"Ujjivan Financial Services Limited
Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Ujjivan Financial Services Limited Q1 FY2020 Earnings Conference Call, hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Murarka from IIFL Securities Limited. Thank you, and over to you, Sir!

Abhishek Murarka: Yes, thanks. Good morning, everyone, and welcome to the conference call to discuss the first quarter financials for Ujjivan Financial Services. We thank the management team for giving us the opportunity to host the call. From the Ujjivan team, we have Mr. Ittira Davis, Managing Director and CEO and Mr. Deepak Khetan, Head of IR. From Ujjivan Small Finance Bank, we have Mr. Samit Ghosh, Managing Director and CEO; Mr. Sanjay Kao, Chief Business Officer; Mrs. Upma Goel, Chief Financial Officer; Rajat Singh, Business Head for Micro Banking and Rural Banking; Mr. Murali Manohar, National Manager, Financial Planning and Analysis and Sneh Thakur, Head of Credit and Collections, Micro Banking. I would now hand over the call to Mr. Samit Ghosh to take you through some opening remarks and the financials, and then we will follow that up with the Q&A. Thank you, and over to you, Sir.

Samit Ghosh: Thank you, Abhishek. Good morning, everyone on a Saturday morning. The only thing is that our news is happy so I think even though it is a Saturday morning. This quarter, we followed a consistent note in terms of our performance from the previous quarter, the momentum started from the June quarter, which was the last quarter of last financial year and our performance has been consistently very good.

We are happy with the performance with this quarter and despite the fact that the first quarter is usually we have seen a low growth, but this quarter we delivered very strong results. The paramount concern in front of us and all our investors and analysts is that of the listing of the bank. I would like to assure the investors that we are working towards listing of the bank on time as per required by the RBI, we will complete the listing definitely by January 31 next year.

Our Board of Directors under the prevailing circumstances and to meet the regulatory time lines has approved the listing of the bank via IPO route subject, of course, to the market conditions and also any other external developments, which may transpire.

In doing so we will take care to protect the interest of our existing shareholders of Ujjivan Financial Services Limited and give them an opportunity to participate at every level in the bank's listing. Ittira will dwell further on this topic in his address.

Coming back to our business performance in this first quarter, which was an exceptional quarter for us, continuing to deliver as promised, we posted a PAT of Rs.94 Crores, up 105% over the first quarter of the previous year, highest ever quarterly PAT in our history. This jump was on account of continued robust growth in our gross advances, which now is close to Rs.12000 Crores, our cost control measures and profit on the sale of priority sector lending certificate, PSLC, which normally takes place in the first quarter of every year.

As we have indicated over our last earnings call, we are working in earnest on cost control measures and this quarter is already showing results. Our cost-to-income ratio has come down to 64% versus 78% in the fourth quarter of last financial year.

During the quarter, all our business verticals have done exceptionally well with all-around performance. Asset business has done disbursements of Rs.2959 Crores, which is up 41% as compared to the first quarter of the previous financial year. This led to a gross advance growing by 51% compared to the first quarter of last financial year to Rs.11734 Crores. Majority of the growth in gross advances was driven by micro banking, which grew by 37% as against the first quarter of the previous year. This growth was fuelled by new product launches, opening of new areas for existing branches, process improvisation, and improvement in productivity of our sales force, growth in the individual lending and increased borrower base. We continue to focus on building ourselves as a mark-market brand.

Keeping this objective in mind, we have launched Sampoorna Banking program by which we offer a whole range of financial products to the family members of our existing micro banking customers. We expect to have a deeper and more focused customer engagement through this program. Group loans and individual loans have grown by 33% and 36%, respectively versus the first quarter of last year. Rural banking portfolio improved spectacularly by 591% of growth of course on a much lower base versus the first quarter of the previous year at Rs.287 Crores led by a disbursement of Rs.115 Crores in the June quarter of this year.

We continue to focus on our micro banking and rural banking business and look forward to expand our product basket and customer base. Our affordable housing segment has achieved the 1000 Crores milestone this quarter in terms of gross advances. Continued focus in new regions and optimum use of technology helped in exhibiting a handsome growth of 142% versus the first quarter of the previous year, and our micro and small business too has achieved a critical mass with gross advance of Rs.686 Crores, up 145% versus first quarter of the previous year. With launch of new products, we are now disbursing larger ticket size, secured loans to MSE customers. Going ahead, we are emphasizing towards building a secure loan book, 100% for disbursement made this quarter was secured. Both MSE and affordable housing business continued to expand rapidly by way of increasing their geographical footprint through existing and new branches across the country and strengthening the range of services by adding new products. We expect these two businesses to breakeven this year and start contributing to our overall return on assets.

Lending to NBFC sector is aiding the growth of our asset book. Benefiting from the current tight liquidity position in the market and our strong balance sheet, we are lending to NBFCs largely in the micro finance business. We focus only on rated corporates without ALM mismatch. The segment had a very good last quarter with disbursement of Rs.148 Crores. With gross advances of Rs.358 Crores, the segment has grown 60% over the previous quarter.

Moving to deposits, retail banking is one of our most important focus areas. The branch conversions process more-or-less completed, we are now seeing good traction in our retail deposits. As of 30 June 2019 our Retail Deposits stands at Rs. 3429 Crore, up by 357% over the first quarter of the previous year. This forms 43% of our total deposits as of June 30, 2019. To build a very low-cost stable source of funding, we continuously work towards growing our CASA base.

