“Ujjivan Small Finance Bank Q1 FY- ‘21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Ujjivan Small Finance Bank Q1 FY '21 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Murarka from IIFL Securities Limited. Thank you, and over to you sir.

Abhishek Murarka: Thank you, Steven. Good morning, everyone and thanks for joining the conference call. From Ujjivan Small Finance Bank, we have the entire top management team, led by Mr. Nitin Chugh – Managing Director and CEO; Mrs. Upma Goel – the Chief Financial Officer; Mr. Rajat Singh – Business Head, Micro Banking and Rural Banking; Mr. Kalyan Raman – the Chief Credit Officer; Mrs. Sneh Thakur – Head of Credit, Micro Banking and Rural Banking; Mr. Murli Manohar – National Manager, Financial Planning and Analysis; and Mr. Deepak Khetan – Head of IR. We thank the management team for this opportunity and also for the detailed disclosures they have given in the PPT this time. The call will start with opening remarks from the management team, and we'll then open up for Q&A. Thanks, and I hand it over to Nitin for his opening remarks. Over to you, Nitin.

Nitin Chugh: Thank you, Abhishek. Good morning to everybody and thank you for joining us. I know it's a holiday, but we thought we'll give you a lot of time this time to analyze the presentation and keep the call the next day so that we can get into some meaningful question and answers. This time around, we've tried to keep our disclosures as transparent as possible. And we'll go over some of those specific aspects in detail during the call. I'd like to start with our continuing thoughts and prayers for those of us who are dealing with the COVID crisis and all the people who've got infected and their family members. Even in Ujjivan, we've had 185 employees who have so far been infected and unfortunately we also lost one colleague in the last month and the bank is trying to do everything to help the family.

Coming to the quarter, it's probably right to say that it's been a remarkable quarter and also an unremarkable quarter at the same time. Unremarkable because the book was on standstill, portfolios was on moratorium, there wasn't too much of economic activity, even though there were parts of the economy which were starting to show an uptick. But at the same time, remarkable because we tried our best, and we've put in a lot of efforts to do several things largely to prepare ourselves for the future and take decisions and measures to stay healthy and safe both as a bank as an organization and as well for our employees. So, we are very happy with the outcomes that we have been able to deliver for this quarter. As you know, Ujjivan has always stood out differently and this time around it was no different. We took a very humane approach to the whole crisis like we talked about in the last earnings call. It is our commitment to stand by our customers, our employees and in all our briefings, in all our discussions internally, we have tried to keep our employees at the first priority and trying to just make sure that they are safe and secured.

We were also one of those few companies who did not need to, we had said very clearly that we would never have to ask anybody to go and our headcount as you would notice is stable. And that also shows in our income, in our expenses where our personnel cost is also stable and consistent with what it was the last quarter. All our teams have put in a lot of effort. I just want to remind you of a few things, which we covered in the last earnings call and how we've progressed on that basis. So, if you remember we had created a lot of cross-functional teams as soon as the lockdown was announced and these cross-functional teams were required to work on different objectives, broadly in the areas of digital initiatives, cost optimization, looking after the safety and security of our employees, making sure that our operations are continuous and uninterrupted, a lot to do with managing our liquidity, deposits inflow, et cetera. So all these teams, they've put in a lot of efforts, including our teams on the ground which were operational at all points in time. Most of the time during the last quarter, we had 95 to 98% of our branches also operational, even though the customer footfall is significantly reduced and we do appreciate that and we have used this time, like I talked about the last time to try and work on things which will prepare us for the future and we are able to work with our customers on a contactless basis from remote. I'll cover some of that in detail as we go along.

We had also formed a business continuity monitoring committee of the board in early April, and this team has been helping us and guiding us through this whole period. And we have very frequent discussions with the committee of the board and in fact, even the entire board. Our entire board has also been very supportive of all the measures that we've taken and we have tried in a very earnest manner to make sure that all the stakeholders that we are responsible for or we work with, including the communities that we work for and work with, we stay committed and we have also used this time to very strongly reaffirm our purpose to what we stand for. So Ujjivan stands for serving the unserved and the underserved, we have just completely reaffirmed our whole purpose, and we have seen extremely high levels of commitment from our teams, both in terms of the objectives that we were trying to drive on the business and collection side as well as trying to work with the communities and especially the health care workers and the other people who are fighting the whole COVID situation in different cities.

Now during this time, a lot of uncontrollable things also happened, which was largely to do with the spread of the infection, intermittent lockdowns, even though we were unlocking from June. And like I had mentioned the last time around, we spoke on the 19th of May when we announced our results, we had restored our field operations from 4th of May, and we were gradually picking that up. And as we were doing that, we were very optimistic and it looked like that we had come to a point where we were in control of both lives and livelihoods as a country. But unfortunately, since the spread of infection has rather been unabated and every day we are reporting the highest ever numbers including yesterday, it has been a bit of going forward and coming back, especially because of the intermittent lockdowns and every state and every district taking their own kind of decisions about when they need to unlock and to what extent they need to go back to lockdowns. So we are dealing with that, and we are trying our best to deal with that situation. And like we had mentioned in the last call because we wanted to focus on creating capabilities for future, we really fast tracked a lot of our work around repayments, digital repayments especially and I'll talk about that also in detail.

Now, let me just take you through some of the important aspects of the last quarter and I'll also cover a bit more July, since July has also got over yesterday. We have information till yesterday about some of the important metrics, so we'll talk about those as well. So, let me first talk about the whole collections and the moratorium part of the discussion. So moratorium, as you know we have disclosed on a very transparent basis as to what has been our logic of giving moratorium. We have also reported that half our customers and I had talked about this the last time that we expect 35 to 40% customers coming out of moratorium by June end. And we've done much better than that, so only 47% of the portfolio was in moratorium as of June end. We have improved over that in terms of our collections efficiency in July. So our collections efficiency, which was 53% in June, has now moved to a little over 60% in the month of July as of yesterday. We still have from last the rounding off reconciliation to be done, which is happening today. So it might just be a little better than what I'm telling you right now, but it is going to be in the range of 60, 61%.

The important thing about the second version of the moratorium was that we changed our strategy from giving it on a opt out basis, which we had explained the last time that since we didn't have the option of going and taking consent or going and meeting our customers, we had offered it by default. And while it did concern a lot of people as to why 90% of the book was in moratorium, we did try to explain that there was no way that we could have taken any consent from customers. So we offered it to all our customers and since bulk of our customers by numbers is microfinance, all of them were offered moratorium. We continue to stay in touch with our customers during this time through our teams and we were getting very regular periodic information about what kind of difficulties people were going through and whether or not they were in a position to pay. So when we step up our field operations and going out in the field in June and a little more in July in spite of all the limitations that were there because of the intermittent lockdowns, we are keeping a view very clearly that one is that we are not pushing customers for repaying and that is one value system that Ujjivan had and we will never want to go aggressive with collections, especially since the information about the moratorium, the knowledge about that there is a moratorium is widely available and we don't want to get into any conflicts where people perceive that the moratorium is not being given by the bank. It's our obligation both as a bank as well as a corporate citizen that, if a customer is in difficulty and there is a provision for moratorium, we offer that moratorium.

