"Ujjivan Small Finance Bank Q4 FY '25 Earnings Conference Call"

April 30, 2025

MANAGEMENT:	**MR. SANJEEV NAUTIYAL – MD & CEO, UJJIVAN SMALL FINANCE BANK** **MS. CAROL FURTADO – EXECUTIVE DIRECTOR, UJJIVAN SMALL FINANCE BANK** **MR. BALAKRISHNA KAMATH – CFO, UJJIVAN SMALL FINANCE BANK** **MR. ASHISH GOEL – CHIEF CREDIT OFFICER, UJJIVAN SMALL FINANCE BANK** **MR. MARTIN P S – CHIEF OPERATING OFFICER, UJJIVAN SMALL FINANCE BANK** **MR. VIBHAS CHANDRA – HEAD (MICROBANKING), UJJIVAN SMALL FINANCE BANK** **MR. HITENDRA JHA – RETAIL LIABILITIES & TASC HEAD, UJJIVAN SMALL FINANCE BANK** **MR. GAURAV SHAH – LEAD, INVESTOR RELATIONS, UJJIVAN SMALL FINANCE BANK**
MODERATOR:	**MR. RENISH BHUVA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Ujjivan Small Finance Bank Q4 FY '25 Earnings Call hosted by ICICI Securities Limited.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*', then '0' on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Renish Bhuva from ICICI Securities. Thank you and over to you, sir.

Renish Bhuva: Yes. Hi. Thank you. Good evening, everyone, and welcome to Ujjivan Small Finance Bank Q4 FY '25 Earnings Call.

On behalf of ICICI Securities, I would like to thank Ujjivan SFB Management Team for giving us the opportunity to host this call.

Today, we have with us the entire top management team of Ujjivan SFB represented by Mr. Sanjeev Nautiyal - MD & CEO; Ms. Carol Furtado - Executive Director; Balakrishna Kamath – CFO; Ashish Goel - Chief Credit Officer; Martin PS - Chief Operating Officer; Mr. Vibhas - Head, Microbanking; Mr. Hitendra Jha – Retail Liabilities & TASC Head and Mr. Gaurav Shah – Lead, Investor Relation.

I will now hand over the call to Mr. Sanjeev for his opening remarks and then we will open the floor for Q&A. Over to you, sir.

Sanjeev Nautiyal: Thank you, please. Good evening and welcome to our Q4 Earnings Call. Please be informed that references made during this address to Q3 and Q4 pertain to Financial Year '24-25.

Q4 concludes an eventful year at Ujjivan. The year saw new leadership assumed the positions of MD and CEO, Executive Director, Chief Financial Officer and Head of Retail Liabilities infusing in Ujjivan vast management experience and exposure across banking and financial industry. Bank successfully navigated the challenging business environment in the microbanking segment, maintaining one of the best in the industry portfolio quality. Strategic initiative to diversify and build higher share of secured loan book saw significant progress now contributing 44% of the loan portfolio, up from 30% last year.

While the banking system liquidity continued to see challenges, this was managed at optimal levels with the credit to deposit ratio improving to around 85% and LCR managed comfortably around 120%. Further in February 25, the bank took a major step forward by filing application with RBI to transition to Universal Bank. Disbursements for Q4 have been the highest ever in history of Ujjivan at Rs. 7,440 crores, up 39% Q-on-Q and 11% Y-o-Y. The gross loan book reached Rs. 32,122 crores, up 5% Q-on-Q and 8% Y-o-Y. The secured book crossed Rs. 13,988 crore, up 17% Q-on-Q and 56% Y-o-Y.

Following are the major highlights. Housing verticals are robust disbursement in Q4 of Rs. 1,130 crores, up 39% Q-on-Q. The loan book reached Rs. 7,308 crores, up 14% Q-o-Q and 48% Y-o-Y becoming a meaningfully significant player in the affordable housing space. MSME business witnessed an impressive growth during Q4, led by revamped and newer products of LAP working capital and supply chain. The disbursements at Rs. 533 crore, up 61% Q-o-Q is all time high resulting in loan book reaching Rs. 2,047 crore, growth of 21% Q-o-Q and 45% Y-o-Y. Current account balances from MSME customers grew 70% Y-o-Y showing traction in our strategy to build liability through MSME assets. FIG continued its growth journey reaching Rs. 2,785 crore, up 23% Q-o-Q.

Another significant highlight was the performance of newer product lines of the bank, the disbursements for which contributed 11% to the banks disbursements in Q4. Micro mortgages, higher yielding lower ticket size product within housing now contribute Rs. 723 crores growing 37% Q-o-Q and 258% Y-o-Y. Working capital and supply chain finance, the business banking segment now contributes more than 20% to MSME book. Vehicle finance witnessed impressive growth reaching a book size of Rs. 468 crore, up 25% Q-o-Q and 166% Y-o-Y. Agri Banking reached a loan book of Rs. 323 crores, up 66% Q-o-Q and 276% Y-o-Y. Gold loan gain momentum with disbursements up 69% Q-o-Q taking the loan book to Rs. 196 crores as of March '25, up by 70% Q-o-Q.

