UJJIVAN SMALL FINANCE BANK
Build a Better Life

USFB/CS/SE/2023-24/51

Date: August 01, 2023

To,

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

Symbol: UJJIVANSFB

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

Scrip Code: 542904

Dear Sir/Madam,

Sub: Transcript of the Quarterly Earnings Call held on July 27, 2023

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform you that the Transcript of the earnings/quarterly conference call held on July 27, 2023 for the quarter ended June 30, 2023 is enclosed herewith.

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

We request you to take note of the above.

Thanking You,

Yours faithfully,
For UJJIVAN SMALL FINANCE BANK LIMITED

SANJEEV BARNWAL
Digitally signed by SANJEEV BARNWAL
Date: 2023.08.01 16:17:29 +05'30'

Sanjeev Barnwal
Company Secretary & Head of Regulatory Framework

Encl: as mentioned above

"Ujjivan Small Finance Bank Limited
Q1 FY '24 Earnings Conference Call"
July 27, 2023

MANAGEMENT: **MR. ITTIRA DAVIS – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED**
MS. CAROL FURTADO – CHIEF BUSINESS OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED
MR. MARTIN P S – CHIEF OPERATING OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED
MR. ASHISH GOEL, CHIEF CREDIT OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED
MR. M.D. RAMESH MURTHY, CHIEF FINANCIAL OFFICER – UJJIVAN SMALL FINANCE BANK LIMITED
MR. VIBHAS CHANDRA – HEAD OF MICRO BANKING – UJJIVAN SMALL FINANCE BANK LIMITED
MR. DEEPAK KHETAN – HEAD FINANCIAL PLANNING, STRATEGY & INVESTOR RELATIONS – UJJIVAN SMALL FINANCE BANK LIMITED

MODERATOR: **MR. RIKIN SHAH – IIFL SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Ujjivan Small Finance Bank Limited Q1 FY24 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rikin Shah from IIFL Securities Limited. Thank you and over to you, sir.

Rikin Shah: Thank you, Salil. Good evening, everyone, and thanks for joining the call. We have with us the management team of Ujjivan Small Finance Bank to discuss the business strategy and Outlook Post, the Q1 results. The management team is represented by Mr. Ittira Davis, MD and CEO, Ms. Carol Furtado, Chief Business Officer, Mr. Martin P S, Chief Operating Officer, Mr. Ashish Goel, Chief Credit Officer, Mr. M.D. Ramesh Murthy, Chief Financial Officer, Mr. Vibhas Chandra, Head of Microbanking and Mr. Deepak Khetan, Head of Financial Planning and Strategy, IR.

With this, I will pass on the call to Mr. Ittira Davis. Over to you, sir.

Ittira Davis: Thank you, Mr. Shah. Good evening and welcome to our first quarter earnings call. I am delighted to share with you our first quarter performance. Despite Q1 generally being a slow quarter, our performance has been robust, building on the strong base of financial year '23. Our Pre-Provision Operating Profit and PAT have reached new highs of INR458 crores and INR324 crores respectively, which is 52% and 60% higher than Q1 of the last year respectively. Even against Q4 FY '23 it is 12% and 5% higher respectively.

Our return on assets at 3.8% is again something that puts us ahead of our peers and that has been the trend for the last few quarters. Some of it is due to lower credit costs, but even our PPOP ROA at 5.4% is quite remarkable. We posted a return on equity of 30%, which also means that the business is self-funding itself, leading to an improvement in CRAR from 25.8% to 26.7%.

Now starting with the business numbers, we dispersed INR5,284 crores up 22% year-on-year, while the demand continues to be there, disbursement for microbanking was sequentially low due to Q1 being historically a weak quarter. We expect the disbursement to pick up again by the second half of the fiscal year. We acquired about 2.6 lakh new customers this quarter in microbanking. As our new branches move towards maturity, we will see more traction in micro-banking especially in the new customer acquisition.

Among the secured products, affordable housing which is now more than INR3650 crores, continue to show strong disbursements, with INR418 crores in the first quarter as against INR288 crores in the first quarter of the last year. The business is slowly moving to a hub an spoke model to improve operating efficiency. We have already opened four hubs in Ahmedabad, Coimbatore, Mysore and Jaipur. More will be commissioned over the next few quarters. As these hubs gain business momentum, it will further progress forward.

Moderator: I'm really sorry to interrupt. Well, sir, there is a lot of disturbance from your end right now, due to which you are not audible. If you could just readjust the microphone where it is placed, that would be great.

Ittira Davis: Yes, I'll just go through the business numbers again in dispersed INR5,284 crores, up 22% year on year. While the demand continues to be there, disbursement for micro-banking was sequentially low due to Q1 being a historically weak quarter. We expect the disbursements to pick up again by the second half of the fiscal year. We acquired 2.6 lakh new customers this quarter in micro banking.

Our new branches move towards maturity. We will see more traction in micro banking business, especially in new customer acquisition. Amongst these new products, affordable housing is now more than INR3,650 crores. We continue to show strong disbursements with INR418 crores in the first quarter against just INR288 crores in the first quarter of the previous year, that is FY '23.

Business is slowly moving to a hub-and-spoke model to improve operating efficiency. We have already opened four hubs, one in Ahmedabad, the other in Coimbatore , the other in Mysore and Jaipur. More will be commissioned over the next few quarters. As these hubs gain business momentum, it will further propel our growth.

The FIG dispersed INR 320 crores, up 113% year on year. MSME continues to be in transition. We have a few more technology related changes to be introduced before we ramp up the business. This will be much like what we went through during the housing transformation. So once that is ready, we are ready to launch. So we also launched the semi-formal lap product in Q1 and more products are in the pipeline. The business should start to develop towards the end of this fiscal year.