So we have been able to collect a combination of one installment, two installments, three installments. To some extent, we have also talked about that in our investor presentation, if you noticed that. But it's suffice to say that the whole logic of why and how the moratorium is applied, and I'm sure a lot of you have that question in mind, is wherever we are seeing customers who have made a payment to us, those are the customers who are moving out of the moratorium. It is not very important for us whether it's one installment or two or three because when a customer starts to pay, we are also assessing whether the economic activity has got restored and the income generation is coming back on track, and that gives us the confidence and in any case, the customers have to ask for the moratorium now. So it's not like we have to go and give them by default. So by that logic, the book under moratorium has been at 47%, and it will reduce further based on the collections efficiency in the month of July as well.

We also tried to educate our customers about the moratorium because we did not want this to become a moral hazard like a lot of people were apprehensive of that if people are not, if customers don't pay for a prolonged period of time, they may just lose the habit of being disciplined. But we did not see that and we have already tried our best to communicate to customers, not just through our calls and field visits, but we also prepared a whole set of multilingual videos, which we educated our customers about what it means to be in moratorium and if they have the money to pay, they should consider paying us. One of the other questions, which is probably on your mind is about the other businesses, about housing and the MSE business. We had clarified this in our last call that we were probably the only bank which actually reached out to all the customers. We spoke to each one of them in the month of April, and we asked them if they needed a moratorium. We did not wait for them to come back to us or come through a link or go to the website or call our contact center to say that, listen I need a moratorium and only wait for people who did that. Because we didn't want any issues with our bounce rates subsequently, where customers assume that they're under moratorium, we don't take their consent, and they don't end up servicing their debt obligations. So we had reached out to all our customers and as a result of that, we had a large proportion of our MSE and housing customers also opting for moratorium, largely to preserve their cash flows, not so much to do with their difficulty in income generation. We repeated the same process for the second version of the moratorium, and we have been able to bring down that book also substantially. And in the month of July, that has improved even much better than what it was in June. So for our housing and MSE business, collectively we are in excess of 65%, housing is probably more than 70, 75% collection efficiency which would mean that the book under moratorium would have also shrunk significantly. And we are happy with this outcome because we are in direct contact with our customers and we are trying to assess this based on a very clear request from the customer and on the basis of whatever their levels of difficulty in paying us is what they're going through.

Now because collections was also a large focus for us. We did two things, one is what we spoke about the last time in terms of making other and alternate channels available to our customers for repaying. So, as I had mentioned the last time, we had tied up with Airtel Payments Bank and we were rolling out the Airtel Payments Bank points as collection points for ourselves. And in the month of May, we saw about 16% of our collections coming through the digital means, which is largely Paytm and Instamojo and also through the Airtel Payments Bank. Now that 16% has dramatically improved to 37% in the month of July. Now what it tells us is that our whole hypothesis of also transforming the business, giving alternate options to customers to make the payments and using the network of partnerships, and I must add that our partnership with the Airtel Payments Bank is coming along very nicely. And we are in very advanced API integration stages now and we have a road map now where we will be strengthening our whole partnership with multiple other initiatives also. So now this tells us that it is possible that we don't have to go to the old model of collecting from customers on a center meeting basis or a doorstep basis because this question also keeps coming to us that if center meetings are not happening, then how are you collecting are you going door-to-door, is it not impacting your efficiency. Yes, it will and we had mentioned the last time around that we were calling customers before going and meeting them just to be sure that we don't end up spending too much time in center meetings or asking customers to gather together because we also don't want people to come together in these circumstances where social distancing is required. So, it was important for us to give alternate ways of making repayments and that has worked very well for us. Today, almost 450 of our branches are activated on Airtel Payment Points and we have been able to really scale that up with the collective effort of our entire set of ground teams.

The second thing in the same context is making available other alternate options for customers to pay. So we are about to launch a BBPS integrated led platform for our customers to make payments. So today, the only options are Paytm and Instamojo. In another two weeks or so, we will have Google Pay, PhonePe and several other BBPS, any app which is on BBPS, the customer will have the option of making payments. And we have used up this time in educating our customers about these options so that it doesn't take us too long a time to launch it and then start educating customers. So we hope that even this will bring about a lot of collections efficiency, because fundamentally this frees up a lot of our time at the field. And we do hope that as we along the year and things improve, we will be able to use up this freed-up efficiency and the freed-up time in some manner compensating for the business that we've lost in the first quarter. So that is the view that we've had. And like I said that we have not had a situation where we have had to lay off anybody. So we have enough and more people for the rest of the year. And with improved efficiency and freeing up of the bandwidth, it just works out very well for us from a planning point of view.

The second thing is that we also had to strengthen the whole effort on collections. So what we did was that because personal loans and vehicle finance for us were early stage businesses, and we had to make plans to scale them up, we decided to temporarily assign our field staff in personal loans and vehicle finance through collections and these people are largely tele calling. So we've boosted up our tele calling effort on the collections side. So, today we have more than 300 people who are tele calling for collections, supporting the field staff and in any case, the entire sales team of nearly 7,000 plus people across all businesses are predominantly meeting and talking to customers for collections. So the overall effort on collections is, I can safely say that it is 10x of the workforce that we had pre-COVID. We had about 600, 650 people in collections. We have much in excess of 7,000, almost 8,000 people now who are predominantly working on collections. And we hope to retain this till such time that we come to some normal levels of overall collections efficiency.

In terms of distribution across the country, we saw that North had a better repayment rate followed by South, followed by East and then lastly West. It was understandable because Gujarat and Maharashtra were the most impacted in the month of June. Now that whole equation has shifted to South. So we are preparing ourselves to deal with how Karnataka and Tamil Nadu are going to be looking like in this quarter. But, we all must better prepare because we have a lot of learning's from Maharashtra. For example, Maharashtra actually showed the highest traction in digital repayments, including some other places like Pondicherry and Delhi and even to some extent, Haryana and we believe that we have that same promise even from the South states because South states are typically more active on the digital side. So we do believe that our digital repayment story can continue on a very strong basis.

In terms of the distribution across types of geographies, we had mentioned this in our last earnings call that we did not see too much of an impact on the rural economy in terms of the first version of the lockdown and what we were going through in April and May. But subsequently, as the infection spread to the entire country because of people going back to their native villages, rural markets were also equally infected, if not more as compared to the urban and the metro. So the collection efficiency, while it remains much better than what it is in the urban and the metro markets. And for the month of July, if I can point that out to you, in rural, we are at 65% versus metro and urban which is at 58.5%. So the gap between metro, urban and rural is now becoming a little narrower from what it used to be earlier when rural was not as impacted by the spread of COVID at that point in time.

