



**“Ujjivan Financial Services Limited Q1 FY2018  
Earnings Conference Call”**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Ujjivan Financial Services Q1 FY2018 Earnings Conference Call, hosted by Axis Capital 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. Praveen Agarwal from Axis Capital Limited. Thank you and over to you, Sir!

**Praveen Agarwal:** Thank you Rio. Hello everybody and welcome to the Earnings Call of Ujjivan Financial Services. We have with us from Ujjivan Financial Services Ms. Sudha Suresh, MD and CEO, Mr. Hiren Shah, CFO. From Ujjivan Small Finance Bank, we have Mr. Samit Ghosh, MD and CEO, Itira Davis, Chief Operating Officer, Rajat Singh, Head – Strategy and Planning, and Ms. Sneha Thakur, Head of Credit. I would request Mr. Samit Ghosh to take us through the key financial highlight post, which we will open, the floor for Q & A. Over to you Sir!

**Samit Ghosh:** Thank you Praveen. Good morning and welcome to the Quarterly Earnings Call. First I would like to update you on the three areas, which we have been principally encased in the last few months of the last quarter and then we will look into the financials.

First is managing the portfolio quality and I do not think it is a secret that the dimension of the problem, which hit the whole microfinance industry was totally unprecedented and consequently most of us in the microfinance business had to really build up from scratch in terms of managing this whole portfolio quality issue.

We categorized our branches between those which are normal and those which were affected, across our 457 branches in the country. These affected branches which we categorized had PAR greater than 5% and the focus of these branches was entirely on collection and recovery and serving our existing good customer so the entire focus of this branch team, which was supervised by a dedicated

senior management team was purely on recovery and collection. That was one aspect and that is what we have been working on.

The second part of the collection effort was our collection team, which is a specialized collection team, comprising of both the people who come from the professional collection world and also our internal team who were focusing on overdues, which were more than 90 days. So here we have also seen fairly good traction of about 25% in these overdues, which are more than 90 days, which we have quite pleased about, and we are working on it.

As a result of this effort we have been able to reduce our PAR in the last quarter by 79 Crore and month-on-month virtually we have reduction of PAR between 25 and 30 Crore. Our PAR consequence stands at about 8.84%.

The second aspect of this collection was also in terms of managing of portfolio was to take a hard look at our portfolio and to see how it is behaving and what we found is that about 150 Crore of this amount, which was overdue to us, we have not received any repayment since demonetisation.

Consequently we decided this year, the board decided that we should totally retrenched this portfolio and thus we took a provision of 150 Crore this quarter, which included 43 Crore of extra provisioning over and above our normal provisioning, which we do to ensure that this hardcore element of our portfolio is totally retrenched.

We expect that this is the peak amount of provisioning, which we have taken in this quarter, and then we have significant decline in provisioning in the future quarters. We expect that the total credit cost for the year not to exceed 4% of the portfolio for this financial year, so we should have cleaned up our books in the next two quarters and we should be back to normal business in the next two quarters.

The second area is post demonetisation we took a very conservative stand in terms of growing of business and we actually stopped acquiring new customers in all the effected branches and we grew our portfolio very carefully.

Overtime now we have slowly started easing up as we are more comfortable with the situation and last month our disbursements was around 700 Crore which was at the predemonetization level. We expect our loan book to grow by about 20% in this financial year. Also, I just wanted to mention that we are always been leaders in cashless disbursements prior to demonetisation but during the demonetisation most of our customers insisted that we disburse the loan in cash, so we moved to cash and now we are moving back to cashless in in our liability accepting branches through 100% cashless disbursement. In our remaining branches, we are aiming to reach at the predemonetization level which would be about 70%, so our focus is entirely on cashless disbursement during this period.

The third area, which I like to emphasize, is the transition to Small Finance Bank and we are moving there according to the plan. We plan to convert 160 of our branches into Small Finance Bank branches this year, which is largely what our plan was and we plan to convert all the branches, which we have other than the 35 odd branches we are merging into small finance bank over a period of three years, which is permitted by RBI's new branching policy.

That is the plan in terms of branching and in addition of course we have to open unbanked rural branches. We are looking at the possibility of either doing it through the BC route or setting up of regular brick and mortar small URC branches and we think that we have to through another 29 of these branches so totally deposit taking branches by end of this year including URC's could be about 189.

One of the biggest challenges for us also was stabilizing our technology as you all know that we have invested a lot in technology in terms of core banking, in terms of handheld devices, which actually take banking to the doorstep and allow account opening and transaction processing paperless. We are also one of the first once to introduce Biometric ATM's in India. We have also introduced mobile banking. Obviously all these changes in the first three months go through a lot of teething problems.