Vehicle finance and gold loans should also start to contribute in the second half of the year. Our grass loan book now crossed INR25,000 crores and as on June 30th was INR25,326 crores, up 30% year on year and 5% quarter-on-quarter. Talking about liabilities, our deposit grew 45% year-on-year and 4% quarter-on-quarter to INR26,660 crores.

We continue to see movement of current deposits towards term deposits this quarter, which is in line with the industry trend. Our retail term deposits grew 71% year-on-year to INR10,970 crores, while CASA grew 27% year-on-year to INR6,556 crores. Our cost of funds has continued to rise this quarter in line with the industry.

Despite pressure from cost of funds side, we were able to expand our NIMs this quarter. This was a result of consciously reducing excess liquidity which was driving a negative carry and pulling down NIMs and benefiting from the yield expansion of an effect of book repricing which we took last year. Last year we took, they had two repricings on the microfinance book, one in September and the other in March this year. All of those...

Moderator: Sorry to interrupt you, Apologies. Sir, there is a lot of disturbance from your line. Just let me quickly get you reconnected. Ladies and gentlemen, the management line is now connected.

Ittira Davis: I'll just go back a few sentences to our gross loan book. Gross Loan Book has now crossed INR25,000 crores and on June 30th it was INR25,326 crores, which is a growth of 30% year-on-year and 5% quarter-on-quarter. Talking about our liabilities, our deposit grew 45% year-on-year and 4% quarter-on-quarter to INR26,660 crores. We continue to see some movement of CASA deposits towards term deposits this quarter, which is in line with the industry trend.

Our retail term deposits grew 71% year-on-year to INR10,970 crores, while CASA grew 71% year-on-year to INR10,970 crores, while CASA grew 27% year-on-year to INR6,556 crores. Our cost of funds has continued to rise this quarter in line with the industry. Despite pressure from the cost of funds side, we were able to expand our NIMs this quarter. fund side, we were able to expand our NIMS this quarter.

This was a result of consciously reducing the excess liquidity which was driving negative carry and pulling down our NIMS and benefiting also from the yield expansion as an effect of our book repricing post the hike we took last year. Last year we took two hikes on the microfinance front, one in September and one in March this year. The full effect of that is being felt in this quarter and beyond. So our net interest income was up 32% year-on-year and 7% quarter-on-quarter, driven by gross loan book growth and yield expansion.

Coming to credit and collections, our asset quality remains sturdy with a GNPA of 2.4% versus 2.6% sequentially, while our NNPA continues to remain negligible at 0.06%. Slippages remain under control, with Q1 slippages at INR103 crores and upgrade and recoveries at INR77 crores. Restructured book now is at INR182 crores, with June '23 collection efficiency at 102%. While the NPA collection has started to move down towards normalization, bad debt recovery remained strong this quarter. We recovered INR35 crores. As we have already mentioned, our bad debt recoveries should be significant even in financial year '24, although it would be lower than what we recovered in financial year '23.

During the quarter, our branch expansion continued with 32 new branches added. 14 of these were in the east, 8 in the north, 6 in the south and 4 in the west. This quarter, and that takes a total to 661 as of the 30th of June. We will now be adding 70-odd branches for the rest of this year. We are in the final stages of testing our digital fixed deposit offering, which will provide seamless experience to our customers and help us to serve beyond brick-and-mortar.

Now an update on the merger with our promoter, Ujjivan Financial Services. The hearing of our application with the NCLT was completed on June 28, and we expect to receive the order soon and telling directions for scheduling the meetings of stakeholders and other directions as the NCLT may be in fit. On my succession plan, as I've been mentioning, the Board is working on identifying the right candidates. The Board is committed to identify the potential candidates with strong business orientation and a connect with the ground and dedication towards building a mass market bank. Both internal and external candidates are being considered. And much before the due date, the transition will be completed.

As many of you would have noticed, we have launched our nationwide brand campaign a few days ago, earlier this week. This campaign is a prominent step towards establishing Ujjivan as a mass market bank. Previously, we had not invested much on ATL brand campaigns, but moving ahead, we will continue to invest in brand building. This will provide our branches more awareness and help us build trust across our customer base. This in return will push our retail liabilities further.

To conclude, I would add that business momentum remains strong, reassuring our confidence towards the guidance that we shared at the beginning of this financial year. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes on the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Thanks for the opportunity sir. Two, three questions. Firstly, in the MSME segment we have seen some deterioration in asset quality and growth slowing down. We are reorienting that business. Can you speak about the strategy in which segment we will be operating in, what will be the targeted yields and profitability in that MSE book going forward?

Ashish Goel: Could you please repeat that question?

Nidhesh: So I'm asking about the strategy in the MSE book, given that we have seen growth slowing down, where we have been cautious and we are reorienting that business. So what is the strategy going forward? What segment, customer segment, yields, ticket size, we will be focusing on?

Carol Furtado: Hi, this is Carol Furtado. As we have been talking about the transition that has been taking place in our MSME segment, we have been talking about our customers under various categories. One is a semi-formal LAP, the other one is a formal LAP. We are also getting into the working capital facilities, supply chain, and digital MSME lending.

Semi-formal LAP, the target is semi-formal micro and small enterprises who are transitioning from the unorganized and the informal business models to the organized and formal business setup. Here, the offering would range from INR15 lakhs to INR1.5 crores, and the tenure or up to 12 years. We have already launched this product since May, and this product seems to be on a growth path.

The formal lab is where we would be focusing on formal, micro, and small and medium enterprises who are operational as an organized formal business setup. Here we are proposing to offer a loan size of around INR25 lakhs to around INR5 crores with a tenure up to 15 years. This would be set up in select locations to grow the lap portfolio.

The third line would be the working capital facilities, again, where the target is formal, micro, small and medium enterprises. This is to fulfill their business banking needs. And we would be offering a variety of products here, fund-based and non-fund-based facilities. Here again, the ticket size would be around INR15 lakhs to around INR10 crores.