As of first quarter this year, our CASA book stands at Rs.827 Crores, up 247% compared to the first quarter of previous year. This quarter, our CASA was 10.4% of our total deposit, up from 6.3% in the first quarter of the previous year. Continuing to be in the growth mode, we have identified segments and developed extensive banking solutions for our customers. Our customers now can choose from a bouquet of products we offer, which includes top-notch business edge current accounts, having a number of value-added benefits like free PoS installation, flexible cash deposits and simple yet best-in-class corporate Internet banking service. We have introduced a feature-rich corporate salary program, which is highly flexible and efficient to handle bulk disbursement of salaries for a huge employee base. We have basically moved from individual product sale to becoming more complete banking solution provider. Along with these, we have started working on deepening our relationship with micro banking clients by focusing on financial literacy and linking their accounts with DBT. Our new initiative, Sampoorna Banking is also designed to focus on the family members of our customers, who are largely been served by PSU banks. We plan to provide better products and consistent service to these clients to win them over.

Our credit quality continues to be stable. GNPA levels have reduced to 0.8% from 0.9% in March 31, 2019. However, our portfolio at risk has seen some increase from Rs.167 Crores as of March 31, 2019 to Rs.206 Crores, largely increase in portfolio at risk is on account of the Cyclone Fani that hit Odisha.

Speaking about Odisha, we have been prudent in assessing the overall scenario and have taken extensive relief measures to overcome this natural calamity. This will gradually come back to normalcy.

As of June 30, the total number of our banking outlets operated by us is 474. Out of these 474, 120 are in unbanked rural areas. The percentage of BOs in unbanked rural locations stood at 25.3% as of end of June, which is in full compliance with the RBI regulation. No new branches were opened in the first quarter of this year as we were awaiting the approval from RBI till end of June. We operate a network of 378 ATMs and nine automated cash recyclers as of June 30, 2019.

Overall, I would like to reiterate that the business growth momentum continues in our sector, despite general economic slowdown. Based on the investments we have made in the last two years, the businesses are scaling up and we are able to control our cost, which is reflected on our bottomline and our cost-to-income ratio.

We are moving towards the goal of becoming a mass market bank with strong retail franchise and a wide customer base. A lot of growth would come through our digital initiatives, which will not only expand our reach manifold, but also will make it easier and convenient for our customers, exciting times ahead of us as a growing business. Now I would like to hand over to Ittira to give you his views on the performance of the company. Thank you very much.

Ittira Davis: Thank you, Samit. Good morning to all participants. I will go straight to the bank listing, which is one of the Small Finance Bank licensing requirements prescribed by the RBI. Ujjivan Small Finance Bank, the wholly-owned subsidiary of the company is required to be listed by January 31, 2020.

Under the prevailing circumstances, the Board of the Bank in their meeting held on July 30, 2019, has approved a proposal for an initial public offering of its equity shares subject to receipt of requisite regulatory approvals and prevailing market conditions.

Both UFSL and USFB continue to evaluate other options to achieve listing of USFB equity shares in accordance with the guidance from RBI and all the applicable laws. USFB is committed to complying with the listing conditions within the stipulated timelines.

I would also like to provide you some background on what has led us to take this decision. Over the past few months, we have evaluated multiple options, including various restructuring ideas as UFSL and USFB, scheme of arrangements, issuing shares via trust route, listing on IGP and acquisition of our listed entity. We decided not to proceed with these options due to one or more of the following challenges: first, getting a buy-in of regulators like RBI and SEBI; two, lengthy timelines leading to missing January 31, 2020 cutoff date; and three, significantly high cash outflow in the form of taxes and stamp duty. Due to these challenges and keeping in mind the requirement to get listed within the stipulated timeline, we have initiated proceedings to go for a listing of the bank through the IPO route. This is also to give access to fresh capital for the bank that is required for growth of our business. For the IPO, we have put together a strong team comprising merchant bankers, legal counsel and auditors.

As I mentioned in our last earnings call, USFB has entered growth trajectory, and along with the growth, we are focused on containing cost and improving profitability. We continue to steadily build a stable retail deposit base. Some of the bank's first quarter trendy highlights and percentage changes over the previous year first quarter. Net profit is up 104.8%; net interest income is up 44%; overall disbursements, up 41%; gross advances, up 51%. The net interest margin is at 10.5% and the capital adequacy ratio for the bank is 19% with Tier 1 at 18.4%.

Now there is a little bit of issue to be understood in these numbers. The holding company, or Ujjivan Financial Services Limited, prepares its accounts on the Ind-As basis, and therefore, the numbers will look different to the bank. Now it is important that for comparison bank to bank or across the industry that the Ujjivan Small Finance Bank numbers be looked at from the I-GAAP perspective and that is how those numbers have been presented. So please keep that in mind, when you are looking at the numbers before raising questions.

There is one thing I would like to add before I stop. I would like to clarify that since USFB has initiated the IPO process. We cannot give forward-looking statements. Our answers in these situations would be more qualitative in nature. We request you to limit your queries to the first quarter performance. I would like to stop here and give you more time for questions and answers. Thank you, Abhishek, and the IIFL team for hosting this interaction. I will now hand you over to the moderator to start the Q&A session.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have our first question from the line of Sameer Shah from ValueQuest. Please go ahead.

Sameer Shah: Congrats for good set of numbers. Two questions; one, you said that you did not open any branches in this quarter because you were waiting for RBI permission. So if you can you just clarify what it is? And is that the reason for lower costs in this quarter? And then full year guidance on the cost, would still be that 30% higher than last year?

