"Ujjivan Small Finance Bank

Q2 FY '23 Earnings Conference Call"

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MODERATOR: MR. ARASH ARETHNA – IIFL SECURITIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Ujjivan Small Finance Bank Limited 2Q FY '23 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant line will be in the listen-only mode and there will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Arash Arethna from IIFL Securities Limited.

Arash Arethna: Thank you, Vivian. Welcome to the participants for the Ujjivan Small Finance Bank 2Q FY '23 Earnings Call. From the management side, we have Mr. Ittira Davis, MD and CEO; Ms. Carol Furtado, Chief Business Officer; Mr. M. D. Ramesh Murthy, Chief Financial Officer; Mr. Martin P. S., Chief Operating Officer; Mr. Ashish Goel, Chief Credit Officer; Mr. Vibhas Chandra, Head Micro Banking; and Mr. Deepak Khetan, Head of Financial Planning, Strategy and Investor Relationships.

I'd now like to hand over the call to the management for their opening remarks, and then we can move to Q&A.

Ittira Davis: Thank you, Arash. Good evening, everyone, and welcome to our Q2 financial year '23 earnings call.

We began this financial year with a great quarter, witnessing an all-around performance, along with improved profitability. Q2 further built on that good performance. Our disbursements continue to track the INR 4,000-plus crores mark, which has now become a new normal. Our gross advances are up 8% against June '22 and 44% against September '21. This is in line with our guidance of 30% growth for the financial year.

As we have mentioned in our last earnings call, Q2 has delivered strong deposit growth, INR 1,947 crores of incremental deposits, marking 11% growth against the previous quarter and 45% growth versus September '21. Most of this growth came from retail, which is now 61% of total deposits. On the liquidity front, we also continue to tap alternate channels like IBPC, securitization and term loans. We also raised sub-debt and fresh equity this quarter, taking our CRAR to 26.7%.

On the asset quality side, sustained collection efficiency and normalized leverages coupled with strong recoveries continue to drive lower PAR and NPAs. We maintain our innovation on credit costs that with sustained collections and improving credit parameters, provisions would be sub-1% this fiscal, which is below normal. This would be supplemented by strong recoveries. As of September '22, our NNPA is just at INR 8 crores or 0.04%. Also, our SMA book as well as restructured book has shrunk further, indicating the reduced stress.

I would also like to highlight that as of 30th September, '22, our total provision on books are at INR 1,126 crores, of which INR 115 crores standard provision, INR 762 crores account level NPA provision and INR 250 crores floating provision. The entire floating provision of INR 250 crores created in June '21 continues to be there on our books and can be utilized for making specific provisions in extraordinary circumstances with prior approval of the Reserve Bank of India. Only INR 160 crores is utilized for NNPA/PCR calculation, INR 30 crores towards Tier 2 capital and the balance INR 60 crores has been grouped as part of other provisions without utilizing the same towards Tier 2 capital. This amount continues to be earmarked for utilization for NNPA or PCR as and when needed.

The outcome of all this put together is the highest ever quarterly profit, PPoP of INR 385 crores and PAT of INR 294 crores. Credit cost is negative this quarter, as I mentioned, that while slippages have come under control, recoveries continue to be strong. Also, I would like to clarify that as per regulatory guidelines, we have revised the treatment of bad debt recovery. Since Q2 financial year '22, we have been netting it off from credit costs. However, this quarter onwards, we have restated the earlier treatment, which is showing bad debt recovery as part of other income. This leads to increase in income and PPoP on the one side and credit costs on the other. But PBT and PAT remains the same. Prior period items have been restated for your reference.

With the recent equity raise, we have complied with the SEBI requirement for minimum public shareholding, following which the both the boards have approved a revised scheme of amalgamation with our promoter Ujjivan Financial Services. The same has been submitted to exchanges and the Reserve Bank of India. We are in process to get the requisite regulatory approvals, post which we can approach the NCLT. The entire process may take around 12 months.

The outlook now for the rest of the year. As promised on last call, we're now looking at growing our platform further. We have added 15 branches this quarter and we'll add a similar number in the second half of the year. We are keeping our branch strategy a bit dynamic to complement our growing digital presence. I'm extremely delighted to mention that we have launched a mobile banking app, which is first of its kind to target customers who are not tech savvy. It is called Hello Ujjivan, and it's based on voice and video in vernacular languages. We have it in eight languages. The same is now available for customers to download and use.

We would be encouraging our semi-literate customers to use this app and increase penetration of digital banking.

This will have multiple benefits in the long run. We continue to invest in technology and other digital platforms to grow our business, volumes, assets and liabilities, both services, improved processes and overall reach our customers. I would like to reiterate that our focus this year is to consolidate our businesses and make them profitable and invest in new avenues for growth.