Supply chain is again there, which is being worked on to meet the cash flow-based short-term funding requirements of our customers. And we also would be having digital MSME lending, which we will grow through our FinTech partnerships. You know, yes, we have been operational since May in the semi-formal lab segment. And we are investing heavily to build infrastructure and internal capabilities to strongly address the other four business lines in the MSME vertical.

And that is the reason why the transition is taking some time to operationalize. And we have made significant process in designing the strategy and we will be showing the progressive outcomes in the coming quarters. And the full extent of the investment would be visible in the span of the next two, three financial years.

Nidhesh: Sure. And is it reasonable to expect that the yields in this portfolio will be less than sub 12% given that we are largely operating in formal segment and higher ticket size?

Carol Furtado: Yes, the blended rate would be around 12%, 13%.

Nidhesh: Sure, and data keeping question on the customer acquisition in the microfinance group and individual loan side. What is the count of customers that we have acquired in this quarter? And what is the active customer base on both microfinance group and individual as of June '23?

Vibhas Chandra: Yes, hello, as far as you know, customer acquisition is concerned, we have acquired 2.6 lakh new customers this quarter. And what was your second question?

Nidhesh: I wanted the break up in group and individual, if that is possible?

Vibhas Chandra: Okay. For the quarter or the entire micro banking customer base?

Nidhesh: As of June 23, what is the active customer base in micro finance group?

Vibhas Chandra: In micro banking we have 40 lakh borrower base. Out of 40 lakh, 36.5 lakh customers are Group Loans and 3.5 lakh customers are Individual Loans.

Nidhesh: Sure. Thank you so much, sir. Thank you.

Management: Thank you very much.

Moderator: Thank you. The next question comes on the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Congratulations, sir, on excellent performance during the quarter and thanks for the opportunity. Sir, my first question is with respect to our individual lending book. We are seeing very good traction on that front. Can you share some qualitative aspect with respect to the book and the customer profile, given that it's a high ticket size loan. What traction we are seeing and what kind of customer we are seeing out there?

Vibhas Chandra: Yes, Agri loan is something which is a old business in Ujjivan. We started this business in 2008, long back, as we realized, there is a huge potential of customers upgradation from GL to IL. Our current average ticket size is close to 1.3 lakhs in IL, where the customer graduates after 2-3 cycles. And we see a huge potential here because a large number of customers actually try to graduate after 2-3 cycles. And there is a gap.

There are microfinance players and then there are other players also, who are into formal financing. But these customers don't get financed from anybody. We have started this, we have close to 3.5 lakh customers at this point of time, and we want to grow this business as we see huge potential going forward. Largely, customers are divided into three categories.

We have business loans, we also have agri- and allied business in IL, and a good amount of customers also take home improvement loans. These are the basic three categories of loans that we offer.

Shailesh Kanani: Okay, that is good. So, second question is with respect to yields on affordable housing segment, they seem to be little on the lower side. So can you just highlight about that and if there is any scope of improvement in that segment?

Deepak Khetan: Yes, the yield for the affordable housing segment is around 13%, which is excluding the MLAP business and it has been in this line only around 12.9%, 13% odd. And I do not understand what you mean that, it is on the lower side.

Shailesh Kanani: Just considering that it would be semi-informal segment, I was assuming that the yields might improve on that front. Just wanted to know your view on that?

Deepak Khetan: As we move more towards the Tier 2 and 3 towns and beyond that, yes, there would be a little improvement that might happen. Our yield on disbursement is around 13.2%. So for salaried, the yield is around 11% to 12% and for semi-informal, self-employed and all is around 14%.

Shailesh Kanani: Okay. That's all from my side. Thanks a lot.

Deepak Khetan: Thank you, Shailesh.

Moderator: Thank you. The next question comes from the line of Manish Ostwal from Nirmal Bang Securities Pvt. Ltd. Please go ahead.

Manish Ostwal: Yes sir. I have a question on your comments in the press release, where you mentioned that, we remain confident of our sub-100 basis point credit cost for FY '24. given your collection trends in the business and so this guidance need to, don't you think you need to revise downward or still you think there is a risk which may play out?

Ashish Goel: So thank you. This is Ashish. So in the first quarter, we have actually had much lower than the low credit cost. You could say about 10 bps on the overall book. We have given a guidance of about 1%, but our book is maturing and will be maturing. We will continue to mature during the course of the year. So there could be slightly higher credit cost in the third and fourth quarter, which we are factoring in, when we give a guidance of about 1% but we've always maintained that it will be lower than 1%. So that is, we maintain that. We will continue to see a lower credit cost during this quarter, quarter on quarter this year and it should sum up to less than 1% for the year.

Manish Ostwal: Yes, and secondly in our one of the slide, where you have mentioned the collection efficiency in segment wise, so I was seeing MSME the collection efficiency is quite stagnant, and the second is other segment. So what are the efforts, we are making to improve the collection trend in these two categories?

Ashish Goel: So in MSME, what you see here on the slide is built in the month and collected in the month. But there is also a good amount of additional collection, which we do, which is collected in the next month. So overall if you see the collection efficiency including the overdues, it has been maintained at 98.5% throughout the quarter. What you see here in this slide is 88, 87, 88, which is the collection for the month but there is also overdue collection which we do month on month. So this is also a result of stabilized cases in bucket 1 and 2.

Deepak Khetan: And Manish, if you see the additional collection that also is quite a hefty amount. That's what Ashish is referring to. Also one more thing the collection efficiency 88%- 87% is including the GNPA PAR portfolio that we have and given that MSME current GNPA numbers are high. This number seems to be a little lower. However as he mentioned, the NDA bucket collection is quite good and even from the par SMA 0, SMA 1, SMA 2 and your NPA collections are quite good, which are happening. So if you add up the total collection that will seem to be a very good collection, that is coming in.

Manish Ostwal: Thank you Deepak and thank you management team for answering my question. Thank you.