Sanjay Kao: Yes. The branch opening has not happened in this quarter, but that is not the only reason for our performance. It is a combination of a much better income as well as a combination of, we put in practices and we put in base average we had reduced cost across our different business verticals and functions to deliver what we have.

Sameer Shah: So basically, then this is the cost trajectory that we will follow?

Samit Ghosh: No. I just want to add that we have to wait to get RBI's approval to open these branches. So we were waiting for that, and that was slightly delayed. We have got the approvals now and we have started opening the branches already, and as far as the cost go, the branches were already set up. So all the setup cost, people hiring cost, which was already there. So the costs were there, but the branches have not started. So to that extent, I think you will see better results hopefully.

Sameer Shah: Yes. But on an absolute basis also quarter-on-quarter, the other expenses are down, so because of the cost controls that we have done, right?

Samit Ghosh: Right.

Sameer Shah: All right. So that can sustain. So on an absolute basis, we had guided that Rs.1000 Crores cost will go up by 30% year-on-year. So would there be kind of lower cost for the year now because if I annualize it, even with slight increase, the number will be quite lower than the Rs.1300 crores-plus?

Deepak Khetan: Sameer, we cannot give you guidance or a forward-looking statement. What we can tell you is refer to whatever we said on the last call. We do not change any cost-to-income ratio guidance there. Also, we have not given any absolute cost guidance.

Sameer Shah: Okay. Right. All right, and my second question is on the NBFC lending or the other corporate or say nonretail lending, what are the thoughts on that? I mean how much would be limited to? And would it be opportunistic? Or would it be a part of the core business strategy?

Samit Ghosh: No. As far as lending to NBFCs, it is going to be a limited lending only. We have a certain cap beyond which we will not go, and it will not be significant portion of our portfolio. As far as retail lending is concerned, actually I mean the personal loan business has just started and it is still very small, and our vehicle finance also has, I mean, just about started. So those are definitely that you will see growth in those businesses as we go ahead. Okay?

Sameer Shah: So it will be predominantly retail and secured, that is what it is and...

Ittira Davis: Can we give chance to others to speak, please?

Sameer Shah: All right.

Moderator: Thank you Sir. We have next question from the line of Praful Kumar from Pinpoint Asset Management Company. Please go ahead.

Praful Kumar: Good morning. Congratulations on very strong numbers. So we are assuming that your guidance that you gave in last concall holds. So just want to get some more flavor on especially West Bengal and Odisha market because there is lot of discussions around those two markets in terms of overlending happening. So can you just throw some light on how you are seeing those two markets?

Rajat Singh: Yes. So West Bengal, we have our ears to the ground, but so far we have not seen any challenges. We are keeping eye on political unrest in some of the area, if it is happening. So far our numbers are robust; our on-time repayment rates are consistent for last six months. So in West Bengal, we are not seeing any challenges as of now. Odisha, for us, is a very small market and we are present in very limited geography, and those geographies we are not impacted apart from the Fani disruption, which happened in May. So that is the update on West Bengal and Odisha.

Praful Kumar: Got it, and finally, we all are seeing a significant macro slowdown. So in such scenario growing 50% is an achievement. But are you looking at any heating up happening there because you want to slowdown growth? Or you think this segment of the economy will not be impacted for this secondary whatever effects that we call it. So do you think about that?

Samit Ghosh: So generally, micro finance is not that impacted by the slowdown of the economy. But definitely, we will keep an eye open because if people start losing jobs, etc., then it definitely has an impact on us. So this is something we have not seen so far, but we will keep an eye open for that, especially in the urban areas, etc. Job loss, obviously, leads to stress on the portfolio quality.

Praful Kumar: And one small data point. What was the new customer addition this quarter? So if you can give that number?

Rajat Singh: It was close to 3 lakhs.

Praful Kumar: 3 lakhs? Thank you and all the best.

Rajat Singh: Yes.

Moderator: Thank you. We have next question from the line of Venkat Subramanian from Organic Capital. Please go ahead.

Venkat Subramanian: Thanks for taking my question. Growth normally is a function of our risk perception in the short and medium-term and also demand on the ground. But in our case, is it more a function of our calibration from our side rather than anything else because we have seen some lumpy growth and lack of growth in some quarters.

Deepak Khetan: Can you repeat the question, please?

Venkat Subramanian: I am saying growth in our case has been actually quite lumpy. It has been up and down over the last five, seven quarters. Growth is normally a function of our risk perception in the short to medium-term on our addressable markets and also the demand on the ground. But in our case, is it more a function of how we calibrate growth based on how we perceive risk rather than demand on the ground? For instance, this quarter has been fairly high because you probably let go a little bit in terms of your risk perception. Is that the right way to look at it?

Samit Ghosh: No, no. I think the last two quarters, our growth has been very good and that is largely because all the preparatory work which we did in the previous two years and built the infrastructure and the branches and the distribution, etc., finally started paying dividends, and you are right in the sense that we will keep a close watch over how the economy performs and what impact has on our segment of customers, this is something we will keep a close watch. Generally, as in the micro finance customer base, it does not impact that much, but in the urban areas, as I mentioned, if people lose jobs and things like that as we saw during demonetization, etc., then obviously it has an impact on our portfolio. So we will keep close watch, especially in the urban areas.

Venkat Subramanian: How do you see the current quarter growth of new customers? Have you lent more to existing customers this quarter? Because we also calibrate that on a quarterly basis as we see it?