The second thing is around this, now that we are done with collections and the moratorium, let me also spend a little time on our provisions because you would have noticed that while our pre-provisioning operating profit has grown by 33%, and there is some more to be explained out there in terms of which lines have contributed to that and which lines haven't contributed to that, we decided to conduct a full bottoms-up analysis of our portfolio, and this took us nearly three weeks to, from our teams and looking at the, going through the data science of our portfolio analytics. And then we rolled it up and applied some of our macro level indicators and the things that we track out here in the central office. And based on that, we came to a point where we thought that it would be prudent to take a conservative stance, and that is the reason why we have gone ahead and provided 129 crores additionally.

So now our total provisions are to the extent of 370 crores on the balance sheet, which is 2.6% of the book, which I would think is probably amongst the best in the industry as well. Now this does not mean in any manner that we are worried about our book. We had explained this the last time also that our portfolio has always been of very good quality. We had also explained that we know our customers, and we are dealing with our existing customers largely even for new disbursals. But we have decided to take a bit of a conservative stance and we are confident that we will be able to deliver to a more optimistic set of outcomes as things improve, at the same time, maintaining a bit of a conservative posture.

In terms of our new business, disbursals we reported 474 crores of total disbursals in the first quarter. May, was the first month where we actually did any business. April was a complete washout. So May, we did 100 crores of disbursals. In June, we took it up to 374 crores. So that's how our total of 474. In the month of July, we are a little in excess of 400 crores, about 410 to 415 and now this is nearly 35% of our pre-COVID levels of disbursals. So while you would notice on the investor presentation that disbursals have dropped in the range of 80 to 85% and in some businesses by 40, 45%, this is largely in line with what the rest of the industry has also reported. We didn't want to go aggressively out in disbursing to too many customers because we wanted to focus predominantly on our existing customers. In any case, the demand was also muted. But we are now well prepared, both in terms of technology as well as our workflows, which is where we worked on during the last three months. So all our digital workflows are now ready to be deployed across all our businesses, including the ability to deliver repeat loans over the phone, which again we have been able to scale up and we will continue to scale that up.

So the alternate ways of doing business are going to be very important for us on the assets side and as much on the liabilities side, which I'll just talk about in half a minute. But, we will continue to focus on the existing customers, continue to help them with the top-up and the emergency loan products that we have developed in April. And we do believe that on a watchful basis, the disbursals should remain in some range. We are not in a position to provide you with any guidance on that, but it's suffice to say that we are striking a good balance between collections as well as disbursals.

Now coming to liabilities, that was one thing which we had put a lot of emphasis and focus from the first week of March after the Yes Bank moratorium issue and we made sure that the deposit inflows were stable, consistent and were granular at the same time. That has worked out very well for us and for that reason alone we have grown our overall deposit book by 39%. And CASA, as you noticed, has grown by 90%. Last quarter, we've grown by 86%, Q4-over-Q4. So that's been very good for us. Important to highlight that since we had launched our digital savings and FD option or the channel, which we talked about the last time, we scaled that up in the month of May and June and nearly 17,000 of our accounts that we opened, which I would say is almost 60% of the total number of accounts that we opened in Q1, came through the digital channel and that is something we are very happy about. And it tells us that the right kind of solutions can be made to work even in very difficult circumstances. And we have been focusing on making sure that these accounts are funded, they are active, they are transacting. And all of these have been done through our relationship calls that our people made through our branches and the other business teams. And that's how we've been able to stick to our objectives on liabilities and CASA and we are very happy with that.

As a result of the inflows that continued to come in and the fact that we were also able to raise low-cost funds through the DFIs, we continued to see a reduction in the cost of funds, which you would have noticed has come down by 21 bps and we also were in a position to reduce our deposit rates by nearly 125 bps over the last quarter. We are probably going to continue with the same trajectory for a few more months because we do see that we don't have any dependence on bulk deposits anymore and our bulk deposit rates had also come down significantly. Most of the focus is on granular retail level CASA and that is something that's going to continue.

Now, I've spoken about the digital initiatives already, but just to also highlight a few other things, we are very close to now deploying our video KYC solution. We are in advanced stages of a few other robotic process automation projects. I've also already talked about a few other things that we've done on the digital acquisition side for all our businesses. So all these things were prioritized. And the most important outcome that has come about on the digital side, which I believe is a strong differentiator for us, is that we have really worked on the whole API economy by working with Fintechs and a lot of these partners, where we believe that we would be able to not depend just on our own proprietary distribution or branches, which anyway we will take a call whether we need to expand or not, but through these partnerships, we would be able to continue to grow our book. And in this quarter, we are expecting at least three, four of them to go live from almost 8 or 9 of them that we are discussing and in advanced stages of contracting or testing or integration.

We were also able to generate significant income out of our treasury desk even though Mumbai at that point in time was most impacted and we had serious difficulties working from home or coming to office. We were able to commence the trading activity sometime in the middle of May, but unfortunately in June, one of our traders we have only two traders, also got infected with COVID. He has recovered, but we had some little setback in the trading activity, but nonetheless, we tried our best and we've put out almost 60 lakhs of trading income also in Q1. In addition to that, there was another income of about 10 crores that we generated by shifting of our portfolio and that was again something we wanted to make use of the opportunity that was available.

Now what I do want to highlight to you is that our full year treasury income for the last year was roughly about 4 crores. We have generated 11 crores in the first quarter of this year. And we still have a long runway in the rest of the year also from the point of view of treasury income. Financial performance, you are already aware of, so I don't want to spend too much time going over the numbers. But the only thing I'd like to highlight is that as a result of our provisions, our PCR is now up to 82% which again, I would like to believe is probably the best in the industry, along with the 2.6% coverage on the book.

In terms of our other fundamentals, our capital adequacy remains at 29%, Tier I being 28%. So we have absolutely enough and more capital. We have also done a fair amount of scenario testing when we were preparing for our whole science behind provisions and we do believe that we will not have a problem on the capital side for sure for a very long time. We have enough and more capital. Our liquidity coverage ratio went up to 453%, though it's very good, but it's also not necessarily very healthy to have such high liquidity. But we have taken a conscious call to say that we don't mind excess liquidity in these circumstances. And at the moment, we are happy with 10% of our balance sheet being in liquid assets. And to that extent, we are well prepared to start scaling up our businesses as soon as things start to turn.

Our overall deposits now cover 77% of our advances, the proportion of retail deposits has inched up by 1% from 44% to 45%. And the entire credit policy framework has also got revised in the meantime. One other thing I would like to highlight to you is that if you've noticed in our investor presentation, we have shown quite a few new products that are about to be launched. And some of them you will notice are also going to take us a notch higher in our overall addressable market in terms of the market that we look at. And that is where I'd like to bring your attention to, that if you look at that whole slide which is about positioning the bank to the un-served and the underserved and the lower income group categories. One for the fact that it is a large number of customers, large number of people who we see ourselves serving. So we don't have a problem in terms of the potential. Towards that, like we've mentioned the last time they cannot remain economically inactive for a long time and that is what we've seen the recovery in the economic activity and people going back to their livelihood pretty rather quickly. So we believe that there is a part of this whole pyramid now taking the shape of a diamond over a period of time that can be served very well, also for the fact that there isn't too much of focus from the other banks.