Deepak Khetan: Thank you very much, Manish.

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

Renish: Yes, hi sir and congrats on a good set of numbers. Sir, just two questions. So, one is on the liability side. So, if we refer to the new customer acquisition in the quarter, actually that has gone up from 3,35,000 to 3,41,000. And when we look at the average SA balance, it is that also remained sort of flattish sequentially. And despite that, our SA balance is has sort of contracted by 4%. So what explain this, sir?

Deepak Khetan: Renish, SA balances, if you see, it's an industry phenomena that the SA balances, CASA is going down for almost all the banks, who have reported their results so far. If you see for Ujjivan, a little longish period, you will actually see that the Casa has grown quite handsomely. So we would say that, this is more or less in line with the industry, a little better off with the industry and with the new facilities that we are providing, new products that we are coming up with and the retail, the brand campaign that we have launched, these balances will improve going forward in the coming quarters.

Renish: Got it. And secondly, on the ROA side, so you know, so last four quarters, five quarters, given the very low provisioning requirement, plus the strong AUM growth. So now on a steady state basis, once the credit cost normalize, as you know, you guys are highlighting that second half, we'll see a slightly higher credit cost. So on a steady state basis, what kind of a ROA this business can generate?

Deepak Khetan: Renish, on the ROA side, we have mentioned that for this year, we'll definitely see a 3% plus ROA. We maintain that guidance on that. We have mentioned that the ROE for this year will be 22% plus. We maintain that guidance. There might be a little upswing to that depending upon the market condition, but right now, we do not want to change any guidance.

Renish: Not for this year, I'm saying on a steady state basis, once you know some of the operating parameters normalize, especially credit cost. So in that scenario, does the, let's say, the current business mix should generate a 2.5% ROA on sustainable basis, or how one should look at it?

Deepak Khetan: Definitely, we can do that and maybe more than that, we can definitely do that.

Renish: Okay. That's it from side, Deepak. Thank you.

Moderator: Thank you. The next question comes from the line of Sukriti Jiwarajka from Lamburnum Capital. Please go ahead.

Sukriti Jiwarajka: I just want to follow up a little bit on the asset quality of the MSME book. Like you just mentioned, both the GNP and the PAR numbers are quite high. And the thing is that, they have been quite sticky and quite high for a few quarters now. What is causing the stress, which pockets, which sectors, maybe some light on why these numbers continue to be so high, even the pie numbers, and what is the path to bringing this down?

Ashish Goel: So there are two, three reasons that I would want to list down. One, our book has not grown, so therefore the percentages are looking high. But if you look at the absolute numbers, the absolute numbers have been stable and moved a little up or down quarter-on-quarter. But the denominator effect has impacted the percentages. In terms of slippages, these slippages have been under control. The NPA number and absolute number has been under control. And our bucket X efficiency has been. leading indicators.

In terms of geography, you mentioned that which geographies are causing this. There is a little bit of NPA in West Bengal, which is slightly elevated as compared to the rest of the regions.

Sukriti Jiwarajka: Got it. And a similar question for MFI, if you are seeing any early pockets of you know, early warning signals or any early pockets of stress, because the thing is every MFI is guiding to 30% growth over a very high base and a lot of banks are looking to aggressively get into this space. So as a conservative lender, are there any signals of customer over leverage or something that is coming up in our radar?

Ashish Goel: One of the advantages we carry is our book is spread across 25 states. So that makes us less vulnerable to geographic stresses. So and we also have a state wide cap. Most of our five bigger states are also capped in the range of 15% and there are three states, which are above 10%, every other state is between 5% to 10%.

In terms of high growth states, our market share is in the range of 3% to 4% all across every state. So there is no specific area, where we have any high concentration of the book. In terms of growth, we've been maintaining 0.6% 30 plus MOB. Sorry, 30 plus and 18 MOB book, which we've been monitoring for the last 24 months consistently post-COVID. And this has remained steady for us.

One more thing that gives us confidence is our non-delinquent book, which is, bucket zero. That has been consistent above 99.8% for the last 18 months. So we've not seen any specific areas in which there are any stresses building up.

Sukriti Jiwarajka: Got it. No geographies. I understand that, you have very well diversified your book and that is not even the question. It is really on a macro level if anything is coming up, whether it affects you or not in pockets, in areas, in geographies?

Ashish Goel: If there is a change in, there are certain areas, at certain times, which are very topical in nature like the floods or if there is any other natural calamity. Those are the kind of things which do affect us. So, we had a marginal dip for example in certain regions in north. But, those get recovered over the next month or so because these are again 15 day to 20 day phenomena.

Sukriti Jiwarajka: Got it. Okay. Thank you so much for answering my question.

Management: Thank you, Sukritiji.

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

Pritesh Bum: Hi, good evening. Just two questions. One is a clarity needed. As a percentage of loans, 43% comes from new loans acquired. Is this a phenomenon that the existing loans are migrating to IL or we are actually, have a rise in terms of new fresh loans?

Ashish Goel: So both things are happening. Our GL customers are also migrating to IL as well as new customers are also getting added. So we for example said that, we added about 2.6 lakh new customers in this quarter. This is in addition to about 9.6 lakh new customers, we had added in the last full year. The net addition last year was about 6.5 lakh. So yes, new customer acquisition which we opened last year was a strategy and we are also opening new branches. So that also gives a slight increase in our NCA numbers. So it's a combination of all these factors.

Pritesh Bum: And that is the reason, our ticket size also has gone down, is it?

Ashish Goel: Yes, last year you may remember about five quarters back, our ticket size had gone up six quarters back because we were doing largely repeat loans and we were very conscious about doing new customer acquisition because we didn't know, what was the impact of COVID and how long it would last. But last year when we started our NCA strategy again, we started seeing as the new customer percentage has gone up, the average ticket size has gone down.

Pritesh Bum: Sure, and which geography these new customers are coming from? You can give some more colour on that?