Deepak Khetan: The breakup of fresh and repeat loan is there in our PPT. It is more or less similar to what it was there last quarter. I think around 43% was the fresh loan and the rest was repeat one, which is quite healthy.

Venkat Subramanian: Okay. My second question is on your digital preparedness. We are a young bank and therefore a lot of our current investment on software etc., is fairly decent. So to that extent we are probably a little better prepared for data mining, etc, and also in the context of Mr. Nitin Chugh joining, are we better prepared for data mining and data analytics and digital banking overall than some of our peers?

Samit Ghosh: So on the digital side, two sides of it. One is on the front-end like mobile banking, Internet banking, etc., and there I think we have done significant amount of work, and we are ready to go ahead. There was some disruption because of the whole controversy relating to Aadhaar, the thing which has now been sorted out, and we have made the appropriate changes. So in terms of raising both loans and in terms of deposits digitally, we are now completely ready and ready to go. On the back-end, especially on the analytics side, it takes a little time. We have started working on that a few months ago, and we only target now building up scorecards and etc. I think you will see the impact of that more in the future. But as far as the front-end is concerned in terms of mobile banking, Internet banking, and corporate Internet banking, etc., we are fully ready from that perspective.

Venkat Subramanian: Thanks a lot Sir. I will join in the queue.

Moderator: Thank you. We have next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Thanks for the opportunity. One is with respect to, have you finalized that SFB listing over to an IPO route? In order to ensure that the existing shareholders interest, what are the various options that are under consideration under the IPO route?

Ittira Davis: Sorry, could you repeat the last part of your question, for the existing shareholders?

Rohan Mandora: What are the various options which are under consideration so that they are interested to maintain, then they get the best possible deal. So what is that that we are evaluating in terms of various options under that?

Ittira Davis: Yes. For existing retail investors in the holding company, we are setting aside as permitted by SEBI 10% of the issue, which will be available to them at a discount, which is maximum discount permitted is 10%. That is for the retail shareholders who currently have 2 lakhs in holding or below. As far as other shareholders, we are considering two options. One is a pre-IPO and the other is anchor plans. So any of the existing shareholders who want to join either of these groups, they are welcome to contact us.

Rohan Mandora: Got it. Sir, there will not be any discount on the price to hold the existing shareholder? Will that understanding be correct?

Samit Ghosh: So the retail investors will get a 10% discount as permitted by SEBI, and the others, institutional and all, they will get into either pre-IPO and/or at the later stage as an anchor, yes? We are also doing for our employee's employee stock purchase scheme because a large number of employees are also our investors and we will also do an ESOP scheme. So they will also be able to participate in the listing of the bank.

Deepak Khetan: Rohan, just one disclaimer as Mr. Ghosh and Mr. Davis mentioned in their address initially on the call, these are preparatory work right now and the final details will be drawn-down once we finalize the options.

Rohan Mandora: Right, and second question on like, in the opening remarks, management alluded to that there are some specific cost control measures that you have undertaken? So if you could describe what those measures were? And what kind of benefit we have seen during the quarter, like, some contribution on that?

Upma Goel: So as indicated overall on last earning call, we are working towards a strong cost control measures, and in this quarter, we are already showing the results. Some of the cost-saving initiatives which we have taken is revisiting and renegotiating for all contracts and predominating the long-term contract. We are also looking at introducing the robotic process automation to take care of our repetitive reconciliation purposes, which will help us in improving the overall productivity. Our planning and tie-ups are going on with the specialized agencies for process reengineering and design as well as for the supply management. These are the broad three, four cost-saving initiatives, which we have taken and which is showing results in the Q1.

Rohan Mandora: And any contribution of the benefits out of these, like, what extent of savings we would have done on a differential basis?

Upma Goel: So as far as quarter one is concerned, we are seeing a substantial saving, which is in the range of 10% and this is what we can speak about the quarter one savings.

Rohan Mandora: Sure. Thanks a lot.

Moderator: Thank you. We have next question from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: Congratulation on strong quarter operating performance during the quarter. I have a question on the listing of Ujjivan SFB, so Sir given the high growth of Ujjivan SFB, what is our comfortable level of leverage in likely equity dilution in that entity?

Ittira Davis: Yes. I mean we have the SEBI requires us to have a minimum listing of 10%. So we are considering that, and also, we are looking at whatever capital is required for the next couple of years. So those are all considerations, which are being looked at, and once we finalize it, we will let you know.

Manish Ostwal: Sure, Sir, and what is the time line? Will we be able to finalize all those things, Sir?

Ittira Davis: I mean January 31st is the deadline. So well within that so if everything goes well, in November, we will be able to come out with the IPO.

Manish Ostwal: Sure, and second, a small data point. Can you provide us breakup of other income during the quarter?

Upma Goel: Other income comprises of processing fees Rs.37 Crores; PSLC income, Rs.41.6 Crores; income from bad debt recoveries, Rs.7.6 Crores; income from third-party sources fee income, Rs.3.7 Crores; and miscellaneous income of Rs.10 Crores, totaling to Rs.100 Crores.

Manish Ostwal: And securitization income during the quarter?

Upma Goel: Securitization income is Rs.2.7 Crores.

Manish Ostwal: Okay Madam. Thank you very much.

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

Nishant Shah: Just on the listing of SFB. In some of your media interviews, you had indicated that the RBI has asked all the SFBs to come together and present the paper as to what kind of listing structure or how to avoid the dual-listing structure. So could you just talk a little bit about that? Like what were the RBI observations over there? Like what is their line of thought? Are they going to allow you to collapse the Holdco at a later date, any thoughts over there that you can point out, please?