On the Microbanking segment as previously guided, there was robust growth in disbursement in Q4 up 38% Q-o-Q. Within Microbanking, individual loan book grew 5% Q-o-Q, reaching Rs. 5,182 crore, now constituting 28% of the overall Microbanking book as of March '25. The GL book degrew by 4% for the quarter, in line with a cautious approach adopted for the year reaching Rs. 13,090 crores. Disbursements grew to Rs. 2,787 crores, up 37% Q-o-Q primarily led by disbursement to good existing customers which contributed 84% in Q4 sourcing. The full implementation of MFIN guardrail 2 has been completed with effect from April 1st. The Microbanking bucket X collection efficiency in all states other than Karnataka showed consistent improvement reaching 99.6% in March '25. The overall bucket X collection efficiency reached 99.5% in March despite Karnataka registering only 98.7%. The branch and customer specific interventions were pivotal in managing the portfolio, making it one of the best in the industry under the current situation. We are confident that improvements in this segment both from the business and collections perspective shall continue to ensue.

Coming to the Secured Portfolio Quality:

Housing GNPA reduced Y-o-Y to 1.1% as of March '25 from 1.5%. MSME saw a drastic improvement with GNPA reducing to 5.5% as of March '25 from 8.4% as of March 24. The 24 MOB MSME book has only 0.1% GNPA. Bank level gross NPA stood at 2.2% and net NPA at 0.5%. Bank affected an ARC transaction of Rs. 365 crore in Q4, of which Rs. 295 crore was from provisioned portfolio and Rs. 70 crores from written-off portfolio. In terms of RBI guidelines, the bank utilized Rs. 69 crores towards ARC transaction from floating provision pool. As previously guided, credit cost for Financial Year '25 stood at 2.45% of average gross advances, including accelerated provision of Rs. 46 crores, while it was 2.12% net of bad debt recovery. Closing PCR for March '25 is at 78%.

On the liability front, the total deposit book closed at Rs. 37,630 crores, up 9% Q-o-Q and 20% Y-o-Y. In Q4, impressive growth in CASA was witnessed up 11% Q-o-Q reaching Rs. 9,612 crore and now forming 25.5% of total deposits. Current account crossed an important milestone of Rs. 1,000 crore for the first time, reaching Rs. 1,118 crore as on March '25 with impressive growth of 35% Q-on-Q and 46% Y-o-Y. Retail TD plus CASA stood at Rs. 26,676 crore, accounting for 71% of total deposits, experiencing a 21% Y-o-Y growth. Cost of fund increased marginally by 1 basis point and is at 7.6% for quarter 4.

On financials and margins:

The total income for FY '25 at Rs. 7,201 crore is up 11% Y-o-Y. For the quarter, total income stood at Rs. 1,843 crores, up 5% Q-o-Q. Other income grew by 57% Q-o-Q driven by processing fee, insurance income and treasury income. Interest expenses increased by only Rs. 5 crore Q-on-Q due to active liquidity management; however, OPEX increased by 11% Q-o-Q mainly due to direct business expense on account of higher disbursement. Investments in a new alliance of businesses, full-year expenses impact of the branches opened in Financial Year '24 and technology investments have led to increase in operating cost. Credit cost for Financial Year '25 at Rs. 748 crore includes the accelerated provision of Rs. 46 crores and is within the limit estimated before. Due to the change in asset mix towards secured, NIM for the Financial Year '25 came in at 8.8% down 25 basis points from March 2024. Cost to income ratio for the Financial Year '25 at 62%. With this, the full year PAT stands at Rs. 726 crore with ROA of 1.6% and ROE of 12.4%.

Microbanking portfolio saw improvement in asset quality in Q4. Green shoots are visible and business momentum also picked up in Q4. However, Microbanking business is still to completely navigate couple of geography specific issues and industry guardrail 2 mandates. Accordingly, to allow the evolving situation to stabilize and offer us a clearer perspective, we shall be giving our guidance for the year along with our Q1 Financial Year '26 results. Directionally, the diversification of loan book would continue at fast pace, led by housing and MSME, ably supported by higher yielding micro mortgage, vehicle, Agri and Gold loan businesses. Deposits will grow in line with asset growth keeping the CD ratio around 88%. Thank you very much. Now, I hand over to the moderator, Mr. Avirat.

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

Nidhesh Jain: Thanks for the opportunity. Is there an interest income reversal this quarter and can you quantify that?

Management: Yes, interest reversal for the quarter because of the slippages would be in the range of roughly Rs. 17-Rs. 18 crores for the quarter.

Nidhesh Jain: And how should we look at yields next year, given that there will still be a migration from unsecured to secured in FY '26. So let us say, how the trajectory of yields we should build in FY '26 versus what we have seen in Q4?

Management: Yes, hi Nidhesh. So see with the secured mix increasing and the shift towards the secured, the yields will directionally get moderated a bit. Having said that, we are also working on increasing the share of our higher yielding secured books of vehicle finance, which is giving us a yield of roughly 20% plus, micro mortgages within housing vertical, which is also giving us a yield of 19% plus and also gold loan which is also giving us a yield of roughly (+14%). And not only that within the Microbanking segment, we are also looking at increasing the share of individual loans, which is roughly 100 basis points plus over group loan. So all these factors put together should be balancing out the yields also for next year.

Nidhesh Jain: But any range if you can give, should we build 100 basis point reduction over Q4 or less than 100 basis point reduction over Q4 next year in terms of yields?

