“Ujjivan Financial Services Limited Q4 FY18 Earnings Conference Call”

May 11, 2018

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MODERATOR:	**MR. VIKASH MUNDHRA – AXIS CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Ujjivan Financial Services Limited Q4 FY18 Earnings Conference Call hosted by Axis Capital. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Mundhra from Axis Capital. Thank you and over to you, sir.

Vikash Mundhra: Thank you, Ali. Good morning, everybody and welcome to the Q4 FY18 Earnings Conference Call of Ujjivan Financial Services Limited. Representing Ujjivan Small Finance Bank, we have with us Mr. Samit Ghosh - MD and CEO, Mr. Ittira Davis - Chief Operating Officer, Mr. Rajat Singh – (Head) New Business Initiatives and Data Analytics and Ms. Sneh Thakur – (Head) Collections and Credit of MFI business. On behalf of Ujjivan Financial Services Limited, we have us Ms. Sudha Suresh - MD and CEO, and Mr. Deepak Khetan – CFO and Head IR.

First of all, I would like to congratulate the entire Ujjivan team for the strong Q4 results. I would now request Mr. Ghosh to take us through the key financial highlights for the quarter, post which we will open the floor for Q&A session. Over to you, sir.

Samit Ghosh: Thank you, Vikash. Good morning, welcome to our fourth earnings call and thank you for joining us. This year marks the first full year of banking operations for us. It has been a very challenging year but it has been very satisfying that we have been able to successfully complete the year, showing great resilience in the face of the huge impact of demonetization and at the same time, the agility to transform to a Small Finance Bank. Despite huge credit cost and the incremental operating cost of transformation we closed the year in black, which was our goal and we are very happy about that. Quarter-by-quarter we have shown improvement on all parameters to achieve this goal.

Battling the black swan event of demonetization was our first priority for the full year. We started the year where the entire MFI industry was struggling with demonetization losses. During this year, we focused on handling the demon losses and improving the quality of our loan book. We started with a par of 10% of the loan book, we have been able to reduce that to 4%. Our NNPA stands at 0.7%. We have estimated the one-time credit cost to be around Rs. 300 crore at the beginning of the year and we were able to reach and close at Rs. 311 crore this year and with a profit after tax of Rs. 7 crore. This was largely been achieved because of the collection effort put up by the entire Microfinance team at the field and the specialized collection units, which we set up for the hard buckets and also for the recovery from write-off loans. The collection and recovery work will continue this year despite the fact that we have fully provided or written off the entire bad book from the demonetization.

Our next priority was transforming to a small finance bank and building a strong foundation. This required us to build on the new technology infrastructure, new channels, branch banking outlets, handheld devices to take banking to the doorstep, biometric ATMs, phone, mobile and internet banking. The third big challenge in terms of transforming to a bank was induction of a huge number of people from other banks and financial institution and training our existing staff to bring them up to the competencies of being a banker. We have also established new business lines and functions such as treasury, risk, compliance etc. We have invested heavily in technology to take banking to customer's door-step. Paperless banking with our hand-held devices. All our ATMs offer biometric authentication for customer convenience. Finacle CRM for unified platform, SAS for risk management has been integrated with our legacy systems of BR.net for microfinance, Sys-Arc for MSE and housing and the Oracle Account Financial System.

We expect to use the state-of-the-art payment systems provided by NPCI and Aadhaar based customer identification system. We have thus been able to set up a very strong IT infrastructure with the assistance of Wipro who is our system coordinator. We are also building multiple channels to reach out to our customer and use these channels effectively as touch points for all our customers. We have rolled out 187 banking outlets which are bank branches and BC outlets, of which 47 are in unbanked rural centers as per our phased roll out plan. Our branches are customer-friendly, designed specifically to meet customer convenience and establish our brand. These branches are operating as full-fledged branches providing services across all our asset products as also building a liability base with customers - both for our open market customers and our existing customers from the past who were primarily microfinance customer. By the end of the current year, we plan to have 475 banking outlets across 24 states. Thus building a strong base for our business growth. Biometric ATMs, hand-held device, mobile banking, phone banking and internet banking are multiple channels we are working on transitioning customer interface from person to person or brick & mortar contact points.

We started the year with a staff strength of over 10,000 staff with strict controls to close it at a minimum growth. So, we closed around 11,242 staff. Beginning the year we recruited 3,554 employees bringing in new skills required in the banking across the multiple businesses and functions, mainly in the area of sales, credit, operations, phone banking, audit, treasury, risk and compliance, legal and collection. On the people front, we have consistently ranked very high as one of the best places to work in the financial sector. This has helped us to attract the right kind of talent in our transition to becoming a bank.

During the year, we have also reduced our cost of funds by about 140 basis points from 10.4% to 9%. We have repaid majority of our legacy loan by raising wholesale deposits at comparative rates. Retail deposits garnered by March 2018 stood at Rs. 427 crore. We did not focus on the retail deposit for a multiple reasons: slowing down of banking outlet opening due to demonetization and operational & technology glitches in our ability to on-board microfinance customers, open savings accounts for them & disburse the loans to these account. These have been all resolved and we expect a robust growth in retail deposit and CASA balance this year. We have structured our operations to focus on retail liabilities, which will be the primary focus for the coming year. Branch banking team would target open market liability customers and a separate team would focus on specialized segments like TASC, government and corporate.