Now the important thing for us is that, with all the steps that we've taken on the digital side, all the things that we've done to make sure that we are better prepared for future which is really what our focus was during the first quarter. We are very, very strongly positioned, strongly equipped to deal with this large market, the large un-served market and at the same time, occupy a larger market share of this whole proportion as things improve and as we are able to go back into the normal ways of doing business with the fact that a lot of normal ways of doing business itself would have changed in the meantime with all the efforts that we've put in on the digital side.

Now the important thing that I wanted to bring your attention to, with the new products you will notice that we are moving a one notch up in the same customer segment that we have classified in this pyramid, diamond whatever you look at. And therefore, we would also be looking at slightly higher tickets of loans, especially on MSE and on housing. And you also would notice that we are looking at piloting gold loans and several other variants of our existing product portfolio. So one thing is for sure this year that we will rapidly expand our overall product suite, which will cater to a lot of segments. And in any case, with our new credit policy framework, we have added quite a few new segments that we would start catering to. So the overall expansion will not depend in case any one of you have that question in mind that if we are not going to be adding branches, then how are we going to be increasing our distribution. Our distribution, our expansion will depend on three things, one is adding of new product categories, two, by doing relationship led approach to our existing set of customers through cross selling, et cetera, three, through these digital partnerships that I spoke about, where we will have very strong partnerships like the ones we already have with Airtel Payments Bank and with several other Fintechs, which will help us expand on a nontraditional basis.

So in the end, what I'd like to say is that, this time has been used and this time that we've gone through and what we're going through, we strongly believe that it can either bring out the best or it can bring out the worst. it has brought out the best for Ujjivan. We stand as committed as passionate about financial inclusion. We are taking the discussion on financial inclusion to digital inclusion now, which you also will notice on the last slide in the investor presentation. But more importantly, we stand as committed, as purpose led as ever. We will make sure that we cater to the un-served segments in a manner that technology is at the forefront. We do believe that technology can play a very significant role in bringing up the upliftment and growth of these category of customers, even though we will add new category of customers. And we also think that as a corporate citizen, as a socially responsible corporate citizen, we will continue to play our part in helping the communities and the other stakeholders that we work with.

Thank you very much. That's all that I wanted to touch in my opening remarks. Sorry, if I've taken too long and let's straight get into question and answers. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Venkat Subramanian from Organic Capital. Please go ahead.

Venkat Subramanian: On the non-rural side, how comfortable are you with the collection efficiency, #A and two what is the profile of our borrowers there are they also in, is it all livelihood dependent and what is the profile of these customers in non-rural?

Nitin Chugh: So it's important to understand that rural is not all agri, rural is not all subsistence and, therefore, metro and urban cannot be directly compared with rural. So metro has its own set of occupation category. So we largely deal with people who run their own businesses. And if you look at our entire portfolio between MSE, housing and micro banking, we largely deal with the informal segment, we largely deal with the semiformal segment, we deal with people who run their own businesses. But they are not the people who would depend on daily earnings. They are not the people who are hand to mouth and they depend on daily wages. They could be a small proportion. The second is that we always look at a secondary source of income in our underwriting policies. So when we were doing this whole occupation led analysis, our credit team showed me that drivers are the most impacted and the question I asked them that how come our borrowers are drivers because I thought we were lending to women and I don't see so many women drivers in the cities. So then I was also explained that we look at the secondary source of income and that could be the spouse or any other member in the family.

So from a profile point of view, most of our customers are in their own businesses. Nearly 50% or more of them are in what we now call as essential services of groceries, dairy or those kind of things. The profiles, which have got impacted rather a little more than the others are people who are associated with, let's say, the restaurant business, people who worked as waiters, for example. And I'm talking about microfinance. Or people who are let's say, housemaids, they are the people who are affected. Or people who are into the business of tailoring, which is a significant proportion of our portfolio, nearly 12% of our portfolio. So those are the types which have got impacted. But in general, we don't see a difference between the metro and the urban, metro, urban and the rural anymore. Yes, rural is more dependent on allied agri, it's not direct agri. They were lesser impacted, but now that the infection has also gone to the rural areas, that's the reason I explained that the gap between the collections efficiency is now narrowing between the metro and the rural areas.

Venkat Subramanian: That said, how would you view collection efficiency, meaning if it's still short of 60 or there about and one also notices that between July over June is not all that significant in terms of efficiency. What would be your comfort level here?

Nitin Chugh: See, we are comfortable, if you ask me whether we are happy. We could be a little more happier if it was better. I'm sure all of you would be happier if it was better. But at the moment, we are comfortable because we are in contact with our customers. That's most important. So we are not seeing this as a pattern, seeing where customers are willingly opting for moratorium irrespective whether they can pay or not pay. People are opting for moratoriums only where they either want to preserve cash, their cash flows or they have genuine difficulties, which again we are assessing through our field visits. So we are not unhappy about it, but we are also comfortable at the same time because we do have a clear sense of how things are improving and what customers are likely to, how customers are likely to behave in August and in September. So we only see things improving from here.

Venkat Subramanian: Okay. The other aspect that we didn't touch upon, which is pretty positive is the drop in cost to income. How much of it is sustainable and how much of it will you need to see as business improves or when situation improves?

Nitin Chugh: Yes. My team also just told me that I forgot to cover that. But I agree, that was one of the very strong outcomes that we were able to deliver. Now if you look at, there are parts of the whole expense line that we have which is in terms of, there are largely three parts as a bank. There are three things that we deal with. The first one is the finance cost, the interest outflow that we would have on our deposits or other obligations. Now we don't see that getting very impacted in any case, since the cost of funds is coming down for us, the cost of deposits is coming down for us. Incrementally, it will not be as burdensome as what it used to be earlier when we had migrated from an MFI to a bank and we had lots of grandfathered high-cost loans. We are, in fact also trying to see if we can repay some of our high-cost borrowings since we have so much of excess liquidity, so that's the first one. So the cost of funds is likely to continue coming down.

The second set of expenses are people cost or personnel cost. So, like I said that we are not the kind of people who believe in reducing our workforce just because circumstances are hard. We want to stand by each one of our +17,000 employees. I don't see a reason why the salary cost is likely to come down. And that's the reason we've reported exactly same to same numbers, 184 crores to 184 crores quarter-on-quarter.

