USFB/CS/SE/2022-23/16

Date: May 16, 2022

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 Earnings Call held on May 12, 2022

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 12, 2022 for the quarter and financial year ended March 31, 2022 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: 2022.05.16 15:17:13 +05'30'

Sanjeev Barnwal
Company Secretary & Head of Regulatory Framework

Encl: as mentioned above

“Ujjivan Small Finance Bank Ltd. Q4 FY22 Earnings Conference Call”

May 12, 2022

MANAGEMENT:	**MR. ITTIRA DAVIS – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, UJJIVAN SMALL FINANCE BANK LTD.** **MS. CAROL FURTADO - CHIEF BUSINESS OFFICER, UJJIVAN SMALL FINANCE BANK LTD.** **MR. MD RAMESH MURTHY - CHIEF FINANCIAL OFFICER, UJJIVAN SMALL FINANCE BANK LTD.** **MR. MARTIN PS, CHIEF OPERATING OFFICER, UJJIVAN SMALL FINANCE BANK LTD.** **MR. ASHISH GOEL, CHIEF CREDIT OFFICER, UJJIVAN SMALL FINANCE BANK LTD.** **MR. VIBHAS CHANDRA, HEAD MICRO BANKING, UJJIVAN SMALL FINANCE BANK LTD.** **MR. DEEPAK KHETAN, HEAD FINANCIAL PLANNING AND STRATEGY AND INVESTOR RELATIONS, UJJIVAN SMALL FINANCE BANK LTD.**
MODERATOR:	**MR. ALPESH MEHTA – IIFL**

Moderator: Ladies and gentlemen, good day and welcome to the. Q4 FY22 Earnings Conference Call of Ujjivan Small Finance Bank Ltd hosted by IIFL Securities Ltd. 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. Alpesh Mehta from IIFL Securities. Thank you and over to you, Mr. Mehta.

Alpesh Mehta: Thank you. Good evening everyone and thanks for joining us for this Q4 FY22 Ujjivan Small Finance Bank Earnings Conference Call. From the Management side, we have Mr. Ittira Davis who is the MD and CEO of the Company; Ms. Carol Furtado – Chief Business Officer; Mr. MD Ramesh Murthy – Chief Financial Officer; Mr. Martin PS – Chief Operating Officer; Mr. Ashish Goel – Chief Credit Officer, Mr. Vibhas Chandra – Head Micro Banking and Deepak who heads the Financial Planning and Strategy and Investor Relations.

Now without much ado, I will hand it over to Mr. Davis for the opening comments, post which we will have a Q&A session. Thanks, and over to you, Mr. Davis.

Ittira Davis: Thank you, Alpesh and IIFL for hosting this call. Good evening and welcome to our Q4 Financial Year 2022 Earnings Call. Hope all of you are keeping safe and healthy. Financial year 2022 started with a lot of challenges with second wave of COVID-19, but I am happy to say that it also ended on a high note. Our fourth quarter performance completes the turnaround that we envisaged in August 2021 with three-fold objectives. First, rebuilding business volumes. Second, improving asset quality and reducing credit cost. Third, attracting good talent and stabilizing our team. All of these objectives have been achieved and I am elated to share the final outcome in the form of improved business and financial numbers that we have released a little while back. NII was Rs. 544 crores, up 48% year-on-year 20% quarter-on-quarter. Business profitability is back on track and we recorded a pre-provision operating profit of Rs. 217 crores versus Rs. 141 crores in the previous quarter. Pre-provision operating profit ROA was 3.9% and ROA at 2.3%. Profit after tax for the quarter was at Rs. 127 crores and credit cost was just Rs. 44 crores.

Let us look at the outcome of the 100-day plans. These plans were put in place in the third quarter of the financial year and rolled over into the fourth quarter. Our disbursement this quarter were ever highest for the bank and that is second time in a row. Also, overall deposit buildup was very strong and the CDR falling below 100% for the first time since we started operations. Our stress pool (PAR) and restructured loan Book has reduced from 32% in June 2021 to around 12% currently. This is a reflection of all the hard and smart work that we have been doing under our 2 100-day plans. We embarked on this journey in August 2021 when we give you a credit card guidance of Rs. 1,100 to 1,200 crores assuming we will fully utilize our floating provision of Rs. 250 crores. However, we have restricted the credit cost at Rs. 1,118 crores without utilizing the floating provision, which is now sitting in our balance sheet as a solid cushion for future earnings.

As I indicated earlier, we have been progressing well on attracting good talent across all levels. At senior level, we have strengthened our board over the last five months hiring very good and experienced leaders to lead different arms of the Bank. Recent joinees to Ujjivan are our CFO, Mr. Ramesh Murthy and Internal Audit Head, Mr. Prabhu.