We have now been able to stabilise all these changes and in fact we have closed our transition period at the end of last week, so most of our technology is now stable. All the teething problems have been more or less resolved and we are on a stable sort of infrastructure.

Our liability growth as far as the retail is concerned is as per plan. On the institutional liability it is below plan and it is largely because we are awaiting the schedule bank status and unless the schedule bank status is obtained it is a challenge to raise the institutional liabilities either from other financial institutions or in terms of interbank or in terms of large deposits from individual companies.

So we have completed our all the process for the schedule bank status and right now we are just awaiting the gazette announcement for the scheduled bank status and once that is there we are quite sure that our institutional liabilities will be able to catch up as per the planned growth.

With this I would like to handover to Sudha to take you through our quarterly performance, then you are most welcome to ask the questions during the Q&A.

**Sudha Suresh:**

Thank you Sir. Continuing with our business performance, our business is back to normalcy and we have recorded a disbursement of 1701.92 Crore during this quarter with the quarterly disbursement reaching the predemonetization average. The graph loan book stands at 6459.27 Crore, which is the growth of about 10.4% over Q1 2017 and an increase of 1.25% over Q4 FY 2017.

Also we have added 1.76 lakhs new borrowers during this first quarter. Our net loan book stands at 6110.7 Crore, which is a growth of about 9.95% over Q1 FY2017, and an increase of 4.08% over Q4 FY2017.

Further in terms of the new business that we have done between January and June the collection efficiency stands at 99.76% and this is an excellent indicator in terms of the credit quality of the businesses done in the last six months.

Moving on to our cost-to-income ratio in terms of the absolute amount it is in line with the expectation; however, the ratio and the percentage term is higher

due to the low rate impact of a flat loan book in this quarter as also due to the impact of reversal of interest income due to NPA.

We do expect that the cost-to-income ratio will consistently come down in the next few quarters and we look at the average settling down around 70% on this financial year. In terms of NIM, NIM's are slightly lower primarily due to the impact of regulatory investment where we have some surplus further we expect that the funding cost will steadily come down during this financial year pacifically for the schedule bank status, which Sir has just referred to, we expect to raise deposits from bank financial institutions as well as insurance companies and mutual funds and we look at the funding cost to come down at least 150 basis points during this financial year. Currently our marginal cost of borrowing stands at 7.5% for this quarter.

Moving on to our capital adequacy our CAR is positioned comfortably at 19.83%. We in fact expect this ratio to move up and improve further as the grandfathered loans come down or as expected to run down during this year. In fact of about 65% to 70% of the grandfathered loan would run down in the normal course of business excluding any possibilities of even prepayments so we therefore expect that our capital adequacy should stand as good and in fact we project that we are not looking at the raising further capital to substantiate our business growth at least for a period of around next two years.

In this quarter in fact we have interests from various banks for Tier 2 capital but since we are positioned very comfortably we may look at it at a later point of time as and when appropriate. Now I hand over the session back to the moderator to start the Q&A session.

**Moderator:** Thank you very much. We will now begin with the question and answer session. We have first question from the line Dhaval Gada from Motilal Oswal Securities. Please go ahead.

**Dhaval Gada:** Firstly couple of clarifications, on the credit course guidance which Sir gave I think it was 250 to 275 Crores for the full year is that correct?

- Sudha Suresh:** Yes we estimate it around the same.
- Dhaval Gada:** Okay, secondly could you give what is the interest reversal for the quarter?
- Sudha Suresh:** We can get back to you with the exact numbers.
- Dhaval Gada:** Thirdly, could you also provide what is the segmental GNPA for the non-MSI portfolio the MSE housing portfolios?
- Rajat Singh:** That number is less than 2%.
- Dhaval Gada:** Okay and even in the micro individual it is less than 2%?
- Rajat Singh:** Yes.
- Dhaval Gada:** Okay, just on the portfolio at risk, basically so if I understood it correctly I think what Sir mentioned was about 150 Crores is the total portfolio that we have written-off during the quarter and the balance you made provision, so if you would just explain how was the provisioning done during the quarter like what is the write-off during the quarter just trying to understand that point?
- Samit Ghosh:** I think Sneh will explain it to you just one minute we did not write-off we have made a provision.
- Sneh Thakur:** For provision for the quarter stands at 150 Crores and as far as write-offs are concerned we have written-off's about 9 Crores which belongs to the predemonetization period and out of this 150 Crores we have certain portfolio where we have not received any repayment that was the incremental repository so the rest 105 to 106 Crores is as per provision policy of Ujjivan so 43 is the incremental, which we have taken and on those accounts where we have not received any repayment after they have become defaulter.
- Dhaval Gada:** Okay and just last question on GNPA would you agree we are close to the peak for the NPA's?
- Sneh Thakur:** Yes.