Now that leaves us with the third line, which is the operating expenses, which is where we have worked the hardest to try and look at line by line and try and see how much of that can be altered on a permanent basis, how much of that can be deferred, how much of that is because of the fact that there was lesser business activity. So for example, let's say you look at the travel and some of the administrative expenses, which are directly linked to the volume of business, or some of them will obviously come back. And some of these other expenses will probably, would have got shaved off on a permanent basis. But, it's reasonable to say because we had said during our initial conversation especially at the time that we were listing, at that point in time if you remember we were at 76% cost to revenue as of March '19. We had said that we will bring it down to 70% by March '20, and then every year, we will keep improving by 5%. So by that logic and by that original plan, we were expected to be at 55% only by March of '23. Now we improved in the last quarter also. Our last quarter cost to revenue was 65%, 64.5%. This quarter, we've been able to bring it down to 56%. Now even if it stays at this level or goes up slightly, we are still well within the overall range that we have planned for over a three year period. So we are not excessively worried about that, but I can tell you that a lot of steps that we've taken, especially on the digital side and that is why I'm emphasizing again and again on digital because these are fundamentally going to alter the way that we are doing business and bring out a lot more cost efficiencies for us. So we do believe that there is a range which is sustainable. I don't want to commit to any number right now, but yes it is reasonable to expect that some of these expenses, which are linked to the growth of business and the nature of business will obviously come back. But some of them will also remain permanently reduced.

And. I would like to draw your attention to slide #31, where we've shown our operating expenses as a percentage to our average assets. So the 5.8% that you see here for Q1, 5% of that is actually fixed. And these fixed are obligations, which are either salaries or rentals or whatever else. We have been able to also renegotiate our rentals and one of the benefits that we got in the first quarter was a lot of the rent equalization entries that we could look at. But even if I remove that even if, let's say, we hadn't done any rent renegotiations, our cost to revenue would have been at 59.6% instead of the 55.9 that is reported. So we are still well within that range. And we are trying everything possible because now this is a very important set of objective for us to keep a very sharp eye on our expenses and we had started this, by the way from January itself. It's not like we were waiting for all this to happen. And that's the reason we improved in Q4 also.

Moderator: Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: So Nitin, just one simple question. How long or how many months do you expect it to take to get back to say a 95, 99 kind of percentage collection efficiency. You've highlighted qualitatively that probably the most affected kind of people or kind of job roles are not the ones that you are most exposed to, despite that we probably are at 56% kind of collection efficiency. So realistically, how long do you think it will take to get to that 95, 99% kind of range?

Nitin Chugh: Nishant, it's hard to project that right now. We are seriously waiting for the whole moratorium to get over. And let me also add that we are firmly on the side of the divide, which believes that moratorium should not be extended because that will help us in getting a clearer picture of how and when things will come to a stable level, some stable levels of ratios. So it's hard to say when it will go back to 95%, 99%. I can tell you that the new disbursals that we did in the month of May and in the month of June, they are at 99% collections efficiency. Now that tells you, since we are doing it to the existing customers, these are existing customers who have either repaid us in the past or are continuing to pay us even now. Now that tells us that there is no problem in terms of the behavior or the moral hazard. Just for the fact that people are aware of the moratorium and it is going to continue till 31st of August, we should wait till that time, wait till at least the end of this quarter. And by that time, much clearer picture will also emerge and that is when we should be in a position to talk a little more confidently about this.

But the thing that we are sure about is that things are improving. And that is what we are seeing on our daily collections and our daily interactions with customers, irrespective that the infection spread is also far more than what it was in April and May. We have all learned to live with that or we are continuing to learn to live with that. So, we should probably revisit this Nishant in September.

Nishant Shah: Fair point. And just one more question. Like some of the credit bureau data it's just like a big spike in 30 day over dues in Tamil Nadu, even in the month of March. So since you have a large presence over there, would you have any comments do you think that it's like some data reporting issue or is the situation on the ground in Tamil Nadu far worse than what these people tell?

Nitin Chugh: No, I think it's a data issue. We are also clarifying, and Sneh has more information on that, she can probably tell you.

Sneh Thakur: We've raised this issue with the bureau, and we are awaiting a confirmation from their side, but we believe it's just a reporting issue.

Nitin Chugh: We cannot go from 1 to 10 in just a matter a quarter because things on the ground are not different. Our collections efficiency in Tamil Nadu has been in the same range.

Sneh Thakur: And it's all lying in the 1 to 30 day bucket, so it has to be a data submission issue.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: So, two questions from my side. One is, I have noted mobile customer as a number was 5.3 lakh and our asset-only customer is about 6.7 lakh. The question was, sir are we saying that 80% of our customer is with us on mobile banking or that mobile-only customer is of liability side. So just to understand how much is digital from the asset side. And when we are saying we are in touch, are we saying also that people who is on our mobile banking platform we are in touch or we have actually physically talked to them. Just if you can give some color there?

Nitin Chugh: When we say we are in touch, it does not include the digital channels because those are self-served channels. So any customer who uses our mobile app or internet banking, we don't count it as being in touch. You can probably call that as been engaged, but certainly not being in touch because there is no way of collective feedback from there. As far as the mobile banking customers are concerned, the active number of customers, 531,000 for the quarter, these predominantly are nonmicro-banking customers, predominantly are liability side, the retail side of the customers. And that base, as you know is just about 7.5 lakh or so. So, it's a very good proportion from that point of view and we didn't want to talk too much about our mobile banking app in the investor deck, but it is important to highlight to you that our app is rated at 4.4 on the Play Store, which is just behind Axis at 4.7. So it's amongst the top rated apps also in the Play Store, and very, very actively used. And we always get very good feedback about our mobile app.

Amish Kanani: Okay. And sir, one more question that we have clearly seen on the deposits side franchise in the quarter where lots of banks have been questioned, it's heartening to know that our retail deposit customer franchise has grown. If you can give us some color of how we have grown. And sir, there are some banks which are saying that the same asset-only customers, they are choosing the liquidity. So they are in fact keeping the money in the same bank, in the bank account with themselves. So do we have some number how much of such things if at all are happening with us and is it a good sign of a cushion for us?

Nitin Chugh: See, we have been encouraging our assets customers, largely our micro-banking customers, to operate their bank account, keep their savings in the bank account. And if you remember, at some point in time, we had said that the average balances in the micro-banking set of savings bank accounts was nearly 1,500 to 1,600. Now we have seen people dipping into their savings, during this time. Which also shows to some extent that if they have difficulties then it is logical that people will dip into their savings. Or average balances on the micro-banking side have come down to a little under Rs.1,000 from the 1,600, 1,500 that there used to be.

But on the other side, what we have done on the overall new acquisition of the liabilities portfolio, as much as our existing portfolio of liabilities, we've set out a whole set of calling mechanism from April onwards. We got in touch with all the customers. I mentioned this the last time also that we had prioritized our senior citizen customers during April largely to find out about their wellbeing and staying in touch with them. But those kind of relationship-led efforts have really helped us in getting references from our customers and that's how we were able to source these customers digitally. We are focused on making sure that these accounts are funded. So our average balances for newly acquired customers is continuing to grow. And we believe that the effort that we're putting in also making customers use our mobile banking app or UPI payments or bill payments is also going to help us in generating better balances and better traction in the savings bank account. So, our liability side of the story is well in place. The whole strategy is also well in place and the overall indicators, all the important metrics, they're all looking upwards.

Amish Kanani: And sir, one last question on the capital raising side. We know we have quite, very well capitalized. So if you can share some thoughts on whether, how long we are away from the capital raise, thanks.

