"Ujjivan Financial Services Limited Q2 FY 2018 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Ujjivan Financial Services Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all the participant lines will be in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note this conference is being recorded.

I now hand the conference over to Mr. Praveen Agarwal of Axis Capital Limited. Thank you and over to you, sir!

Praveen Agarwal: Thanks, Vikram. Good Afternoon, everybody and Welcome to the Earnings Call of Ujjivan Financial Services. We have with us representing Ujjivan Financial Services: Ms. Sudha Suresh -- MD and CEO; and representing Ujjivan Small Finance Bank: Mr. Samit Ghosh -- MD and CEO; Ittira Davis -- Chief Operating Officer; Rajat Singh -- Head Strategy and Planning; Sneh Thakur -- Head Credit and Collections of the MFI business.

I would like to congratulate the management team for the improvement shown in the quality of the results. And I would request Mr. Samit Ghosh to take us through the key highlights. Over to you, sir!

Samit Ghosh: Thank you, Praveen. Good Afternoon. Welcome to our Second Quarterly Earnings Call and thank you once again for joining us.

First, I would like to briefly talk about the industry and then our business and then we will go into our financials.

The microfinance industry in India, I think, overall is well on the way to recovery post demonetization impact on our portfolio quality probably barring only one location. The significant change I think, has happened in terms of the key players in the industry. I think, banks have become a very-very important player in the microfinance industry starting with Bandhan and then the recent acquisition of BFIL by IndusInd Bank, followed by the eight small finance banks.

In addition, there are number of banks who acquired small MFI's. So on the whole, I think, the banks are playing an increasing role in the microfinance industry. And I think, this is very good for the industry from two perspectives: One is, I think, for the industry to be well capitalized is very important because even though the business itself, I think, is relatively low risk. As you have seen even after post demonetization the portfolio quality continues to be excellent. But you get these sorts of external shocks once in a decade kind of thing and whether it is the Andhra crises or it is the demonetization and for that the institution have to have a strong capital. So being banks I think that helps a lot.

The second area which is very important, is as we mature in terms of business and our customer's requirements it is very important that we just have more than one product interface with the customer. It should not be just a one product kind of relationship with the customer. Being banks, we are able to offer a wide range of products both in terms of loans and deposits, and insurance, etc., funds transfer. So the relationship strength and the whole objective of financial inclusion are strengthened by becoming a bank. I think, these are the two major significant developments in the industry itself.

As far as our business is concerned, in the last quarter, we were able to reach in terms of our disbursements almost at pre-demonetization level. Our disbursement growth over the previous quarter was 15% and we look forward to further increases in the next two quarters. We have also revamped our MSME and housing business and brought a new leadership.

In overall, the loan book growth, we expect by end of the financial year is somewhere between 18% to 20% and the MSE and housing should contribute somewhere between 7% to 8%. Apart from that, in terms of our business, as I mentioned earlier, the collection has been very impressive so at 99.7% which is at the pre-disbursement levels. So, the quality of the portfolio is excellent of the new portfolio.

As far as the demonetization effect is concerned, at all our branches which at PAR more than 5% our focus was entirely on the collection. And we stopped new customer acquisition in these branches. This has helped us to reduce the PAR from 8.8% to 6.7%.

In addition, we also set up collection team. This collection team is primarily focus on the portfolio which is 90 days plus overdue and this has given us a very good result and the traction so far has been 30% of this collection team. That means that they have been able to collect at least from 30% of our customers during this period which is quite high given the vintage of the over dues and in the last quarter, we were able to collect about Rs. 15 crores. But this is going up month and month and in last month in October we were able to collect over Rs. 7 crores. So, we expect this to grow from the perspective of recovery.

We have made significant credit provisions and also written-off in the last two quarters Rs. 159 crores in the first quarter and Rs. 88 crores in the second quarter. This included Rs. 88 crores extension write-offs. So, our credit cost in the second quarter was roughly about half of the first quarter.

With this kind of provisioning and write-off, we have been able to cover most of our portfolio which was affected and our NNPA reduced from 2.3% to 1.38%. We expect that the trend will continue. We expect the credit cost to significantly taper off in the next two quarters. We are looking at the total credit cost of around 4% as we mentioned of our total portfolio as of yearend and we are, I think, well on our way for a complete turnaround from the impact of demonetization by end of this financial year and the next two quarters definitely are provisioning and write-offs will be much lower than what has been in the first two quarters, because it provided for bulk of the affected portfolio in the first two quarters, as I mentioned earlier. This has enabled us to reduce our losses significantly in this quarter compared to the first quarter. This is largely due to lower credit cost and the business volumes coming back to normal.

Along with this, I mean, enormous task which we have in terms of managing our portfolio of quality, we are moving according to plan on our SFB, Small Finance Bank roll-out and transformation. We added 40 more Small Finance Bank branches taking the count up to 92 bank branches which is spread over 15 states now.

In fact, in October, we have well crossed 100 branch mark and despite of almost doubling our new branches, we were able to reduce our cost-to-income ratio significantly in this quarter, which came down by 9.18% to 68.8%. This is due to a number of factors. But also includes our focus on controlling our operating costs.