- Dhaval Gada:** Thank you so much and wish you all the very best.
- Moderator:** Thank you. The next question is from the line of Manish Oswal from Nirmal Bang Securities. Please go ahead. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** In terms of our operating costs this quarter we had a run rate of around 156 Crores if I add all the employee expense and other expenses and depreciation are we near the peak or this number should still see some bit of an uptick in the coming quarter?
- Rajat Singh:** I mean as far as fixed cost are concerned we have incurred all the fixed cost, some of the recurring cost as we open more number of branches as per the plan we are supposed to open 160 branches in those branches we might incur some cost of additional manpower and cost of setting up of the those branches so this cost will slightly increase over a quarter but bulk of the wondering cost has been taken into the account.
- Digant Haria:** Okay so in terms of see because the thing is that cost-to-income guidance is no longer the way to work for in this quarter because the income itself is little unstable because of the write back, can you give a guidance in terms of the absolute cost where you should look at this year like it would it be 600 Crores or 700 Crores or something?
- Rajat Singh:** It could be between 600 Crores to 700 Crores.
- Digant Haria:** Okay and my second question is on the liability strategy we say that we have 52 SFB branches as of now so it is only these 52 branches, which can accept deposits right now?
- Samit Ghosh:** Yes, as of now 52 branches are taking deposit and others are only doing only assets. As of now that number is 65 till June it was 55.
- Digant Haria:** Okay and in terms of attracting the savvy customers for saving deposits, current deposits, and term deposit what is the on-ground strategy that we are following?

- Rajat Singh:** We have two different customer segment, one is our existing microfinance customers where most of the communication is through word of mouth, during centre meeting and also some special programmes arranged for those segments of customers, that is the primary mode of sales and marketing programme and for open market client we do a lot of micro marketing, catchment area mapping, we do little bit of advertising in that local area outdoor advertising so these things are kind of as of now going on from the marketing point of view.
- Samit Ghosh:** The existing customers we are disbursing the loans into their bank account with us and we are also persuading them to keep some balances and not withdrawal the entire amount so they have a fairly healthy balance now because they do not need the cash entirely in one shot.
- Ittira Davis:** Just to clarify in terms of open market any customer who is there say in a city like Mumbai can be attached to any branch which is open so there is no restriction as to the catchment area unlike the customers which we already have in the microfinance business.
- Digant Haria:** Okay and when we said that we are expecting more of the grandfathered loans to run down, is it because once we get the schedule bank status we can increase our deposit rapidly and repay the bank borrowings which have been grandfathered, is that the correct?
- Sneh Thakur:** That is the right assessment.
- Digant Haria:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Vishal Rampuria from HDFC Securities. Please go ahead.
- Vishal Rampuria:** Good morning. Madam, I need more clarity on this provisioning which we did for this quarter hardly 1.7 billion so as you mentioned 43 Crores is for this hardcore delay in payments in November and December. So last concall, it was mentioned at 70 Crores is the amount where you received single installment. So against 70 Crores is it that we have done a provision of 43 Crores.

**Sudha Suresh:** No, I will just elaborate a little bit. We have about 400 plus Crores of portfolio sitting in the November to December pool out of which we have seen that about 150 Crores has been sticky so we had already taken the provision of 75% on these assets and to take it to 100% we added the incremental 43 in Q1 itself so this sticky portfolio was 150 and from the balance 220 Crores we are getting repayment.

**Vishal Rampuria:** Okay and one more question, you mentioned that the marginal cost fund for us in the quarter was 7.5% and you also mentioned that once we get a schedule bank status only the funding cost will come down to 150 BPS so when you say 150 BPS is it the marginal part or you are seeing the turnover overall.

**Sudha Suresh:** When we say that the 150 BPS reductions that is compared to the closing numbers of March 2017 so as compared to the March 2017 it will come down by 150 BPS.

**Vishal Rampuria:** Thank you.

**Moderator:** Thank you. The next question is from the line of Jagveer Singh from Shade Capital. Please go ahead.

**Jagveer Singh:** So there is some weather information about Karnataka whereas again there is likelihood of drought in Karnataka so whatever the portfolio in Karnataka?

**Samit Ghosh:** In Karnataka, actually the drought is most in North Karnataka where we do not have too many branches so we are not really exposed to that. Our main issue in Karnataka is in Bengaluru and we have been working on the Bengaluru portfolio for the last six months and we are seeing fairly good traction and people have started repaying and portfolio quality is slowly coming back to normal.