Nitin Chugh: You answered your own question yourself. We are adequately capitalized, we don't need to raise capital. So, I don't think we need to raise capital but yes, let's take stock at the end of the year.

Moderator: Thank you. The next question is from the line of Vikram Subramanian from Spark Capital. Please go ahead.

Vikram Subramanian: In one of your previous answers, you had mentioned about the driver category being the secondary income earners. Is it possible to share the composition of customer base which is dependent on drivers, dependent on restaurant incomes and so on?

Nitin Chugh: We can, but we can do that off line. We didn't want to put out everything also on the investor deck, but if you want to know, I can give you the top few indicators. It's not the secondary source of income, but by the occupation of the customer or the dominant occupation, if that makes sense. So nearly 21% of our portfolio is into some kind of business of manufacturing. Manufacturing would mean small, small things, small scale kind of making things. 20% of our portfolio is with agriculture, another 16% is in dairy and 16% is in essential services, largely groceries. So when you combine agri, essential services, dairy this is well in excess of just about 50%. And some of the small scale manufacturing also comes in the category of things which are mostly used more than the others. But the impacted ones, since you asked that question, let's say, the people who are employed with hotels or eateries or run their own eateries, that is just about 6% of our portfolio. People who are dependent as on transportation as a line of business, drivers or people who are dependent on drivers, that is actually only 1% of our portfolio. But what I meant to say was, that these are the people who were most impacted, doesn't mean that these are the most number of people in our portfolio. It is a very small proportion, but the impact that they are seeing in the section of income has been the most. Likewise, if you look at our customers who are maids or helpers or substaff, they are just about 3% of the portfolio, but they are again impacted amongst the highest.

Vikram Subramanian: Okay, got it. Just one more, one or two another point that was already raised. I'm just thinking of proposing the question in a different way. So, it's obvious that none of us can guess when the normalcy will return and based on that you had said it will be difficult till at least moratorium gets over as to when collection efficiencies will normalize. But do we have something like a timeline as to till when we will go at it from a collection efforts perspective, beyond which we might write off whatever is left over as over dues and then in the future, after write-offs, if we are able to collect them again, then that's definitely beneficial. But is there any timeline for writing off the remaining overdue customers similar to probably something like biting the bullet after demon. Of course, I understand demon was more a flash in the pan, and there were also some political hindrances. So is that something like that, some thought process done on that?

Nitin Chugh: No. That's why I clarified to the earlier question also, that we are in no position to forecast. We are in no position to say that how much of the book will be written off, no position to say that what percentage of the book will get into NPAs. The only thing we know of is that we have the money to provide for. We've done our own analytical modeling. We've done a whole round of efforts. We have also overlaid this with our own judgmental calls and taken a conservative view and therefore, provided for what we have provided for which we believe is sufficient in the current circumstances. And as things change and as things evolve, we will keep looking at this and keep taking calls on whether we need to provide for more or whatever it is. But it's too hard and too early to say right now as to where it is going to go. We should all give it the time that it needs for things to stabilize and more clearer patterns to start emerging. But what I do want to assure you and everybody else on the call, and I did this the last time around also, that we are not, we are just making sure that we are as prepared as we can, much better prepared than what we should be to be able to react to a situation the way it unfolds. If things get better from here, very good. If things get worse from here, we will take those calls at the necessary point in time, and that is why I've highlighted some of these strong fundamentals that we have, which should, hopefully give us the comfort that we will have the adequate buffer in case we need to dip into anywhere. But too early, Vikram we should wait for this for some more time.

Moderator: Thank you. The next question is from the line of Arun Kejriwal from Kejriwal. Please go ahead.

Arun Kejriwal: You have explained what has happened in the quarter and given us a very good idea of ground reality. Could you take us through what could be the scenario unfolding under the various rapidly changing movements with the pandemic in, let's say, the next one to three quarters and how the bank would be gearing up for this situation?

Nitin Chugh: So Arun, what I can say right now is that the scenario in terms of the economic activity seems to be improving substantially. That is what we are seeing, we are seeing all the high frequency indicators are looking a lot better. There was a report that in some of these high frequency indicators, the July numbers are slightly lower as compared to those that were reported in June. But in general, if you look at just all the high frequency indicators, which I'm sure a lot of you also look at, they're all looking upwards. So from a macro point of view, we are comforted the things are starting to look better and they are improving. And the clear indicators are in terms of the usual things like electricity consumption and fuel consumption and toll gate collections, et cetera. But nonetheless, the other ratios and the other high frequency data points are also looking like they're improving. Now considering that, the only thing which is unknown is that how individual states and individual local authorities are going to be reacting because now that has been left to the local administration to take calls, and I don't think we are going to have a national level policy in dealing with lockdowns and unlocking, even though the guidelines are going to continue coming from the Ministry of Home. But everybody is taking their own calls in terms of how they perceive the situation on the ground and their preparedness in terms of the health care infrastructure.

Now in that context, we are seeing that Tamil Nadu has announced a lockdown till 31st of August. We are seeing that West Bengal is saying two days of a week, we will have lockdown. We have seen that flights are being either allowed or disallowed depending on how the whole situation is evolving in various parts of the country. Now those are the unknowns and like, in Bangalore itself we went through a lockdown for nearly a week in July, which was not expected at that point in time, but yet it did come and thankfully it came with two days notice, so there was some preparation that people could do. Now in these circumstances, there will be some going forward and a bit of coming backward, which will continue to happen till we come up to a level where things are more stable and moving upwards. Now in this context, if I have to talk about Ujjivan, all the stuff that we've done, starting with our positioning, our positioning to whole the unserved, underserved and the lower income group, that whole our commitment to that segment is stronger than ever because we do believe that these are not just going to be impacted, but these are also the people who will have the largest demand for banking services and especially credit as things open up. So we are well prepared for that.

The second thing is that we have remodeled ourselves. We have transformed ourselves, not just the fact that we have reduced our operating cost and made ourselves more efficient. Most of the things will stay, like, somebody else asked a little while back. But at the same time, all the work that we've done on the digital side has fundamentally helped us to transform the way that we run our businesses and that is going to help us and manage the upward wave when it starts to grab a larger share of that and also stay ahead of the curve as far as business is concerned.

So that gives us the confidence that as things change and the first two things that I talked about are really not in our control. As things change, both on the health care side as well as the local administration led calls and things improve, keeping in mind the fact that we need to still keep our branches safe, our employees safe, all those things we will take care of, but all the work that we have done will be far ahead of ourselves itself what we have been in the past and much better than a lot of other people for all the work that we have put out, especially on the digital and the technology side and the changes that we've brought about in our own efficiency model. So, we are very, very optimistic and confident also and more than optimistic, we are extremely confident that depending on whichever way the situation goes, we will be able to ride the wave.

Moderator: Thank you. The next question is from Madhu Gupta from Quantum Asset Management. Please go ahead.

Madhu Gupta: I just have two questions. The first is, how many of our MSE customers are eligible for the government 100% guarantee scheme for MSME customer and the second question would be out of the loans disbursed, what percentage are fresh loans and what is capitalization of interest on account of loan moratorium?