Management: So as part of the MD speech, we mentioned that we will be giving the guidance for the year with the Q1 results. So we will like to refrain right now.

Nidhesh Jain: Sure. And with respect to the credit cost, since your SMA book has started to reduce in microfinance and it is now quite similar to let us say, marginally higher than business as usual SMA book as your asset quality experience and secured business also doing quite well. So do you see that FY '26 we should see a business as usual credit cost or do you still see that Q1, Q2 will be elevated credit cost because SMA book in microfinance has come down quite sharply or is quite under control now?

Management: Yes, we have seen a good reduction in our SMA book. So we should see this trend hopefully going forward and continue as we have seen in Q4, in fact the PAR seems to have peaked in December. However, there are one or two areas which we are watching now. One is the impact of guardrail 2.0 and a couple of geography related things which are currently evolving. So yes, there will be a difference between H1 and H2 credit cost, H1 being slightly higher than H2. However, we can come up with a firmer number by the end of Q1.

Nidhesh Jain: That is it from my side. Thank you.

Management: Thank you, Nidhesh.

Moderator: Thank you. Next question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Yes. Hi. Thank you for taking my questions. Firstly, when I look at the reported yield for group loans and individual loan combined that has actually slightly increased in Q-on-Q basis. I know there has been a change in methodology in terms of calculation, but there is an increase, but we had actually taken a price reduction from 1st January between 75 basis point and 115 basis points. So all the new disbursements which we did must have come at a much lower price or this much lower price, so how come the yields have gone up Q-on-Q?

Management: Yes. Hi, Rajiv. Yes, we have modified the methodology on the day-to-day basis. The yields have actually gone up because of the way calculation happens. We did an ARC transaction of amounting Rs. 365 crores, out of which roughly Rs. 300 crores was within the provision pool, which was still on balance sheet and the interest accrual does not happen. As we answered the previous question also, the interest reversal happened due to book moving into slippages. So due to the denominator effect, largely we are seeing the increase in yield happening.

Rajiv Mehta: And on the price reduction, there is no calibration, right? We have gone ahead and implemented that much as we had planned?

Management: Yes. Just to add, Rajiv also, the mix of individual loan, which is a higher yielding portion on Microbanking has also gone up by 3%. So that is also helping the overall yield of the Microbanking segment. And yes, we have taken the rate increase also effective from 1st April and we have implemented that.

Rajiv Mehta: No, so from 1st January, we had taken a rate reduction of that quantum and are you saying that from 1st April have you also kind of again reinstated a part of that reduction?

Management: Yes, Rajiv, you are right. We have taken an entry from 1st of April for both GL and IL, which is a roll back of the small discount which we had given in the 4th quarter because it is a good business now and everything is going well. So we thought we should come back to our old pricing. So we had given a discount for Q4 only, which we have withdrawn.

Rajiv Mehta: Yes, sure. Sure. That clarifies, Sir, now, the outlook on NIM you can share because we are exiting NIM at 8.3%, the average for the whole year is 8.8% and we are fast moving our mix towards secured products. And I am sure even in the next year, the growth in secured products will be much higher versus MFI. I appreciate the fact that we have kind of rolled back the pricing gain in MFI, which will help us, but from a mix perspective and as per what is your sense on how the cost of funds will move going ahead because the bulk pricing has actually come off and have you taken any rate actions on the term deposits or SA rate of late, if you can just kind of answer all of these points and maybe give us some conclusion about, some outlook about how the NIMs will play out?

Management: Yes, Rajiv, we will give a broad sense on both the NIM side as well as the cost of fund side. NIM, yes, since the secured loan will be moving up in percentage, there will be some reduction, but not very material due to the fact that we have increased the rates again from 1st of April, that benefit will come plus we have high yielding products as I explained earlier, which is a vehicle loan. The individual loan also is doing well, so that will sustain that and now coming to the cost of funds side, yes, we have taken a reduction both on the SA side as well as on the TD side, bulk deposit rates also have come down. And already two repo rate reductions have happened as per the RBI's rate action and we estimate that our cost of fund will definitely come down by at least

25-30 bps over next year considering these two reductions. If any more happen then it will be subject to that. So the NIM side, yes, we will be more or less there. There will be only a small reduction as compared to this year.

Rajiv Mehta: Got that. And just one last thing, sir, from a slightly longer-term point of view in the next 2-3 years, where are we in terms of the profitability of the secured businesses, housing, finance, MSMEs, finance business? We have been doing this business for a while now and there is good growth as well, so where do we achieve what level of ROA, is there some broader outlook on these secured products in terms of profitability road map?

Management: Yes, we are working on it. We have recently again re-launched the vehicle loan, gold loan as a new product. So it will take around 18-24 months for it to come to a good profitability level. Yes, we should aim for 2% ROA for the new products also going forward. So we are working on that. Maybe over the next 2-3 years, once it reaches a certain level which we are aspiring to maybe gold loan around Rs. 1,000 crores, vehicle loan around Rs. 1,500 crore, at that time, it will start making good profits and will sustain going forward. So anything more you would like to know about that?

Rajiv Mehta: No, maybe I am sure once you come out with the guidance in maybe more questioning, I will have more questions I will have at that time. This helps right now. Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Sagar Shah from Spark PWM. Please go ahead.