**Jagveer Singh:** Okay and options for loan waiver in the UP so what is the status in the Western UP part?

**Samit Ghosh:** There has actually been no impact of the loan waiver in UP on our portfolio. In fact our repayments has been actually increasing in UP and we have among UP

is possibly one of the best in terms of from the recovery side so the farm waiver has not affected in UP. There is only some collateral damage in Maharashtra where some political parties are using the farm waiver and then trying to mobilize microfinance customers to say that the microfinance loans have also to be waived so there we have some collateral damage mainly in Maharashtra where our recovery rates are much lower compared to Karnataka and in UP.

**Jagveer Singh:** Okay Sir last one what is the advantage, growth, any idea for the FY2018?

**Sudha Suresh:** For FY2018 we expect a 20% growth in our portfolio.

**Jagveer Singh:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

**Rohan Mandora:** Good morning. Thanks for the opportunity. Sir, I would like to get your guidance on what could be the target AUM mix say three to five years down the line in terms of MFI, individual loans, housing loans?

**Rajat Singh:** Overall all long-term goal does not change significantly. Since the beginning we have maintained that in next three to five years time our microfinance portfolio will be closer to 50% and remaining 50% will come from new asset vertical like comfortable housing and micro and small enterprises so that remains the same.

**Rohan Mandora:** So non-MSI portfolio, are we targeting any mix in that?

**Rajat Singh:** Can you please repeat your question?

**Rohan Mandora:** Sir, with the non-MSI the other 50% is there any AUM mix that we are targeting?

**Rajat Singh:** So overall our five years CAGR expected is 30% and with that in three time we will be reaching close to 12000 Crore of portfolio. We are saying nearly one-

third of that will come from MSE and housing in three years time and in five years time it will become 50-50.

**Rohan Mandora:** Okay and Sir like on the PSL Certificate what is the headroom that we still have for the selling of these certificates as on date?

**Rajat Singh:** This financial year we have opportunity to sell PSL Certificate especially for agri loan and micro and small enterprises because our PSL requirement are slightly lower in this financial year so we have the opportunity. There is a full potential to maintain the run rate, which we have seen in Q1.

**Rohan Mandora:** Okay so Sir it will be similar to the run rate that we are seeing in Q1 and Sir what is the typical running cost of a branch that we are opening right now including the staff expenses, the annual run rate per branch?

**Rajat Singh:** So again those numbers are in line with what we have stated earlier, fully grown branch, the typical fully grown branch with all the SFBs expenses annual cost could be close to 70 lakhs per year.

**Rohan Mandora:** 70 lakhs per year, Okay, actually if we compare the average CASA balances with some of the peers we are currently like considerably below industry average at around Rs.3000 odd per account, so how do we plan to scale up the average balances and is there any strategy on that front?

**Rajat Singh:** Yes, so if you recall our previous conversations, we have always maintained since we are targeting two different segment of customers, one is the microfinance and the another is the open market we are expecting to have a lower average balances but surprisingly these numbers are much better than we have expected at least for three months. Overall we are getting close to 3500 average balance in these accounts and even the microfinance clients we are seeing the numbers close to 1500. So going forward that strategy for microfinance client is to actually to have the disbursement done in their bank account, that is the first starting point and as and when we are able to onboard those customers we are able to capture the income of those customers that is the numbers that are expected to go up. As far as the open market clients are

concerned that number should grow organically as then we reach out more and more customers because our saving account, which we are offering to open market is more or less similar to what any other banks are offering all the features, benefits actually impact some of those features and the benefits are on the higher side, our ATM transactions, no restriction on the minimum balance etc., are not there so we are hoping that with all these features we should be for at least the open markets in the more or less similar range.

**Samit Ghosh:** The other thing I just wanted to mention is what we are seeing in CASA is largely is savings account today and we are actually working on developing additional features and benefits for our current account to serve our MSE customer so I think going forward you will see much higher balances coming in through the current account.

**Rohan Mandora:** Currently we are offering I think 4% on the savings accounts deposit so any plan to increase that?

**Samit Ghosh:** Actually savings accounts now SBI has reduced to 3.5% and others will follow. Our understanding is that the savings account and current account is basically a transactionary account and customers are not interest sensitive about it, they are interest sensitive more on FD's, RD's etc. So frankly we will stick to 4%.

**Rohan Mandora:** Thanks a lot Sir.

**Moderator:** Thank you. The next question is from the line of Ashish Urganlawar from Purnartha Investments. Please go ahead.

**Ashish Urganlawar:** Thank you for the opportunity. It was good to hear that the disbursement rates are back to the predemonetization levels so I think we are running at about 2100-2200 a quarter. So do you think that this can get scaled up by the last quarter of the year further may be around 2500 or whatever number you think based on what realities they are experiencing as far as customer experience is concerned, your thoughts on this would be helpful?