In the next two quarters, we planned to roll-out another 82 banking outlets and this would also include 29 unbanked rural branches which will meet our requirement of the 25% unbanked rural branch requirement of the RBI.

On the liability side, we are building a retail customer base from our existing customers in the 100 plus branches we have and also acquiring new customers. The progress in this building up our deposit base has been much better than planned.

Our total deposits actually stand at about Rs. 1,349 crores of which customer deposits are about Rs. 734 crores and the balance are from CD's. The post Scheduled Bank status, we got the Schedule Bank status in August. We have been able to raise low cost deposits which augmented our deposit base and both retail and institutional deposits are well ahead of our plan. This quarter shows a decent growth in retail as well as institutional deposits while also giving us access CD market.

Initial focus to mobilize the low-cost deposits based on institutional deposits and CD's while cleaning up the retail deposit as more and more banking outlets are being rolled out. This has enabled us to reduce our cost of funds from 10.41% to 9.65% in this financial year and we expect this trend to continue and we should be able to reduce our cost of funds further by end of this year.

In conclusion, I have to say that we are in well control of our portfolio quality problems post demonetization and that we have made adequate provisions in write-offs to ensure that we see significant tapering off the credit cost in the next two quarters. Business volume of microfinance is back to normal and it will grow. We are revamping our MSE and Affordable Housing Business and expect their contribution to grow significantly in the overall loan book as planned and our deposit growth is better than planned and the retail deposits are building up in our 100 plus branches we have opened.

So that is a summary of what we have progressed, and lot of hard work has gone into this. And we are very happy with what we have achieved so far and we are on track in terms of our plans.

And with this, I would like to hand over to, Sudha, to take you through further details on the financials of Ujjivan.

Sudha Suresh: Thank you, sir. We will continue with the business performance. As indicated, we have recorded a disbursement of Rs. 1,954 crores during this quarter which is an impressive 15% growth over the quarter. So the gross loan book now stands at about Rs. 6,669 crores which is a growth of 3.25% over Q1.

Also, during this quarter, we have added about 1.73 lakhs new customers taking the total tally for half year to about 3.49 lakhs in this fiscal year. This augments well in terms of the new businesses that we have seen and built up during the first half of the year.

Also, the fresh portfolio which has been created between January to December which accounts for about 63% of our total portfolio is credited with an excellent collection efficiency of 99.7%. This, along with the prudential write-off which we have done during this quarter of about Rs. 88 crores have significantly brought down the PAR from 8.8% to 6.7% in September.

Parallelly, we have the GNPA which has declined to 4.9% in September from 6.16% in June quarter and we have 73.4% provision coverage ratio.

Moving on to the net interest income. For the quarter, we have charted Rs. 164.57 crores which is an increase of about 19.07% over Q1.

Consequently, our net interest margin has also increased; and net interest margin for the bank stands at about 10.2% in Q2 which was at 8.9% in Q1 FY 2018. We have also received in terms of other income, a fee income of Rs. 8.2 crores on the sale of Rs. 950 crores Priority Sector Lending Certificate during this quarter.

Moving on to our cost, we have seen more or less a flat operational cost during this quarter. Our cost-to-income stands at 68.8% which has seen a significant reduction of 9.2% compared to the previous quarter. This is a combined impact primarily due to the increase in net interest income with the growth of business during this quarter and also significantly on some of the cost reduction measures.

We hope to maintain and also see if we can do a further reduction in terms of our cost-to-income ratio in the forthcoming two quarters and this is despite the fact that we are going to open another 82 branches during the next two quarters and we will also have the technology and the admin costs carry with it.

Overall, when we look at all the parameters be it growth, robust growth in terms of disbursement, decline in credit cost which sir has just explained, ensuring that we have significant provisions completed in the first-half and we have seen fairly good collection traction in the half year.

I think, we are set well on all the parameters and what has also additionally aided us is the Scheduled Bank status that we received by end August. And that set us on looking at successfully tapping the CD market. So, we have built a stronger base of deposits as of the Q2 end. We were able to tap the CD market and give Rs. 615 crores at a competitive rate and we were also able to prepay some of our high-cost loans.

Overall, the impact of business at the average cost of funds has come down to 9.6% in Q2 compared to 10.5% in the fiscal year 2016 - 2017; and 12.6% as of Q2 September 2016. We are also expecting this to further dip and we could look at significantly a dip of 200 basis points over the previous fiscal year in terms of our overall cost of funding.

Further, the marginal cost of funds also has come down to 7.2% in Q2 FY 2018 as compared to 9.7% in the last fiscal year. As we have raised low cost deposits and also continued with the repayment of our grandfathered loans and also completed some prepayments of high cost legacy borrowings.

Overall, repayments of loan during the first-half stands at almost about Rs. 2,300 crores and we are also expecting that 65% to 70% of the grandfathered loans will be repaid during this fiscal year itself.

Moving on to the deposits. We are at about a cover of 22% of advances in Q2 and that was a percentage of 6.6% in Q1. Covering all these parameters, we would like to indicate that the business back to normalcy and expected growth in the next two quarters with reduction in credit costs and also having significantly taken the impact of the demonetization piece, reduced cost of funds which will augur well for us both in terms of long-term and short-term funding costs we do see a good traction in the forthcoming quarters in terms of both our growth and profitability.