Sagar Shah: Good evening, sir, and thank you for the opportunity. My first question was regarding to our OPEX. In this quarter, our employee, we had some sort of serious off roll collection team increase also, but our employee expenditure also increased by almost 18% Y-o-Y and also sequentially it increased by almost 13%. So what led to the increase or just is it some sort of one-off in these numbers or is it just temporary blip. Can you explain about this? This is my first question?

Management: Yes, I will take that question. Yes, you rightly noted, the OPEX has gone up. That is because we have made certain investments towards improving our secured book and on the liability business. And for that we hired some employees and also on the collection side, you rightly observed, we increase the manpower due to the difficult market conditions. You might have noted our PAR and our credit cost is almost half of what is there in the market. So we have invested in that. Directionally, it will come down as our disbursals grow because last year, our disbursal in the unsecured side was a little muted, though the secured was doing good, but next year both the segments should show growth and we will come out with more details of that when you give the guidance and then the operating cost as a percentage will get tempered going forward.

Sagar Shah: Fine, sir. My second question, sir, was regarding our GL portfolio. Our GL portfolio obviously degrew also by sequentially, but I observed there was some sort of a disbursement growth even in IL and even in micro group loans actually. So first of all, can you give some color that in which geographies are you getting confidence actually and will in the same geographies and FY '26, will we resume growth at least in this segment?

Management: Hi, Sagar. So in microfinance, in both GI and IL, first of all, IL is something which is our growth driver in microfinance for a long time. This is something which we have built over a period of time and this is some product which we are doing everywhere because you get good customers everywhere. So it is a graduation product and which is well refined process where we are doing customer graduation and even in difficult market it works because you have good customers there as well. As far as GL is concerned, GL has degrown a little bit in this financial year, but at the same time when we look at geographies, we see that there are green shoots in various states apart from one or two states and within those states few districts are affected, but apart from that, we are seeing that in Eastern part of the country, Northern part of the country and even Western country is doing well for us and we see growth coming from these geographies in the coming financial year and this financial year also.

Sagar Shah: So is it safe to assume, sir or can you specify the geographies in which you have received green shoots and in FY '26, will we see a positive trajectory as far as group loans is concerned?

Management: So we are looking at the Eastern part. That means West Bengal, Bihar, Jharkhand, even Uttar Pradesh and in North part Punjab issue is also over, so Punjab, Haryana, Rajasthan, Gujarat and Maharashtra. These are the states where our presence is good and our portfolio is doing well. As far as South is concerned, you know that Karnataka, it will take some time to completely recover and then we will see some good volume here also. But at the same time in South, IL is something where we are looking at growth here as well.

Sagar Shah: Fine, sir. So my last question was regarding to our floating provisions, we utilized around Rs. 40 crores of worth of floating provision this quarter. We even did some Rs. 30 crores of accelerated provisions. Now, my question was that we still hold around Rs. 130 crores of contingency provisions also, collectively 181, but around 130, we have easily had. So when we had such a huge credit cost in this quarter, so why didn't we use some more provision section in this at least to contain our credit cost actually?

Management: So in terms of floating provision, see we have used Rs. 69 crores against the ARC sale, which we had done during this quarter. So the number is 69. We still hold about Rs. 150 crores of floating provision which is earmarked towards GNPA and about Rs. 30 crores, which is earmarked towards Tier 2 capital, so already Rs. 150 crore. We are currently using Rs. 130 crore for GNPA and NNPA calculation and Rs. 20 crores is unutilized. So as far as utilization of floating provision is concerned, we cannot directly utilize floating provision. These are made for the purpose of contingencies and this can be done only after specific approval from RBI. So for the ARC transaction, the RBI guidelines allow the utilization of floating provisions, so this is what we have done in Q4.

Sagar Shah: Fine, sir. Now, just last bit, if I can squeeze in more that I know you are not giving guidance, I am not repeating that to give you any guidance for NIMs or yields, but as per my self-calculation, our self calculated yields as per the earmarked yields that you have given in the presentation and the kind of disbursements that you are seeing in the secure front, the yields are coming approximately at around 18%-19%. So is it safe to assume that at least we will remain in this range or still it is not sure based on because of the portfolio mix that you had alluded to before that we will stay at around 50-50 between secured and unsecured? So is it safe to assume that the yields will be in that range, which I just said?

Management: No, as already mentioned, we would like to give guidance along with the Q1 results. So at this stage, we would not be able to elaborate any further on this subject. We will give you the correct estimate along with the Q1 results.

Sagar Shah: Fine, sir. All the best and thank you.

Management: Thank you, Sagar.

Moderator: Thank you so much. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to 2 per participant. The next question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Hi, sir. Thank you for giving me the opportunity. Sir, my question was on collection trends in April as we have already sort of concluded the month, so how has it been for microfinance given that the 2.0 guardrails would have also got implemented with respect to the lender gap?

Management: So as we have mentioned that apart from a few states, especially in the South, we are seeing positive momentum both in business and collection across the country and our last quarter has been very good in terms of collections and we are continuing that momentum in the month of April also and we hope that this quarter will also be similar to or better than the last quarter.

