"Ujjivan Small Finance Bank Q2 FY21 Earnings Conference Call hosted by IIFL Securities Limited"

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Moderator: Ladies and Gentlemen, Good day and welcome to the Ujjivan Small Finance Bank Q2 FY21 Earning 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhishek Murarka from IIFL Securities Limited. Thank you and over to you, sir.

Abhishek Murarka: Thank you Janis. Good evening everyone and thanks for coming on the conference call today. From Ujjivan Small Finance Bank we have the entire top management team representing the bank. The team is led by Mr. Nitin Chugh – Managing Director and CEO, Mrs. Upma Goel – Chief Financial Officer, Mr. Rajat Singh – Business Head Micro Banking & Rural Banking, Mr. Kalyanaraman – Chief Credit Officer, Mrs. Sneh Thakur – Head of Credit Micro Banking and Rural Banking, Mr. Murali Manohar, National Manager Financial Planning and Analysis and Mr. Deepak Khetan – Head of IR. I will now hand over the call to the management to take us through the results and then we will open the call for Q&A. Thank you and over to you Nitin.

Nitin Chugh: Thank you Abhishek. Good evening everyone. Thank you for joining us this evening and sorry for the short notice between our posting on the stock exchanges on this call. We will try our best to cover the important aspects. First of all, I think we are still battling the pandemic while things are getting better, our thoughts and prayers are with all the people who are fighting this out and I think by now each one of us have come through or in some way have got impacted. In our bank itself we have had 970 of our colleagues who were infected and unfortunately we have lost two of our colleagues Vinod and Hemavathi while we are trying to extend all possible support to their families. It is also heartening that 875 of our colleagues have also recovered and operations are mostly back to normal at across all the locations and branches.

On the overall situations as we have seen over the last few months and what we have seen broad based pick up in the economic activity and some of that has also sustained over the last few months. So the overall environment for livelihood restoration has improved, but at the same time there are differnce amongst all the parts of the economy rather I would say there are some levers and some segments which are still continuing to feel the pain and may be they will feel the pain on a little more broad cases. For example if let us say the malls have opened or restaurants have opened but not everybody has not called in their entire workforce even if people are making road trips, the people who are into transportation they are not getting the same number of trips as they were getting January and February.

I think there are going to be sections of all kinds of parts of the economy which will go through some more pain and we also deal with some of them we have been seeing that on a very close basis since we have been in touch with our customers all through, but on an overall basis there are far more positive things - the kind of work that happened over the last few months between last quarter and we will also touch upon October as a set of key indicator for you to look at. We believe that things are lot better than what we had anticipated getting into this crisis and I am sure you will remember that we had maintained a fairly positive sort of an outlook it is not necessarily exactly optimistic.

So we remain positive, we remain optimistic but obviously there is a lot of portion to what we are doing and we will cover some of these things in a lot more details. In general, I think what I do want to talk about there are five or six broad themes we will talk a lot more about collections, we will talk about how the new business is getting restored, how the things is taking shape in the new business pickup. We will also talk about our liability side of the business, we will talk about digitization, we will talk about a few things that we have taken care to make sure that our cost structure run efficiently and all the initiative that we have done around those and maybe spend a little time towards the end and sharing our views about how we see the whole situation evolving from here.

So jumping straight into collections and post the moratorium situation while the moratorium did end on the August 31st and we started our full-fledged collection effort from there on. Our focus had been even during the moratorium period to restore as much of collections as possible and we had reported those outcomes in July as well when we last spoke we continue to improve every month and we were able to restore most of our field operations rather than in branches where our own staff was getting infected and because we had almost a 1,000 people getting infected there was situations where the entire branch would get infected, a lot of people in the same branch would get infected.

So those were minor setbacks that we went through it was also always a worrying situation for us wherever it happened. We had focused on also developing and making available alternate ways of collections or repayments for our customers mostly through our partnerships and the digital ways we have made a lot of progress on that I will cover the numbers also on that account. Importantly enough 91% of our borrowers have paid us after the moratorium got over so which is very heartening for us and on an overall basis our collections in the month of October are at 93%. We have also this time in the presentation you will notice we have made a mention of collections on two different parameters one is the one EMI collection the full month EMI collection which we have reported as 88% for the month of October and for all the other collections that we have also brought in the overall collection goes up to about 93% we just wanted to keep that very transparent.

Our workforce is predominantly or I would say was predominantly engaged in collection we will talk about disbursements when we come there, but we had to strike a balance between closing the demand which is coming back in some gradual manner, but predominantly we were focused on collections so enough 7,000 plus people were engaged in meeting customers and making sure that wherever the customer have the ability and willingness to pay after the moratorium got over. We were at least available and in addition to that we also made available all other kinds of options to customers to make their payment.

So just on the alternate sources of repayments last quarter we were able to get to 16% digital collections. We had a remarkable bump up in July went up to 37%, but has started to come back in the system with the nominal impact obviously started to come in place and we saw the proportion of non-cash or digital payments coming down, but on an absolute basis it kept going up every month. So for the last quarter 28% of our collections have come through digital channels. On the same period of time we have also enabled some other alternate ways notably enough BBPS platform which we enable through a fintech partnership.

So we are seeing very quick climb up in repayments coming through Google Pay and PhonePe and MobiKwik, Paytm was already there, but Paytm on the BBPS platform is also giving a different color to the whole thing. We also brought about collections in customized payment link it is a small number in the overall context, but none the less it is giving an option to the customers to make the payment first. In addition to our tie up with Airtel Payments Bank which is working out well. So nearly 7,000 of the Airtel Payments Bank outlets are now active with our branches and we have a plan to scale up to as many as we can manage optimally.