After extending vaccination drive to cover almost all employees and families, we launched an initiative to help our customers and their families to get vaccinated. Over the last 8 months, we have been able to vaccinate over 80,000 beneficiaries.

With Q4 disbursements at Rs. 4,870 crores being highest ever on a quarterly disbursement in Ujjivan's history for the second consecutive quarter, business volumes have been reaffirmed. This was led by secular growth across all verticals, although micro-banking continues to lead, but other verticals have also defended their share in the overall portfolio. The micro-banking disbursement comprised of 24% fresh loans in Q4 as against 16% in Q2 indicating a rise in demand with new customers. With continued momentum in disbursement, gross advances grew by 20% year-on-year and 10% quarter-on-quarter taking our gross book to Rs. 18,162 crores as of March 31, 2022. This moment in disbursement was outmatched by robust growth in deposits, which grew by 39% year-on-year and 18% quarter-on-quarter taking total deposits to Rs. 18,292 crores. In line with our vision for attracting sticky deposits, we launched non-callable FD's in the form of Platina FD, which helped us achieve growth of 30% year-on-year and 15% quarter-on-quarter for retail term deposits taking the retail term deposits to Rs. 5,184 crores.

Our CASA has also shown tremendous growth of 85% year-on-year and 21% quarter-on-quarter taking the CASA ratio to 27%. This helped us achieve total growth of 59% year-on-year from retail branch banking. For example, retail branch banking savings accounts average balances have moved up from about Rs. 30,000 as against Rs. 15,000 in March 2021.

Our cost of deposits continued to decline 6% for quarter 4 versus 6.1% for quarter 3. Overall, cost of funds declined to 6.1% from 6.2% in Q3. Collections have improved consistently under our focused strategy laid down by the 100-day plans. We strengthened the collection team further and had a detailed approach towards the different buckets and stress pool. The results are visible and heartening. March 2022 collection efficiency stands at 100%. Restructured book collection efficiency at around 89% for March 2022 is in line with our estimates.

NPA collections have also been rising given the elevated ground efforts by our team. What is most heartening is the reduction in incremental overdues (IODs), which have almost come back to the pre-COVID level. With the collection numbers rising sustainably and growth in volumes, the PAR book has reduced below 10% mark, which is not even one-third from its high of 30.8% in June. This is followed by improved asset quality with GNPA declining to 7.1% and NNPA to 0.6%.

SMA book is now at 2.5% as against 7% in September 2021. Most of the SMA book is in the 0–30-day category. April this year has continued the good trend and as per provision numbers, we have seen net reduction in absolute PAR and NPA and good reduction as a percentage of gross advances. We have not used our floating provision of Rs. 250 crores and despite improving portfolio quality, we are maintaining a high PCR of 92%, which builds an adequate buffer to support future growth. With growing book and reducing NPA's, yields and NIM have started to improve across all segments. Fourth quarter NIM was at 10.1%, a healthy increase from 8.1% in Q2 and 9.1% in Q3.

The outlook, as we look forward to financial year 2023, comes with new uncertainties with ongoing global unrest, but with all the key leadership in place at Ujjivan, the management is wide awake to face any challenge that may come. This year, we also planned to achieve the minimum public shareholding through our QIP and return to regulators for the approval of the reverse merger.

Now talking about our business outlook for financial year 2023 and ahead. With COVID fear receding and the economy gradually normalizing, we're seeing a good credit demand. This is visible from gross disbursements and gross advances in the second half of the last fiscal. We believe and subject to any further COVID waves and its nature, the momentum should further build on and provide a better overall growth in current fiscal. Also, on credit quality front, as I explained, the slippages have come under control, which is providing a tailwind on the provisioning side. As we have indicated in our third quarter call, we see FY23 as a normal year in terms of slippages and thus credit costs should definitely be under control.

Our cost to income ratio has increased and there are two aspects to this of course, both the cost and the income. While our income was suppressed due to high NPA levels leading to interest reversal and non-recognition of income, cost was high due to heighted efforts especially on the collections side. With credit parameters moving south, we are witnessing easing pressure on income. This will also be visible in our yield and NIMs. Fourth quarter NIM is 200 basis points higher than the first half of financial year 2022. Also, new disbursements are helping in the process. Our cost side impact of increase collection cost is reducing as the income is also rising. Also, the stress pool has reduced over the last 7 to 8 months from 32% as of June 2021 to around 10% currently. We expect this helps in gradually reducing the costs. If you look at our cost-income trajectory in financial year 2022, it has fallen by about 1800 basis points in Q4 from a peak of 84% in Q2. I believe this is the base for the next fiscal on which we will further improve as our efforts towards productivity and efficiency yield results.