Nitin Chugh: So the MSE portfolio, roughly about 20% of our portfolio is eligible for the CGT-MSE scheme. But we are still in the stage of finalizing the whole product program and the empanelment process. And we have plans to roll that out sometime in end of August. That's the first thing. Sorry, what was the second question you asked?

Madhu Gupta: The second is what percentage of the loans which you are disbursing are fresh loans and what percentage is capitalization of interest due to loan moratorium?

Sneh Thakur: So number of fresh loans are in the range of 5% and interest capitalization is in the range of 450 to 500 crores.

Madhu Gupta: So basically, you're saying 5% is the fresh loans and the remaining 95% would be the interest capitalized on account of loan moratorium?

Sneh Thakur: No. I'm answering two separate questions. As far as loans are concerned, 95% of loans disbursed are to repeat customers and 5% of fresh. Moving on to the next question, which was on the interest capitalization portion, we have roughly about 450 to 500 crores.

Madhu Gupta: Of interest capitalization?

Sneh Thakur: Yes.

Moderator: Thank you. The next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: I just had, if we look at our provision from Q4, that has essentially we have doubled our provision, and we have gone reasonably higher compared to industry. Would you say this is our benchmark in terms of provision is higher than the industry because you see a slightly more at-risk portfolio or you're providing it earlier and cleaning the books far more earlier than everyone else. Would that be a correct assessment?

Nitin Chugh: Let me just answer that before we go to the second one. See, there is nothing to read in between the lines here. I explained this very clearly that we have done our modeling and if you look at our portfolio in the past, our portfolio has always held up to very good quality, there is no reason why it should suddenly become bad and should worry us and therefore, we should go out and provide for more. So that is not the reason. We are very confident of our portfolio, we are extremely what should I say, we have a strong relationship with our customers, which gives us the confidence to say that things will be in control as things improve. But at the same time, it was important from our point of view to take a conservative stand. This only reflects our conservative posturing rather than anything else to do with the portfolio.

Moderator: Thank you. The next question is from the line of Viral Desai from Equirus Securities. Please go ahead.

Viral Desai: Sir, my question is regarding the new products that you spoke about. So what kind of yields do we expect and specifically for the gold loans part, how do you think the penetration difficulty would be for you all?

Nitin Chugh: These are matters of detailing, but in general, I can tell you without getting into specifics of gold loans or this loan or that loan, in general because our cost of funds is coming down, we have the, we are in a position to offer products at a lower yield, cater to slightly one notch higher in our overall market segmentation. And that is the view that we have taken in addition to the gaps that we might have in our overall product portfolio. Now, example of that is also, let's say the MMCV and used cars. Now all of us know that used cars, demand for used cars is going to be higher than new cars at least for some more time. We want to cater to that market. In our normal course of business, we would have probably introduced the used car loans, let's say in the end of Q4 or MMCV probably next year. But we have tried to bring that forward because we believe that is the segment to cater to right now. So it is better to go with how much of the existing market can we penetrate. We are, first of all taking a view that we need to serve our existing customers. Our customers have demand for these loans and products, which is how we had piloted and set up the vehicle finance business, that it was meant for the family members of our existing micro-banking customers. We are taking that further to our branch banking customers, our retail customers and the customers on the housing and the MSE side because we have demand from these customers as well. So we just want to cater to our existing set of customers and strengthen our relationships with them through all possible product categories. And as much as whatever they will keep asking us for, we will keep introducing those categories. And it will also be incidental that we will also go out and occupy market share of new to bank customers at an appropriate time, when we are willing to go and start acquiring new to bank customers.

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

Abhijeet: Question for Sneh on the microfinance part of the business. I wanted to understand what kind of data points high-frequency data points that you're able to observe on the ground, which will give you some indication or confidence to restart lending towards the second half of the year. And a related question on the small business part of the, small business loan part of the business on

MSME. What kind of revenue levels do you see them operating at currently and how they are different from the traditional microfinance customer? Thank you.

Sneh Thakur: I'll take the first question on the micro-banking side. So there are a couple of key factors, which will be important for things to get back to some level of normalcy. One will be the moving out of this whole moratorium period, which ends in August. And that should also follow through with the lifting of lockdowns in majority of our large locations where we have presence. And our ability to typically reach out to most of our customers will be a very important factor for performance to also significantly improve and the most important from the customers point of view will be their ability to restart their livelihoods and activities with the opening up of economy across most urban, semiurban and metro locations. These factors will be critical for the performance of our collection efficiency over the next few months and quarters.

Rajat Singh: Just to add on the disbursement side, we are looking at customers with a very good track record, all the repeat customers which we have and lending to those customers who are involved either in agri or essential services. So we are testing the water initially. For the last two months, we have given loans to customers whom we are 100% confident of. We have also continued to observe all the rules like three lenders, overall exposure limit. And to ensure that their income is in line with the loan which they are taking, we have also introduced additional checks and balances in terms of doing tele verification, et cetera in microfinance client base as well. Basis this, we are taking our call and we have started small. In May, we had disbursed very small amount, then we have increased it in June, and July further, we have taken it up higher. So we are taking step one at a time and also observing the portfolio quality of these loans very, very closely. As Nitin mentioned in his remarks, these loans are as of now have very good track record and almost at 99% of the payment.

Abhijeet: Just one clarification, if I may. The disbursements that have happened in the month of June and July to existing microfinance customers, fair to assume that those would be part of moratorium or not really?

Sneh Thakur: No. They are regular in terms of their repayments and hence eligible for repeat loans.

Rajat Singh: So any customer who has taken loan in the last three months, they will not be considered part of moratorium because they are aware of the situation and still they have requested for loans. So, that's the discussion we have with those clients, they won't be part of the moratorium as they have taken this loan after considering the current situation and we have also assessed them well.

Nitin Chugh: And in any case, 99% of collections efficiency as usually is coming around.

Rajat Singh: Yes.

Sneh Thakur: And their existing loans were closed before the new loans were disbursed.

Nitin Chugh: Probably the question that you're trying to ask is that if we are giving repeat loans to people to service their existing loans, that is not something that we do, and we will never do that. So these are all to the standard customers.

Moderator: Thank you. The next question is from the line of Gaurav Jani from Centrum Broking. Please go ahead.

Gaurav Jani: Just a couple from my end. Firstly, I wanted to understand on the collection efficiency. We reported about 54% in June and 59% in July. Just wanted to understand, simply speaking, so is it fair to assume that the customers that paid up in June also paid up in July?

Nitin Chugh: Yes. We can't say it's one-to-one match for those customers, but customers who would have paid us in the month of June would have opted out of the moratorium. And it is safe to assume that they would have paid us in July, but that reconciliation will happen between today, tomorrow, for those who have requested us.

Gaurav Jani: Got it, that's helpful. Secondly, I just wanted to understand what would be the reason for maintaining a higher level of borrowings. So congratulations to us for actually improving our trajectory of deposits. But why are we maintaining such high level of borrowing because I'm sure you would understand that actually has a negative carry, so?