So our overall efficiency for one full month EMI collected like I said for the month of October was 88% and I would think that this is easily the best perhaps in the industry because if you cut it by full month EMI collection for the demand for that month I think it does stand out and 93% on the basis of all the other collections that we have picked up from customers. In the other businesses also our MSE and housing we have seen good climb up in collections. MSE secured reported 86% collections for the month of October. We also saw improvement in unsecured even though it is a very small portfolio for us just about 70 odd crores and in housing we reported 93% collections. FIG which is relative smaller books for us lending that we have been at 100% collections after the moratorium is over, so we have no issues on that account.

In terms of regions there was a different mix the last time around I hope that South was trailing behind some of the other geographies, east and south really picked up well followed by West and the East. East has been a little slower while in West Maharashtra collections are taking little more time to come back to normal. So collectively if you look at little more in detail we have reported that in presentation also there are four states which are reporting lower collections efficiency slightly lower than 80% in the higher 70s these are Maharashtra, Assam, West Bengal and Punjab and in each of the states we have different regions West Bengal of course there are multiple issues there are also some localized issues of protest, etc., but a large part of our customer base which lives and operates from the suburbs of Calcutta and go to work to Calcutta for their livelihood have been impacted because of the non-availability of the local trains which we believe are now getting restarted from next Monday.

So we are pretty sure that people once they are able to commute they will also be able to restore their livelihood. In Maharashtra, while the early impact was on account of the high spread of COVID cases all across and we have large portfolios in Mumbai and in Pune amongst all the cities in Maharashtra that we operate in. Pune as you know was one of the topmost city after which Bangalore took over but now Bangalore has one of the highest COVID cases, but nonetheless I think Maharashtra will take a little longer to recover considering that the early setback what happened in that and there has also been some influence from the local political parties that we are seeing there.

In Assam, I think there is a continuing improvement in the collection efficiency we reported about 74% collection efficiency for overall Assam. The upper Assam area continues to be little more impacted since it has already been going through all the turmoil from last October it is nearly a year we are dealing with that and it is also not helping the fact that Unions and parties are also getting involved after the pause of may be about three months during the COVID times. So we are watching that closely Assam is anyway a small portfolio for us. Punjab again we saw some localized protest, but a lot of disruptions has also happened on account of the anti farm bill protest which have taken little more scale than what was anticipated.

So in Punjab while overall I think we are a little better than Assam but we thought what it should have been in our experience, but we have plans to make sure that these states are worked on a very focused basis and we are hopeful of improving on a month-on-month basis in all these four states, but we have to exclude these four states for the one full EMI collection of October which otherwise we are reporting about 88% I think we go up to 91%. So, it does show that in all the other parts of the country things have improved substantially. We have also increased our COVID provisions by another 100 crores you might have noticed that only for micro banking we have not taken provision in any other business we do not require them too.

As a result of that our total COVID provisions are now at 299 crores which cover 2.3% of our micro banking loan book and at an overall bank level the total provision from the balance sheet are now at 470 crore which cover 3.4% which again I would believe is amongst the best and highest with a PCR of 86% so we have improved that from 82% in the last quarter to 86%. So our stance has been fairly conservative, we have been improving our PCR from the Q4 of last financial year when we went up to 80% we were took to 82% now at 86% so still little comforting for us as we deal with the situation.

So our overall outlook on collections is that of improvement we believe that things are improving we are in touch with all our teams on a daily basis and there is a whole lot of other background work in the head office that we are making use of, but more importantly we are also augmenting our overall collections capabilities by adding more people. Just in case you think that why did not we do that earlier because some people had done that earlier it is just that we were trying to strike a balance between new business and collections and since we had assigned all our people into collections we did not feel the need to report, but now that the business demand is also coming back in some manner and we need to cater to that, we need to free up our bandwidth to be able to also equally focus on collections and therefore we are augmenting that whole workforce on the field for collections so that we can have a balance approach to both new business as well as collections.

Now coming to new business and disbursements we will have to break this into different businesses that we work in, but let me cover micro banking first. Micro banking we had maintained a cautious posturing. You will remember that we had signed up for the CRL also early this year. It is helping us in taking lot of measured calls in terms of who we deal with and who we do not want to deal with. The other fact is that demand is also subdued as the borrower**s** situation and lot of them deal with multiple lenders I think it is prudent on their part also to not over extend themselves and we have seen a compression in demand people want to show normalcy in their cash flows before they take off any new abilities in terms of new loans.

On our part if you see we have tightened our overall credit framework across all the businesses, we are also seeing rejects going up more than what it used to be earlier, but we are okay with that because it just tells us that we are taking a very cautious view on the new customers that we are bringing in and I think it is also important to highlight to you that since new loans disbursed in this financial year we are reporting a collection efficiency of (+99.5%) which tells you while the demand is there and even though we are serving, almost 95% of that is going to repeat and only 5% to the new customers.

For micro banking we will have a cautious approach we want to grow this a little bit more methodically or little more deliberately and you know we will keep taking calls based on specific geographies etcetera. So we have been growing our disbursals by roughly about a 100 crores every month more or less and we do hope to continue with that without actually thinking how we are going to be back to pre-COVID levels it could take us a few months, it could take us lesser than that not very sure about that, but we do not want to do it rapidly.