Overall, I can see financial year 2023 as a strong come back for Ujjivan, which will create a solid platform for next growth cycle. Thank you for that.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: My first question is on the margin side. We have already entered the increasing rate cycle and considering the large part of our book is MFI loans, so how do you see the margins behaving from the current levels in FY23?

Deepak Khetan: Like Mr. Davis mentioned in his opening remark, so because of the GNPA reduction and because of the fresh disbursement, we are seeing a good amount of tailwind on the yields and the NIM's. So, I wouldn't be able to give any kind of a guidance for FY23 beyond what Mr. Davis has mentioned, but I think you can take this Q4 performance over Q3 as a good base and see how the business should move.

Renish Bhuva: Secondly, on the restructured book, what percentage of our book is up for the payment by March 2022?

Ashish Goel: So, the restructured the book would completely runoff by the end of this fiscal.

Renish Bhuva: Is it fair to assume that the entire book is up for repayment by March 2022 since we are hopeful of bringing down the book to almost zero by 2023?

Ashish Goel: Yes, by March 2023, the entire book would run off except for the secured loans, which is a very small portion of the overall restructured book.

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

Shreepal Doshi: Firstly, on the microfinance side, so have we taken any interest rate increase because now NBFC MFI's do not have any cash, so they would have taken a price hike, so have you also similarly taken any rate hike there?

Ittira Davis: At this stage, we are carefully watching the situation and obviously only the new loans can attract the higher rates. So, we will watch the situation till next month because if RBI comes with a further hike then we will have to take action, but for the moment, we are quite comfortable because the rates which we have are in line with the market at the moment and that should be sufficient, but if another rate hike comes up, we will have to adjust the microfinance book lending rates.

Shreepal Doshi: The OPEX during the quarter has come in significantly higher, as you eluded it was towards the collection efforts, but what should be the run rate like going ahead? How should one look at that aspect?

Ittira Davis: Looking at the cost-income ratio, the income has already started going up and we will be able to manage the costs in a way that the collection cost, which are one of the reasons why costs went up is now at the peak levels. So, we will be able to manage that and we see that eventually coming down a little bit. So, I think on that basis, those increase in costs, which we saw in fourth quarter will taper off in the coming months and as income builds up, the cost-income ratio will definitely move downwards. Unfortunately, we can't give you specific numbers, we can give you some indication.

Moderator: Thank you. The next question is from the line of Sanjay Pandit from 1729 Advisors LLP. Please go ahead.

Sanjay Pandit: My question is what do you consider a normal return on assets and normal return on equity given your existing business mix and if you say over the next 1 or 2 years, the migration in that business mix, I think it's still majority microfinance with a mix of secured lending, etc. This past quarter appears to have been strong. Obviously, prior to that, there were some not so good quarters. What do you consider a normal cross cycle return on assets and return on equity? Obviously, COVID was a one-off thing, but in a normal year, may be, example might be what we think FY23 might be like, I am not asking for guidance on FY23. I am specifically asking for what do you think is a normal return on assets and normal return on equity for your business?

Deepak Khetan: Q4 by that logic was quite normal barring yes, still there is a little bit of a pressure because of a higher GNP and all and a little bit of a collection effort are heightened like Mr. Davis mentioned, but apart from that Q4 is a good base that you can consider. What we did in Q4 is a good base to take care of what you can expect in the future.

Sanjay Pandit: So, basically something like 18% ROE would be normal-ish and that would normally, among Indian banks, equate to a price to book multiple well over 2x, is that your understanding?

Deepak Khetan: Wouldn't be able to comment on the valuations though, but on the performance side, I can say that Q4 is pretty normal quarter for us, yes, because of 7% kind of GNPA, some bit of income recognition was still subdued and the collection costs are still on a higher side, which like Mr. Davis mentioned will taper off. So, we will still see some bit of a tailwind on the income side and some tailwind on the cost side.

Moderator: Thank you. The next question is from the line of Gautam Jain from GCJ Financial Advisors. Please go ahead.

Gautam Jain: My first question, I was looking at your collection efficiency for last the 6 months, you are actually collecting Rs. 100 crores more than what is due for the last 6 months since November to April 2022 and you have Rs. 1,300 crores of I think the gross NPA plus write off books, what is the size of write off books plus gross NPA together?

Deepak Khetan: Gross NPA is Rs. 1,280 crores and write off is roughly Rs. 800 crores.

Gautam Jain: You have Rs. 2000 crores book right and you have already provided most of it, I think, around 95%. So, my question is you are collecting Rs. 100 crores more every month. What do you see going forward? Will you be able to collect handsome amount from this pool of gross NPA and write off books and if yes, then what is your worst-case scenario in the credit cost side because if you collect Rs. 5,200 crores every month more, obviously I don't think you will have any credit cost this year. So, your qualitative comment on this. Then I will come to the second question.