**Sudha Suresh:** I think quarter-on-quarter we can expect the disbursement rates to move up and we could average better on in terms of the third and the fourth quarter.

**Ashish Ugganlawar:** On the credit cost side, I wanted to understand that if I remember last time we were expecting about 200 Crores plus of provisioning so now as we look at the numbers it is about 315-320 if we put a total of what we provided for last year and they are guiding for now. So, do you think there is a risk of we having to provide more here given the PAR zero numbers that you have given and GNPA numbers that you have given any color on this will be helpful?

**Sudha Suresh:** Given the traction on that our collection efforts have been good and in fact you have seen the PAR greater than zero numbers reflecting the same. Nevertheless, we looked at the collection efficiency with respect to this type of effects and based on that we took a call in terms of putting this provision for this quarter and similarly we continue to watch the trends and as our collection efforts also speed up here in this quarter we will take a look by September end to see what could probably be kind of sticky loan and provide for the same to the extent it is unprovided. Our intention is probably to even look at the provisioning policy and also see if there is something more to be provided then go ahead predominantly to clear up these accounts. But, the numbers as we say are estimates so with a traction effort it can still be much lower than the number you have indicated.

**Ashish Ugganlawar:** Madam, what would be the most conservative number that one can expect, would it be 6% because I think total of last year and this year what we have provided comes to around 4.8% so is that kind of number or still go for?

**Sudha Suresh:** We would put it this way roughly at around 4% of the portfolio is what we are estimating as the credit cost for this year.

**Ashish Ugganlawar:** Madam one clarification the agri loan portfolio is about 16% that we see on the presentation so can you clarify the nature of this, is there anything related farm or crop loans that we have or it is entirely animal husbandry and stuff?

**Rajat Singh:** It is largely group loans with equated in EMI payments so only thing is it is linked to some purpose which is for agri it is more of a classification for PSL. It is not a true typical agri or farm loan.

**Ashish Uppanlawar:** But the purpose can it be clarified?

**Rajat Singh:** Agri as well as livestock allied activity.

**Sneh Thakur:** It can be to purchase grains, to purchase fertilizers and livestock of course is for purchase of cattle.

**Ashish Uppanlawar:** So some part of it might be going to the farm use basically the regular cropping?

**Sudha Suresh:** Cost effect yes. Indirect yes but not directly a crop loan.

**Ashish Uppanlawar:** Madam if you can get the interest income reversal number that will helpful for the quarter?

**Rajat Singh:** For the quarter that number was close to 13-14 Crores.

**Ashish Uppanlawar:** Thank you so much I will come back with more questions.

**Moderator:** Thank you. The next question is from the line of Srijan Sinha from Future Generali Life Insurance. Please go ahead.

**Srijan Sinha:** Thank you Madam for taking my question. I just wanted to get some sense on what would be the underline AUM for which you have not received any payment in the past three months?

**Sudha Suresh:** Like I mentioned earlier we have taken a 100% provision on those accounts where we not received area repayment and the rest of the accounts we have the indemnity repayments whether in part or full.

**Srijan Sinha:** Okay so there will not be any account where you received any payment in last three months?

**Sudha Suresh:** We have already taken full provision on that in Q1.

**Srijan Sinha:** Okay thank you and Madam any idea on the cumulative collection efficiency since the demonetisation day?

- Sudha Suresh:** Cumulative repayment rate was 96%.
- Srijan Sinha:** Madam initially you talked about the focus branches where PAR is greater than 5% how many branches would be there and is there any geographic concentration in these focused branches?
- Sneh Thakur:** Over 5% we have roughly about 40% of our branches and these are largely branches in Bengaluru, UP, and Maharashtra.
- Srijan Sinha:** What would these branches account for in terms of incremental disbursement so out 1700 Crores that you disbursed how much would in these branches?
- Sneh Thakur:** We have 30% of our repeat disbursement coming from the affected place and the balance is from the non-affected place.
- Srijan Sinha:** Thank you Madam. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Gaurav Jani from Centrum Broking. Please go ahead.
- Gaurav Jani:** Thanks for taking my question. Firstly if you can just run us through the PSLC transaction that would have happened I guess the entire MFI portfolio would qualify in the PSL requirements right?
- Rajat Singh:** Right actually in market there demand for different sub-categories of PSL so while the whole microfinance portfolio qualified for PSL, participants in market are more keen to have agri or micro and small enterprise PSL certificate because that is in demand. Other demand is not that significant or the premium, which we receive, is not that very high. The focus is largely to sell the agriculture and micro and small enterprise portfolio; others which comes under weaker sections there is not much demand because that gets fulfilled through some other means for these banks.
- Gaurav Jani:** Correct, as I understand we would not have purchased any PSL certificates?
- Sudha Suresh:** No we have not purchased them.