Now as far MSE and housing is concerned our logins of business are back to pre-COVID levels. In fact if you compare some of the businesses like housing with exactly what they were in the same time September of 2019 they are probably at the same level or slightly better, but if we average out the whole year for average disbursements for housing and for MSE we are more or less there almost at 90% levels of what we are in pre-COVID or let us say average of last financial year. So again here we had mentioned in the last earnings call that we have tightened the credit framework, we are changing our mix towards more formal segments both in housing and MSE and we are pretty happy with the outcomes because the business is growing and we have not had the need to add people in fact our head count in both housing and in MSE is significantly lower than what it was at the same time last year and if we are able to get to 90%, 95% of the pre-COVID levels of business with lesser people I think that also talks about efficiencies that we have been able to bring out in new businesses. So we are quite confident of growing our MSE and housing business.

Now coming to personal loans and vehicle finance our view was that we should first make it available through our branches, focus on our internal teams rather than deal with open market through DSA network. So we have made a complete channel shift there, we have enabled all our branches for originating personals loan and vehicle loans. I was starting to talk about personal loans and vehicle loans and what I was saying was that in these two businesses our first priority was to change the channel mix and make sure that our branches start contributing to this business because that is an investment cost for us and we have been able to activate all our branches for personal loans and vehicle loan. It is also a fact that we have made a lot of working changes by bringing in tie up with fintech which has helped us in significantly improving our overall processing workflows, but we were sure that we want to do this in a more methodical manner through our own proprietary channels rather than going to open market, DSA etcetera which we had started off doing renewals when we launched these businesses last year.

So net-net these businesses are now coming in a far more controlled manner and we are growing the book in personal loans and vehicle finance with a clear methodology largely focusing on our own channel origination and our branches which are contributing substantially now to these two businesses. Now coming to liabilities, we have all our branches in place like we had mentioned the last time around we had finished launching all our branches in the last financial year itself, but we had to have required distribution in place. Now most of this year we have been focusing on trying to reduce our cost of deposits by trying to bring in more still customers and really speaking in liabilities for the last quarter in specific what we tried to do was to retain the deposits at our headline level you might have noticed that our deposits have grown nominally over the last financial year, but that was the deliberate call that we had taken that we want to replace or substitute the bulk projects with details.

So the focus has been on new customer acquisition we are acquiring probably highest number of new customers to our branches every month now battling it every month or every alternate month and we are focusing on making sure that we are able to build balances in these places. Now at the same time we also activated our assets channels to bring in CASA that is what the focus all across in liabilities has been on CASA and retail deposits and that is how our CASA has also been able to move from 14% in the last quarter to 16% in this quarter like 15% which otherwise we were going rather slowly even though we thought that we would finish the year with 16-17%, but more importantly the proportion of retail deposits now has climbed up significantly from 45% in last quarter to 49%.

So we are very happy with that and that helped us in reducing our overall cost of deposits and the cost of funds have come off by nearly 30 bps over the last quarter which gives us the flexibility to also deal with more formal segments in some of our businesses especially MSE, housing, personal loans and vehicle finance. So it is making good sense for us the whole equation is falling in place just the way we had anticipated and planned and we are really focusing on making sure that we keep improving our productivity in our branches that is helping out in a big manner, we have not had the need to bring in new people for this customer acquisition.

Customer acquisition has been on an uptake in general 5.5 lakh accounts were source in first half of the year and like we had mentioned the last time we had introduced our digital workflows for liability origination that is helping us to a very large extent because now a lot of our new accounts are coming through digital workflows and I think we might be the only bank which is insisting on initial funding with digital accounts also because we want to bring about a very good quality in our liabilities portfolio. Now while we focus on substituting bulk with retail one other good outcome of that is that the proportion of top 20 deposit customers which used to contribute substantially about a year back is now down to about 21% so that is again a pretty healthy proportion of bulk deposits that we are looking at and as a result of all of this our cost of funds has now come down to 7.4% from about 7.7% in Q1 and 7.9% in Q4 of last year. It also helped us that we have taken those refinance options from the DFIs which we had picked up largely in the first quarter, but it also helped us.

The next one is really on our cost to revenue you might have notice that we have been able to hold up to the same cost to revenue that we had reported in the first quarter there has only been an increase by 70 bps over the last quarter and one of the questions that did come to us in the last earnings call was that how much of this is going to be permanent and how much of this is going to be temporary and is it only because you are not spending while you are saving. So I think now we can tell you with a lot more confidence while we had said that the last time also that a lot of this is going to stay a lot of this will come back, but I think we had figured out a way through our improved efficiencies and productivity changes and the other measures that we have taken to optimize our cost. I think we are in better control of a cost to revenue as an outcome and in general our overall cost efficiency. So if you compare just this quarter over the same quarter for the last year our cost to revenue has dropped by nearly 12.5% which we are very happy with.

In terms of our digital initiative like we had covered the last time we were very focused on bringing out a lot of things for our customers, a lot of things that we needed to do in the bank. So we have been able to successfully role out quite a few of them including our tie up with fintech with a lot of work flow such as we have KYC or ID verification or e-stamping e-agreement which again we started to use within the bank also not just with customers. A lot of that has online document verification these are all through fintech tieup which are helping us not just in reduction of turnaround time, but also reduction in the cost. At the same time a lot of new channels have been made available to customers to interact with us which I explained earlier and some of our experiments have also not worked in a way that we expected for example loan on phone that we were very hopeful about.

I think we need some more reengineering there because our customer segment are not taking probably not responding the way we had anticipated earlier, but we are still hopeful that it is a good proposition in due course and at the right time this will also start making sense to our customers and once that starts to build up some scale for us we will be looking at providing other alternatives to disburse the approved loans to our repeat customers especially in micro banking. So quite a lot of work on this digital side within the bank we also put out a roadmap for AI, roadmap for RPA we have enlisted a whole lot of projects almost a 120 projects were enlisted we have completed almost 10 of those which are live which are resulting in substantial savings and cost effective for us.