Ashish Goel: Our NPA's started growing post June onwards. So, the real collection from the NPA bucket started post July, August, and this year we have been able to collect, in micro-banking itself, which was a large part of the NPA, we have been able to collect about Rs. 620 crores in cash.

So, that works out to about 60% LGD. Over the long period, I think over this year, we will try to bring the LGD down by another 10%, so it can come down to 50%. One more important part of the recoveries is the recovery from the bad debts. So, last year we have done, although the write off started happening Q2, Q3, Q4 onwards, but from that also, we have been able to recover close to Rs. 50 crores. So, as the year goes by, I think April has shown us some very good results. So, we are confident that the same rate of recovery will continue to happen. I would, however, want to point out that the collection efficiency also includes some part of prepayments. So, that will have to be discounted from the overall collection number. Payment in that Rs. 100 crores extra that you see that also has some amount of prepayments and foreclosures.

Gautam Jain: So, in your-worst case scenario, your credit cost guidance, since you are recovering even the earlier part of your gross NPA, so any qualitative comment on that?

Deepak Khetan: Last quarter, Ashish, mentioned on the call that he is expecting a sub-1% kind of a credit cost next year and I think between last quarter and today, he has overachieved what he has been expecting. So, I don't really want to give any number, put any pressure on Ashish, but I think he is quite confident.

Ashish Goel: You can see we are at a net NPA of 0.6 as of today. Our slippages have come down significantly and the PCR stands at 92%. So, we believe that the provisioning requirement for this year will be quite normal

Deepak Khetan: even if you look at our SMA pool that has also quite shrunk to 2.5%.

Ashish Goel: So, the slippages are coming down quarter-on-quarter and since the earlier slippages are getting fully provided, our PCR has therefore gone up to 92, net NPA has come done. So, we feel that this is going to be a very normal year in terms of credit cost.

Gautam Jain: As management said Q4 should be the best for next year financial performance, then I think 18% ROE would be achievable, any comment on that?

Deepak Khetan: No comments on that, but I can re-iterate Q4 was a pretty normal quarter and given the kind of credit demand we are seeing, like Mr. Davis mentioned, this kind of a performance, this kind of a growth can be replicated. On the cost side, heightened cost on the collection side will slowly taper off, may be one or two more quarters and then it will start tapering off as the NPA pool or as the restructure pool start to shrink and on the income side, as the overall NPA levels reduce, income recognition will improve. That actually gives the Bank a little bit of a room of a little bit of investment also, if required. So, we definitely see Q4 as a good base on which we can build FY23.

Gautam Jain: So, any sort of guidance you want to give on loan growth side in the range, which can help us?

Deepak Khetan: Maybe we'll wait for one more quarter and then talk about it.

Gautam Jain: Okay, and when you are going to launch your QIP?

Deepak Khetan: There is no timing. We have just taken the enabling resolution.

Gautam Jain: And can you help me with the restructured standard book?

Deepak Khetan: So, the total restructured book is Rs. 845 crores of which GNPA is Rs.370 crores and PAR is Rs. 458 crores, that Rs. 370 crores is included in the PAR, rest is standard. So, absolute amount is Rs. 474 crores.

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

Nidhesh Jain: Can you give the breakup of the total outstanding provisions in terms of provision for NPA, provision on restructured book and floating provision?

Deepak Khetan: So, the provision on restructured book is Rs. 394 crores, total NPA provision is Rs. 934 crores, that does not include Rs. 250 crores of floating provision. So, if you include the floating provision, it becomes Rs. 1,118 crores.

Nidhesh Jain: Rs. 394 crores is the provision on the restructured book, Rs. 934 is for NPA and Rs 250 is floating provision?

Deepak Khetan: Standard Provision is Rs. 146 crores. Rs. 934 crores will have some bit of an overlap in the restructured pool because in restructured pool you have standard and NPA also. Keeping aside the restructured pool, Rs. 146 is my standard asset provisioning, Rs. 934 crores is my NPA provisioning, Rs. 250 crores is my floating provision. That Rs. 250 crores and NPA provisioning put together gives me a 92% PCR and separately the provision on restructured book is Rs. 394 crores.

Nidhesh Jain: Can you also break up this Rs. 394 crores in terms of provisions for NPA on restructured book?

Deepak Khetan: Of the Rs. 394 crores, Rs. 328 crores is NPA provision and restructured book.

Nidhesh Jain: Secondly, your ticket size has increased in microfinance quite drastically. Last year it was Rs. 38,000 now it is almost Rs. 60,000. So, how could we think about it what is the driver of this ticket size increase and how should we think about it in the future?