- Rajat Singh:** We are in the excess so we are not purchasing any.
- Gaurav Jani:** Sure that is one thing and if I could have some clarity on the asset quality front I guess the last three quarters we have provided about 220 Crores of the total portfolio's that you have mentioned of about 400 Crores is that a correct assessment?
- Samit Ghosh:** Yes from the demonetisation point of view 220 Crores has been accounted.
- Gaurav Jani:** As you mentioned the balance 180 Crores we are already receiving repayments on that?
- Sneh Thakur:** Yes some repayments are coming in.
- Gaurav Jani:** Sure I was getting into is of that 180 Crores what is the kind of hit are we looking at?
- Rajat Singh:** Right now those accounts either full, part or irregular payments are coming so we need to give some time for those accounts to understand what part of that can go back and that is one of the reason why Mr. Ghosh in the beginning has mentioned that in our credit cost could be in the range of 260-270 Crores in the financial year. So we are assuming part of it will turn back but it is very difficult at this moment to ascertain that because we are receiving the payments and we targeted to make those payments regular.
- Gaurav Jani:** Sure lastly, if you could just run us through as to what exactly is happening in the state of Karnataka and what is the collection efficiency and Maharashtra and UP will be highly appreciated?
- Rajat Singh:** In Karnataka one of the part portfolios is in Bengaluru and Mysuru area so beyond most part of North Karnataka as we have some branches in those area but it is not significant and most of our branches are in largest city in North Karnataka. Most of our portfolio is in the South of the Karnataka and therefore at least for Ujjivan we are not facing any problem of drought or farm loan waiver. Our problem was largely concentrated in Bengaluru due to local level influence and political intervention our portfolio turned bad in month of

December and January. In last two three months we are seeing significant improvement we are seeing a lot of recovery to come from the state as overall PAR in Bengaluru has come down from the peak in March.

**Sneh Thakur:** We are seeing 2.5% reduction in portfolio as far as Karnataka is concerned and as far as UP is concerned we have had a reduction of close to 6.5%.

**Gaurav Jani:** That is the portfolio attrition, so the portfolio attrition should be defined as a PAR zero?

**Sneh Thakur:** Yes.

**Gaurav Jani:** Correct also this Bengaluru and Mysuru would contribute how much to Karnataka events is this 15.3%?

**Sneh Thakur:** As far as Mysore there is no problem at all.

**Gaurav Jani:** But I just wanted to understand the contribution towards the AUM from Bengaluru and Mysuru?

**Rajat Singh:** Close to 60-65%.

**Gaurav Jani:** Lastly as I understand correctly out of the 400 Crores would largely be contributed by Maharashtra, Bengaluru, UP right and any other states?

**Sneh Thakur:** No these are largely the bigger ones.

**Gaurav Jani:** That is all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Dhaval Gada from Motilal Oswal Securities. Please go ahead.

**Dhaval Gada:** Madam couple of questions, firstly we have seen some increase in ticket size for the MFI portfolio this quarter some Rs.23000 odd to Rs.25500 any specific reason for this and the second related question was this incrementally we have seen within the rejection rate the share of overdues is increasing so if you could explain this is amount outstanding with other MFI is that correct?

**Sneh Thakur:** On the first question as far as ticket size is concerned, we have a certain number of branches where we have increased the ex-process norms from Rs.60000 to a Rs.100000 and hence across these branches you will see minor increment in the ticket size so that is number one. As far as reductions are concerned they stand to be in the normal range of 12% to 13% and as far as overdue rejections are concerned this is purely on account of demonetisation. There are many clients who are defaulters with the other institutions and may not necessarily be with us.

**Dhaval Gada:** If you could just elaborate what was the rationale to increase the overall limit to 1 lakh in these branches, when I thought last quarter we decided pre-lender 60000 so if you could give some more colour there?

**Sneh Thakur:** We are continuing with the three lender rule as it is and the 1 lakh norm has been primarily increased in those branches where the market is conducive for business and the portfolio at risk is below 2%.

**Samit Ghosh:** This is as per RBI guidelines.

**Dhaval Gada:** This would be in how many branches approximately?

**Sneh Thakur:** This is roughly in about 200 branches.

**Dhaval Gada:** Thanks.

**Moderator:** Thank you. The next question is from the line of Rakhi Prasad from Alder Capital. Please go ahead.

**Rakhi Prasad:** Good morning just wanted to understand if you could give collection efficiency update for April and May loans?