Our business and disbursement growth during the last year were 18.5% and 12.9% respectively over the previous year. Our overall portfolio stood at 7,560 crores with the non-MFI portfolio contributing 7.3% of the total portfolio. While our microfinance portfolio continues to grow at 18% to 20% annually, the other business would drive the growth in our asset volumes in the future years. As a resilient organization and having built a strong foundation with almost all our existing microfinance branches converted to full-fledged banking branches, multiple channels and business lines in place, we expect that this current year will be our first year of takeoff as a small finance bank.

And finally, I would like to say a few words about Sudha. Sudha has been with us for over 10 years and she has been a very close, we worked very closely. She has decided for personal reasons to move on and we respect that. But she is still with us till end of June and I am sure she will be with us after that also in whatever capacity. And with that, I would like to hand over to Sudha to take you through further details and the financials. Thank you.

Sudha Suresh: Thank you very much, sir. Considering my proud privilege to be part of building one of the finest microfinance institutions in the country and its for personal reasons that I would move but surely, I believe I will be a part of Ujjivan. So with that let us move on to the quarter and the year's results. We have posted an excellent quarter across various parameters starting from our business disbursement. We have clocked the highest-ever quarterly disbursement of around Rs. 2,262 crore which is an impressive 61% year-on-year growth and 6% growth over the previous quarter. For the year, the disbursement stood at Rs. 8,052 crore which is an increase of about 13% over the previous year. As of 31st March 2018, our gross loan book stands at Rs. 7,560 crore, a growth of 18.5% over March 2017 numbers.

Despite being selective in new customer acquisition post demonetization, we have added 7.6 lakh new borrowers in this fiscal year. During this quarter alone we have added a record 2.2 lakhs new borrowers, thus closing at about 37.1 lakh borrowers as of March 2018 vis-à-vis 35.7 lakh borrowers as of March 2017. So, the year also saw the share of MSE and affordable housing increasing to 7.3% of the portfolio from 2.4% at the start of the year on the back of very healthy growth in disbursements in the second half of fiscal year 2018. We expect a rapid growth in these two verticals, as far I just mentioned to add to the asset volumes in the coming period as well.

Moving on to the financials of Ujjivan, net interest income of the banking operation for the quarter was at Rs. 271.2 crore, which was an increase of about 24.8% over the previous quarter. Consequently, net interest margin for the Bank also increased to 12.8% in Q4 FY18 from 11.1% in Q3 FY18. Our funding cost has shown an overall reduction of 140 basis points this year as a result of prepayment of high cost legacy loan and replacing them with an increasing deposit base which has been acquired at comparatively lower cost. So during the year, we have actually repaid Rs. 4,353 crore of our legacy borrowings and our average of cost of funds, as indicated has reduced to about 9% by end March 2018. Coming onto our cost-to-income ratio, which stands at about 67.1% for financial year 2018 and that obviously is much higher than the numbers we see for financial year 2017 which stood at 53.8%. And these essentially reflect the increased cost of the transition.

Our total credit costs for financial year 2017-2018 was about 310.8 crore, which is 4% of the portfolio and this is almost in line with our earlier guidance. We have a provision coverage ratio of 81.5% even after we have written off our sizable portion of Rs.177 crore during this fiscal year. The GNPA has been trending downwards since its peak. As of December 2017, GNPA was at 4.2% and this has further declined to 3.6% as of March 2018. Our NNPA stands at 0.7% as of March 2018 compared to the 1% as of December quarter. The portfolio at risk which we call as PAR greater than 0 is 4% and the GNPA or the PAR greater than 90 days stands at 3.6%. The difference of the two, which is 0.4%, indicates that the fresh delinquencies are very small and miniscule as we have seen a consistent collection efficiency of 99.6% on all the loans which we have disbursed since January 2017.

Our net profit for Q4 was Rs. 64.9 crore vis-à-vis Rs. 29.3 crore in Q3 and Rs. 19.4 crore in Q4 of FY17. The ROA stood at 2.8% vis-à-vis 1.3% of Q3 FY18 and 1.0% in Q4 FY17. The ROE for Q4 stood at 15% vis-à-vis 7.0% at Q3 and 4.4% in Q4 FY17. Of course, there are certain elements which were extraordinary or a one-time element which can be discussed later. The capital adequacy ratio is at 23.0%. We would like to indicate that this computation of the capital adequacy ratio is as per RBI directive dated November 8, 2017 which provides exemption to all SFBs with no capital charge on market and operational risk weighted asset. Moving on to the liability business, as indicated by Sir, we have good interest from the institution for our deposits post our Scheduled Bank status in August 2017. We were therefore able to garner a sizable institutional deposit, including CDs during the year and this was our strategy for the first year of our treasury operation.