Shreepal Doshi: Got it. The second question was on the loan book mix front. So we have launched newer products such as gold among others. How are we seeing that share inching up in the next, let us say, 12 month’s time period because these products are also like not only secure, but also decently positioned when it comes to ROA profile. So what is your thought process in terms of their contribution by FY '26 or by FY '27 and if you could give some color?

Management: So gold loan is a new product for us. We started with almost a very small book and we scaled it up to about Rs. 200 crores during this year. This has got enabled by rollout of this business in 4 quarters. So every quarter, we started opening branches and we now are currently present in about 200 branches. We will continue to open branches for gold loan during this quarter, largely in H1 and then some branches in H2 also. So opening branches continuously putting people for gold loan acquisition, this is the plan that we have in mind. By end of next year, FY '26, we expect that this book will be about 2.5%-3% of the overall AUM.

Shreepal Doshi: So this is only gold and vehicle, which is another like, I think Rs. 470-Rs. 480 crore that we have built. So I am saying that new products as a category, how would that like be contributing in, let us say, FY '26 and/or FY '27 because today, as we see that book is almost, I would say Rs. 1,000 crore portfolio?

Management: So these are very important new products that we have done in the last 18 months. Vehicle loan, for example, we now are touching Rs. 500 crore, but we have built a capacity to be able to disburse in the range of Rs. 70-Rs. 80 crores during season times. So we have tested ourselves last season and by season, I mean actually August, September, October, November when two-wheeler sales are at their peak during the year. We have tested ourselves. We have touched Rs. 75 crores in a month. So this year also, we will go with the same momentum. This of course is a dealer based business, not a branch based one unlike gold loans. So we have done tie-ups across dealerships. This year also, the distribution footprint will increase again. So, the growth in vehicle loans, two-wheeler will continue with the same pace this year also.

Shreepal Doshi: Got it. And just one data keeping question, what is your write-off for this quarter and full year?

Moderator: Sorry to interrupt, Mr. Shreepal.

Management: Just one second, we are checking the number.

Shreepal Doshi: That is my last question.

Management: It was Rs. 363 crore for the full year.

Shreepal Doshi: Alright. Thank you so much. Thank you and good luck for the next quarter, sir.

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

Shailesh Kanani: Good evening and thanks for the opportunity. Sir, a couple of questions from my side. One on the MFI segment, as you have alluded to in the opening remarks as well, there has been a good jump in disbursement and overall also in the numbers also, it is getting reflected. So is it safe to assume or is it safe to understand that the burst in terms of credit cost in MFI cycle is over and FY '26 again, we would be seeing some growth, not maybe very high, but some growth for both GL and IL. IL, I know it is doing well, but even on the GL front, can you throw some light on that?

Management: So in Q4, the increase in disbursements has come largely on the back of repeat customers. So we saw demand coming back in the market. You must have noticed that in Q2 as well as Q3, the disbursement for the industry was low. Q2 Y-o-Y disbursement was low by about 28% below normal and in Q3 it was down by about 35% below normal. So repeat customer demand had to come back and that is what we saw happening during the quarter. Now, in terms of, I am sorry, what was the second question?

Shailesh Kanani: In terms of the disbursement for the full year.

Management: For the full year, yes, see there has been muted disbursement for almost 9 months in the industry. So there is demand coming back. We will also see some new customer acquisition during the year that has been something that we have not done over the last 9 months. And we will also see as collection efficiency improves, branches will start to acquire more customers because in the last maybe couple of quarters, branches have been spending a lot more time in collecting from overdue customers. And that has slowed down our new customer acquisition speed also plus we were a little more cautious. We were only servicing repeat customers all this time. So on both sides, yes, in terms of customers getting added, we will see some addition this year. And in terms of branches doing higher disbursements, we have already started seeing the trend and we will see that this trend will continue.

Shailesh Kanani: Sorry to harp on this, but just to understand what we are doing different than say other players because our disbursement if I see year-on-year basis, GL and IL combined, it is nearly flattish, not a huge dip, right, whereas many of the players have kind of even on year-on-year basis depicted a huge decline. So any quantitative factor which you would like to throw out means why this performance is a little bit better than the peers?

Management: There are two-three reasons to this, one of which is we have very good geographic diversification and because of geography diversification, we have not got impacted in a big way in any of the states whenever there has, so lower concentration has been one of the reasons. The second, of course, is IL now contributing to 28% of the book. The impact of guardrail 1 was largely on GL, so IL had a lesser impact compared to GL. So that also helped us in maintaining asset quality. The third one is as soon as we had started to see stress we had divided our branches into green, amber and red based on their collection efficiency. And the disbursements, the pace at which they would grow or degrow was largely dependent on the categorization of these branches. So in green branches, we were doing business as normal because collections were normal and in red branches, restrictions were put throughout the last 2 or 3 quarters. That also helped us in not taking additional risks in places which were not doing well and continuing with disbursements as normal in green branches. So this was one of the reasons why the disbursement trend did not show a very steep decline.

Shailesh Kanani: Sir, just last question, one question on the FIG front, I am seeing the jump in the disbursement in FIG as well, considering I believe the yields would be one of the lowest while we are having growth over there, any views on that?