Samit Ghosh: So when we met the governor to write a paper on various issues which SFBs have said, and obviously this capital structure was one of the major issues which is being faced by a majority of the SFBs, and as you know, the Reserve Bank is very happy with the way SFBs have performed, and this is the only category they are now putting it on license on tap. So if in order for that, on the licenses on tap, they will sort our feedback in terms of any kind of changes which would be required to make life somewhat easier and better for the future SFBs, and we went and gave that feedback to them, and this issue, this whole issue of allowing reverse merger, as they have indicated to us in their letter, that they could not give us an approval at this stage for the reverse merger at the end of five years, but that they would look at it closer to that time. So they have kept that door open for that.

And I think when we discuss with them, they are very open to it, and as a category, we are hoping that they will allow us to reverse merge, and they were positive about it, but I think this guideline is going to come out in August, this month. So we are looking forward to seeing because we had asked them to make I mean give it more clarity in the sense that the promoter would be able to reduce to 0 at the end of the five-year period and have a maximum of 26% or something. So I think they are going to clarify that in the new guidelines that will be set up. But generally, they were very positive. But this is something, as far as we are concerned, we have to take this up closer to the five year period. But given their feedback, we are very positive about that, and we will be working on that once we list the bank.

Nishant Shah: Right. So hypothetically speaking, if the August paper allows you to collapse the Holdco, like even now, would you just shelve the IPO plans and just like collapse it?

Samit Ghosh: I think that is out of the question, that they are very clear that we have to, but there will be more clarity whether in terms of long enough to reverse merge and collapse the whole at the end of either five-year period or a six-year period with the end of five-year or six-year because they will come up with that set of guidelines. But as far as we are concerned, I think five years is the deadline, and they seem very positive and open about it. So we are very hopeful.

Nishant Shah: Thank you. That is it from me.

Moderator: Thank you Sir. We have next question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: Thank you very much for the opportunity Sir. My first question is, if I were to just look at your average ticket size across products, in group loans and micro individual loans, the increase year-on-year is somewhere to the tune of 6% to 10% whereas if I look at the MSE book, that average ticket size has almost doubled, and in Affordable Housing, that is almost up around 19% to 20-odd percent. So could you take us through what was the reason for such steep increases in the ticket sizes, especially in the housing and the SME segment?

Sanjay Kao: Okay. So in the SME segment or the MSE segment, as you say it, we have moved from being just from being secured and unsecured lender to a fully secured lender. So in this quarter, 100% of our lending has been secured, and that obviously has impacted our ticket size. Number one.

Number two, we have also built-in products by which we are taking additional exposure, and we are going up to earlier, we would take exposure up to Rs.50 lakhs and then we have progressively taken that up to Rs.2 Crores. So as a result of which, you have seen the increase in ticket sizes in the MSE segment.

On the housing side, we think we have basically created additional focus on certain segments, which are again high-ticket-size segments, particularly ready purchase, and ready purchase has gone up as part of our product mix. So with that, the ticket size is on housing, diverse ticket size in housing has also gone up, and this is something that we have done progressively. We figured out that over a period of time, as in the markets that we have gone into and the markets, the way they have progressed, these are the segments within each that we are going. Additionally, in the housing segment, with ready purchase, we also get the benefit or our customers get the benefit of the Pradhan Mantri Awas Yojana. So that is an additional benefit that comes in, and therefore, that becomes an additional piece that we can introduce, transfer that or translate that benefit to our customers.

Karthik Chellappa: On a like-for-like basis, what would be the dilution, the yield for both the segments because of the enlarged ticket sizes?

Deepak Khetan: Sorry, come again?

Karthik Chellappa: On a like-to-like basis, because you are going into higher ticket sizes and more secured on the MSE side and ready to occupy on the housing side, what will be the dilution in the yield? I would presume they are coming at slightly lower yields than what it used to be in the past when you used to do the Rs.5 lakh to Rs.6 lakh ticket size or so?

Deepak Khetan: So whatever yield pressure is there, it is visible in the MSE and the housing. Housing is more or less stable. MSE has come down a little bit, and we cannot give a forward-looking, but the same trend continues.

Karthik Chellappa: Got it. To an earlier question, as far as the micro portfolio in West Bengal is concerned, you said you are monitoring the political climate closely, and the on-time repayment is pretty much stable. Apart from the repayment ratio, what are the other lead indicators that you typically look for? Not just probably in West Bengal and any other states, for you to know when to go slow and when you can actually continue your normal growth, what would the other indicators be?

Rajat Singh: So in addition to repayment rate, we look at on-time repayment rate. So it should be on the time, we look at bureau rejection, how heated is the market because more bureau rejection, you see heating up of market is more. So primarily these two things, and we look at how much new over dues are coming, i.e., incremental overdue in the market. This is that we kind of decide on either to lend aggressively or slow down.

Karthik Chellappa: Thank you very much and wish you all the best.

Moderator: Thank you Sir. We have next question from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

Gaurav Maheshwari: Hello Sir. My question pertains to the listing part of the SFB. Now why not follow the model which a couple of your peers are following in terms of, for the existing shareholders, giving them the shares directly in the SFB and why going for a fresh IPO route?

Samit Ghosh: So actually, sometimes it is a benefit to be second. So we have been actually watching very closely what happens with what Equitas has applied under the scheme, and we have actually worked on a similar scheme and kept it on board and to see what happened. But it has not seen light of the day for a long time, we will see what happens because Equitas' deadline is, I believe, 1st week of September, and if it does not come through by then, we will go ahead with our IPO, which is programmed.