Our deposit base stood at Rs. 3,772 crore as of March 2018. Our CASA ratio is at about 3.7% and overall retail deposit stands at 11.3% of the total deposit base as of March 2018. We have also witnessed good traction from retail deposits in the form of FDs and RDs as our rates are quite attractive in the market. 73% of the retail base that we have built, which constituted of new to bank customers. We expect this retail deposit base to grow further in line with conversion of full-fledged banking outlets, as also mobilization of deposits through the existing customer base. Deposits cover 50% of advances in Q4 FY18 against 36% of Q3 FY18.

Our Board has recommended an equity dividend at the rate of 5% for financial year 2017-2018.

In all to conclude, we have built the strong foundation during FY18 and we are all set for the next phase of growth in the coming years specifically in financial year 2019 onwards. With this, I would like to hand over the section back to the moderator to start the question and answer session. Thank you.

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 Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Just two questions. First on the microfinance disbursement, so we have seen a pick up happening in this segment. But if I see, on a monthly basis on an average for the quarter is about close to 640 crores. This was similar run rate pre-demonetization quarter. So, going forward how do you see disbursement growth trends in the Microfinance business? And any specific pockets of caution or have we skilled back given the elections, some color on the risk in the business that you are seeing and also the growth trajectory that you envisage in this segment for FY19?

Sudha Suresh: So first, let us clarify the growth that we are talking about for Q4 FY18. So, we have seen disbursement in the Microfinance business for about Rs. 1,910 crore during this Q4. The micro individual loan has been at Rs. 174 crore and these have been significantly about 56% up year-on-year if you would compute and quarter-on-quarter the microfinance loans of course, are up 1.8% and the individual loans up 31.6%. So we are seeing a healthy trend in our growth across the MFI lending also and as we have indicated for the future we are looking at an 18% to 20% growth in the microfinance book. Having said that, you have also raised a question on what are the concerns considering the current position basically based on back to back on the farm loan waivers, as also any other impacts. What we would like to indicate that, to the post-demonetization we have taken a very cautious approach where we looked at centers and branches where repayment and collection efficiencies have come back to normal and therefore we have moved on in terms of allowing these branches to go ahead with their regular business as also acquiring new customers. Over a period, throughout in the last four quarters we have seen that most of the branches have come back to a state of normalcy barring certain PAR affected branches and therefore the MFI business across these branches which are back on track is more or less normal and we do expect that these businesses will ramp up in the current year FY19. As far as the farm loan is concerned, we have also indicated earlier that we have not seen any kind of standalone impact on the collection efficiency primarily because of four reasons. We have seen this farm loan manifestos coming across states like UP, Karnataka, Punjab and Maharashtra. But we have not seen in the last 1.5 years any kind of impact of this thing on our portfolio, primarily because we have more of an urban and semi-urban portfolio and also wherever we have the rural portfolio our exposure to agri is quite insignificant.

Dhaval Gada: And then second question was on the cost of funds. So, what percentage of or quantum of borrowing that is getting re-priced in FY19 for us, if you could give that?

Sudha Suresh: Yes, so as I said we have already had legacy borrowings of 64% which we have repaid during the year. We expect that almost about the balance 30 odd percentage would get repaid during this year and what will be left over is just around 400 crores which constitutes sub debt and a couple of NCDs.

Dhaval Gada: And just lastly Ma'am, on the income breakdown could you break the revenue from operations between interest on advances, interest on investment and the fee income? You could do that? Like buying structure?

Sudha Suresh: So that is Q4, so if you are looking specifically for a Q4 break up, I think the total income was around Rs. 460.9 crore and there was an income from securitization share as well as the PSLC income which came in. So, I think net of that the total income for the quarter was Rs. 416.3 crore and the reflection if you would ask on PAT, so we would say that Rs. 64.9 crore was the PAT for Q4 and of that we have an income of securitization of about Rs. 10 crore debt and Rs. 5 crore in terms PSLC, the rest constitute the normal business profits.

Dhaval Gada: And investment income was how much for the quarter? Income on investment, the SLR book?

Sudha Suresh: Rs. 5 crore.

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

Kunal Shah: Firstly, in terms of the overall CASA traction, so that has been I think when we compare it with the other players I think that has been pretty slow. So, how should we read into this? Still, when we see the entire replacement that is happening through CDs.

Samit Ghosh: So, as I mentioned in the introductory thing is that last year we primarily focused on raising wholesale funds and reduced our cost of operation that was mainly because of our preoccupation with the whole demonetization issue and transition to a bank. However, this year we will focus both on the retail deposit and also on building up our CASA volume. So, this is the year which you will see much higher growth in both the areas. So, last year really we did not focus on building up our retail deposits.

Kunal Shah: Any target which we have in mind in terms of where we want to take the retail to the total deposits as well as the CASA ratio?

Sudha Suresh: Yes, so we are looking at building up our retail deposit so about 25% of the total deposit base.

Kunal Shah: From 11% as of now?

Sudha Suresh: Yes, which is 11.3% as of now.

Kunal Shah: And secondly, if we just look at it in terms of maybe the roll-out of the bank transition, as well as the expansion there is some biasness towards East okay, wherein maybe the conversion in East has been much higher in terms of the bank branches as well as new branches, significant almost two-third of those have been opened in East. So, is it like maybe, is there anything to read into it, it is a strategy at a top level in terms of getting more aggressive in East, how is it?

