25 we don't need any additional capital which is required for building the balance.

Mahesh Kabra: Yes, I get that probably we won't need capital even in the year 25, 26 but 25% growth in loan book and approximately 15% growth in net worth with 20% ROE and dividend distribution probably two and half years, three years down the line we will again have to raise capital right? Am I right here?

Ittira Davis: Three years down the road yes that is on our target so from time-to-time we will have to raise capital so are you suggesting that we don't declare any dividend?

Mahesh Kabra: I mean banking company growing at 25% I thought conserving capital would be better but you are expert I am not I am just asking, understanding your thought process here?

Ittira Davis: No, but the industry is giving a reasonable level of dividends we have to also, our profitability is good we are not giving exorbitant dividends we are giving something reasonable maybe on the higher end people do it between 12% and 15% we are on the 15% but that is an annual feature which the board has to decide from an annual basis for this year it's the highest profit so 15% was decided

Mahesh Kabra: Yes, thank you sir, and congrats on the good set of numbers

Ittira Davis: Thank you.

Moderator: The next question is from the line of Yash Dalvi from Systematix Group, please go ahead

Yash Dalvi: Yes, good morning sir, and thank you for giving me this opportunity, so I had two questions since we have recently added two fintech partners for MSMEs and two in pipeline assuming both of them are added how do you expect the MSME group to grow and second would be that any expected date by which we can expect the shares to be credited you could guide on that?

Carol Furtado: So MSME through the fintech, through our revised strategy, we will be growing as expected and the last year we did a lot of strategy relook at it also on our customer segments and all that and we opened up a lot of product lines, we should be able to see a good growth happening in this financial year and this would also be a good enhancement to the growth of our current account book, so all in all we are seeing a good uptake in the MSME book this financial year

Ittira Davis: Share trading, just one moment

Sanjeev Barnwal: On the commencement of the trading, we are in receipt of the in principle listing approval from the exchanges, last Friday we received it, during as we speak we are initiating our corporate action documents with CDSL and NSDL we are very positive by tomorrow you will get the shares credited into your account and the trading approval will be received in a day so possibly by Thursday or Friday we are very positive that the shares will be available for trading

Yash Dalvi: okay sir, thanks a lot and congratulations all the best

Moderator: Thank you. The last question is from the line of Sandeep Pangal from Psion Capital, please go ahead

Sandeep Pangal: So, I think first great result and thank you Mr. Davis for leading this bank through very turbulent times, but couple of things now that the merger is done if you look at page 37 of your presentation the post, merger shareholding has a lot of retail investors I just like to understand what is the strategy of the bank and the management with respect to sort of making this more institutional over time I know there will be, board shows etc. But some flavour on that could be helpful?

Ittira Davis: No, some of the shareholders of the holding company are institutional shareholders we have people like IFC etc. Who are there and those will continue to hold the shares in the bank but having said that yes you are right we would like to increase the number of institutional shareholders we have talked to a few people and we hope that some of those discussions will fructify right now we have about 33% who are institutional shareholders, we would like to see that grow up to a better number but yes, that is the objective of the management to make sure that we get long term institutional investors to take a reasonable share of the shareholding.

Sandeep Pangal: Ok great. Thank you so much

Moderator: As it was the last question I now hand the conference over to the management for closing comments over to you sir

Ittira Davis: Thank you Muskan, from Corus for your support on this call and also more importantly Rikin Shah, who has been from IIFL, who has been supporting us as this is my final session with you guys in the last 8 quarters thank you for all your interesting questions and also being part of the journey and wish you all the best.

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