We have another 25, 30 in work in progress and there are quite a few more which we will add to this list of 125 so there is the full roadmap that we have on the internal digital transformation of the bank. At the same time some of our digital workflows for our front office staff in the other businesses, some of them have got ruled out especially in vehicle finance, but the other for example in MSE and housing have taken little more time than what we anticipated they are expected to go live any time now.

So overall I think we have a strong story on digital, we have a strong story on our partnership through our API there is a fairly detailed mention of that in our investor deck also equally enough I think we have focused on building the transaction set with customers so our digital transactions that we reported 56% for the first quarter we did have this in mind that maybe because it has shrunk or let us say because of the reduced ATM transactions this will be lower in the next quarter, but while the transaction have gone back to similar level as much as we were in Q4 of last financial year we have been able to deliver 56% again the same number of digital transactions so which does say that this migration of customers from physical to digital is really sustained and customers will hopefully continue to use the digital channels for day-to-day transactions.

Now these are long term gains that we will experience on the cost to revenue structures. I am sure you will agree that these are not maybe immediate gains, but they will help the bank on a long term basis because these are more structural in nature than anything else especially since the involve behavior. Likewise, all the other transactions on the digital side whether it is UPI transactions or cost transactions or our internet banking, mobile banking all of them have reported a substantial growth on a year-on-year basis that is all covered in the presentations.

Lastly on treasury we have a fairly active treasury now for the last few quarters there is good reasonable trading income that we are also making, we are also making use of the market opportunities of wherever we can book income through our portfolio, we have been able to do that. In the first quarter we had decided not to book the PSLC income it was a deliberate call normally like last year we had taken all of that in the first quarter almost 42, 43 crores of income, but we did not do that in the first quarter of this year. In the second quarter we took a view to partially monetize that so we were able to book about 24 crores of PSLC income also at a fairly good set of rates that were available in the market.

Now coming to the financial performance while we are talking just want to quickly highlight few things. One is that our PPOP has grown by 64% on a year-on-year basis which is something we are absolutely happy with and as a result of that our ROA on a PPOP basis is at 4.9% I think that is it about the overall profitability of the business, the ability to generate the kind of cash and also the fact it is the business is being run on a very prudent basis, but in any case we are maintaining a conservative cost so we have taken some more provision logically enough you might be thinking if we need to take more provisions I think those calls will be taken in due course like we had said last time quarter-on-quarter basis rather than estimating that 3.4% of the book and we have taken nearly 470 crores of total provisions depending on how the situation is we will still have the ability to take those calls.

The other interesting thing that is also worth reporting to all of you I am sure you notice that our capital adequacy is now at 31% be very healthy so that is also comforting for us. Our LCR has been at 177% so that is also been pretty good we were carrying fairly excess liquidity to the extent of almost 1,500 crores which is at 8% of the balance sheet. Our deposits now covers almost 77% of our advances the balance sheet is very well funded and we have a fairly good and a high liquidity buffer also capital adequacy I have already covered. So on fundamentals I think we are probably as strong as what we were in the past and the overall shift in the deposit mix moving more towards retail has given us the ability to also reprice our deposit and that helped us in lowering our cost of funds.

So there is a very clear focus on making sure that we retain the profitability of the business to the extent that we can and of course the overall focus on the quality of the portfolio like I mentioned couple of portfolio and the collection efficiency of 99.5% plus is a way to explain that our view on the overall portfolio incrementally also will remain cautious we will remain clear throughout the demand and we are going to be gradually climbing back especially in micro banking may be the other businesses will go up in a probably faster manner. In fact if you look at year-on-year growth in the overall asset book if you exclude micro banking where we had taken deliberate calls starting with December of last year after the lockdown situation started becoming a little difficult.

If we have to exclude micro banking from the overall assets our overall assets x micro banking has grown by 26% year-on-year. So I think it needs to be contextualized also to the extent that how the portfolio reflects. So in summary in the end what I would like to say is that I think we have used up this time the past six months both to stay in touch with our customers or to look after our employees to our best of our ability we have not had a reason to let go and we have been able to retain our headcount in a fairly range bound manner. Most importantly we have been able to bring back and scale up the efficiencies and collection and in disbursals pretty quickly. We had always told you that we are preparing ourselves for all kinds of possibilities and our preparedness level would be very high as we come out of the whole pandemic.

Now the only unknown is that whether this is the only way that we are going to see or rather there are going to be a second wave is there is a third wave we do not know that hopefully enough as we are hearing now we should have the vaccines probably in Q1 of next calendar year, but it is also to be seen whether how much time it is going to take for everybody to get vaccinated so we will need to maintain this posture for the few quarters, but at the same time overall set of things are looking positive we are hopeful, we are confident and we remain prepared for all kinds of possibilities and to the extent of covering our books we have taken those conservative steps as well and I think now we have a clear mind in terms of being able to strike a good balance between collections and growing our business and we are completely prepared to be able to do that and since we are completely positioned ourselves as a mass market bank I think that category of customers probably going to be a little more than what we saw before the pandemic hit us.

So we are even more determined to serve this segment of customers even more determined to make sure the technology has the forefront of whatever we do digital especially and on that basis we do ourselves becoming a large and a reasonable bank with a reasonable impact in the master market as we go along from here. So I will stop here and let us open the call now for questions and answers.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: I have a query on our disclosure about the four states where our collection efficiency on a weighted average basis 78% and our overall collection efficiency is 88% for the month of October and when I compare this thing with the peers collection efficiency broadly in line with the peers in those states, so what is our best assessment of those states where we have a collection efficiency lower than the company level, so what is the ultimate credit cost we have envisaged for the business can you guide us on that?