Ashish Goel: All geographies, these are across branches. We have added team members across branches and therefore there is no skew in any state.

Pritesh Bum: Got it. Second question was the off-role employees of collections are going down steadily. At what level will we steady that number and is that the reason, why the other opex quarter-on-quarter was down?

Ashish Goel: So the way we are looking at it is our cost of collections remains in the range of about 20% with our off-role staff. There are two factors here. One is the entire book, which was affected by COVID is now 700 DPD and above. So obviously then collections will slow down over a period of time and therefore as the collections have slowed down, we have proportionately brought down our team size. The metric that we have followed is about 20% cost of collections. As the numbers keep going down, the team can be suitably downsized.

And the second reason is also that our NPA book has not grown. In fact, there has been a steady reduction of accounts in the NPA and the written-off pool. Last year, we reduced more than 1 lakh accounts from NPA plus write-off. So that has also contributed to a reduction in the off-roll team strength.

Pritesh Bum: And your query on whether that has led to the opex reduction versus Q4?

Deepak Khetan: No, that is not really the primary reason for reduction versus Q4. Q4 business numbers disbursements were much higher versus Q1. That is the reason why the numbers are lower.

Pritesh Bum: Sure, that means it was a BAU basically, Business As Usual?

Deepak Khetan: Yes. It's a business as usual.

Pritesh Bum: Thank you.

Moderator: Thank you. The next question comes from the line of Himanshu Taluja from Aditya Birla Mutual Funds. Please go ahead.

Himanshu Taluja: Hi sir, congratulations for a good quarter. Just one question has been from my end, most of the questions have been answered. Sir, last year you have made a, you have strengthened your collection team and as a result, we have seen a very strong bad debt recovery as well. And given you have said, the momentum to continue FY 24, sir, last year, you have made a good good collections bad debt recovery from the early delinquency period.

Now given the current NPA pool would be in a more harder buckets, so what sort of recoveries that you think that you can probably achieve in FY '24? Anything? And do you need the similar collection workforce in this year as well, which you have probably, which you have added the last year?

Deepak Khetan: Himanshu, this is something that Mr. Davis touched in his opening remark also that FY '24 also bad debt recovery would continue to be very handsome. However, maybe a little lower than what we did in FY '23. FY '23 we did around INR135 crores odd. This year it would be a little lower than that that. Whether it will be INR100 crores, INR120 crores or INR90 crores. I cannot comment on that number right now but it should be in that range at least that is what we believe. In terms of collection team size as Ashish has already mentioned in the last query the pool the hard bucket pool where collection, difficult collection is there, that pool size is shrinking as we move forward. So which is why the collection team size slowly you will see the off-role will shrink as we move along, but the on-role team will stay that is a strategy that will happen and off-role will continue to shrink.

Himanshu Taluja: Sure, sir. Sure. The second is just a few, two more data keeping questions. What sort of the PSL income that you have made last year and what you are and what you have recognized in this quarter and generally which quarters generally you use your higher PSL income?

Deepak Khetan: This quarter is 26 crores roughly. Last quarter PSL income, last year PSL income let me check was around what 40 crores? I'll just give you the exact number what was last year full year PSL income. We generally PSL income you'll see coming in the first quarter and the fourth quarter. However, I will also, Yes, full year was 28 crores. Last year full year was 28 crores.

I will also mention that when you look at PSL income, you also look at the kind of IBPC that we are doing, because that also gives a similar benefit to the book in terms of lower cost of funds. So last year on an average we were having around say 1500 crores of IBPC. This year already I think the IBPC number is a little higher than that and we will continue at this number, this rate for the full year around 2000 odd crores so that additional benefit is also there this year.

Himanshu Taluja: Sure sir sure and just last question sir within the MFI any sort of the target that you have between the individual and the group do you have or how one should look at the growth between the two?

Vibhas Chandra: Oh Yes obviously we want to grow much faster than GL because we have a captive customer base of over 40 lakhs. In GL, we have a lot of customers who want to graduate to IL. So we will see IL growing much faster than GL in this financial year also. And we'll continue to trend from the last financial year. And for that, we have also extended our IL team and we have increased the number of feet on the street for IL in branches.

Himanshu Taluja: Sure, sir. Thanks a lot and congratulations for a good quarter. Thank you.

Vibhas Chandra: Thank you very much.

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

Ashlesh Sonje: Hi team, congratulations on a good quarter. I have just one question on the opex for us. If I look at the cost to assets ratio that has been steadily coming down over the past few years and given that we are in a period where we are reporting very strong return ratios, how do we look at the cost ratio going ahead in terms of the investments that we if we plan to make in the franchise?

Deepak Khetan: Ashlesh, we have mentioned both for the cost to income ratio and cost to operating cost to average asset ratio. For this year they will be more or less stagnant. So right now we do not change the guidance. We may see a positive swing there but right now we will maintain the guidance number. We will see if we want to change the guidance when we come next time to meet the street. But right now we do not want to make any changes there.

Ashlesh Sonje: Okay and if I go ahead a few years, 25, 26, any...

Deepak Khetan: Over the next three years, yes, definitely these numbers will come down slowly, maybe around cost to income ratio, maybe around by 300, 350 basis point every year it may come down.

Ashlesh Sonje: Okay, perfect. Thank you.

Deepak Khetan: Thank you.

Moderator: Thank you. The next question comes on the line of Manan Tijoriwala from ICICI Prudential Asset Management. Please go ahead.

Manan Tijoriwala: Hi, good evening. I had a couple of questions. So first on the group loans concept, so what is the average ticket size that we have now in the first, second, third cycles?

Vibhas Chandra: The question is what is your average ticket size in group loan in first, second and third cycle? So average ticket size in the first loan is close to between 40 to 42, 42000 and in repeat loans in the second cycle it is close to 50 and third cycle onwards the average ticket size is close to 60.