We maintain our 30% gross advances growth guidance with deposits growing a little faster. While cost of fund is increasing, our focus is to grow CASA to reduce the rate of increase of the cost of funds. Also, time-to-time, we'd like to evaluate and pass on the increased cost of funds as and when it is possible to do so. For example, we took some rate hikes in September '22 on our asset book. We are monitoring our operating costs very closely and aim to bring in efficiencies through process improvement and productivity enhancement. This is a continuing process.

We look to hold our cost-to-income ratio comfortably below 60% for the financial year '23. H1 cost-to-income ratio is at 55%. Also, we had earlier guided for a 2.3% return on assets, which we said is a conservative guidance. However, our first half performance, we are confident of a comfortably higher ROA. The second half would be a bit different than the first half because of a couple of items. PSL income might be a bit lower and opex might be a little higher as we invest in branding and also expand our branch network. NIMs we believe will be around 9.5% for the year. Overall, the second half of the year would be similar to the first half in terms of overall profitability.

As we discussed earlier, the risk to this guidance is the inflationary pressure that's growing in the economy and the resulting rate hike movements. Also, we would be monitoring the global geopolitical scenario. Overall, I see financial year '23 as a strong comeback year for Ujjivan, which would create a solid platform for the next growth cycle. I'd like to stop here and request the operator to begin the Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer-session. Participants who wish to ask a question may kindly press star and one on your touchtone telephone. If you wish to withdraw yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Renish from ICICI. Kindly proceed.

Renish: Congrats on a great set of numbers. So sir, my question is on ROA guidance. So if we look at the first half '23 ROA, it is already at around 4%. And when we are guiding at 2.3% for the full year, it suggests that the second half profitability will be much lower. Though you have mentioned about the investment towards infrastructure and the bank building, but why we're expecting half ROA in second half?

Deepak Khetan: Renish, Mr. Davis just said that we are expecting much higher than what we guided. So we guided a conservative ROA of 2.3% earlier. And now we are saying that our full year ROA for this year would be much higher. He also mentioned that second half would be more or less similar to the first half on the overall profit number or profitability basis. We're nowhere saying that second half would be poor than first half.

Renish Bhuva: So would you like to revise your ROA guidance to 4%? I mean, that is what the projector suggest.

Deepak Khetan: We would stop here and not give a number of ROA.

Ittira Davis: We have given you a profit guidance because we said second half will be similar to first half.

Renish Bhuva: And sir, secondly, on the growth guidance. So of course, I mean, AUM growth will be 30%, but would you like to highlight also the key growth drivers amongst the broader segments?

Ittira Davis: Yes, our overall business is growing and that will continue to grow because our disbursements are north of INR 4,000 crores quarter-on-quarter. So that our OSP will continue to build on that basis, on that disbursement basis. So the yield from that portfolio will be substantially higher with each passing quarter. So that will be the basic growth drivers. In addition to that, in this quarter, we had some PSL income and some other income coming in. But the other most important thing is our recoveries, our NPA recoveries and our collections. So that we expect to continue to be good for the rest of the year, but perhaps not as good as the second quarter or first quarter, but still at good levels. Not very good, but good.

Deepak Khetan: Renish, for the first half, bad debt recovery was roughly INR 56 crores. So that is what Mr. Davis is saying. It might not be INR 56 crores, but it will be a very good number because it's a number which generally tend to slow down as the NPAs are old or the write-off account gets older and older. Though so far we have not seen that flattish kind of a growth coming -- a number coming in.

On the PSL side, we have booked a good amount of PSL in the first half, 9.2% or 9.3% in the first quarter and INR 14-plus crores this quarter. So we don't expect a very big number in the second half.

So these are the two numbers which we do not expect to be coming in the second half. But overall, given that the business volumes have increased, the P&L size has increased, we do not see the overall P&L to be very different compared to what the first half P&L numbers are.

Renish: So because -- in fact, my question was around the AUM mix impact. So what I was trying to get a sense is that you have the 70-30 mix, which has been actually static from last three, four quarters. So how should one look at it?

Ashish Goel: So Renish, this -- the next two quarters are not going to see any significant change in the current mix that we have. Because as we said in the previous two calls also that micro finance for us has seen a very good demand from the market. And therefore, the disbursements have continued to be very good. And the secured products obviously take a little longer to build a book. Therefore, the mix is not going to be significantly different in the next two quarters as compared to the last two.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus. Kindly proceed.

Shreepal Doshi: Congrats on great sort of numbers. Sir, firstly I wanted to understand and get some sense on what was the slippages, recovery and upgrades during the quarter?