Samit Ghosh: No, sorry. I mean, the thing is if you look at the demonetization impact last year, the East was relatively unscaled. So obviously, in terms of prioritizing the branch conversion we prioritize the bank branches in the East but that does not indicate any kind of our bias because we will convert all our bank branches, our microfinance branches into bank branches over this year and it will be right across the country.

Kunal Shah: And in terms of adding on to the branches, so maybe out of 25, 16 were in East, so even in terms of the additions, it would be all across?

Samit Ghosh: Actually the additions are mainly in un-banked rural branches, where we are planning largely in the East and also in South in Tamil Nadu.

Kunal Shah: And lastly, in terms of the number of active customers, so despite in this kind of disbursements there is no increase in the active customers. So, is it because maybe the pool which was there in the write-off we have knocked it off, how is it? Maybe because that is almost stable quarter-on-quarter.

Sudha Suresh: Yes, that is the main reason for this.

Kunal Shah: So, we have knocked off the our return of accounts?

Sudha Suresh: Yes. That is roughly about a lakh plus accounts.

Kunal Shah: And lastly, in terms of the secured book where do we want to take it to in terms of our strategy three years down the line be it SME and housing?

Rajat Singh: So, our long-term aim, let us say, three-year time is to build one-third of our business from non-microfinance portfolio. Out of that 33%, 25% business book should be secured loan.

Moderator: Thank you. The next question is from the line of Anuj Gupta from Perfect Research. Please go ahead.

Anuj Gupta: Sir, the cost-to-income ratio of one of our competitor Bandhan Bank is almost half of ours. So, could you please let us know at what levels can you see our cost-to-income ratio down to in the future?

Rajat Singh: Yes. So our cost-to-income ratio target number for 3 years down the line is close to 50%. And I mean, given that two different structures of banks, probably it is incomparable to Bandhan even though they are in microfinance. They have various regulatory advantages as a universal bank. So they can have slightly different numbers. So, our target is 50%.

Sudha Suresh: See, essentially the Bandhan Bank had about almost 2,000 asset branches. There was no requirement for them to convert this into a liability branches because of a special exemption that they had from RBI to continue this branches as asset branches. Now, that is the kind of exemption which we do not have and therefore in our strategy where we are looking at completely converting all our branches into full-fledged banking outlet obviously there will be a difference in the cost structure.

Rajat Singh: And in addition to that I mean, our PSL requirement is close to 75% and for Bandhan that requirement is 40%. So, they have larger portfolio to actually sell and earn money in terms of fees and fee income. So, these advantages make them slightly different than us.

Anuj Gupta: And sir, please could you throw some light on the risk management practices of us in the microfinance space and how are they different from others?

Samit Ghosh: I mean, we have invested a lot on risk management and I do not know how we can differentiate with someone else but there has been a huge emphasis after we converted to a bank in putting in systems for risk management in terms of KYC, AML and automated systems, etc. having systems of monitoring every time there are issues and taking it up. So, we have invested very heavily and we have an excellent team which look after it.

Ittira Davis: On that front, I think also, like the second line of defense which any bank has we have our own second line of defense, which is the risk department and the third line of defense which is the audit department. So, the functions are all well stretched out and well planned as any other institution, any other normal banking institution.

Samit Ghosh: We also had an excellent track record as far as risk and compliance was concerned even from our MFI base and that tradition continues.

Sneh Thakur: Just to add to that our approach has always been very specific to the branch and the challenges and issues we face at the branch level. And our credit policies are also very specific to those clusters and branches and that definitely differentiate us from the other players in this space.

Moderator: Thank you. The next question is from the line of Shweta Daptardar from Prabhudas Lilladher. Please go ahead.

Shweta Daptardar: I have two questions. One is sir, you mentioned in your opening remarks that entire demo pertaining book is written off. So the write-off number which stands at Rs. 45 crore today, which was apparently Rs. 34 crore a quarter ago should downtrend phenomenally from next quarter onwards?

Samit Ghosh: I did not say entirely we have written off, we had written off and provided and I think you can give a breakdown.

Sneh Thakur: So the total credit cost for the year is Rs. 310.8 crore and of which Rs. 177 crore is the write-off, the balance is the NPA provisioning that we are carrying right now.

Shweta Daptardar: So, any guidance next quarter onwards?

Sneh Thakur: In terms of write-off?

Shweta Daptardar: Yes.

Sneh Thakur: So, since we already have a coverage ratio of 82% we may be looking at prudential write-offs from this bucket depending on the recovery progress we see in the following months.

Shweta Daptardar: So, just related question. So, on that traction on hard bucket overdue, so this number today stands at 32%, last quarter it was 34%. Not a huge difference but would you like to dwell more on this?

Sneh Thakur: So, if you look at the whole year end totality we are clogging an average of 34% traction and there will be some plus and minuses every quarter but if you look at it on an absolute terms, our reduction during Q4 has been higher by Rs. 7 crore when compared to Q3. And small drop in traction of 2% maybe on account of higher allocations to the dedicated collection team.