Manan Tijoriwala: Okay, okay and how soon can we refinance the customer to a second or a subsequent cycle and what is the tenor of the loans generally?

Vibhas Chandra: So you know I have the maximum tenor that we allow to our customers in group loan is three years and our average tenor is close to 22 to 23 months and we allow our customers to take loan, repeat loan only after completion of 70% of their EMI.

Manan Tijoriwala: 70% of the EMI, okay, okay understood and how much of the loan book is now under three years? I'm sorry, over three years.

Vibhas Chandra: Yes. Yes. You know, the three years stay in our loan is close to 20% to 22% of our entire portfolio at this point of time.

Manan Tijoriwala: Okay, okay. And so on the individual loans, are these all our MFI customers or are we sourcing from the market as well?

Vibhas Chandra: So, Yes, we have open market acquisition strategy as well. And we have kind of restarted our open market acquisition as we have stabilized after the effect of pandemic. And before that also we were requiring open market minded customers but these customers are largely referred by our internal customers microfinance customers only. At this point of time our open market customer acquisition is close to 5%-6% of whatever we acquire in your lending but this number will also slightly go up in the financial year as we go ahead

Moderator: Mr. Manan, may we request you that you return to the question queue for follow-up questions as there are several participants waiting for their turn. The next question comes on the line of Manuj Oberoi from YES Securities. Please go ahead.

Rajiv: Yes, sir. Hi. Congratulations on strong numbers. This is Rajiv here. So just, I'm left with just one question, and that is, when I look at your OnePlus and GNPL affordable housing portfolio. Yes, can you hear me?

Management: Sorry, we're not able to hear you.

Rajiv: Now, now, is it better?

Moderator: Mr. Manuj, could you please fall back to the queue? We shall move to the next questioner. The next question comes from the line of Amit Jain from Axis Capital. Could we reconnect the call? Ladies and gentlemen, the management line has been connected back again. Mr. Amit Jain, you shall proceed with your question. Thank you.

Amit Jain: Thank you for taking my question. So I had a question on margin. So given that now that the rates have stabilized, and do we see that the cost of funds could increase further from current levels? And similarly, on loan repricing, is it largely done or do we have some bandwidth to further increase loan prices?

Deepak Khetan: First on your cost of fund query, so cost of fund may go up from here as well because repricing of the old FDs may happen. So to some extent we believe cost of fund has not yet peaked. Maybe we are around few quarters, maybe two quarters at least away when we see the interest rate cycles also peaking out or starting to see sliding down. So to that extent we'll keep that as an open-ended answer. On the repricing side, there is a lot of room left.

We took two rate hikes last year. One was in September, 50 basis point on our MB book and one was in March, 50 basis point again on 1st of March. Of the existing book, 30% book is on the March pricing, 30% book is on the September pricing and 40% book is before that. So on that 40% book 100 basis point repricing is to happen on that 30% book 50 basis point repricing is yet to happen. So there's a lot of room left on the MB book repricing to happen.

Amit Jain: So in that case, we still maintain a guidance of around 9% NIMS for this year. Is that a fair assumption?

Deepak Khetan: Yes, we remain very confident that we'll be able to hold on to the NIMS.

Amit Jain: And the second question is on the employee base. So around, we have added around 2,500 employees over the last six months. So mostly I assume these would be in feet on street, is that right?

Deepak Khetan: That's right.

Amit Jain: And any particular geographies where we are adding employees or is it all across?

Deepak Khetan: See, employee addition to a large extent is happening because of the new branches that are coming. This quarter we had opened around 32 branches in Q1 and in Q4 also there was a lot of branches that opened. Last year we did around 52 and most of the branch openings were back-ended. So these branches were opened and the employees were hired for the new branches. Going ahead 9 months we will be opening around 70 branches. To that extent, some employee hiring will be happening.

Whatever branches we are opening this second quarter, to some extent, some hiring has already happened. Apart from this, the hiring is happening, maybe we have introduced RM modules for our branch banking, so there's some bit of hiring happening. Some bit of hiring is happening on our secure books where we are growing the business. For example, housing is going very well there. Some ground level team is being added. MSC as the new products come there will be a little bit of hiring happening. So those will be additional hiring apart from the branches. 85% of whatever is hiring happening is in the front level staff that is happening.

Amit Jain: Sure sir, that is very helpful.

Moderator: Thank you. The next question comes from the line of Manuj Oberoi from YES Securities. Please go ahead.

Rajiv: Hi, this is Rajiv here. Thank you for taking my question and congratulations on very strong performance. So my question is on affordable housing book. So as I see your OnePlus and your GNPLs in this affordable housing book look slightly as I see your OnePlus and your GNP is in this affordable housing book looks slightly higher than peers when I compare them with you know peers operating with similar ticket size and each any specific reason for that?

Ashish Goel: The PAR and the GNP for us has been you know consistently coming down. If you compare the pre-COVID book and the post-COVID book, then Rajiv, our post-COVID book performance is significantly better than the peers. And the 30 plus numbers, if you can look at, we are better than all the affordable housing players there. Our NPA, in fact, for the last 22 months, source book is in the range of 0.1%, and 30 plus is in the range of 0.5%. So the new book has done very well. The old book, and the new book is about 65% of the overall book.

Old book is where the NPAs are, and that is about 2.4% if we look at the overall book and you know almost 30% to 35% of that is in the stage of sale of asset or repossession of asset. So that gives us confidence that this number will further go down because the efforts on legal that we had started almost 18 months back have given us a lot of results. So a good percentage of that has been taken, you know, the bank has taken the properties, now in the process of auctioning.

A good number of cases are in the process of getting, you know, the enforcement of security is happening there. This old book is also, you know, getting cured at a very fast pace. Last year, same time, I think we were in the range of four and a half. And now we are in the range of 2.4%. And the absolute amount also has gone down by about 60 crores.