Ashish Goel: In terms of, slippages was about INR 75 crores and the upgrade was INR 146 crores. In terms of percentage, it was 0.4 and 0.7.

Shreepal Doshi: So the upgrade you are saying overall reduction was INR 146 crores. But if you could say what were the other like the recoveries would be?

Ashish Goel: So overall, we look at recoveries and upgrades as a single unit. The last three quarters, I would want to say that our slippages have come down from 1.2 to 0.8 to 0.4. And the upgrades have remained always higher than the slippages. So we've seen a net reduction in all the three consecutive quarters.

Shreepal Doshi: Sir, with respect to the reverse merger aspect, so I heard that it will take another 12 months to sort fructify?

Ittira Davis: It's the overall timelines because we have to get clearances from RBI and from the stock exchanges, following which we will go to the NCLT. So how long it takes with each of these bodies is not certain. So this is a conservative number we have given of 12 months. We hope it will be faster, but we are just putting that as a rough estimate at this stage, because we have submitted all these papers to RBI and to the stock exchanges last month. So from last month, we could say 12 months is a conservative estimate. We also contained in the last call that we expect it to be completed by September of next year is the indication that we have.

Shreepal Doshi: Sir, the last question was on credit cost side. So you said it will be -- like for FY '23, it will be less than 1%. So I expect second half to have relatively higher as compared to first half on the credit cost side. So is it because there will be some write-offs that could be from the restructured pool, which is having a correction efficiency of close to 88%?

Ashish Goel: So on the credit cost, there are two factors that I would want to highlight. One, our SME pool, which is now about 1.7%. So as a result of that, our incremental slippages, as I was saying, the trend has been downward. And last quarter, we had about 0.4%. So therefore, this trend we expect to continue because our restructured assets, which I would want to give you some numbers.

We had restructured micro banking portfolio of about INR 944 crores and we have collected almost INR 600-odd crores out of it. The book that we currently have is -- I'll just give the exact number. So the INR 222 crores is the book that we currently have, of which INR 110 crores is NP and fully provided. So we don't see too much of a risk in terms of the restructured portfolio. The credit cost would happen from the existing NPA moving to higher buckets because slippages are coming down. Existing, we have some NPAs which will move to higher buckets. And that's where we expect the credit cost to come from.

Shreepal Doshi: So just one sense, I think the last three quarters, our disbursements have been pretty strong. So how is the new book performing in terms of asset quality? And what is the steady state sort of business as usual credit cost that we are looking at from, say, FY '24 onwards?

Ashish Goel: So in terms of new book, we continue to have a 99.5% to 99.7% collection efficiency. On micro banking, which is our largest portfolio, about 85% of our book is new book, which was disbursed in the last four quarters. And therefore, the portfolio quality is quite stable there, 99.7% to 99.8% is the collection efficiency. Old book, which is about 7% of book, which is more than two years' old, that has slippages and that accounts for whatever fiscal '23 has. In terms of credit costs, we will continue to see 100 to 150 bps in a normalized year.

Moderator: Thank you. Participants are requested to kindly restrict your question to two per participants. The next question is from the line of Harsh Shah from Dimensional Securities. Kindly proceed.

Harsh Shah: My first question is pertaining to the AUM mix. Since you are entering a very high interest rate regime, so is it a conscious decision on our part to maintain the MSI book at a higher level? Because earlier, we were guiding of 60% kind of contribution from MFI and 40% from non-MFI. So is that the thought process behind keeping the MFI book at higher level, because currently we are at around 70%?

Deepak Khetan: Harsh, it is not a factor of the interest rate scenario in the market. We have been mentioning over last couple of calls that given the micro finance industry coming off from a very bad two years, there's a very high credit demand which is there. And that is interim, while the other businesses start delivering very high volume in terms -- because anyway the micro finance portfolio for us is big. So it will take time for other businesses to start delivering in that absolute amount. So there's no such thought process on the interest rate cycle.

Ittira Davis: We are still committed in the longer term in the next three years to five years to balance that portfolio as we have indicated in previous calls. So that strategy remains intact. The focus is on growing the secured book also.

Harsh Shah: And second question pertains to the kind of asset, AUM growth we are seeing, we are guiding 30%. Then probably even after that, we will be higher double-digit. So what is the strategy on the liability side? How do we plan to catch up in terms of liquidity to maintain, to sustain that kind of growth? And when we tap the external borrowing market, so what would be your incremental borrowing cost on that side?