Nitin Chugh: You mean liquidity or borrowing?

Gaurav Jani: Yes. So my point is, despite of we having sufficient deposits, we still have a high level of borrowings. Even on a Q-o-Q basis, we saw some accretion in borrowings. So that is what I?

Nitin Chugh: Some of that was, I can say it was too tempting to let go off at the cost at which it was coming. So we did pick up 600 crores from NHB, we did pick up 500 crores from SIDBI at a low cost because it was available because we wanted to also change the whole mix in our funding to keep reducing the overall cost for ourselves. Now that the deposit inflows is also has been rather very healthy, we obviously as I said that in my opening remarks also that we are also trying to pay back, repay some of the high cost borrowings that we've had for in the past. So this rebalancing of the funding mix will continue to happen till we reach a more acceptable level of cost of funds for ourselves, which will get reflected in our cost of deposits. It will also show up in the way that we manage some of the old borrowings that we have by replacing them either with deposits or with any other kind of low-cost funds.

Moderator: Thank you. In the interest of time, we'll be taking last three questions. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: I have just one question and that is a bit of a clarification on your accounting policy. So let's say, a person who has Rs.100 outstanding assuming he is under moratorium and he's getting charged 20% interest, so he's having Rs.20 of interest payment. In this quarter, let us say, his due is Rs.5. Now because he has taken moratorium, his tenure has also been shifted by three months. In this case, what is the interest that is being accrued in 1Q. Is it Rs.5 or much lesser than that because his tenure has been shifted? Thank you.

Nitin Chugh: Upma is going to answer that for you.

Upma Goel: So the interest accrual will be of Rs.5 because that gets added to the capital. And then on the revised amount, amortization schedule is being brought down. So the amount will be 5 on the interest side, accrual.

Jai Mundhra: It will not be the interest on interest. It is the plain interest that will be accrued.

Upma Goel: Yes, it's a plain interest, simple interest not interest on interest, but this accrued interest will get added to the OSP, that's principal outstanding.

Moderator: Thank you. The next question is from the line of Rahul Picha from Multi-Act. Please go ahead.

Rahul Picha: Sir, I just wanted to understand, if we look at some of your peers, the larger banking peers and look at their collection efficiencies, they have much higher collection efficiencies than what you have reported. So is the difference because of the geographical presence that you have or it is because of the occupations that typically your clients would be engaged in. Can you throw some light on that?

Nitin Chugh: We can throw a lot of light on that, but we can throw light on what we have done more than what others have done. And see, that is the reason we've put this out on a very transparent basis as to what we are calling as collections efficiency. We saw during the quarter and even now everyone has a different way of reporting, everyone has a different way for interpreting. And therefore, there is no one consistent definition, which is coming out in terms of collections efficiency or even moratorium in that point of view. So, I don't want to be commenting on anybody else, whether they have reported lower or why have they reported lower. But all I can tell you is three things. Number one, our portfolio has always been of very good quality, largely because of our underwriting standards, the policies that we followed and very careful customer selection. So they cannot be a reason that suddenly this portfolio starts to look dangerous or difficult that is one.

Two, we have looked at making sure that customers who need to be given moratorium because they're asking for it we should not be denying them. So we have been more than generous in offering moratorium to our customers if they have asked for it rather than nickel-and-dime with them saying why do you need and why should you not continue to pay. And that also goes in the context of highlighting that we will never be aggressive with collections with our customers because we do want to stand by them. We've always done that in the past also.

And number three, this whole concept of collections efficiency, we have adequately explained in our investor presentation also as to what it means, whether it means that we have collected and we have very transparently said that for the month of June, the demand for the month of June against that what have we collected is really what we are reporting as our collections efficiency and the efficiency has to get tracked on a duration basis. You can't track efficiency on a long-term basis because it's on an everyday basis. But yet, everybody has a different definition somebody will report it weekly, somebody will report it daily, somebody will report it for a longer period of time. But we don't have any worries on the portfolio. But at the same time, like I said we want to be conservative and that's the only reason why we've taken provisions.

Moderator: Thank you. We take the last question from the line of Hemant Patel from Alder Capital. Please go ahead.

Hemant Patel: I have a particular question on one of your slides where you mentioned that the digital collections are at 37% as of July ended. And just wanted to understand how do you see this trending over, let's say a year or two years down the line. Can you see it come around to a 90% level when things normalize and what is the implication of that on the workforce in terms of the number of employees that you have while I completely understand and I agree with what you have done in terms of retaining staff at this particular moment, but will that evolve into a lower staffing at an eventual point of time when you are collecting more on a digital basis and would that also have an implication on the cost to income ratio?

Nitin Chugh: So the first thing is that we had estimated that we will get to 40% by the end of the year. We're already at 37%, so that tells us that we can be much more than this. Whether it's going to be 90 or lesser than that, I have no idea. We'll have to go and wait and see because it also requires acceptance from a customer's point of view which we are seeing very encouraging feedback coming back from customers. Now this is going to release bandwidth for our people, which means that our people can use that time more efficiently and effectively, not just this but even our effort on trying to do repeat loans over the phone will not require people to go out on the field, which effectively means that we can do one of the two things. One is that we can operate with lesser people or the second thing is that we can operate with the same number of people, and we're looking at a much higher proportion of generation of top line as things improve. We would choose the second. We would like to believe that we can improve our efficiencies and productivity significantly. And that will more than compensate for all the time that we have lost during this time. And, there is no problem with the market there is enough and more of the market which is available. We are also coming up with a fairly clearer plan on how we can reskill, upskill and redeploy people into other businesses if we have to do that, and that will also be something that we will continue doing during this financial year. So all in all, it is safe to assume that wherever we find a chance to improve our efficiency, we will use that up to compensate in productivity.

Hemant Patel: Just one more question on the same aspect. For the consumers who are actually, borrowers who are actually repaying digitally, would you have an assessment as to how many of these are actually making payments through, let's say a feature phone versus a smartphone and how is that evolving?

Nitin Chugh: See, these apps are available on smartphones.

Hemant Patel: Sorry?

Nitin Chugh: The apps that we have where customers can repay digitally, which is Paytm and Instamojo, they are smartphone interfaces, right. So we haven't got into details of feature phone and smartphones, but it's also important to know, since you asked that question, that it's more than 35% of our borrowers, even in microfinance have a smartphone which is no different from what we see in the urban and the metro regions from an overall penetration point of view.

Moderator: Thank you. I now hand the conference over to Mr. Nitin for closing comments.

Nitin Chugh: Well, thank you very much for joining us on a Saturday morning. I really appreciate all your questions and all the insightful questions that you've asked us. It will also help us in thinking through some of our own strategies. And I just want to end by thanking all of you. Stay safe, look after yourself and your family. Thank you very much.

Abhishek Murarka: Thanks, Nitin. Thanks for giving us the opportunity to host the call and congratulations to your team for the last quarter, and all the best for the upcoming quarter. Thanks a lot.

Nitin Chugh: Thank you, Abhishek.

Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Securities Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.