One thing we want to make sure is that we want to meet this licensing condition within the time line. So it is not that we have not looked at it, we have not prepared. Also, I mean we have done all the homework. We have a similar deal program ready, and if it comes through for Equitas within the time frame, which they have a deadline, if it comes through, we can also follow suit. If it does not, then we will definitely go through with the IPO route because for us, to meet the RBI deadline within time frame is very important.

Gaurav Maheshwari: I understand that, Sir, because our only problem is that you are following is going to be extremely value destructive for most of the existing shareholders for the simple reason that you can see all the holdcos and the valuation, the concept which you trade at. So for existing shareholders, it is not an ideal situation to be in. But yes, given the updated guidelines, can you just throw some light on what would be the constraints of not receiving because we have a lot of time at hand between now and January. So what could be the constraints for not getting approvals in place to do it the Equitas route?

Samit Ghosh: Yes. Since Equitas had applied for it, we are waiting to see whether they get approval, and they have a time line of 1st week or, whatever, September, right? And they have applied long, long time back. So we are just waiting and seeing whether the regulators will give them approval or not. So if they do not give it within that time frame, then we will just go ahead.

And on the other side, just let me tell you, we are trying to protect the downside for our existing investors as far as possible because if you have to go through with the regular IPO, it will only be for the minimum 10% or around 10% of the listing capital.

Secondly, we are trying to structure such that every category of investor is also able to participate in the bank IPO. So that will further offset any downside with this listing.

And finally, given all our discussions with the RBI, we are quite positive that if, by end of five years, we have excellent track record in terms of compliance, et cetera, then we are hopeful, since the RBI has kept the door open for reverse merger, we can take that forward. So that will, of course, definitely benefit our existing investors. That will definitely benefit them.

Ittira Davis: I think that will address your concern which you have with Samit two years later, but having said that, we would have in between met the condition that the RBI has put and not seek an extension.

Gaurav Maheshwari: No. But that is again uncertain, right, because the regulator has acted completely illogically by asking the group for an IPO. So I do not think we can expect the regulator to be again logical by allowing you to reverse merge that is from my end?

Samit Ghosh: No, we do not say illogical, but their point of view was this is a fundamental licensing condition which we had agreed to and that we have to comply with that. So from that perspective, I mean it is not a question of logic, it is just a question of complying with licensing condition. Whereas the whole issue of reverse merger has been left open even in the guideline for the Small Finance Bank, so there, the Reserve Bank has the flexibility to allow us to reverse merge, and to that extent, they seem to be very positive about it. So we are very hopeful.

Gaurav Maheshwari: But that, you are expecting to happen in August guideline, that would again be decided further to the update?

Samit Ghosh: As long as the guideline is already there, and the guideline for us already there. The fresh guideline can only strengthen that thing. I mean that is what we asked them that they should give more clarity to that, but that is already in our current guidelines which are there for the small finance banks.

Ittira Davis: Can I request you to allow others to take questions, please?

Gaurav Maheshwari: Sure.

Moderator: Thank you Sir. We have next question from the line of Amit Nanavati from Nomura Securities. Please go ahead.

Amit Nanavati: Sir, again, on this listing, you have mentioned that you have a similar scheme like Equitas, as a standby option if Equitas options get approved, you can apply for the same too. My understanding, and tell me if this is wrong, was that you have a provision on the issuing of shares from the bank level because of the reserves, right? So to that extent, what are the alternative options to transfer reserves or something which allows you to do that, if you can explain that?

Upma Goel: So as far as scheme of arrangement is concerned, we also have looked into the options where our bank's shares can be directly distributed to the shareholders of the Holdco. At this point of time, we can say that our scheme is also similar to Equitas' scheme, and as and when that we will come across the regulatory development and we will see that in case the approval is received, we will give the final details about the scheme.

Amit Nanavati: So then if...

Upma Goel: So even post this our reserves are also there in the operating level as well as we also have other options available to distribute the shares to the shareholders of the Holdco. Both the options are available. On the reserve side, we have a healthy reserve at the bank level.

Ittira Davis: By September, we will have it now.

Amit Nanavati: So my question is or my confusion is that if you have a six-months lead time versus Equitas and if you can have a similar scheme of arrangement, why not apply it, send it to the regulators as we all know that it takes ages for the regulator to approve the scheme in any which way. So if it is very much doable and Equitas is waiting for approval, why not us also apply for it?

Samit Ghosh: No, it is not a question of time, it is a question of whether the regulator will permit this or not, and if they approve for Equitas, we can file also. So there is no issue on that. We are ready for it. But the issue is not really how much time it will take. The issue is whether they will allow or not allow, and a lot of time has already gone by, so we are just waiting, and our deadline is actually September when their cutoff period is there.

Amit Nanavati: Right, and secondly, on the reverse merger, right. So if, say, for example, if you go to an IPO route, your shareholders at the bank level in less than two years' time will be completely different from the Holdco level, and while the regulator may still have an open mind to allow a reverse merger, do you think there could be challenges at the shareholder level who may or to give the upside to the Holdco given that it is not their benefit?

Samit Ghosh: Do you want to explain common shareholder?