Ashish Goel: This ticket size increase is also a factor of what kind of a repeat loan you are doing and all those things since fresh customer acquisition has been on a lower side and repeat loan and repeat loan is generally for the customers who are on the higher cycle, may be second, third cycle and beyond. So, the ticket size is higher. And last quarter also we mentioned that we had not taken any kind of a ticket price hike in our policy for a long time, which was done last quarter. So, for that matter, this is a one-time kind of an adjustment that has happened on the overall book and we don't really see ticket sizes increasing too much from where they are today.

Nidhesh Jain: For a 3-year-old customer, what is the ticket size that we are offering them?

Ashish Goel: In the range of Rs. 60,000 to Rs. 70,000.

Nidhesh Jain: And lastly if you look at our asset quality performance in COVID, microfinance definitely got impacted in line with the industry, but we have also seen higher NPA's in our MSME and affordable housing segment, which looks much higher than some of the listed peers. So, how are we thinking about these segments going forward and how are we trying to make sure that the asset quality performance that we have seen in this segment during COVID does not repeat in future events?

Ashish Goel: We carefully evaluated our MSE portfolio immediately post-COVID and we have made certain adjustments in the segment in which we operate. So, our informal business that we were doing which was based on assessed income was close to 57% of the overall book. This year disbursement is about 19% of the total disbursements we have done in FY22 and that has brought down the book, composition of informal segment down to 43%. We expect that we will continue to do in the range of 15% to 20% of informal business and that contribution therefore of the overall book will continue to come down for at least this year. So, that is one of the things that we have done in terms of re-calibrating the book composition. The second thing that we did was there was A supreme court freeze on doing legal action against borrowers. So, after lockdown in the month of June, when the lockdown opened in July and August, we initiated SARFAESI action and as you know, there is a 90–120-day time period by when the repayment starts happening. In December, we had started seeing the upgrades come up very sharply and in January, February, and March, the upgrades are almost double of what we saw in Q3. So, that has also given us confidence that the upgrades will continue at the same pace at which we are currently going in Q4. So, these were 2 or 3 things that we have done, one on the book size composition of the book and the second is on the legal actions. We didn't have NPA's before COVID 1. So, the entire legal action happened in bulk in July and August. So, the book is now stabilized. In MSE, for example, the SMA book has come down from 14% to 6% between December and March. So, our incremental slippages, again, will continue to slow down in the MSE book.

Moderator: Thank you. The next question is from the line of Sameer Bhise from JM financial. Please go ahead.

Sameer Bhise: So, you mentioned that there was a significant uptick in the collection team that you're hired, it's there in presentation as well. So, it sustains at this level, especially the off-roll part in terms of collection staff?

Ashish Goel: We are currently working with the optimal team size. We don't see the team size going up from here, but by September end, we will re-evaluate the size of the team like we have told in the past that the team is mostly off roll, who work based on our branches under the supervision of the bank supervisors. So, as, and when we see that the requirement for the team is reducing, we will taper off the team over a period of time, but we will take the decision some time at the end of Q2. In Q1 and Q2, we expect that there will be very strong recovery from the NPA bucket.

Sameer Bhise: And secondly, picking your brains on the ticket size again, almost even on a YoY basis you have added like 10% more customers, but the ticket size jump looks quite sharp, how does this normalize going ahead, what kind of numbers are you looking in terms of customer additions?

Ashish Goel: We did about 1.2 lakh new customer acquisition in the last quarter and somewhere in the range of 1 lakh in Q3. So, we will continue with the same pace, but post-COVID, we had focused on our repeat customers because those are the customers we knew very well. So, the ticket size, as you would see is a factor of two things, one our repeat customers are eligible for much higher ticket sizes than new customers come at slightly lower ticket sizes and as we open up our new customer acquisition, we will see that the ticket size will stabilize somewhere at this level for the coming year.

Sameer Bhise: Okay, and when we go to the micro-individual loan, how many cycles this customer would have completed before qualifying for that ticket?

Ashish Goel: Approximately 3 cycles.

Sameer Bhise: But he can qualify for the individual loan if he has completed 3 cycles?

Ashish Goel: Not everyone, but surely based on the assessment that the branch team does. We feel that about 3 cycles is the most optimum.

Deepak Khetan: It also depends on the customer's profile and what the customer is doing, how productive the business is, how the money is being used, what has been the track record of the customer. There are a lot of factors, basis, which we decide whether we want to graduate the customer from a group loan to an individual loan. So, that is the entire credit underwriting process, which we have been following over the last 15 to 16 year.

Sameer Bhise: Any comment on stress in group versus individual?