Carol Furtado: So I'll take the first question. We have not changed our strategy. We are going very strong on retail granular growth. And the same thing of having our customers segmented into various categories like the high net worth, senior citizens and having specific programs for that is still under traction and we are going ahead with that. We are also opening branches. One of the advantages that we have is on the interest rate, and we are taking a lot of -- we are getting good deposits from these customers across the segments. Our customer service and technology is also helping us do that. We are also working on a very strong branding for Ujjivan, and that is going to help us in accelerating our deposit growth. And the focus is also a lot more now increasingly on the digital.

Harsh Shah: And then incremental cost of borrowing?

Deepak Khetan: Incremental cost of borrowing right now what we would probably be looking at is not really a normal bank loan or term loan or something, probably we can look at a refinance facility or something. So that may not be very expensive, would be more or less where the current cost is there for the current cost of borrowings are there. It would not be very different from there. So we will get to know the final number when we get the facility, but would not be very different.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Kindly proceed.

Deepak Poddar: Sir, first off, I wanted to understand on the accounting adjustment you mentioned that the bad debt recovery is accounted in other income. So basically, other income and then the provision is kind of nullifying each other, right? So the PBT and PAT remains same, right?

Ramesh Murthy: Let me answer. This is Ramesh Murthy here. If you recall, there was a master direction driven by RBI in August 2021, which again, they reverted to the original position in November 2021. So all what we have done here is that we have regrouped this after confirming to the RBI master direction, as always, which is why the recoveries from bad debt previously written off have been added to other income.

Deepak Poddar: And so just wanted to understand now the going forward other income -- because we are seeing a lot of variability, right? From INR 90 crores, INR 100 crores, it has jumped up to INR 150 crores this quarter. So going forward, if I have to, I mean, understand what should be the right range for other income? I mean, so some understanding on that, if you can provide?

Ramesh Murthy: Range is we cannot predict, because that depends on the recovery which we get. So, and Deepak has already mentioned that whatever we were having on the PSLC income, we have taken. And we don't expect that to be at the same level in the next half.

Deepak Poddar: So this INR 140 crores, INR 145 crores will reduce, right? Ideally, that recovery amount that has come this quarter will not come again in third quarter, fourth quarter?

Deepak Khetan: Deepak, I can say that there is no one-off on this other income. The only thing is what I already mentioned that the bad debt recovery depends on what kind of tools you have for bad debt recoveries. As we move forward, that pool will continue to shrink. So last quarter, we had INR 30 crores. This quarter, we have around INR 26 crores. And it's not too much of a difference, but there is some difference. And PSLC income is basically your book that you have. So we have booked around INR 25 crores of PSLC income in the first half. Second half, we will have some income, but we cannot say how much it will be there and which quarter it will be there.

Deepak Poddar: Fair enough. I got a hang of it.

Deepak Khetan: Rest, in other income, there is nothing else, which is a one-off. So these two items also will be there, but the quantum may be up and down depending upon the quarter and the overall business. That's it.

Deepak Poddar: And my second question, regarding your cost-to-income. I think you did highlight that you expect that to increase driven by branding exercise and infrastructure building. So I think it was about 53% this quarter. And overall, we are expecting below 60% for the entire year, right?

Deepak Khetan: So this quarter, it is 52%. And for the first half, it is 55%. What we are seeing is, again, we have taken a little bit of conservatism in the overall guidance like we have been saying. So overall, we are saying that comfortably below 60%, we will be there. And Mr. Davis has already mentioned that second half would be more or less similar to first half. So we do not see that 55% or 56% kind of a first half number as a challenge.

Deepak Poddar: Understood. Fair enough.

Deepak Khetan: One thing that we need to also see is the rate cycle, as the rates move up, the overall size of the P&L moves up with the income moving up, but the absolute opex does not move with the rate cycle. So that helps quantify.

Deepak Poddar: Correct. So the base effect you will get basically?

Deepak Khetan: Yes.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from HSBC. Kindly proceed.

Abhishek Murarka: Congratulations for the quarter. So my question is on opex. Now when I look at your growth of 30%-plus, plus on the retail liability side, you're having to work with -- on granular deposits. On the other hand, you've not really added a lot of branches and your employees have actually, number of employees have actually come down in the last two quarters, three quarters. So how long can this sustain? As in how much capacity is there in the system to sustain growth before you have to add branches and employees more aggressively?

Ittira Davis: I think in our opening remarks we said the branch expansion is going to take place continue. In the second half, we'll add a few more branches. But next year, we'll be going back to a more normal branch growth plan. And obviously, with that, staffing will also grow. So those numbers we'll begin to look up. And yes, it will answer your question that with that growth we will be able to add to the granular growth of deposits.

Carol Furtado: And we will work on the productivity also. I mean, we've been working very hard towards getting our productivity levels up. And in a lot of our business verticals, it will surpass the industry standards.