**Rajat Singh:** Loan disbursed in the month of April and May as fairly nascent and as you see from January to June it is 99.76% for April, May, and June it is almost close to 100%. Loan originated in April and May.

**Rakhi Prasad:** It is almost close to 100%. That is it from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Gaurav Kochhar from Ambit Capital. Please go ahead.

**Gaurav Kochhar:** Thank you for the opportunity. I wanted to understand what would be the amount in our watch list after the impact of floods and drought in various states?

**Samit Ghosh:** The floods in Assam, etc., has not impacted us also Gujarat our customers are unaffected.

**Gaurav Kochhar:** Okay, what would be the amount in watch list after this no substantial impact?

**Rajat Singh:** In Assam we are not present in the area where floods are there, we are closer to Guwahati area where there is no such impact as such and similar situation in Gujarat.

**Gaurav Kochhar:** NIM guidelines for the year?

**Sudha Suresh:** As we indicated we expect traction of increased business growth, revenue growth to have a positive impact on our NIM and we definitely expect that it will move up by an additional 1-1.5% in the next three quarters.

**Gaurav Kochhar:** Okay so 100 BPS, 150 BPS?

**Sudha Suresh:** Right.

**Gaurav Kochhar:** That is it from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Nawaz Sarfaraz from IDBI Mutual Funds. Please go ahead.

**Nawaz Sarfaraz:** Thank you for the opportunity, Just one question, you have mentioned in your presentation that on loans disbursed between January and June 2017 your collection efficiency has come back to 99.76% can you give us some as a percentage of your total portfolio how much this will constitute?

**Rajat Singh:** Close to 50% to 55% of our portfolio is actually coming from January to June.

**Nawaz Sarfaraz:** And going ahead by the end of September how much will this number go up to?

**Rajat Singh:** You can add some 10% more to this number.

**Nawaz Sarfaraz:** Secondly what is the cap that we would like to keep on our micro individual loans ticket size? I can see it is around 72000 or like that so is there any cap we would like give on micro-individual loans ticket size?

**Rajat Singh:** Micro individual loan is already having a cap of 150,000 and it is a loan, which is given between 50000 to 150000.

**Nawaz Sarfaraz:** Okay so we can expect this number to go up in the coming quarters?

**Rajat Singh:** This is the average ticket size it may vary depending on the person.

**Sneh Thakur:** No the average ticket is going to remain around the same numbers.

**Nawaz Sarfaraz:** That is all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

**Nilanjan Karfa:** Thank you for taking my question. Did I hear right that 60% to 65% of microfinance in Karnataka is coming from basically the Greater Bengaluru area?

**Rajat Singh:** Not greater bang, I would say southern part of Karnataka, which is Bengaluru, Mysuru.

**Nilanjan Karfa:** What is the composition of these loans will it be very different than what we have mentioned for the overall MFI portfolio which is given in the presentation the nature of these loans are very similar or slightly different?

**Rajat Singh:** These are all group loans but this area as such is not badly impacted like North Karnataka.

- Nilanjan Karfa:** But whether these are ultimate usage of these loans will be to like education or business?
- Sudha Suresh:** They would be for a range of professions starting from business to education to consumption.
- Nilanjan Karfa:** Which part will be the largest Madam?
- Sudha Suresh:** Normally we have 75% concentrated on business and it is about 25%, which moves for consumption and alike.
- Nilanjan Karfa:** Right and the part, which is hit, is basically the business side?
- Sudha Suresh:** There is a mix of both.
- Nilanjan Karfa:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.
- Jigar Walia:** Thanks for the opportunity. My question is if you can help me with the breakup of incomes?
- Rajat Singh:** Bulk of other income is actually coming from our processing fees and we also a little bit of income coming from securitization, securitised portfolio and the PSLC income these are the three most important components any income will contain.
- Jigar Walia:** Any break up that you can share?
- Rajat Singh:** We can share that number with you later.
- Jigar Walia:** Thank you.
- Moderator:** Thank you. The next is from the line of Devansh Lakhani from NVS Brokerage. Please go ahead.

**Devansh Lakhani:** Good afternoon Sir. Basically I had a couple of questions one of them being in your presentation you have mentioned the PAR on an absolute basis has been decreasing and has come to around 571 Crores from 650 Crores but when you see on the percentage wise the par over 90 days and the par over 60 days, they have been continuously increasing in the FY2018 over FY2014. Why is this divergence on absolute and percentage basis?

**Sneh Thakur:** The recent delinquency that we have in Q4 coming from February, March or even April this year we have had higher collections on that front and that is why on an absolute basis the PAR value is decreasing; however, in the month of November, December and January portfolio this was the peak issue during demonetisation those accounts we have seen a higher roll forward into higher buckets and that is the reason why you see that PAR 90 has been increasing.