Ashish Goel: We see no significant differences. So, individual loans, they have performed well in the last three quarters in fact. There was equal amount of stress on both these categories because when lockdown happened, it was not as if we were not able to reach that was one of the factors, but income of the customers that also got impacted. So, we were able to see stress on both the segments, however, when recovery happened I think both the segments started responding equally well. We have not seen much of a difference in the behavior or the delinquencies in both the segments.

Sameer Bhise: And secondly on cost-income, this is my final question, how does one see it stabilizing in 18 to 24 months' time?

Ittira Davis: Cost-income, as I said, the trajectory is downwards, so obviously we would like to get to the 50 levels as early as possible and that is the trajectory that we are following.

Moderator: Thank you. The next question is from the line of Darpin Shah from Haitong Securities. Please go ahead.

Darpin Shah: So, again on the ticket size, the ticket size has increased and if we see the data, which we give on repeat customers in terms of number of loans, which we have disbursed, so there it clearly shows that we have done more of new customers this quarter and still the ticket size has significantly gone up, so then what explains that?

Ashish Goel: So, 90% to 92% of our customers are still repeat loans, although we have done customer acquisitions in Q3 and Q4. We opened up NCA in the beginning of October. While we have done NCA both in Q3 and Q4, however, 92% of our loans are still repeat loans and repeat loans as we said, there were two parts of it, one was of course repeat customers are known to us, so they get higher ticket sizes. Two, we did a one-time adjustment because we had not done a policy change for 3 years. That policy change happened in Q3 of this year. So, therefore, there was an increase in ticket size, which you will see as a sudden jump, however, it is in line with the market ticket sizes. We are not doing anything, which is higher than the market.

Darpin Shah: And just one last data-keeping question. If you can provide the details on write offs and slippages for the quarter?

Ashish Goel: It is about Rs. 216 crores slippages and the principle write off was Rs. 271 crores.

Moderator: Thank you. The next question is from the line of Amey Kulkarni from Candor Investing. Please go ahead.

Amey Kulkarni: Why have the collections reduced in April, there is a 2% to 3% reduction in the collections, any comments on that?

Deepak Khetan: The momentum that we have built in the collection is on, so even in the month of April, like Mr. Davis mentioned in his opening remark, the absolute PAR and the GNPA have reduced. Now, on the percentage side, yes, there is a little blip. Generally, March is a little higher number because of the year end and all. April generally tends to be slow growth whether it is business or collections, either way, but on ground we do not clearly see any kind of impact on the collections side and we believe in the month of May that would again normalize back to where we were in the month of March. So, we don't really see that as a trend going forward, it’s just a year beginning factor.

Ittira Davis: Also, April had lot of holidays throughout the country.

Amey Kulkarni: One more question, do you have any plans to increase the branches or open new branches?

Ittira Davis: Yes, we will be opening new branches, but very selectively and that is something that we are in the process of putting in there. Of course, we will have to maintain the 25% rural coverage in that number.

Deepak Khetan: So, we won't be going too aggressive on the branch opening, very selective and largely focusing on getting the deposit growth.

Amey Kulkarni: One last point, I understand the increase in ticket size is along with an increase in the tenure of the loan, is that right, so that the EMI basically for the month remains the same. So, what is the average tenure for these new loans you have given, higher ticket size loans?

Carol Furtado: With the new microfinance framework coming into the picture, we would have that flexibility and it is up to Rs. 3 lakhs in 3 years, so we could see some revisions there happening.

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

Sukriti: My first question is on the merger process and timeline, so if I am not wrong after the QIP, you'll have to re-file the schemes with RBI and then you need NCLT approval, right? So, is it fair to say that the whole thing will take one-and-a-half to two financial years?

Deepak Khetan: The process that you mentioned is right. So, after we meet the MPS requirement as SEBI has asked us to meet, we will have to go back to SEBI, exchanges, and RBI to get the NOC's and then move to NCLT and shareholder approval. On the timeline, I cannot comment whether it will be one-and-a-half to two years. It also depends on how quick these regulators respond. So, there is a parallel process going on with one of our peer who is in a similar process and they have recently announced that they have got one of the regulator's NOC and they are moving on that. With the precedence set on the particular subject, I think that the movement for us can be faster when we go there. That is just our assumption and we will see how things move when we go there, when we cross the bridge.

Sukriti: Equitas, on their call, said that they expect it to finish it by December next year.

Deepak Khetan: We will be able to comment on it once we move to RBI and SEBI, not right now.

Sukriti: Second, on the liability strategy, we've had a good year when it comes to liabilities. CASA numbers have accelerated as it has for the entire system, it is likely that FY23 will not see the CASA run that FY22 saw, so if I have to ask you what you expect to achieve on liabilities and funding cost in the next year, how would you respond to that?