Abhishek Murarka: Of course. So because your branch count hasn't really gone up much in the last few -- since 2020 because of all the pandemic-related issues in between, what would be a normalized branch addition? Let's say, to support a 30% growth, what kind of normalized branch and employee addition would you expect?

Ittira Davis: So we said because we also have a digital strategy, so what we had earlier is not a guidance for going forward. But I would say that this year, we are adding about 40, 45 branches this financial year. Next year, it could be a little bit more, could be towards the 75, 100 mark. But the numbers will keep shifting based on how our digital strategy presents itself because we believe that's very core to our digital strategy, and that is a cost contained strategy. So that is very important. So as that opens up and is successful, we will slow down the branch growth. But if that is not producing the deposit that we require, we will continue the branch expansion.

Abhishek Murarka: So sir, what I'm trying to gauge here is, is sub-60% a normalized cost to income level. So this year, I understand. But next year, a more normalized cost to income, would it be sub-60% or around 60%, how do we think about it?

Deepak Khetan: Abhishek, it will be probably much below 60%.

Abhishek Murarka: My second question is on credit cost. So I understand this year, again, sub-1%. But I believe you mentioned 100 to 150 bps normalized credit cost. Was that only for MFI or was that for, let's say, going forward?

Ashish Goel: So we were mentioning 100 to 150 bps for the bank as a whole.

Abhishek Murarka: For the bank as a whole? Okay. So in case your book doesn't require additional credit costs, would you still make that or would you, maybe this year you won't, but next year onwards, it gets back to 100, 150?

Ashish Goel: I didn't get the question, Abhishek.

Deepak Khetan: Abhishek, this year, we have not. When Ashish said, 100, 150, that was normalized the next year, not for this year.

Abhishek Murarka: No, no. Two edge. So 2H, if it is normalized, would second half also run at 100, 150 or this sort of kicks in next year in FY '24?

Ashish Goel: This is for next year. This year is a very exceptional year because we've done provisions in first and second quarters of last year and we are getting good recoveries this year. And therefore, you would have seen the bad debt recovery as well as the credit cost being very minimal in the first two quarters. We expect that this trend for the next two quarters will remain. However, next year onwards, those recoveries may not happen. So we would probably see 100 to 150 bps year-on-year for as a normalized cost.

Deepak Khetan: And Abhishek, also for this year, our PCR currently is almost at 99% with a NNPA of just INR 8 crores. And INR 90 crores of floating provision is not being used to calculate this PCR. INR 30 crores of that INR 90 crores is in Tier 2 capital calculation and INR 60 crores is being put under other provisions, which can be any time moved back to NPA provision if required. So this year, actually, like Ashish has been mentioning calls-after-calls, this year would be a little below normal kind of a credit cost. Second half, we'll see how the things move. If required, we probably doesn't look like anything, but we understand what you are coming from, whether we'll still go ahead and make some provisions. We haven't taken that call yet if additional provisions just to be on a safer side is required.

Deepak Khetan: But we'll continue to have about 1% as floating provision, that I think is sufficient for us to take care of any extraordinary circumstances.

Moderator: Thank you. The next question is from the line of Ashlesh Sonje from Kotak Securities. Kindly proceed.

Ashlesh Sonje: So a few questions on the individual loan book. That book has grown at a robust pace this quarter. Disbursements almost doubled Y-o-Y and up 35% Q-o-Q. So can you talk about what proportion of these IL customers would have graduated from our group loan product?

Vibhas Chandra: So yes, ILs has been our strategy one of the product in micro banking which is rare in the country. And the thought just -- the rule of the entire micro finance game changing with RBI policy coming, IL has become even more important, and we are focusing on IL. It is largely GL to IL graduation, close to 90%, and remaining 10% comes from the open market.

Ashlesh Sonje: So roughly 10% would be new-to-bank. And what proportion of IL customers would you say be new-to-credit?

Vibhas Chandra: For credit, negligible.

Ashlesh Sonje: And second question, again, on IL. So what would be your qualifying criteria for graduating customers from the group loan product to the individual loan product?

Vibhas Chandra: We see the customers repayment behavior in the group lending and also the repayment capacity of the customer. We also look at the data which is available in the market around the customers -- their MFIs and banks as well to assess customers repayment capacity. And based on that, we'll graduate customers into -- from GL to IL.

Ashlesh Sonje: Sir, more specifically, would you have any thresholds on experience with that customer, as in...

Vibhas Chandra: We normally graduate customers after two years.

Ashlesh Sonje: Any qualifying criteria on number of EMIs that he has paid with us so far?

Vibhas Chandra: So there are credit card area. But on an average, customers are graduated to IL after 24 EMI minimum.