Ittira Davis: Yes. I think there are some rules which have been laid down on this and there have been precedents about voting on this by SEBI, and I think we will apply those voting rights, and if there are common shareholders, they can vote. There is one requirement that 75% of all shareholders have to vote for this or 3x the number to those against. That is one condition, and the second condition is 51% of the regular shareholders, excluding the promoter. So I think those are the two conditions which are there, and when the time comes, I am sure that everybody will see a future not just the point at that point in time and move forward. So I think we are ready to cross the bridge when we come to it.

Amit Nanavati: Sure Sir. Thank you Sir. That is it from my side.

Moderator: Thank you. We have next question from the line of Pankaj Agarwal from AMBIT Capital. Please go ahead.

Pankaj Agarwal: This IPO would be entirely fresh issue of shares or there would be some top up of sell as well?

Samit Ghosh: A fresh issue of shares.

Pankaj Agarwal: Okay, and second, Sir, any color on your CASA deposits I mean the type of customers, ticket sizes, geography? And any color will be helpful.

Sanjay Kao: Just to set the stage, we have open market customers. We have the micro-banking customers, within that we have the senior citizens and the youth segment, and we have embarked a FIG. So these are three or four different target markets that we address to whom we get deposits, and as a strategy, what we are following is we follow market channel strategy to be able to address each of these segments, and we have put into motion differentiated products and benefits and services, both on the CA side as well as the SA side, to address each of these segments, and the segments, within this we have identified cohorts which have specifically tailored products on the CA and the SA side to ensure that we are ahead of whatever else are differentiated in terms of our offerings, and as well as we are building a solution-based approach so that when we go to the customer, we are not just offering a product, but we are offering an entire solution, and we are seeing traction building on that, and we have seen the growth that we have seen in the last two quarters, which has progressively gone up, and we will continue in the same way.

Pankaj Agarwal: Okay, and what percentage of your SA deposits comes like asset side customers? Is there some rough numbers?

Samit Ghosh: Micro banking.

Sanjay Kao: Right now, it could be almost about 50%.

Pankaj Agarwal: Okay, 50%, and that is from your micro banking customers, right?

Sanjay Kao: Largely micro banking, yes.

Pankaj Agarwal: Okay Sir. Thank you very much.

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

Gaurav Jani: Congratulations on a good set of numbers. Sorry, I have joined the call a bit late, so I probably missed you harping on the listing front. So I just keep hearing on the call, as I joined late, that we will be actually having fresh issues. So could you just simplify it? I mean earlier, we go through the SFB listing versus a fresh listing now. So could you just actually elaborate on that?

Ittira Davis: The SFB listing is through a fresh offer. Right now, all the shares of the SFB are held by the holding company. So there will be a fresh issue to new shareholders for the listing.

Gaurav Jani: Okay. Earlier, that was not the scenario?

Ittira Davis: I mean that earlier scenario, we were looking at all sorts of other options, which have been clarified. Now you may not have heard that. I went through all the options or several of the options we have looked at before coming to the IPO route.

Deepak Khetan: Gaurav, we can take it off-line since we have already discussed this on the call.

Gaurav Jani: Yes. I asked if, for example, a retail investor held about 100 shares in the Holdco, would it make you eligible for 90 shares in the Small Finance Bank or the fresh IPO?

Ittira Davis: It does not work like that. It is the 10% of the new issue, which is the issue which we are putting in place, will be earmarked for retail investors, and we have explained this also in the earlier part of the session. So we can explain this to you separately. SEBI allows us to earmark 10% of the issue size for retail investors and give that as a small discount of up to 10%.

Gaurav Jani: Okay, I will think about that. Just the last question from my end; one being risk-weighted assets has grown lower to your AUM and the CET1 is maintained at 18.4% despite of having a 50% growth in the AUM. So can you explain that? I mean so obviously, it is a positive, but what would have been happening on that? CET1 is actually maintained at 18.4% and the AUM has actually increased by 6.6% there.

Upma Goel: As far as our capital adequacy is concerned, as of June 2019, we are at 19% capital adequacy, but 18.4% is contributing to the CET1. One of the reasons that we are able to maintain such a healthy CET is on account of the reserves, Rs.94 Crores of profit and adds it up to the CET1 capital.

Gaurav Jani: Okay. So that is the main reason?

Upma Goel: Yes.

Deepak Khetan: Yes. Because if you see our growth versus March number, it is not very high, it is around 7%-odd, and the profit during this quarter was very high, which is why the CET1 is maintained at 18.4%.

Gaurav Jani: Got it. What we have actually done was the state exposures slide this quarter. So if you could just throw some light quickly on the maximum exposure you have with the state and how much would that be.

Deepak Khetan: So we have maintained the rule or internal policy that we have that we will not cross 20% in any state. We have removed that slide because of certain legal issues right now. We cannot disclose certain data. As we mentioned on the call that we are in a IPO process, so there is certain limitation of what we can discuss and what we cannot discuss. What we can see is there is no great change in that percentage.

Gaurav Jani: Thanks.

Moderator: Thank you. We have next question from the line of Praful Kumar from Pinpoint Asset Management Company. Please go ahead.

Praful Kumar: Thanks for the opportunity again. Just wanted to conclude that discussion on the structure; I mean what you have done is in the best interest of the shareholders because capitalization of reserves in Equitas may be at the bank level and yours is in Holdco level. So I think there is a stamp duty angle that comes in, and so that is the reason you were undecided for going to the IPO process. Is it a fair assumption that that is the reason behind it?

Deepak Khetan: Praful, whatever decision we have taken, as Mr. Davis and Mr. Ghosh explained in their address, is largely to meet the RBI regulatory requirement to list the bank by the deadline of January 31, 2020. We have evaluated all other possible options, and as Mr. Davis mentioned, one of the reasons for not going through it was we believe that this is rejected by regulators on those options. Between today and before we file or go ahead for any other option, if we see there any change on the regulatory front, we will reevaluate the option.