Deepak Khetan: On the funding cost, you have seen how RBI reacted to the global policy changes that's happening. RBI also took a rate hike and this is something that we also have seen coming and our internal business proposition that we are building is aligned to that. So, we see some bit of rate hike coming in and we are totally prepared even if the cost of funds goes up because of that because whatever rate hike comes, a little bit of a movement will be there and we will see if that can be negated by a little bit of a rate hike on the lending side as Mr. Davis also mentioned. So, there will be some bit of north movement on the cost of funds.

Carol Furtado: So, just to add to what Deepak said, our overall strategy for liabilities would be to go very granular and build a retail deposit base and this would be done through a customer segmentation approach and we would be enhancing our digital capabilities.

Moderator: Thank you. The next question is from the line of Amit Mehendale from RoboCapital. Please go ahead.

Amit Mehendale: My question is on QIP, I would like to know your internal thought process on launching the QIP. Would it be closer to the year end or at least when the price to book multiple improves, what is your thought process currently on that?

Deepak Khetan: We really can't talk about that right now. It's just that we have taken the enabling resolution and that's it. So, right now, we can't talk about what is going on there.

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

Akash Jain: My question is on the re-structured, I think first participant had asked the question, but I think the answer was not very clear, so I will ask the question again. On the re-structured pool, when we talk about collection efficiency of close to 90%, I just want to understand how much of that book had a due EMI because if there is no due then it obviously won't come in collection efficiency, so is there still a part of the restructured book where no EMI has been due till March 2022?

Deepak Khetan: Entire restructured book EMIs are due now.

Ashish Goel: There are no matured accounts in the restructured book as of now. The book got restructured in July, August, and September of last year and those were the accounts which were at that point in time close to 8-12 MOB. So, none of those accounts would have matured by now, but over the next 3 quarters, many of these accounts would reach maturity.

Akash Jain: No, I want to understand whether the EMI, you would have given a moratorium of 3 or 6 months whatever was allowed and the team would have decided. So, I am just trying to understand, how much part of that Rs. 890 crores of restructured book where no EMI was due till March quarter, so that we don't know whether repayment will happen there or we will see some more pain, I think that is a simple question?

Ashish Goel: When we did restructuring in July, August, and September, close to 96% to 97% of the customers had started paying their EMIs in Q3. The maximum moratorium that we had offered was 3 months. So, customers who got restructured in July, started paying in October and similarly for August and September. So, by December, almost all customers barring 2% or 3% had their EMI falling due.

Akash Jain: The other part is on collection efficiency of 98% that we saw in April, any specific reason why there has been a dip because historically we have always enjoyed 99% to 100% collection efficiency in normal time, so after getting 100% in March, any specific reason why this would have fallen to 98% in April? Any qualitative reason that you can point out? I would have expected it to remain at 99% to 100% going forward given that things have reopened and things have normalized to a large extent?

Ashish Goel: There is only one metric, which has dipped in the month of April, which is a 99.9% efficiency on NDA bucket has come down to 99.75%. Now since NDA bucket is almost 93% of our overall pool, that small dip in the NDA collection efficiency and 99.9% is something that was exceptionally good. We have been performing in the range of 99.6% to 99.7%. So, I would say 99.7% was by itself a good number. The second part of course as Mr. Davis was saying is there were a few more holidays, which led to a little bit of a dip in the collection efficiency, but it is normal in terms of our template.

Deepak Khetan: So, like we said that we don't really see that becoming a trend and so far May has been a decent month for us. We don't see that dip becoming a challenge for us and we see reverting to the average that we have already achieved.

Moderator: Thank you. The next question is from the line of Harsh Shah from Dimensional Securities Private Limited. Please go ahead.

Harsh Shah: Just going back on the ticket size in your microfinance book, so last year when our ticket size was around Rs. 35,000, we faced quite a bit of problem and we had a significant amount of write offs and provisioning, so what led to change in the policy for the Management and now since we are at almost 70% higher ticket size, God forbid, if something worse is going to happen or if we see the kind of slowdown which we saw a year back, won't it be calling for trouble for us?

Ashish Goel: The ticket sizes, as we mentioned, first of all when we increased the ticket sizes, it was largely from the perspective that we were catering to our repeat customers. By and large, that has been our strategy during the entire COVID period, so we have stuck to that strategy. In the month of October, we said that we wanted to do some new customer acquisition as well. However, the ticket size increase that you see is largely because we have recalibrated the repeat loan ticket sizes and if something were to happen like a lockdown, then the entire industry can get impacted. So, we will not be the only player in the market, but we don't expect that to happen. India has gone through two cycles, everybody has gone through 2 shots of vaccination, the booster shots are currently happening and that covers a large part of the population. So, we don't think that there is going to be any adverse impact on the earnings of our customers. If that were to happen then we have also covered ourselves with a cushion of a floating provision. So, that should take care of things, but increase in ticket sizes would typically not get correlated to any increase in delinquencies. We are watching our portfolio very closely.