**Devansh Lakhani:** Okay and Madam the other thing in the presentation that you have mentioned is the provision on NPAs 241.8 Crores in Q1 FY2018 and the cumulative provision is 270 Crores so is this the 150 Crores the incremental provision that you have done for the demonetisation period that is during November to January, is this a part of the 241 Crores total which was done in Q1 FY2017 and in turn the 43 Crores of the sticky loans that you were talking about is that is the sub-part of the 150 Crores?

**Sneh Thakur:** Yes.

**Devansh Lakhani:** Okay and what is the cumulative provision of 270.9 Crores?

**Sudha Suresh:** It includes carry forward provision from last year, so 150 Crores is the provision for this year first quarter and we have 120 Crores of carry forward from last year.

**Devansh Lakhani:** 120 Crores from?

**Sudha Suresh:** The previous year.

**Devansh Lakhani:** Okay 120 Crores is for last I did not get you.

- Sudha Suresh:** Carry forward from the previous quarter.
- Devansh Lakhani:** Okay it is from the previous quarter.
- Rajat Singh:** 271 Crores you can see that as balance sheet figure and 150 Crores is the impact in P&L in this first quarter.
- Devansh Lakhani:** The final question is on the NBFC core investment company license that we are yet to receive from RBI how much time are we expecting it in?
- Sudha Suresh:** We are expecting it in this month.
- Devansh Lakhani:** Okay by the end of this month?
- Sudha Suresh:** Yes.
- Devansh Lakhani:** So basically this Ujjivan Financial Services Limited would become sort of holding company for Small Finance Bank?
- Sudha Suresh:** It is a holding company for the bank.
- Devansh Lakhani:** Yes the listed company will become a holding company so to say?
- Sudha Suresh:** Yes it is already a holding company for the bank.
- Devansh Lakhani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.
- Roshan Chutkey:** Good morning. Just I want to understand one of the comments during the call that there has been some collateral damage because of the agri farm loan waiver, which particular districts are seeing this in Maharashtra?
- Samit Ghosh:** Where are we seeing problems that are mainly in Satara, Karad and to a certain extent in Pune.

**Roshan Chutkey:** Also on the securitization book we have about 250 Crores of securitization book right where do we run past the income earned on this. Is it through the NII line or is it through the other income?

**Rajat Singh:** In the bank financial statement it will be shown as other income.

**Roshan Chutkey:** Thank you so much.

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

**Deepak Poddar:** Thank you very much Sir for the opportunity. My question pertains to over next two to three years basically our business model is changing we are talking about AUM mix changing and we are also through with our demonetisation impact so what sort of credit cost and ROA steady state are we looking at in two to three years?

**Rajat Singh:** In steady state our present cost we are expecting to be closer to 1% and ROA target once the impact of demonetisation and impact transition is over we are expecting closer to 2.5%.

**Deepak Poddar:** My second and last question pertains to your opex cost basically we would be seeing a big jump of our opex cost to 600 to 700 Crores in FY2018 right as you mentioned so from here onwards will it smoothen out like 10%-15% kind of opex increase from here onwards basically from FY2019 or is there any big jump still to come basically?

**Rajat Singh:** Bulk of the one time has been taken especially on the IT side even on the people side it is basically for the existing customers all the salary related adjustments has been made so from the next year onwards we will see increase in our opex directly linked to number of branches we convert. That increase will not be substantial. It will be in line with the branch expansion which we convert close to 150-200 branches next year that additional cost will be there for setting up those branches, adding few people in the branches so it may not be 10%-15% but it would not be 40%-50% also as we have seen this year.

- Deepak Poddar:** That is it from my side. Thank you very much and all the very best.
- Moderator:** Thank you. Due to time constraints, we will be able to take one last question. The last question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.
- Rohan Mandora:** Sir thanks for the opportunity again. If you could share the monthly collection rate for April-May and June, which was at, 88.5% in March the first month monthly collection rate?
- Sneh Thakur:** The June is over 91% and April-May is around 92-93%.
- Rohan Mandora:** And how has it moved for the February March? Where would it be currently for the February and March?
- Sneh Thakur:** On a cumulative basis those numbers are close to 95%.
- Rohan Mandora:** Thanks a lot.
- Moderator:** Thank you very much. We will take that as a last question. I would now like to hand the conference over to the management for closing comments.
- Sudha Suresh:** It was our pleasure as to clarify and answer the questions of our investors and we are very glad for this participation by many investors for the quarter's results. We thank you for the same.
- Moderator:** Thank you very much. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us ladies and gentleman you may now disconnect your lines.