Shweta Daptardar: Ma'am, one last question. So, the new business collection efficiency is at 99.6%. It is impeccable but it holds true with most of the industry players. So, is it more of a market phenomenon or I mean, if you would like to elaborate there?

Samit Ghosh: Sorry, more of what?

Sneh Thakur: Whether it is an industry phenomena. More of a reflection of microfinance industry coming back to….

Sudha Suresh: The industry has revised and that will be the trend seen across all players.

Moderator: Thank you. The next question is from the line Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question on operating expenses growth in this quarter, looking to the branch addition in the quarter and the pace of operating expense there is a misconnect or can you explain that why the operating expenses growth is quite muted despite so much branches you added during the quarter?

Sudha Suresh: So, basically during this quarter we did have n number of branches getting opened, but many of them are URCs and typically these have a very low-cost impact. And therefore, more or less you have seen the operating expenses being flat in this quarter or just marginally up over the earlier quarter.

Manish Ostwal: Secondly, at the beginning of the year we gave guidance of Rs. 8,300 crores, now we have coverage of 81% and mostly the portfolio at risk is also at zero day is 4% and 90 days 3.6%. So, how do you see the paid cost for next year, it will be less than 1% of the portfolio or how do you see that number?

Sudha Suresh: So, we expect our GNPA to be less than 2% and our NNPA to be in the range of 0.75 or even lower than that.

Manish Ostwal: And paid cost, Ma'am?

Sudha Suresh: Our total credit cost will be in the range of 0.3% to 0.5%.

Manish Ostwal: And second question to Mr. Ghosh, what is our succession planning at the top level, sir?

Samit Ghosh: So, our Board has already put in place a whole process of succession plan, to identify the successor both from our internal and talent pool and also external and the plan is basically that I would retiring in November 2019, so whoever is going to take over as a successor would have at least years transition with me. The process is already in place.

Manish Ostwal: So, there should not be any hiccups on that process, right sir?

Samit Ghosh: There should not be any hiccups because the Board has already put the process in play in terms of identifying a person to take over. But we have a large internal talent pool and we will also benchmark with external people and see whoever is the best, the Board will obviously choose that person and that person should have at least one-year overlap with me given the fact that I am going to retire in end of November 2019.

Manish Ostwal: Sir, this year we end up the operating expenses at Rs. 654 crore, which is bang on your guidance. Now, what is your outlook for next year given the significance of making branches set-up?

Rajat Singh: So, in previous guidance whenever we have given, we almost maintained that the whole branch banking transition will be done in three years' time. And basis our experience and I mean, early resolution of all the demonetization related problem, we have revised that plan and bulk of branches which we are planning to open in this financial year itself. So, rather than stretching our expansion for three years now we are doing it in this financial year largely, that has some implication on our cost-to-income ratio and cost-to-income ratio maybe higher by 3%-4% in coming financial year.

Manish Ostwal: Compared to FY18 level, right?

Rajat Singh: Yes.

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

Rohan Mandora: Rohan here. Sir, could you share your average cost of deposits and incremental capital cost of deposits?

Rajat Singh: Incremental cost of deposits will be closer to 7.5%, average cost of deposit may be closer to 8%.

Rohan Mandora: And sir, how was the movement of NPA for the full year? Additions during the year and recoveries update write-off?

Sneh Thakur: During the quarter, we opened at Rs. 294 crore and we saw an addition of Rs. 55 crore, a reduction of Rs. 38 crore and write-off of Rs. 45 crore. So, from this addition of Rs. 55 crore, 40 is on account closure of securitization basis. So in total, Q4 has seen the highest reduction and we closed at Rs. 275 crore.

Rohan Mandora: Ma'am from earlier question, one of the participants had asked there was a reduction of close to around 6.2 lakh borrowers that left Ujjivan relationship during FY18. So, just want to get a color like what percent, how would be the split between the delinquent borrowers leaving and what is spread of the regular borrowers? And the regular borrowers who left us, whom did they go ahead and borrow from or what is it that they did not borrow after a closing loan with Ujjivan? So if you could share some …

Rajat Singh: Yes. Traditionally if you look at our customer retention ratio has always been in the range of 85% to 90%. So, there is always a 10% of customer base who kind of do not come back to us due to various reasons. Out of that 10% majority of them do not come back to us because they already had more than two loans and we have to reject them during the credit appraisal process. But there are set of customers who sometimes take a break and sometimes delay the next loan or go to other competitor. So, I would say majority of those customers who have left us because of the bureau rejection from our end.

Moderator: Thank you. The next question is from the line of Saral Seth from Karvy Stock Broking. Please go ahead.

Saral Seth: Sir, just if you could highlight a normalized cost-to-income ratio for FY19 and 20 which could help us understand?

Rajat Singh: Just I was mentioning in previous answer, our cost-to-income ratio for FY19 will be in range of 20 to 70 plus or minus range. And going forward that number could be closer between 60 to 65.

Saral Seth: Could you just mention the reason for high cost-to-income ratio compared to the other banks? If you could just throw some color and what measures could we take into reduce this cost-to-income ratio to a sustainable level?