Moderator: Thank you. The next question is from the line of Sharaj Singh from Laburnum Capital. Kindly proceed.

Sharaj Singh: Sir, my question is on the rate hike pass on. Are we looking to pass on any rate hikes to our customers? And do we see any pushback here?

Ittira Davis: On the asset side, we have done a rate hike in September of 50 basis points on the micro banking book. On the housing loan and the MSE, there is a fixed to floating conversion that we have from time to time. So those kick in also during this period. So on that basis, the higher interest rates on the book are brought in. And if necessary, we will look at the way in which rates are moving and look at further increases if required.

Sharaj Singh: Sir, actually I want to understand like given the segment and customers we deal with, how much of a rate hike can the customers actually bear? Is there some threshold we have?

Carol Furtado: In the MFI segment?

Sharaj Singh: Yes, in the MFI segment.

Carol Furtado: We have not received any pushback from the customers as of now. And we are quite competitive there. So we are not looking at a rate hike in the immediate future.

Deepak Khetan: And there are players who are much higher than us on the rate side. So that is not really something which is a much challenge here. It's more of a TAT and service and how you deal with the customer, which brings the customer back to you and the loyalty of the customer rather than the interest rate, because these are small tenures, small ticket size loans, so the EMI amount change is not something that pinches the customers' pocket much, whether customer believes or would prefer RMs or ROs who serve them much better.

Carol Furtado: It's mainly the customer connect and how we service the customers that matters most to them.

Sharaj Singh: And on the deposit side, how do we look at the rate hikes? How much have we passed on so far? And how do we look at it in the current quarter or the coming quarters?

Carol Furtado: So we recently did a rate hike and we are yet to see the results of that. We did one I think sometime in September also. And I mean, in August, we did a rate hike and we got a good traction there. Recently, we did another and we are yet to see the numbers coming through.

Sharaj Singh: Can you quantify this, please?

Carol Furtado: Sorry?

Sharaj Singh: Can you quantify the rate hikes that you've taken in Q1 and Q2 together so far?

Deepak Khetan: We'll come back to you on the exact amount, but we can tell you that among our peers, we are not like we have the highest rate or something. We are in line with the peers.

Sharaj Singh: One last question. You mentioned there could be a way looking at in the borrowing mix, you're looking at some change with the term loans coming in. Could you explain like when can we look at the term loan expanding in the mix?

Deepak Khetan: So we mentioned that we would be looking for some refinance facility. What happened is, during COVID, we allowed our refinance facilities to dry down because we were sitting on very huge pile of cash as disbursements were not happening. And after COVID, once we have now got back into action and the business has started to perform, now we are looking at expanding or going back and taking those refinance facilities. So that is something that we are looking at. We wouldn't be able to comment on the timing and all of that.

Ramesh Murthy: It wasn't term loans.

Deepak Khetan: Yes, we didn't mention term loan. We said, in the Q2, we have already taken it. And that was a small facility, not a big one.

Moderator: Thank you. The next question is from the line of Raj Shom from Shom Partnership. Kindly proceed.

Raj Shom: So sir, it's a question, like I see that -- first is like a clarification. Did you just say that your deposit growth will be higher than 30% loan book growth for this fiscal?

Deepak Khetan: Yes, we did say that our deposits will grow faster than 30%.

Raj Shom: Now the question is this. Like, when I listened to the con calls of the other banks, it's clearly a fact like there is a war on deposits, on getting deposits. But when I listen to you and listen to the presentation, I didn't get that feel. So what is it, for example, like I know it can be a little bit of a base effect as well, but can you just give some more color as to why like it's very simpler for Ujjivan to get the deposits, whereas, let's say, for the other banks it's becoming difficult. So if you can just throw some color on this, sir?

Deepak Khetan: Raj, thank you for pointing it out, but I would say, it's not simpler for Ujjivan, there's a lot of hard work and strategy that has gone behind it and a lot of good execution that our teams on round has been doing. Couple of things which I think Carol have already mentioned to one of the questions earlier, is that one, we have not done much of branding yet, which we are now doing, which Mr. Davis also covered in his opening remarks. There's a lot of focus on digital, which is now taking shape in a good form. One is the Hello Ujjivan app which was launched.

There was on the branding side, I would say that we did a good campaign on 15th of August. And the result of that was very good. It was a tactical campaign that we did on the Independence Day where a lot of ads were put on while the PM's speech was there. And we got very good feedback on that and a very good customer connect from there. We believe there will be a lot of future tactical campaigns that we'll do. So, one that would be there, branch expansion, like Mr. Davis has been mentioning, that would be there.