Carol Furtado: So FIG has always been a strategic book for us and we have been looking into disbursements a little differently. We have a good hold on the FIG book. So at the moment, yes, we see that the FIG book has grown and we will ensure that this book is not more than 8%-10% of our total portfolio and we generally lend to NBFC's which are engaged in MSME, vehicle finance, gold and also our focus area continues to be on the higher rated entities A+ and above. And we also have a spread of around 1.25%-2.75% for these loans. It is based on the credit profile of the borrowers and finally this book has largely been having around A and AA rated entities. We have some good NIMs also in this book and we did a total disbursement of around Rs. 1,064 crores in Q3. So this book has always been a strategic book for us.

Shailesh Kanani: That is helpful. Thanks a lot and best of luck.

Moderator: Thank you. The next question is from the line of Aravind R from Sundaram Alternates. Please go ahead.

Aravind R: Hello, sir. Thank you so much for the opportunity. Just a clarification question to the interest rate reduction which we offered during the 4th quarter in individual and group lending, is it only a temporary thing, now the interest rate is again reversed back to the normal rate?

Management: Yes, you are right. We had given some discount for the 4th quarter because we wanted to improve the business. And now it is more or less restored back to normal. The discount has been withdrawn.

Management: One thing is that even after an increase in interest rate, we are one of the best interest offering, organizing in terms of microfinance loan in the market.

Aravind R: Yes, definitely, sir. Also, do we see any repricing in any other part of the portfolio like either in terms of increase or reduction?

Management: No, as of now, we don't envisage any change in our pricing. We will have to wait and see how it goes. But as of now, we don't have any such plan. Yes.

Aravind R: Sure. Thank you, sir.

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

Ashlesh Sonje: Hi, team. Good evening. Our first question is data keeping one. Can you just break out the slippages by segment? I just need the MFI slippage number if you can share that?

Management: One second, we will pull it up.

Ashlesh Sonje: Sir, in the meanwhile, if I can take the second one, the second one is on slide number 24 in the presentation where you have shared the PAR trend for leveraged customers, Ujjivan +1, +2 and +3 and so on. Over there, if you see the Ujjian +4 PAR number that has climbed up to 30% odd as on February, whereas the Ujjivan +3 number is about 13%. Now that the three lender CAP has been implemented, do you think the 13% number which is for Ujjivan +3 that can climb up to a 30% kind of level?

Management: Ashlesh, in terms of breakup of slippages, we had about 87% of the slippages coming in from Microbanking for the quarter. As you know, 87% of the bank slippages came in from Microbanking. In terms of Ujjivan +3, Ujjivan +4, we have seen a decline happening in Ujjivan +3 in the last quarter. January, we have seen a higher number. It was climbing up. In Feb, it came down and in March it has come down further. So we feel that this trend should continue.

Because of guardrail 2 implementation, there might be a month or two where we can find some disturbance. But overall, we don't see this number going up to 30%. It should be much lower than that.

Ashlesh Sonje: Understood. Thank you. And sir, just lastly, what is the total pool of return of loans where you expect to make some recoveries?

Management: So see, this is divided into two parts, Ashlesh. One is the old ones which we had done immediately after COVID, and the second is the ones which we have done in the last 2 years. The sum of what we have done in the last 2 years is approximately Rs. 750 crores.

Ashlesh Sonje: Understood, sir. Thank you.

Moderator: Thank you. The next question is from the line of Sonal Minhas from Perscient Cap Investment Advisors LLP. Please go ahead.

Sonal Minhas: Hi, sir, this is Sonal Minhas. Am I audible?

Management: Yes, Sonal.

Sonal Minhas: Sir, my first question is with regard to the provisions which you are doing, I am on slide number 23. I just wanted to understand subjectively the provisions have actually come down. The provision coverage is basically has come down from 804 to 710. And there has been a credit cost, which is reasonable in this quarter. So wanted to understand that are you satisfied with whatever provisions we have as we speak right now? And this is actually going into what we should see the provisions for FY '26 because the number has reduced meaningfully, so in Q1, Q2 FY '26, do we expect more provisioning just to push the amount of provisioning if you could just help and direction me explain this?

Management: Sonal, we maintain our PCR above 70%, the PCR has come down from 80% to about 78% between Q3 and Q4. In addition to this, we also have Rs. 21 crores of unutilized floating provision which can add a further buffer if we utilize it. We have also done accelerated provision in March in addition to what we had done in December. This quarter, we have done about Rs. 42 crores. So in terms of PCR, I think we are fairly covered.

Sonal Minhas: So even after consulting the last one would have been kind of? Yes, I understand, sir. My question was that our PCR is roughly, the absolute amount is roughly similar to where it was when this whole microfinance kind of stress started happening and hence in March 24, we were at Rs. 690 crores and right now, we are at Rs. 710 Cr. So that actually should we see this number go up significantly next year is broadly, I wanted to understand given this has been a year of stress and we are roughly at the same point where we are in March 24?

Management: So in terms of absolute provisions, the provisions will follow the provisioning norms. As and when slippages happen, provisions will keep going up as well as and whenever interventions happen, the provisions will keep coming down. One of the interventions that we have done in Q4 was the ARC transaction. But for us, as a mandate, we will continue to maintain PCR above 70%.

Sonal Minhas: So my second question that I wanted to ask, the majority of your MSME book and your affordable housing book, while the GNPA and the PAR numbers have come down Y-o-Y, any color there, any subjective guidance there you can give in terms of how that book is behaving that will be helpful?