Rajat Singh: Sure.

Saral Seth: In the longer run, sir?

Rajat Singh: So, bulk of this increased cost-to-income ratio is coming because of high investment cost in infrastructure of rolling out branches and the technology. Most of these costs are one-time cost and we will leverage as we start expanding our businesses in coming year. So, that is one reason and if you look at other SFBs who are in transition their cost-to-income ratio is also quite high and showing an increasing trend. It is a function of when a bank has gone live and how long they are working as an SFB. So, if you look at our competitors they are also having very high cost-to-income ratio. Somebody just mentioned about Bandhan. So, Bandhan cost-to-income ratio is lower because of various reasons, starting from their regulatory advantages that they enjoy plus from a vintage point of view they are almost 1.5, 2 years older than a certain bank. So for them those investment cycles are already been done. These numbers will come down as we start expanding and leveraging investments which we have made.

Moderator: Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Sir, just wanted to clarify, I just missed on the cost-to-income target that we have for the next financial year?

Rajat Singh: 70%.

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

M.B. Mahesh: Two questions here, one is on the MFI business. Samit sir, if you could just kind of broadly explain the broad rational for why we are seeing the increase in the upper limit from Rs. 60,000 to Rs. 80,000? Does it really make an impact? Second on the MFI business that we have seen, we have now started to see more and more individual products being introduced to this customer segment. When the rating happens on the borrower we still, we just are not sure as to whether the Credit Information Bureau's give you the report of both the MFI outstanding, as well as the individual loan outstanding that they have. Just wanted to get your feedback on these two points and also, if you could also give us product wise NPLs between MFI and on non-MFI that would be great, sir? Thanks.

Samit Ghosh: Maybe you want to answer this Credit Bureau …

Sneh Thakur: Yes. So, I will take up the Credit Bureau question. The Credit Bureau's, especially High Mark and CRIF have come up with a combo report, wherein we provide the borrowers MFI, as well as the retail bureau information together and we will be using these reports starting from next month onwards. So that is already in place.

M.B. Mahesh: And have you been able to analyze this?

Samit Ghosh: I think earlier MFIN had a loan limit of Rs. 60,000, since RBI permits the loan limits to go up to about Rs. 100,000 they have increased their loan limit to Rs. 80,000 I think this year. So as a bank, overall loan limit we have been looking at and in this largely following was Bandhan has been doing in the past because they became a bank first. They have been looking at loan limit of Rs. 100,000 overall loan limits of Rs. 100,000 and that is actually what we will be looking at. In terms of micro lending, we are around Rs. 80,000 or Rs. 75,000. Group loans, we have still actually on our average is still about Rs. 26,000 – Rs. 27,000.

Sneh Thakur: So, when you talk about loan limits RS. 80,000 of normal limit, it is the indebtedness cap of the borrower. Our ticket prices on group loans continue to be within Rs. 50,000 and clusters and states which are performing exceptionally well, we have an indebtedness cap of Rs. 100,000 and affected clusters, based on our understanding of the situation, we are revising it from Rs. 60,000 to Rs. 80,000. It is not the loan limit. It is the indebtedness cap of the borrower.

M.B. Mahesh: The reason I asked this question is that just trying to understand the broad rational for that move. Given that most MFI borrowers are the average ticket size is around the range of 25,000 to, probably disbursement is probably at around Rs. 35,000. Just trying to understand whether it is really required for the industry to take this step from 60 to 80**?**

Sudha Suresh: So, even our average ticket sizes are in the same range of Rs. 27,000 to Rs. 28,000. It is only that the cap has been increased because there is need for the borrower. Else we are seeing that they are borrowing from informal lenders even after borrowing from institutions. So, since we have a cut off of Rs. 60,000 we end up giving them a lower ticket price as they are approaching us as the second or the third institution and they will have to go back to the informal lender if we cut it off at RS. 60,000.

M.B. Mahesh: And the product wise NPLs?

Rajat Singh: See, I mean, GNPA for all other products are at this moment less than 1% except microfinance and individual. So we are pretty much lower than 1%.

M.B. Mahesh: No, I just thought is it useful for us to start reporting this data?

Rajat Singh: Sure. We could do that.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Just one quick question. So, are we seeing any unfavorable impact of the elections, kind of early days but are we seeing it anywhere on the operations or on the asset quality in Karnataka?

Samit Ghosh: No, we are not seeing anything so far and I think it is premature to all this as we have said as far as microfinance industry is concerned, elections or loan waivers have rarely have impact on the portfolio and as far as Ujjivan is concerned in Karnataka, bulk of our portfolio is actually urban, semi-urban. Bulk of our customers are there. We have a very small portion in the rural area in terms of agri-lending. So, even if it comes through I do not think there had be any significant impact. But overall, we have not seen anything. Even during demonetization, I must highlight to you that in Karnataka, it was the rural portfolio which stood up, I mean which was good. It was the urban portfolio which actually got affected. So we do not see an issue here.

Rahul Ranade: And just a clarification on the earlier answer. So, we are following a Rs. 100,000 limit instead of the 60,000 or now revised 80,000 per borrower cap?