A lot of training of the ground staff has been there. A lot of focus on the service quality is being put. So while the service quality is already good, there's a lot of improvement that we have been doing. There's a lot of investment in technology side which is there. Our renewal rate on FDs are improving. Our business from our existing customers, now that we have a good base of customers on the liability side that is helping us, that ticket size is increasing. So all these things put together for us is helping us and giving us the confidence that the growth in the liability would be much faster than what the growth in the asset would be.

Moderator: Thank you. The next question is from the line of Pritesh Bumb from DAM Capital Advisors. Kindly proceed.

Pritesh Bumb: Congratulations on a good set of numbers. Just two questions from my side. I see the average ticket size has dropped on the MFI book. So are we now starting to do incremental lending to new to bank customers and on the lower cycle customers, which I think during the COVID, we had more into higher cycle customers?

Ashish Goel: Yes, you're absolutely right. Last year, we were focusing on repeat customers, Q3 and Q4. The ticket sizes had indeed gone up because repeat customers were almost 90% to 92% of our overall disbursements. In Q1 and Q2, we have added about 4 lakh new customers, new to bank customers. And as you know, new to bank is in the range of 40,000 to 45,000, are in the range of about 65,000. So that has brought down the ticket size. Currently, we are in the range of 54,000.

Pritesh Bumb: So incrementally, do you see or we get comfortable to continue to reduce this ticket size?

Ashish Goel: So it will be an outcome of the ratio of new to bank and repeat loan customers. We expect that the ratio that we currently have about 30 to 70, 30 new and 70 repeat, will continue in the next two quarters.

Pritesh Bumb: And a follow-up to that. Basically, the new cycle customers will be relatively higher rates is what we can assume compared to older cycle customer? Is that fair understanding?

Ashish Goel: No, there is no differentiation in terms of lending rates. So the rates are uniform. That rate is uniform.

Pritesh Bumb: And last question was, when we look at the share of mix between states of our MFI book, where are we growing incrementally? Because I would assume Tamil Nadu and Karnataka is almost at the upper range of your mix, right? So incrementally, which states we are growing by book?

Vibhas Chandra: So see our strategy from day one was to diversify in other states where we work and we work almost everywhere in the country except few states. And our share of like a banking portfolio is not more than 15%, close to 15% in state. So we have ensured that. At this point of time, I just see that as we mentioned in the last two earnings call also, that initially after pandemic ended, we were focusing on our existing customers as we were not able to serve many customers during pandemic.

And that is why the percentage of repeat loans were very high and that is why our ticket size was on the higher side in the previous quarter. As we have been able to serve the customers, we have moved to new customer acquisition, and that has led to the ticket size going down. But at the same time, if you see the growth, it is almost similar, not very different. Yes, there are some states where we see that overall industry level portfolio very high. But at the same time, our portfolio in these states are limited to 15%. And at the same time, there are states which have behaved much better during the pandemic like the Eastern part of the country, Bihar, U.P., Rajasthan, Gujarat, etcetera, where our branches are also not that saturated, relatively new, and we are seeing more growth there. At the same time, we all know that Assam, the industry is facing, see and there we are not growing at this point in time.

Second, in terms of ticket size, though the ticket size has gone down, but at the same time, we have an IL product program, where our ticket size is on the higher side. And with the renewed focus, we will be targeting GL to IL conversion more and we will be seeing IL percentage going up quarter-on-quarter going forward.

Moderator: Thank you. Ladies and gentlemen, the management would be taking last three questions. The next question is from the line of Yash Dantewadia from Dante Equity. Kindly proceed.

Yash Dantewadia: So my first question is regarding your branch growth plans. Which areas are you targeting? Is it urban, semi-urban or rural?

Carol Furtado: So in the branch growth plan, we are looking at both semi-urban and also Tier 2, Tier 3 cities are our focus areas. A few in the urban. And as a regulatory compliance, we need to also have 25% of our branches in unpacked rural areas, and that is something that we will also be growing.

Yash Dantewadia: Also, as we move towards normalized profitability, what I mean by normalized profitability is as we've already discussed in length, minus your additional collections and minus -- and a normalized provision, sorry, addition of normalized provisions, are these cycles that you kept in mind while saying that we are expecting the same profitability to carry on in the second half?

Deepak Khetan: Yash, we didn't understand the question. Can you please repeat?

Yash Dantewadia: I'll repeat it. As we're moving towards normalized provisions. This time the provisions were in minus because of collections. So when we move towards additional provisions, normalized provisions is what I mean, and when your other income becomes normalized, when your additional collections stop, is that what you meant when you said that we'll have similar profitability in first half and second half?