Rajiv: Yes, got it. So there is some, you know, remark that there is a micro lap also in this book. So what percentage of this affordable housing book as we see is micro lap and is it a focus product and what is the yield?

Deepak Khetan: Rajiv, the micro lap product is a very focused product for us. The idea is that wherever the large ticket size individual loan is there in micro banking and we see that the family is able to support that bigger ticket size, we'll migrate them to micro lap. However, in the current book, the amount of micro lap is just around 40 crores.

Rajiv: Okay. And this will be scale significantly. And in yield?

Deepak Khetan: Yield is around 19, 19 and a half percent in that book.

Rajiv: Okay. Thanks so much. And best of luck. Thank you.

Moderator: Thank you. The next question comes from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Yes, thank you very much for the opportunity. Sir, just I wanted to understand, I mean, in terms of brand, I think you mentioned we will be continuing the brand investment in first quarter, right? So, so, so what was the quantum that we did in, in this first quarter? And how do we see that going ahead?

Deepak Khetan: Deepak, we won't be able to share exact expenses of the brand campaign. The brand campaign went live on 24th of July. So to that extent, whatever the production cost and all was there, that was taken in the first quarter. The overall cost will come in first quarter and second quarter.

It is a five week plus brand campaign, eight week plus eight week brand campaign is there. And the overall cost will come in both the quarters. First quarter is loaded with that and to some extent it will be there in the second quarter as well.

Deepak Poddar: Okay, okay. So ideally in the first half only this cost will come right? Not in the second half?

Deepak Khetan: Yes, what a lot of it has already come in the first quarter and the balance will come in the second quarter.

Deepak Poddar: Okay, okay, fair enough. I understood. And so just a clarification in terms of I think this reverse merger, I think we had a last update as on 28 June, right, as you mentioned in your press release. So how soon we are expecting it to get through?

Deepak Khetan: Deepak, it's a legal matter. We won't be able to give timeline on when do we hear from the court. Right now what we can say is within this year we believe that the matter would be wrapped up.

Deepak Poddar: Within this calendar year?

Deepak Khetan: Yes.

Deepak Poddar: Okay, understood. And in terms of reverse merger, our share outstanding will decline by about 1.5% to 2% right post the merger?

Deepak Khetan: Would be 0% there will be no promoter.

Deepak Poddar: No so 1925 million shares would be our revised share outstanding post the reverse merger?

Deepak Khetan: Yes post the reverse merger roughly around INR3 crores odd shares will be cancelled net cancellation.

Moderator: Thank you. The next question comes from the line of Prabal from Ambit Capital.

Prabal: My first question is on deposits. So, congrats on the performance here. So, as we are growing our deposit base, how are we ensuring that we also bring in customer engagement so that some portion of this new deposit accretion over a period of time becomes sticky with us and also less rate sensitive with us?

Carol Furtado: Hi, so on the deposit base, a lot of work is being done to increase the visibility and the awareness of our brand. And, Deepak also mentioned and Mr. Davis in his speech also mentioned about the brand campaign that we are doing. So we hope to garner a lot of retail deposits to this campaign. We have also put in a lot of specific customer segment wise programs, which will help us in growing our deposit base. We are also categorizing our customers into, we've categorized our branches into various categories and we have also introduced the relationship management piece in place.

So we have a strategy for new customer acquisition as well as for the existing customer acquisition. Like I mentioned, the segment-wise programs for high net worth customers, for senior citizens, for retailers, for TASC, for women, for youth. This is the way in which we will be growing our deposit base with a specific attention to each customer segment and also designing products that are required for that particular segment. So you know the strategy is new and existing deepening our relationship and of course through the brand channel.

We have also introduced the digital channel, the digital fixed deposit has been recently launched and that is an area too that we will be looking at. Our service quality is another area for our customers. The customer service area is another aspect that we are strongly working on. We have the phone banking team to attend to customers for any of their requests. That's a channel that has been significantly upgraded and we are able to do a lot of service requests through this channel. So customer...

Prabal: Sorry to interrupt. Actually, my question was not on accruing new deposits, but more on how do we make sure that these new deposits become more sticky and stays with us even when we reduce the interest rate?

Carol Furtado: Yes, so through all this, you know, the customer service programs that we have, the multi-channel approach, the relationship management piece, this is going to help us in, and you know, segmenting our customers with programs like the, with various programs and using analytics, we will be able to define our requirement for each of these customer segments and grow the, and a lot of cross-sell is going to come into the picture. So with all this, we will be able to deepen our relationship with the customer.

Prabal: Okay, I'll take this offline. My next question is on, so sir, can you tell us how is microfinance individual underwriting different from a group underwriting in terms of, you know, what are the different processes in both the systems?

Vibhas Chandra: So, group loan, individual loan underwriting is very, very different from how we do group loan. Group loan is classical grammhin model and it happens the way it happens for the industry. But as far as when customers try to graduate from group loan to individual loan, we have a separate feet on the street from business side who is supposed to acquire customers and on-book customers.

And then we have independent credit team right from feet on the street to the chief credit officer. We have independent credit team who analyzes customers based on their family level income. And this practice we are following for the last, say 13, 14 years, which is now mandated by RBI. And this is something which is done by credit officer individually and loan is under written by the credit officer. Apart from that, we use a lot of data analytics to understand which customer can graduate.

We have a lot of data, internal data as well as external data available for the customers. We use this data to underwrite customers better so that we can graduate all eligible customers on VL to IL. So IL is a separate vertical where separate people are there both in business and credit and apart from that we use data to analyze customer better.

Prabal: And just a last question, so what are the top three states since we have a diversified portfolio across geography, what are the top three states where you are seeing better than expected traction and maybe if you can also highlight the bottom three states where you are still watchful in terms of growth?

Vibhas Chandra: You are talking about IL or overall microfinance?

Prabal: Overall microfinance.