Management: So in MSME, we relaunched the product in April 23 and post that we have built a book of almost Rs. 1,200 crores. In this Rs. 1,200 crores, on the 24 MOB book, we have not seen NPA's, we have seen a little PAR. NPA's are in the range of 0.1%. So the book is holding well for us and this has three components, one is LAP, the second is working capital, which is overdraft products, and the third one is supply chain finance. So in all the three products, we have seen the 24 MOB book hold. In terms of reduction in NPA, the old book has contributed to the NPA and that is what, we are seeing recoveries happening from there. And in the last year itself, we saw more than Rs. 35-Rs. 37 crores of recoveries happening from the old book. Currently, we have done SARFAESI in all the NPA accounts, almost 33% of those are in advanced stages, either waiting for auction or waiting for enforcement of security. So we see that this trend of reduction of NPA should continue in the old book. And old book is now reducing at a very fast pace, so the residual book is likely to have a higher NPA, but the slippages have now come under control with the new book now contributing to the overall MSME book.

Sonal Minhas: So the newer book, as you said is behaving well, so is there a time in future, maybe next 12 months, 18 months where the old book has been reduced significantly in margin and this book basically starts, there is a maturity curve basically which it comes back to industry average? What would you see in MSME which is typically 3%-5% kind of NPA specifically?

Management: No, when we look at MSME book, the NPAs are largely guided by the segments in which we operate. Our old book was of Rs. 15 lakh ticket size and the moment COVID happened this ticket size was the one which got impacted the most, the lower end of the segment in the book that we have re-launched. We now operate with an average ticket size of about Rs. 55-Rs. 60 lakhs on the LAP side and on the working capital, which is overdraft the average ticket size is close to about Rs. 1 crore. So it is a complete new segment that we are working with. So therefore we feel that the asset quality being dependent on the segment in which we are operating should be much better than what we see across the industry.

Sonal Minhas: And what is an average for them in that ticket size?

Management: Again, depending on the segment, we are operating in the Rs. 50 lakh plus segment on LAP and Rs. 75-Rs. 1 crore in working capital, maybe about Rs. 1.5 crores. So these segments are relatively unaffected by any small downtrends that we see. So we should see this segment normally behaves very well in the industry.

Sonal Minhas: So industry average numbers there are also pretty low, less than 2%, less than 3% and that is the number, I just want to understand?

Management: Yes, the industry numbers are also very low in this. The delinquencies are low in these segments.

Sonal Minhas: Got it. That is it from my side. Thank you.

Management: Thank you.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, please limit your questions to 2 per participant. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good evening, sir and congratulations on a good set of performance. Sir, most of my questions have been answered.

Management: Sorry, we are not able to hear clearly. Could you speak louder?

Sarvesh Gupta: Is it better? Are you able to hear now?

Management: Yes, you are.

Sarvesh Gupta: Sir, my question was pertaining to Karnataka and Tamil Nadu, where these ordinances have been introduced or are in the place, so how are you seeing the situation, sir? Is it like so we have seen a dip in asset quality in all the other states and that dip sort of bottomed out in the month of November and then steadily things have been improving as you said in 3 of the 4 regions of the country. So in these particular states, after, for example, in Karnataka, we saw a dip in Jan and then Feb and now is it just improving, just like every other region, but with a lag of one or two months? Or are we seeing some other issues which we think will persist over sometime and same for Tamil Nadu, sir?

Management: Sarvesh, is this only for Karnataka? Yes, Karnataka, we saw a dip in collection efficiency in February and it did not come back to normal in the month of March. In March also, we had 98.7%. What we consider normal is in the range of 99.5% bucket X collection efficiency. So there have been about 7 or 8 districts in Karnataka which have still not come back to normalcy. These may probably take another 2-3 months before they come back to normalcy. In most of the other districts in Karnataka, we started to see improvement. So the bucket X collection efficiency, which had actually gone down to below 97% recover to 98.6% only because most of the other districts started to respond well. But about 5 or 6 districts still did not respond in the month of March.

Sarvesh Gupta: And what is happening on the ground? Is it like the borrowers are refusing to pay or are you not able to send your collectors to collect the money? Or there is some confusion between registered and unregistered entities? If you can throw some color on the ground situation in these districts that you are facing challenges?

Management: So the risk around people going and meeting customers, that was a little elevated in the month of February, but we saw significant reduction in that in the month of March. People were going and meeting customers, there was no resistance in going and meeting. However, as I was saying in about 6 districts, 7 districts, there were lower repayment rates because people wanted some time to pay. Most of the narrative that we have been hearing is we will pay, but not now. There has been deferment of promises to pay, especially in the month of March.

Sarvesh Gupta: And now in Tamil Nadu, if you can?

Management: On ground, things are normal now.

Sarvesh Gupta: No, I was referring to Tamil Nadu. So Tamil Nadu, sir, what is happening and what you have seen in the month of April, if you can throw some light on that?

Management: Tamil Nadu is just about a week old. It has not even reached people as of now because the developments are not more than a week old. In Karnataka, it had taken about 2 or 3 months of attention by people and it had various colors happening in various districts. In Tamil Nadu, I think this has been only a week. And the bill has already gone. It has already got passed. In Tamil Nadu, we should see a much lesser disruption if there is any because of no disturbance on the field. In Karnataka, it was escalating. Here, it has been a very smooth situation.