Nitin Chugh: See credit cost I am not going to be commenting it is still evolving, but did you ask that we are lower than peers in this market is that what you said.

Manish Ostwal: No I am saying we are broadly in line with the peers that is what I said?

Nitin Chugh: So our view is not going to be at a company level only probably for the industry we are sharing see these if you think deeper into markets there are very specific reasons that you can attribute let us say Mumbai where a lot of you have calling in from the local trains are not still not available for everybody or people are not preferring to travel. So it is going to take some time for people to come back to the real level of normalcy that we have seen in Mumbai. In Pune has been so badly impacted that you know the scars are going to remain for some more time till the whole situation evolves fortunately for a city like Bangalore which also went into a similar situation it came a little later when people were prepared and you know at least the fear had gone away, but in cities like Mumbai and Pune is going to take some time. On top of that there is intervention, there is interference from some of the political groups in these markets which we have seen on a localized basis. So we have to read this carefully and it is going to be hard to say whether it is going to take x amount of time or 2x of the time, but we are just saying that if you look at the month-on-month data for these states they are remarkably improving every month and while the other states might have improved substantially they have lacked behind, but that does not mean that this portfolio is going to remain bad or will become bad I think we just need to give it some more time. In any case we will also have the option of providing a restructuring framework to some customers which can give some more time to the people who are impacted. We are not seeing issues of intentional non repayment as yet, which should be alarming for us and not as yet, but wherever we are seeing some prolonged pain which are kind of qualified in my opening remarks itself. We will have to provide assistance to those customers, and we have those options available to us as well. So I think we just need to wait and watch for some more time on our part we are prepared we have localized plan, we have our teams in place and we have everything else that is required to make sure that we keep improving and we keep reporting back to you.

Manish Ostwal: And our COVID provision of 299 crores and the currently quarterly provision of 100 crore so till the time things improve further this kind of run rate the 100 crores run rate should continue how to read that thing?

Nitin Chugh: There is no run rate or provisions last time around we had taken 140 so the quarter before that we had taken 70. I do not think we are targeting our run rate on provisions those are calls that we take on the basis of the data that is available to us. It is a lot analytically led and then there is obviously some management overlays I have explained last time also. So we do not want to comment on whether this is going to be the run rate for x number of quarters in future. Let us see one quarter at a time as far as provisions is concerned and certainly credit cost is something we should talk about only at the end of the year not even before, but I can only tell you that 3.4% cover on the book is reasonably comforting or I would say it is very comforting 2.2% cover on the micro banking book with the kind of provisions we have taken 2.2. So that kind of provisions that we have taken I mean it is comforting, but if we have to take more I mean we will take those calls later in the quarter like we said last time also.

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

Renish Patel: So sir just two questions so one is on this digital collection side so how do you read this customer behavior on a steady state basis since the under JLG model if borrower start paying digitally, so is there any risk of this whole JLG a culture starting impacting ignore the normal collections ongoing disease, so just wanted to hear your thoughts on this thing at first?

Nitin Chugh: No we do not see a change in the culture or change in the credit discipline this question keeps coming very often. Every time you want to make any kind of change or any transformation to the business I think these questions are logical it happens with all of us. So when all of us started to move from physical to digital transactions this question also came we will stop going to branches, we will stop dealing with them so branches will shut down this will happen, that will happen, but nothing happened. So, I think we as a bank, as a provider of service to customers we have to make sure that we are giving them all the options, we are not denying them of all the options that they are required to have. At the same time because it is our model that we will serve them on a door-to-door basis at the doorstep basis rather. We will continue with that support also. So we are not going to lose touch with our customers it is not like we will stop going to the field and only ask customers to make payments digitally. The second thing is there is also inertia which has to be taken into account when you are making such kind of things on a transformation level with customers so it is not easy for customers to also switch forward to such new ways of repayment I mean if you have an option that somebody will come and collect it from me versus you know I have to go let us say 500 meters and then deposit it somewhere you will probably prefer that somebody comes and collect it all of us would do that. So these customers are no different and as far as the JLG model is concerned I do not think there is a problem with that it is a moral framework more than anything else and that in smaller groups or smaller communities in any case that work irrespective. The word of mouth travel faster than anything else.

Renish Patel: So we just try to assume that if there is a digital payment option has been availed by the borrowers it would be ideally from the entire center or it might be different within borrower of this incentive?

Nitin Chugh: Can you repeat that did not quite understand.

Renish Patel: So basically let us say in a typical center if there are five members so how we as a company sort of tried to you know let us say tried this digital payment so may be out of that five members two might have availed the digital payment option and three would still continue to be on the cash mode, so do we see the rest three two to switch to digital payment or we will take it as far as their comfort?

Nitin Chugh: Like I said earlier Renish we have to give all options to the customers let us say we have 20 customers 10 of them want to pay digitally, 10 of them do not want to pay digitally. We have to serve that requirement, we have to serve them in the way that they want to serve all 20 like this is how you can do it not like we are selectively telling 10 people and not telling the 10 others and it does not break the group discipline or any other kind of those emotions that we have. What can happen is that when people start paying digitally as their convenience otherwise maybe they find values that words of mouth help the other 10 to also convert more than our own effort. It is a thing that you have to work on for years this happened just because I mean we were thinking that because of lockdown we are not moving around so this is the only option that they can pay of course, but like all of us we are starting to do so many things after we have been to move around this is the same for our customers also.