Samit Ghosh: Yes. I mean, we have actually Rs. 100,000 overall customer borrowing caps. That is what we look at but based on our experience depending on particular area we set a different cap. That is what I think Sneh was mentioning.

Sneh Thakur: Today, we have Rs. 60,000 and Rs. 100,000 and we are considering moving up to 80 in clusters which have performed better over the last few months.

Samit Ghosh: So, we are 100, 80, which we are going to implement and 60 where the portfolio quality has in the past one year is not been very good.

Ittira Davis: Yes, underlying all this we have to understand that we have a dynamic process, which is the reaction to market and it is always built in in that process.

Moderator: Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Sir, what would be the yields on our non-microfinance business, so majorly this housing and the MSE portfolio, which we are planning to accelerate in the next two years?

Rajat Singh: So, yields on housing portfolio, weighted average would be close to 14%. For MSE that numbers will be closer to 18% to 20%.

Digant Haria: And this MSE portfolio is a secured portfolio, right? This 18% to 20% or …

Rajat Singh: It is a combination of secured and unsecured. Our targeted aim is one-third of portfolio to be unsecured, two-third to be secured.

Moderator: Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir, just on this off-balance sheet number, which has now become close to 0% as a share of AUM. So, how should we look at this number considering, is it that the off-balance sheet securitization is now more preferred versus through PSL route or how should we look at this?

Sudha Suresh: Yes, so we had a close of quite a few securitization transactions from the last quarter and with that the impact has come where you see your net loan book equivalent to your gross loan book. And going forward, definitely yes, we will not be having securitization transaction and we do have in the banking structure, we have records to the PSLC which has come through in fact even in the last year.

Jai Mundhra: So, incrementally focus would be more towards PSLC versus let us say securitization, is it?

Sudha Suresh: Yes, absolutely. We will not have securitization transaction.

Jai Mundhra: And just one more question for sir. Sir, would you be open for, after your term ends would you be open for let us say, non-Executive Chairman post or any thought process there?

Samit Ghosh: I do not know. After I retire, not in the Bank but maybe in the holding company.

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

Aalok Shah: Sir, I just had a question around growth. Did I miss out on that? What is the kind of growth that we are looking on our MFI and the non-MFI portfolio? And on the same line, can you talk about provision cost at 60 basis points? Would that mean that you are talking about a sharp drop in overall credit costs for 2019?

Sudha Suresh: So, we are looking at an overall 30% to 35% CAGR growth on the total portfolio. And if you would like to see the breakup between MFI and other, what we could indicate is that MFI book will be steadily growing at around 18% to 20% and the affordable housing and MSE which have larger ticket size and therefore would contribute significantly to the asset number in the portfolio breakup they would be growing, ramping up much faster.

Aalok Shah: And on the credit cost there, if you kind of take up these numbers and then a 50 basis point credit cost, I mean that would translate into a significant drop in overall credit cost for 2019.

Sudha Suresh: We expect a significant drop in the credit cost because as you see the number was inflated predominantly due to the demon effect in the last year.

Aalok Shah: But that is 177 crores of provisions towards write-off accounts. There is still a balance of 130 crores, which is there towards the NPAs, right?

Sudha Suresh: So, we have indicated that we have provisions against it, which will be utilized for further write-offs during the year.

Aalok Shah: So on that line, does it mean that 2% GNPA and 0.75% net NPA that would translate into a PCR of 60% to 63%. So, is that what we are looking to do from an 81% PCR to 62% PCR?

Sudha Suresh: So, I do not think that would materialize because you could have the net NNPAs much lower than that.

Aalok Shah: Because you talked about 2% GNPA, 0.75% net NPA.

Sudha Suresh: Yes, so sub 2%, because at this juncture of the year, we are just out of the shocks of demonetization. So, we are still conservative with our book.

Aalok Shah: And just one thing. How do we look at PAR 90 and PAR 0 portfolio moving closer to a steady state number in quarters to come?

Sudha Suresh: Like I told you GNPA is going to be less than 2%. Presently that itself is a PAR greater than 90 days, which is at 3.6%.

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

S Parameswaran: Sir, on the ticket sizes, so we are at around 27,000 on group loans. So till, how much do you see as the headroom? Till what levels are we comfortable over here? And secondly, what is the average cycle of our customer base in the group loans?

Samit Ghosh: Average cycle is over 18 months and in terms of loan sizes.

Sudha Suresh: We could see a 10% growth in our ticket sizes during the year.

S Parameswaran: And sir, the average cycle of our customer base say, compared to the rest of the industry, how many cycles deeper are our customers?

Rajat Singh: More than 60% of our customers will be beyond two years and maybe 30% could be in range of one to two year, up to two years.

S Parameswaran: And sir, what is your margin guidance for 2019 and 2020?

Rajat Singh: Our NIMs will be more or less flat. Whatever numbers we are seeing will be, this year we have reported will be more or less in the same range.

S Parameswaran: This quarter we have seen a very high uptick.