Sarvesh Gupta: Understood. And sir, the other question is on the OPEX piece, so our OPEX was even trending higher before in the earlier quarters of this financial year. Then, I think we saw some moderation and then again it has spiked. So how do you see that trending out? Is it because we are running on a very low utilization for the secured business which is causing this OPEX to be on the higher side or there are some one-offs related to the collection because this even in the past post COVID crisis we had ramped up our collection till then that had resulted in some OPEX spike, so how much of this sort of an OPEX trend can be explained because of?

Moderator: Sorry to interrupt, Mr. Sarvesh. May we request that you return to the question queue for follow up questions as there are several participants waiting for the turn?

Sarvesh Gupta: Yes, okay.

Moderator: Thank you. The next question is from the line of Chinmay Nema from Perscient Capital. Please go ahead.

Chinmay Nema: Good evening, sir. Sir, I just have one question? Could you share out of the total provision, how much are earmarked towards the microfinance book?

Management: Out of the total provisions?

Chinmay Nema: Sir, out of the total provisions, just trying to understand the split of the provisions between our other retail assets and the microfinance book?

Management: We will come back to you on that.

Chinmay Nema: Sure. Yes, that is it from my side. Just one question.

Management: Sure Chinmay, we will come back to you on this one.

Moderator: Should I take up the next question, sir?

Management: Yes, sure.

Moderator: The next question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Yes, just one thing. Firstly, just tell us, what is the overall Tamil Nadu exposure at the bank level in terms of loan assets? And the second is, while from a growth point of view, we are highlighting that individual loans in microfinance are not covered by the MFI and guardrail and hence you can grow them faster, but from a risk point of view, do we already have tight underwriting guardrails in individual loans which will keep the PAR always below the group loans? And if you can elaborate on those guardrails that have been in place?

Management: Sure, Rajiv. So Tamil Nadu contributes to about 14% of the overall assets for the bank, the total loans and advances for the bank that includes microfinance and all the other retail assets. And in terms of individual loans, this business for us has been almost 16-17 years old. We have been continuously improving our processes, continuously improving our underwriting standards. Most of this book, above 90% of the book in individual loans has been graduated from group loans. We have a team of about 550 credit officers who independently assess every loan application on the ground when we have to sanction a loan. So there is a dual assessment of every customer and underwriting norms are again based on the industry, on the occupation of the customer. So this has worked well for us and the graduation of all the group loan customers happens typically not before 36 months. So the bank already has experience of good credit behavior of customers before we graduate them to individual loans.

Rajiv Mehta: Yes. That is good. That is it from my end.

Moderator: Thank you. The last question for the day is from the line of Heet Khimawat from IIFL Securities. Please go ahead.

Heet Khimawat: Hi, sir. Thank you for the opportunity. Just a couple of questions. One is that we have seen some reclassification from the Agri book to some individual loans and other loans. Can I know the reason for that is first? And secondly, with the MFIN 2.0 now coming in which you have implemented from April, while we have seen some of your peers do it even before that like maybe in the month of February or maybe even November '24 for some cases. So do you think that the growth might get impacted in some way when the +3, +4 borrowers come for the second loan or the repeat loan? So just those two questions if you can get perspective on?

Management: Yes. Hi. So on the first question, we have just reclassified the loan, so that reflects the grouping. So earlier, our Agri and allied loans given for individual loan purpose was clubbed under Agri and allied. Now, we have included into individual loan and the Agri banking now reflects only about that Agri banking secured portfolio.

Management: As far as effect of guardrail 2.0 is concerned, first of all, we believe that the impact of guardrail 2.0 will be much lower than guardrail 1.0 because they may overlap with each other in terms of the different benchmark that we have to set or the way we have to reject the customers. Second point is that if you look at our overlap, the three-lender and four-lender, we are one of the lowest and the loss there in terms of customer not being eligible for a repeat loan will be much lower than the average industry. Among those customers also we have good customers, we have good graduation program, not only IL, we have LAP, we have other products also where we have very smooth graduation program, and customers can move to other products if they are eligible, and their income supports. This also opens up opportunity. As far as we go into the month of April and this quarter going forward after implementation of guardrail 2.0 across the industry, I mentioned this in the last quarter also that customer will also now choose the three best lender where they can continue with and that gives an opportunity if you have a basket or product to offer to your customers, your interest rate, your processes are faster, there are high chances that you can attract best customers in the market. But yes, there will be some, we will lose some customers who will not be eligible as they already have loan from core and our loan is maturing first, but at the same time, we will also have opportunity to attract customers, best customers in the market as well. This is also from the point of view that with the kind of stress the industry has gone through there will be some market that will open up with some of the players not being able to disburse because of the liquidity issue and that is something we are looking at.

Heet Khimawat: Got it, sir. That is helpful. And just lastly, if I may ask on the Universal Banking License, any update on that side?

Management: As you may be aware, we have filed for the Universal Banking License in February and we wait to hear from the RBI on this matter.

Heet Khimawat: That is helpful, sir. Thank you.

Moderator: Thank you. This was the last question for the day. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.