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

Utsav Gogirwar: I just want to understand your thoughts on the West Bengal geography although you have touch base in the initial comments on that, but my question specific to understand how we should look at from the collection efficiency point of view or as a geography from the micro finance perspective, so we have one of the largest player who is reporting 90% plus collection efficiency and the other players they are reporting in the range of similar level of 78, 79 or less than that, so why there is such a divergence difference in the collection efficiency and secondly is it more to do with the size or underwriting or just want to understand that part?

Nitin Chugh: We cannot comment on anybody else collection efficiency I think it is best that any outliers should have the ability to explain if there is an outlier if we were the outlier we would have certainly explain to you that why we are different from the rest of the industry we are more or less in line with the rest of the industry so it is easier for us to explain for ourselves rather than for anybody else so I do not want to comment on anybody else in any market for that matter not just West Bengal. Now specific to West Bengal you have to break this up into various parts of the whole state the larger portfolios at least for us are the ones which has got impacted because of the restrictions in mobility earlier on they were impacted because of the extended intermittent lockdowns which were prolonged as compared to some other states which are completely unlocked. West Bengal continued with this alternate day or twice a day or two days in a week sort of a lockdown especially in the month of August and maybe in September also to some extent. Unlocking has been differently paced in West Bengal as compared to some of the other states I am sure they have their own reasons to do that, but one of the big reasons that we have come across and by the way we have heard this from the other earnings call also at least for the listed people who are there in that market that the non availability of the suburban trains has really impacted the livelihood of people who were dependent on trains to go to Kolkata to earn their livelihood and we know this exactly we have been talking to our branches pretty regularly. So as and when things get restored it is only a question of things getting restored. In general if you look at West Bengal as a market it has always behaved very well for everybody. These questions have come to us even last year there was a heated or heightened I would say interest in West Bengal that everybody had last year between July and I think December everybody wanted to do internationally doing a road show exactly where every single fellow we might ask this question that do not think West Bengal is over heated. By that logic every market is over heated Bihar is overheated, Maharashtra is overheated, UP is overheated every place you go is overheated to some extent or the other, but that is not perhaps the right way to look at it. The real way to look at it is that is there potential in the market, is there headroom available and how is the portfolio behaved for all these years. West Bengal has been amongst the most disciplined behavior in the portfolio that we have seen all across the industry. So that is what gives us the reason believe that as and when some of these things are restored where people are dependent on things will improve, but it is hard to say how much time I think we need to give it our best every month this is what we have been trying to do and just on that basis we are hopeful and confident.

Utsav Gogirwar: So just one relative question so what is the underwriting philosophy we have like do we refinance customers or provide top up loans or until and unless we receive all EMI we do not provide next loan so just want to understand?

Nitin Chugh: I already explained that we are taking our disbursals very cautiously it is not very difficult to go and find ways and means of hoping up we have not done that. We have done that only to the extent of the portfolio customers who we are comfortable with on the contrary we have tighten the whole credit policy. We have also signed up for CRL which make sure that we are bound with some self-regulatory framework also, so we are taking those calls. If you look to West Bengal since this question was coming to us even the last year we had very explicitly said that West Bengal is a place where we are not expressively aggressive or we are not aggressive at all for that matter. We are maintaining a cautious stance in that whole state not for the fact that there is a discipline issue or what people believe that overheated or anything of that kind. We just thought that because our portfolio was reaching a threshold where we would be comfortable with which is around 15% of our total book we wanted to take those kind of calls to be little more conservative so we have maintained that and that is why I think our underwriting only reflect current environment information that we have on our portfolio for all these years and our ability to understand these markets very deeply and we understand West Bengal and lot of other markets where we have been present for a long time extremely well. So there is no question of being influenced by some overall industry level narrative or some overall perception that gets build on the basis of one or two conjectures here and there we have our own methodology or our own data science or our own ways of making our mind and that is how we go for credit policy without getting into how is our credit policy different for West Bengal. I think it overall reflects our posturing, it reflects our data, it reflects our portfolio quality, it reflects our overall summary of entire state.

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

Nishant Shah: What would be your zero debt or at the company level and for the state of Assam and again the question for Assam is quite specific because like it is not only like some local politician doing it and even some of the leading national party is president doing this like announcing like stuff of loan waiver, so any comments around that as well I know you touched upon this in the opening remarks the situation seems a little bit more serious so any thoughts you can give around that?