Praful Kumar: No. But I just want to get the clarity that because in the initial remarks also, you mentioned that we have gone through all the taxation angles, stamp duty angle because you will have to transfer the reserves, and that is why, clearly, it is in the best interest of shareholders that we have done this. Is that a fair assumption, so just wanted to get some clarity that if you can comment on that.

Upma Goel: So as far as the scheme of arrangement is concerned, there are two elements. One is definitely what you rightly said this is an impact on account of stamp duty. We are located in two states, one is Delhi and the second one is Karnataka. Both the states' stamp duty will get impacted, will be levied on us if we will go ahead with the scheme of arrangement; and the overall income tax impact, which we will have it on account of the scheme, which will be onto the shareholders and some part onto the bank and holding company as well.

Praful Kumar: Got it. Thank you so much. That is very helpful.

Moderator: Thank you. We have next question from the line of Aashish from InvesQ. Please go ahead.

Aashish Upganlawar: Sir, actually, I did not miss any part of the call, but still, I am unclear about the entire structuring. So just bear with me. So what I understood is that if the shareholders of the existing listed entity, they will face a 10% dilution in the small finance bank and there would not be any shares that the existing shareholders get in the small finance bank. Is that correct? And can you comment, please?

Ittira Davis: Yes. If none of the shareholders wish to apply for any shares in the bank, none of the shareholders of the holding company, there will be dilution to the extent that the holding company now holds only 90% of bank. However, the bank will grow the business with the extra capital that it received. So we will get 90% of a larger pie. So you have to see it from that perspective. It is not just looking at it what was going to happen by the reduction. There is going to be a business growth and there is going to be the growth of the bank. So that is what the existing shareholders will benefit.

Aashish Upganlawar: Yes. So actually, if the shareholders vote in favor of having shares in the small finance bank, it will be a mirror, except for the 10% dilution. Is that correct then?

Deepak Khetan: We can take this question offline.

Aashish Upganlawar: No. Actually, it is important because we are shareholders of the company, and still, we cannot figure this out because the stock price is reacting and clarification is coming later on. That is quite a problem. So if there is some time, you can please help us.

Deepak Khetan: Right now, what we are evaluating is, if we go through a primary listing route or the IPO route, we will have reservation for the existing retail shareholder of holding company. They will have to apply for the shares and the shares will be allotted. So nothing like free shares being given to each retail or HNI or an institutional shareholder.

Aashish Upganlawar: Okay. Sure. I will take it offline then.

Deepak Khetan: We hope that a better shareholding will arise. If we go through other routes, which we discussed, we evaluated and as we informed you that with this regulatory requirement, we believe it might not go through, and we are still evaluating those options, and that is what Mr. Davis and Mr. Ghosh said that we are open to reevaluate all the options should there be any changes in regulatory front.

Aashish Upganlawar: Okay Sir. Thank you.

Moderator: Thank you. We have the next question from the line of Sonia Lalwani from Purnartha Investment Advisers. Please go ahead.

Sonia Lalwani: Hi Sir. I just have three important questions. Sir, could you just tell us the number of unique customers that we have during this quarter?

Deepak Khetan: Sorry, come again?

Samit Ghosh: Unique customers.

Sonia Lalwani: Unique customers.

Sneh Thakur: It is 30%.

Sonia Lalwani: 30%. All right. Sir, in the MSME segment, could you just give us the brief about how you do the risk profiling, plus how many accounts are there in the MSME segment? And what would be the maximum exposure to an MSME?

Sanjay Kao: So the MSME segment, the maximum exposure that we have is Rs.2 Crores, and we have a risk assessment methodology that we use, which has been developed over time as we progressed and which is based on the bureau, which is based on a whole bunch of other variables that we look at and make an assessment, and that is essentially the risk assessment of the customer that we follow.

Sonia Lalwani: So do we use high mark like we use for micro credit or what is the other type of score that we use for them, I mean, the external score?

Sanjay Kao : So we only use CIBIL as the bureau.

Sonia Lalwani: All right, and Sir, the third is related to the PCR that is reduced from 70s to 69. So could this have been a little higher than this? I mean I was just wanting to understand like how we are covering the risk, and related to this is the question that, which segment has contributed more to the bad debt this quarter?

Sneh Thakur: Okay. Answering your first question on the PCR, the PCR reduction is mainly on account of the write-off we have seen in the quarter, and there is no other reason for that reduction. As far as incremental delinquencies are concerned, like Mr. Ghosh mentioned in his opening speech, this is largely coming on account of the pressure in Orissa because of Cyclone Fani.

Sonia Lalwani: All right. So mostly, we have written off all the bad debt that was there? Or is any thing left that has to be written off from that affected area?

Sneh Thakur: Our earlier guidance on this front holds root, and for Q1, Rs.15 crores is the write-off.

Sonia Lalwani: All right, and I have some data digging questions. We will take it off-line.

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

Ittira Davis: Well, thank you, Abhishek, and thank you for the IIFL team to conduct this. It has been a very important session because, I guess, many of you had questions on the structuring and the listing. So that is important. If there are any other questions that you have, please contact us directly, and we will be able to address those. So thank you very much.

Moderator: Thank you very much, gentlemen. Yes, thank you, Sir. Ladies and gentlemen, on behalf of IIFL Securities limited, that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.