Carol Furtado: And this is also a factor of the pent-up demand and the rising economy. So, this has all led to the ticket size revisions that we have taken into focus.

Harsh Shah: If I were to look at your disbursement, then most of the growth has come from microfinance whereas we have seen a slight degrowth in housing finance and MSE, which is in contrast to the other asset base the way they reported their numbers, so isn't there a bit of dichotomy that you are seeing growth opportunity in microfinance, but none in SME or housing or was it a conscious call or what kind of environment are you seeing there?

Deepak Khetan: As I mentioned, our focus on these two businesses is for bringing down the book quality back to the normal level, which is a comfortable zone. So, if you see, there has been a movement on that side and there has been a good amount of effort, which has gone and the efforts are yielding results also. So, this is in line with what we thought we will be doing on these two businesses and we see the business growth there, we see the opportunities there and it's just a matter of time when the book quality comes back to the normal level and then there will be a good amount of growth coming in these 2 businesses as well. There is not an issue of the demand in these 2 businesses.

Harsh Shah: And just a bookkeeping question, what would be the slippage number for Q4 and Q3 FY22?

Ashish Goel: Q3 was Rs 270 crores and Q4 is Rs. 216 crores.

Deepak Khetan: One more thing, on both these businesses, like we mentioned last time also, there has been some credit policy change wherein we have moved away from the smaller ticket size loan. So, to that extent, we have said no to that kind of a business. So, that also is reflecting in the kind of numbers we have seen this quarter.

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

Abhijeet Sakhare: The first question is for Carol Ma'am. In continuation with the higher ticket size issue, there was a reference you made on the new guidelines. If you can talk about what has been the broad changes in the product and given the rise in ticket size, if you could also highlight how has been the change in the tenure or the duration of the product that you made?

Carol Furtado: Currently, we have not actually made any drastic changes because we are complying to the revised guidelines of the new microfinance and we have also implemented it across because our systems are capable of capturing the household level data and the pricing norms are in compliance. We are awaiting a few clarifications from the Reserve Bank of India through our Association of Small Finance Banks mainly on the revised Basel norms and also from the credit bureaus on how to capture the household credit information. There have not been too many changes for us the business being as usual.

Abhijeet Sakhare: The disbursements in the fourth quarter were broadly that 2-year duration product for the second to third cycle product, right? The duration on the product, the tenure for the loan, that's not been increased during the fourth quarter, right?

Carol Furtado: No.

Abhijeet Sakhare: Second question was for Deepak. Was there a reference during the call on the cost growth or cost-income ratio that we are looking at for FY23?

Deepak Khetan: What we mentioned is this. The quarter was a pretty normal quarter apart from the NPA levels still at little elevated levels and thus the collection cost also at an elevated level. Apart from that, more or less, the quarter was pretty normal. So, what we have this quarter is a base on which we will improve upon going forward.

Abhijeet Sakhare: So, cost could decline, is that what you are referencing here?

Deepak Khetan: I am not giving any guidance on what kind of cost will come. What I'm saying is this quarter we did 66% cost to income ratio. That is a base and from there, the trajectory you can build-in because the kind of tailwind we will have on the income side and the tailwind we will have on the collection cost side, as Ashish already mentioned that may be for the first half of the next year that heightened efforts on the collection will continue and then we will take a call of reducing the size of the outsourced collection agency and multiple collection agencies that we're working with because the stress pool would have shrunk to a level where that kind of an investment would not make sense. So, then the cost will also start coming down.

Abhijeet Sakhare: Just going into next year and probably a year after, are there any major 2 to 3 areas where there needs to be certain amount of expenditures, which were deferred because of asset quality challenges that you would start doing incrementally?

Deepak Khetan: So, there was no such expenditure that was deferred, but on the digital side or may be on the IT side, we would like to make some investments. That would be a mix of CAPEX and OPEX, but it would not be something that will start impacting my P&L in a very big way. Whatever the impact would be is something that the P&L would be quite capable of taking it and moving forward. And it will further guide the efficiency and productivity that Mr. Davis spoke about.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, it was the last question for today. I now hand the conference over to the Management for closing comments.

Ittira Davis: Thank you very much for anchoring this call. I would like to thank everybody for joining us on this occasion when our numbers are looking good, and I hope you will be joining us in the future calls with the same optimism that we have. So, thank you very much and good evening.

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.