Nitin Chugh: Assam has been easy for the last one year so every time something like this happens we were actually pretty engaged with the bureaucracy and the government I would say till January. February and March had started to look up we had improved substantially in the month of March also till we went into lockdown and stuff, but after a pause of whatever happened during the lockdown and whatever else happened in that state I completely agree with you that there has been increased unrest by mainstream political parties also to who have commented on this full issue and we are completely aware of that. We are trying to address that issue more as an industry rather than individually we have much lesser to worry about because our portfolio is reasonably small, but I think it is a cause of concern when a political party or mainstream political party starts to make announcements like these and we have discussed this at depth in our industry associations more specific to Assam and I think as a collective group we are going to be taking those kind of steps to make sure that our interest are also protected as much as we are trying to protect the interest of the customer, but if you just look at the numbers Nishant the numbers I have the overall collection efficiency in the State of Assam has improved by to double of what it was four months ago. Now if we have to only believe that everything is going wrong there yes we can take that view, but I think there are enough and more people also trying to make things work in a manner that we come out of this whole thing because finally that state does need credit it is not going to be a situation where everybody walks away from that state and say that I do not want to deal with this whole state ever again. The government also understands this the bureaucracy also understands this and at least in our interactions in the month of January and February they were completely appreciate of this fact, but things changed things changed when the priorities are different and when the context is different. Fortunately for us for example when Bihar went into elections and today was the last phase of voting in Bihar we did not see this becoming an election issue in Bihar and Bihar is again one of the states where everybody has a meaningful presence all the banks and MFIs have a meaningful presence it is a very large market for microfinance, but we did not see that issue and the discipline in spite of the flood, in spite of three waves of flood in some part of Bihar things have not really gone bad they have only improved every month. Now that gives us the hope that these are issues some of them might have stayed for a longer time, but since all of us are working towards them I think we should come of that from our point of view specific to Ujjivan we have taken a cautious view right from the last I would say 15 months now not even lesser than that and just for that reason I think we have very carefully looked at and worked on our portfolio and we have stayed in touch with our customer and as far as this political issues are concerned we are trying to deal with them more as a industry rather than individually, but the other question that you asked in terms of power I am afraid we cannot comment on that is because they can be computed all of you can compute that, but I would refrain from comments on power.

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

Sameer Bhise: Just quickly on the OPEX side I think encouraging signs you think I mean there is always room to improve, but how do you see the trajectory here on?

Nitin Chugh: See there are two ways of looking at this Sameer one is absolute OPEX can keep changing depending on these expenses come back or type of investments we need to make and we have to make investments, we have to make investments in technology, digital requires a lot of investments. So there is going to be expenditure, but the important thing to look at is that as a proportion of the overall book, the overall asset as a proportion to the revenue because we are looking at substantial change increase and we are seeing over the last few months and our productive efficiency and all the other things that we have tried to do in terms of optimization. As a proportion OPEX can be range bound and we do have folks to continue working on it to continue improving on it and which is what was a lot of things that we worked on in the first quarter or lot more things that we worked on it as a second quarter. So I would just say that our interest is to make sure that OPEX reflects the nature of the business, the nature of investments and expenditure that we need to incur, but at the same time we keep building back the efficiency and productivity in a manner that we keep improving on that. So I do not want to put out any kind of guidance on this. If you remember during the time of our IPO we had said that we will bring down the cost to revenue to 55% in the next three years and we have been able to do that in the last quarter itself and we are holding it at that level it gives us the hope that we can do better than that. I mean if we can bring forward a plan which was three years down I am sure we can do a lot better in future as well.

Sameer Bhise: Can you comment on what is the differential between institutional TD cost that you are paying versus retail TD on blended basis?

Nitin Chugh: At the moment it is about a little less than 100 bps I think 565 is what we pay on bulk for one year and 650 is what we pay for retail. For bulk has actually come off by 225 bps in the last quarter.

Sameer Bhise: Okay the bulk cost you mean?

Nitin Chugh: The bulk fixed deposit.

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

Rohan Advant: Sir my question is that you have given the collection efficiency in value terms, can you give us how many borrowers are paying full part and no EMI and a connected question was sir regarding the calculation of DPD for part paying EMI borrowers, so say a borrowers had an EMI of 100, but since September he is paying 50 and becomes overdue on first September and once he continuous to pay 50 regularly we will see become an NPA on December 1st or would it be only 45 days overdue on December 1st because you have actually collected half and does on an amount adjusted basis overdue are worked on the 45 days I think there is some we still on way NPA are classified by banks and MFI so some clarity on this will help?

Nitin Chugh: Straight reason in simple anybody who is making part payments and does not come back to paying full payments does not normalize will obviously going to.

Sneh Thakur: Taking your example only if someone making Rs. 50 out of 100 EMI they will be 1 to 30 in the first month, but if someone is making 50 again in the second month so the September EMI for example gets paid so on and so forth the moment would not be based on Rs. 50 payment per month if we continue 50 for a very long time yes you may get into NPA, but not by the end of December maybe sometime during Quarter 4.

Rohan Advant: So it is like our FIFO basis where amount will get allocated to the last few EMI?

Sneh Thakur: At first due or originally so if September was due first all the accounting will happen against the September EMI due first and so on and so forth.

Rohan Advant: So someone paying 50% will become 90 DPD actually after 180 days?

Sneh Thakur: If she continues to pay 50 every month, but if she repays more than 50 and starts to pay 100 in due course then she will continue to be an SMA customer even in Q4.

Rohan Advant: And just on the first question where you can break this down?

Sneh Thakur: So your question was on the full payment and partial payment right?

Rohan Advant: Correct yes.

Sneh Thakur: 86% of the customers have made full EMI payment 2% is partial that takes it to the total of 88 and the balance is on account of future payments made by customer.

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

Abhijit: Just couple of quick questions one is on cash collections do we really charge the borrowers because of the extra convenience?

Nitin Chugh: No, we do not.

Abhijit: And second one is after the moratorium what would have been the average extension of the tenure in terms of how many months by which the tenure would have got in extended?

Nitin Chugh: On an average three months.

Abhijit: One last one is when you are saying you are kind of comfortable with the current level of coverage and against which we have close to 90% of customers paying, so are you sort of indicating that this number can kind of trend upwards of 95% in the next couple of months what is the level of comfort how do we read the two indications?

Nitin Chugh: See I am refraining from giving any kind of numbers for future. Like we said last time also that time I think we were at 63% collection efficiency we have come to 93% things are looking better. We are hopeful, we are confident things are looking up difficult to say whether it is going to be 95 better than that a little lower than that we cannot say, but we will keep you all updated I mean that is not only call we are going to have for the next three months we will give you updated as things changed.