Deepak Khetan: What we said that bad debt recovery in the first half is good. And there has been a good amount of write-off that has been done in FY '21, FY '22 and first half FY '23, of that, roughly what we have collected in the last six quarters is a little over INR 100 crores. So we would have written-off INR 1,000-odd crores plus and we have recovered INR 100-odd crores or little more than that. INR 900 crores of that is still available from which we can recover. So based on how this book performed, the recovery will continue to be there. What we mentioned is, it's a kind of a cautious call that we have given that this number may, may not track the same trend. So they might be a little up and down depending upon the quarter and the economy and all that. On the provision side, I think Ashish had mentioned that the recoveries or the slippages are now more or less slippages are more or less normal and recoveries given that the sustained collections are there and there is a strong collection effort which we continue to put, I think we have token a very good slide there where we put in how the collection team has been moving since the last 10, 12 quarters. So if you see that, that also gives a kind of a trend how the collection effort has been put. So with that, we believe that the collections would be good and there would not be much of slippage going ahead.

Yash Dantewadia: Could you also tell me how your cashless collection has gone from 16% to 22%? What is the process behind this?

Deepak Khetan: Cashless collection for us is, there are two parts. One is a direct, direct digital where the customer deposits through GPay or some other digital means, where we are not involved through our manpower or any form and the money comes directly to our account. And there is another mean where they come and deposit in our collection centers where we have tie-up with the payment bank or some other fintech or where are -- and these two put together is 22%. There is another way where the CRO deposits the money into these fintech partners or the payment plan, which is another 35% or plus more of that.

Vibhas Chandra: So digitally payment is something though as our customers, large customers is micro banking. And one good thing that has happened out of the lockdown and pandemic is that both us and customers have learned to pay digitally. And due to pandemic only, we offset ourselves for all platform including all the wallet and on UPI, etcetera, to give option to the customer to pay it digitally as center meeting and movements were not possible. And we saw that customers responded and slowly our repayment on the digitally mediums are increasing. We have just launched Hello Ujjivan app for the micro finance segment. And with the help of the app, we are looking at increasing digital repayment quarter-over-quarter.

Yash Dantewadia: Also, this INR 250 crores floating provision that we've kept, it's written in the presentation that this is kept for extraordinary circumstances, right? So what kind of extraordinary circumstance you've been expecting in the future? Is it something like inflation or something else other than inflation?

Ashih Goel: Extraordinary circumstances is anything which is not in the normal course of business, like we had a pandemic about two years back.

Yash Dantewadia: So how long are you planning to carry this forward?

Ashish Goel: This is 1% of our overall book, which we plan to carry for some time till the time we see that there is probably no use for it. So we want to carry it at least for the next two quarters. And then based on whether we decide and RBI permits us, we will then take a decision on retailing it or withdrawing it.

Yash Dantewadia: Also, when you recently raised money at around INR 21 per share, you sold mostly to institutions. Can I know what was the subscription on the book? How much is it subscribed by, the book?

Deepak Khetan: Sorry, we cannot mention that as that's not a public information. What I can say that, there was a very strong demand from different kind of institutions, including insurance, mutual funds and a lot of large FIIs also. But beyond that, we cannot mention anything.

Moderator: Thank you. The next question is from the line of Darpin Shah from Haitong India. Kindly proceed.

Darpin Shah: So again on this loan loss provisions. In case, in FY '24 also we see a healthier collection efficiency of 99.5%-plus, and we don't require any additional provisions, will it be fair to assume that the...

Deepak Khetan: Darpin, I'm sorry. Darpin, Deepak here. Sorry to interrupt. Can you be a little more clearer. We can't hear you properly.

Darpin Shah: So my question was, assuming in FY '24, we see a superior performance in terms of collection efficiency, 99.5%-plus. So for our provisions then, will we create additional standard asset provision and create cushions for future or will we let it flow through in ROAs?

Ashish Goel: So Darpin, taking -- hiking standard asset provision really doesn't help in the long-term because, let us say, that there is an extraordinary circumstance like the pandemic when the NPAs went up to 10%, we continue to carry standard asset provision for the balance 90%. So that may not be a preferred strategy for us.

Darpin Shah: No, but keep on adding these provisions, won't it help in the longer run? Not only for MFI, but for other segments as well when we grow faster than the other businesses?

Ashish Goel: We will have to evaluate and create some kind of a countercyclical or a contingency provision if that is something that we have to think about. As of now, we are carrying about 1% of our book at floating provision. But whether another contingency provision or something else is also required to be done is something that we haven't evaluated as yet.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments.

Ittira Davis: Well, thank you very much for all those who participated and joined us in this conference and also to IIFL for hosting it. Thank you. And we look forward to seeing you at the next conference.

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