Vibhas Chandra: So our top three states is Tamil Nadu, Karnataka and West Bengal. Obviously, we have more number of branches. We started from here in regions. And as far as the bottom three, as such we don't have bottom three in terms of growth we have a number of branches which are different in different states, but at this point in time, I would say that Assam is something where the industry is facing issues and we are also very cautious and we are doing, we have changed our strategy in the state of Assam. Apart from that, we don't see any state where we see growth which is very low at this point in time. Overall growth is at par with the average growth of Ujjivan Microfinance Business.

Moderator: Thank you. Last question comes from the line of Prit Nagersheth from Wealth Finvisor. Please go ahead.

Prit Nagersheth: Thank you. So I wanted to better understand the upgrades, the recoveries and the return of numbers that you posted on in the presentation. I thought you mentioned that the write back was -- the bad debt recovery was what about INR35 crores for this quarter?

Deepak Khetan: Yes, 35 crores.

Prit Nagersheth: So how is this 77 and 60 coming? Could you just explain that?

Deepak Khetan: Prit that 77 is the NPA recovery and upgrade that is in addition to the INR35 crores of bad debt recovery. That INR35 crores in bad debt recovery is something that has been written off the book. This 77 is upgrades and recoveries from the NPA book, which is still there on the book. And this INR60 crores is fresh write-off during this quarter. INR52 crores is technical write-off and around INR7 odd crores is other write-off.

Prit Nagersheth: Is it a write-off or is it a write-back?

Deepak Khetan: Write-off.

Prit Nagersheth: Okay, because if you see the math then because you are starting NPA, then you have your slippages and then you are adding back the recoveries.

Deepak Khetan: No, so the math says you have a starting NPA of 631 and there is a slippage of 103. Then you have upgrade, so you reduce that 77. Then you have write off, so you reduce that 60 and the ending or the closing NPA is 597.

Prit Nagersheth: Got you. So how much of this can we expect to continue for the next quarter? Could it be in a similar range?

Deepak Khetan: Are you asking for NPA guidance?

Prit Nagersheth: That's correct.

Deepak Khetan: So we are at around 2.4% and we would be ending the year by around say 2% on number.

Prit Nagersheth: Okay, so exit quota should be around 2%. The other thing I wanted to understand was that should we expect a dip in disbursement for the second quarter given the flood situation that's ongoing in various parts of the country?

Deepak Khetan: The flood situation has not really impacted so much on the business. It's a temporary phenomenon and few days at few districts. So right now we do not want to say that it will impact the overall performance of the quarters. Neither on the collection side nor on the business side, disbursement side.

Prit Nagersheth: Got you. And the last question is, can you shed some light on the Ujjivan Hello app and how is that helping you win business on the ground or give you a right to win vis-a-vis all the other competitors out there?

Deepak Khetan: I didn't get your query. Can you repeat?

Prit Nagersheth: Basically the Hello Ujjivan app that you have out there, right?

Vibhas Chandra: So the question is around Hello Ujjivan and how it will help us and customers.

Prit Nagersheth: That's correct. And how is it helping you with any competition, right? Because one of the lines.

Vibhas Chandra: Yes. So Yes. So Hello Ujjivan, we mentioned in the last call also that this is something which we have developed for especially for microfinance and rural customers. As we realize that our original application, our customers are not able to use because they can't read and this application is where the customer can talk to the application and do their banking transactions. At the same time, we see this as an opportunity where this channel can be used by our customers in various activities including onboarding repeat loans for our customers on this application.

Today we have about over 3 lakh customers who have already downloaded and that is exciting news that customers are liking this application. Soon we'll also have repayment is already there and customers, a lot of customers are repaying through this application, which also reduces your cost because your cost of transaction becomes zero. But at the same time, as we onboard repeat loans on this application, once the customer is onboarded Ujjivan for loans, the repeat loans, top-up loans, and other services which customers want their own loan can be serviced through mobile applications.

This can be a game-changer and we are working very hard on building this application to ensure that all services, future services when customers onboard it, can be offered through this application, including repeat, top-up, TDs, reliability, relationship we are trying to on board through this application. So yes this is something which customers are liking at this point of time a lot of customers have installed but at the same time we are seeing a lot of new features being added in Hello Ujjivan going forward in this financial year.

Moderator: Thank you. The next question comes from the line of Sanjay Pandit from 1729 Capital. Please go ahead.

Sanjay Pandit: Okay, so my question is, for those holding Ujjivan Financial Services, the holding company going into the reverse merger, does the ratio pretty much stand as is? And if so, would there be some kind of cash distribution prior to the reverse merger? And regardless of that, what kind of sort of per share book value accretion can even small Can Ujjivan Small Finance Bank expect to have concurrent with the reverse merger by virtue of I guess some cash coming into the bank?

Deepak Khetan: Sanjay, book value accretion would be INR2 or maybe a little more. There is roughly around INR180 crores of cash that UFSL currently has. So that will come to the bank plus a INR200 crores of preference shares are there which will get cancelled. So that will also come to the bank. So total of INR380 crores as is which is there and plus whatever the bank has proposed as a dividend if that gets approved tomorrow that will also come to UFSL.

So that amount will come to UFSL and depending upon if or whether UFSL distributes that money in form of dividend or not or whatever is the amount, basis that we still believe at least INR380 odd crores is there which will come to the bank which means roughly INR2 book value accretion would be there for banks. There would be no cash distribution to UFSL shareholder as part of the reverse merger process.

Moderator: Thank you. Due to time constraints, that was the final question. I now hand the conference over to the management for closing comments.

Ittira Davis: Well, I thank you all for joining us in this session. It's been wonderful to take your questions and answer them. If there are any questions that remain unanswered, please contact Deepak or Madhusudan at our offices here in Bangalore and we'll be happy to respond to you. I'd like to take this opportunity to thank Mr. Shah, IIFL, for their coordination and hosting of this call and to Chorus for their logistics. Thank you very much.

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