Moderator: Thank you. The next question is from the line of Suraj Subramaniam from Airavat Capital. Please go ahead.

Suraj Subramaniam: I wanted to get an update on your long held objective of reverse merging of the promoter holdco I think your guidance prior to SFB IPO was that you might be asked to meet the 40% threshold by Feb'22 before the reverse merger proposal is entertained I believe a report by the RBI working group under Dr. Mohanty eminent, so in that context and just given the passage of time I wanted to get a sense of your latest thinking overall on this matter?

Nitin Chugh: So our latest thinking is not very different from what it was the last time around we still hope that we will get the permission to reverse merger much not having to through the dilution process, but because that is what the presence set of regulations ask us to as part of the licensing conditions also we are preparing for a possibility in case we have to reduce the promoter shareholding to 40% before the reverse merger has to happen we will be subject to do that. So I also agree with you that we are also waiting any kind of an outcome from the working group that was constituted we still do not know as to what was deliberated and what the recommendations are as and when they are out I also do not know when they are expected to be out, but like you said it is eminent so we are also hoping that it should be out anytime now, but if that provide any more clarity from our current position I think we will make changes to our plans on that basis if it does not then in any case I think we have to work towards making sure that we are in a position to also dilute, but at the same time keep trying to have a dialogue with RBI for allowing us to reverse, but we have also tried to make a representation as association. So I think the dialoging is going on from all possible ways and means at the same time if the situation changes based on the recommendations of the working group then we will alter our plans suitably.

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

Darpin Shah: Sir you have given the detailed disclosure on fourth stage so if you can highlight on Karnataka as well for Bihar there are couple of places in Karnataka where collection efficiency was impacted due to floods?

Nitin Chugh: Karnataka we do not have a issue in fact anymore. Karnataka of course had I said 92% from what I am seeing here and this is again for the one month EMI so total collection put together would be higher than this.

Sneh Thakur: See I just like to add I think the Mangalore belt and Karnataka has issues where we have no presence we do not have an asset portfolio there unlike the industry so that is problem does not hold good for everyone

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

Shreepal Doshi: Sir my question is with regards to I mean our strategy, our thought process in restructuring of good that would be quite restructuring and what is our policy and what is our thought process on that aspect?

Nitin Chugh: No we do not have any different sort of approach from the rest of the industry I mean it is as simple as saying that customers who will need any help with restructuring we will do that to the extent possible we are trying to make sure that is minimized, but we do not have a clear view on that we are still in the process of dialoguing with our customers and that activity is likely to be this is going to be continue till the end of December so I think we will probably have a some sort of a picture emerging only then, but it is too early to put out any kind of estimates from that. So our policy will reflect exactly what the framework allows us to do nothing less nothing more.

Shreepal Doshi: So we have not identified say some customer profiles or some segments which would require higher sort of restructuring of the book?

Sneh Thakur: Yeah I just like to add here we are in the process of identifying customer who will need to be put under this framework. What I would like to just highlight here it is that it is important to know that demand for good services are spent on festivals occasions, travels, tourism has not reached the pre-COVID levels yet. So to that extent borrowers may need some support under this framework because their income level have not reached back to the pre-COVID level and this is generally across the board and specifically for customers who are directly or indirectly dependent on the demand. So to that extent we will support customers through this framework, but that may not be a very significant number and that will be restricted to geographies where the collections efficiencies are low as also reported in the presentation.

Moderator: Thank you. We take the last question from the line of Gaurav Jani from Centrum Broking. Please go ahead.

Gaurav Jani: So just one question from my end if you had to sort of look at demonetization and the way this segment bounce back and we are probably about 7.5 months within recovering from the pandemic, so how would you sort of tie both of them more sort of from a ground level especially interacting with customers?

Nitin Chugh: This reference to demonetization keeps coming up Gaurav all the time, but I think these are different events in different time zones also. In our context also we were different the kind of organization that we were during that time just having converted to a bank and now three and half years into our lifecycle things are very different for us as well. So I do not think it is comparable, but as far as the customer portfolio is concerned there is a natural tendency to revert to me in rather faster as compared to some of the others parts of the economy which can take longer and we have seen that in the past. We also know for a fact that there is usually short term pain and then things get better. What we are only qualifying right now is that we had anticipated the recovery to be a little more prolonged what we are seeing in the number that we have put out today and what we have seen for the rest of the industry and generally the narrative in the industry is that things have recovered better than what they were earlier anticipated. So specific to microfinance what we have been maintaining is that it is subsistence business people are unlikely to stay out of their livelihood for too long or for a long period of time they were forced to do that during the period of lockdown now it is only a question of their own demand coming back to the same level as what it was earlier. A lot of parts of our economy in any case were slowing down even before all of this happened and we have been discussing this for the last several quarters now in terms of the overall change in the economic activity or the slowdown. So this segment is not going to be any different, but like I said in my opening remarks like with everything opening up and performing or starting to perform there are parts which are still experiencing pain and we just need to work with those segments of customers for a little longer period of time. Fortunately for us we have a framework available to us we had the moratorium, we have a restructuring framework available to us and on our part we have made enough in more provisions and we have fairly lean and mean to be able to take those kind of calls as and when we are required to. So I do not want to generalize this that is really the whole summary.

Moderator: Thank you. Well ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for closing comments.

Nitin Chugh: Thank you everyone for joining us and we do hope to keep all of you updated and still we meet again take care, stay safe. Thank you very much.

Moderator: Thank you. On behalf of IIFL Securities Limited we conclude today's conference. Thank you for joining you may now disconnect your lines.