Sudha Suresh: Yes. So this quarter as we had explained earlier is an exemption but overall the guidance that we see, our NIMs would be more or less at the same range that we have for FY18 but over the next couple of years, as we ramp up our growth and profitability numbers, you could see a slightly more positive number.

Moderator: Thank you. The next question is from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Could you give the risk-weighted assets number and also comment on since the growth guidance has been accelerated, when do you think we will need capital again?

Sudha Suresh: So, definitely on the question of capital raised, we would not be requiring capital for FY19 and even for FY20, we are largely funded because there is a huge chunk of tier 2 capital which has been untapped yet and which we can tap in this current year and the next year. But looking at that, I think calendar year 20 could be the likely year where we would look at raising capital again.

Rajat Singh: Our risk weighted asset is close to 6,600 crores. That also includes extra charge on portfolio created to grandfather loans.

Dhaval Gada: And that will unwind as the borrowings get repaid?

Rajat Singh: Right. I mean, remaining 37% of borrowing as they come down, this rate will also come down.

Moderator: Thank you. The next question is from the line of Devang Maheshwari from Purnartha Investment Advisors. Please go ahead.

Devang Maheshwari: Just miss upon the average tenure, so can you just repeat it once?

Sudha Suresh: Average tenure is about 15 months.

Devang Maheshwari: 15 months overall?

Sudha Suresh: Yes, for the microfinance business.

Devang Maheshwari: For MFI and for non-MFI?

Rajat Singh: I mean, so secured loan, in terms of secure, it will be close to five years. Unsecured non-MFI could be 18 to 24 months.

Devang Maheshwari: And in terms of the branches, earlier it was like there was 149 branches which were having par greater than 5% that were not lending to the new customers. So, what is the status around there?

Sudha Suresh: So, presently we have 127 branches which are around 5% and across these branches, we are re-surveying the operating areas to demarcate them and in absolutely good areas we will resume business this year.

Devang Maheshwari: So, what is the going forward target like in next two or three quarters all these branches will be lending to new customers, in that way?

Sudha Suresh: Yes. Areas that we are identifying to be good where the customer behavior is back to normal, the disciplines are in place, we will resume business.

Rajat Singh: So, we have taken a slightly different approach this year. Last year, we had a ban at the branch level. So, any branch which is more than 5% PAR and because problem was quite new at branch level, we said there will not be any new customer acquisition. Now that things have settled down we are going within branch also at the area level and every area we are evaluating and based on the potential risk appetite and overall scenario at the ground, we will open new customer acquisition in particular branch, in particular areas not at the branch.

Devang Maheshwari: And the average ticket size for quarter 4?

Sudha Suresh: The average ticket size for Q4, for group loan it is about 29,000, for individual loan at around 78,000, for MSE at about 3.8 lakhs and for affordable housing at 7.2 lakhs.

Moderator: The next question is from the line of Suhani Doshi from Edelweiss. Please go ahead.

Suhani Doshi: My question is on a sustainable basis with the product mix which we are having of one-third non-MFI and two-third MFI, so three years down the line what kind of sustainable ROA, ROE are we targeting?

Sudha Suresh: So, overall we are expecting ROAs to stabilize at around 2.5 and ROEs could be somewhere around 17 to 18%.

Suhani Doshi: And what level of gearing can we go to maximum?

Sudha Suresh: So, we are looking ideally at around 6 to 6.5 times.

Suhani Doshi: But as per regulations can you go higher than that, like 10 or …

Sudha Suresh: No, so more than the regulations it is actually the mix that we would like to see for the organization, which is backed by risk taking ability and since we are also planning to go ahead with the capital raise in calendar year 20, I think at all points of time we keep our gearing reasonable.

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

Shreepal Doshi: What are the sourcing strategy that we are using on the affordable housing and the MSE piece right now to get new customers?

Samit Ghosh: Affordable housing has various strategies. They have tie-up with builders, they have connectors and they have also direct sales in the areas. So it is yes, connectors, builders then we are also advertising in areas where new construction is coming up and using our phone banking to service our customers. Then we are also conducting micro marketing activities around areas where new buildings are coming up. So, these are multiple approaches which people are taking up.

Rajat Singh: So just to add to that, we have two predominant products. One is loan for self-employed, self-construction loan and another is loan for outright purchase. So, for self-construction we are doing a lot of micro-marketing event in the catchment area, advertisement, as well as taking help of call centers. These things are done directly by our field team. In addition to that we also have tied up with connectors in the key markets and they are also providing us leads. For the outright purchase we are tying up with various builders who are into project of affordable housing. So that is giving us leads.

Shreepal Doshi: So, what kind of an overlap would be there between say, our existing customer and the new affordable housing customers? Would that be less than 10%? Would that be a fair assumption?

Samit Ghosh: Referrals from our existing customers is …

Shreepal Doshi: Referral or overlap like existing, somebody who would have interacted with Ujjivan earlier taking an affordable housing loan right now?

Samit Ghosh: Around 10%.

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

Sudha Suresh: So, we thank all the participants for their interest in Ujjivan and putting across, questions across with various parameters and we would also expect that continued interest remains in Ujjivan as we ramp up our growth in the current financial year and we would like to thank all the team for the call. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Axis Capital, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.