With this, I would like to hand over the session back to the moderator to start the Q&A session.

Moderator: Thank you very much, ma'am. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have our first question from the line of Dhaval Gada from Sundaram Asset Management Company. Please go ahead.

Dhaval Gada: Just a couple of questions. Firstly, could you give the breakdown of the non-interest income line we know Rs. 8 crores is PSLC but if you could give the balance breakdown?

Rajat Singh: Yes. In terms because of all the interest-earning asset is close to Rs. 325 crores - Rs. 330 crores. Rs. 15 crores of PSLC income we are getting. Processing fee is in range of 50-50 close to Rs. 50 crores and remaining is some miscellaneous income.

Dhaval Gada: Okay. Rs. 15 crores for the first-half was PSLC; Rs. 50 crores were processing fee; and balance was miscellaneous, correct?

Rajat Singh: Yes.

Dhaval Gada: Okay. And could you give the interest income breakdown between loans and investments, like most banks provide?

Rajat Singh: Sorry, can you please repeat the question?

Dhaval Gada: The question is, the interest income that we earned during the quarter and the half, how much of that is related to loan book? And how much is related to the investments that we would hold in SLR?

Rajat Singh: Sure. So during the quarter, interest income on our portfolio was Rs. 317 crores - Rs. 318 crores; income on investments were Rs. 35 crores.

Dhaval Gada: Okay. And for the half year, if possible?

Rajat Singh: Half year close to Rs. 70 crores are income on investment and close to Rs. 610 crores in overall income on portfolio.

Dhaval Gada: Okay. And just, ma'am, if I look at the GNPA number quarter-on-quarter it has come down, but if I net for the write-offs there has still been some increase in the bad loan formation.

Could you give some sense of at what level we should stabilize on the gross NPA front for the full year?

Sneh Thakur: So if I understood your question right, you are saying that including the write-offs the GNPA is slightly...

Dhaval Gada: Yes. So we did Rs. 80 crores write-off but gross NPA declined by about Rs. 50 crores so there was Rs. 30 crores net increase in the net slippage number of about Rs. 30 crores. My question was where do you think the GNPA number will stabilize at the end of the year?

Sneh Thakur: So like mentioned by Mr. Ghosh, our overall credit cost will be around 4% of the portfolio by year end.

Dhaval Gada: Okay, fine, ma'am. And just last question, data point, could you give the GNPA for the non-MFI portfolio?

Rajat Singh: GNPA I mean, MSE and housing at this moment is less than 0.5%.

Samit Ghosh: We also breakdown there.

Rajat Singh: Yes. It is part of Investor Presentation address.

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

Manish Ostwal: My question on operating cost during this quarter. I mean, if I compare the quarterly trend few quarters this quarter we have seen both the other operating expenses and the employee cost. Employee cost marginally increased, and the other operating expenses declined sequentially. So, can you explain why it is so? And what is the outlook going there in terms of operating cost?

Rajat Singh: Sure. So, I mean, there are a couple of reasons why our operating cost has almost remained flat compared to last quarter. One is, I mean, initially our plan was to open all our branches by September end. However, due to change in RBI authorization policy our branch opening has got delayed. So actually, by end of June, we were well prepared to open close to 160 branches, so all those number of banking outlets by June end was limited to 50 plus our preparedness was to open close to 100 branches. So, first quarter expenses, which you have seen part of quarter two expenses were also built in there in terms of hiring as well as in terms of procuring premises. So that is one thing. And second thing is, in quarter one, we have also taken some onetime expenses. I mean, we did some procurement for the full year. For example, plastics for debit card or a little bit of expenses on the IT side and that is another reason why, I mean, our quarter one expenses were slightly on the higher side and that is why it has remained flat even though we have opened some more branches. Going forward, we spoke about our operating expense forecast in last concall and we expect that it will be close to 600 to 700 I mean, number will be close to 650 crores to 670 range.

Manish Ostwal: Second question on the more of a medium-term to long-term. Now, in terms of demonetization pain is largely over for us and now we see growth is coming back in terms of disbursement growth. So if I look at the FY 2019 or FY 2020 I mean, we were reporting earlier before in FY 2016 we reported Rs. 177 crores kind of PAT to FY 2017 Rs. 207 crores. So FY 2019, FY 2019-2020 we should be normal in terms of profitability and growth?

Rajat Singh: We should get back to our normal range, yes.

Moderator: Thank you. We have our next question from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria: Sir, I got a two - three questions to ask you. So, one is, on this PAR number. How many would be your nonpaying customer? Customer who has not paid for last three months - four months now?

Sneh Thakur: We have about 23% of the clients who have not paid us.

Vishal Rampuria: 23%?

Sneh Thakur: 23%, yes.

Vishal Rampuria: Okay. And second question is on the OPEX number. So, so far we have converted around 100 odd branches into bank branch. So far how has been our experience in terms of cost structure? Is it what you had kind of budgeted earlier or you think, the cost is on higher side or lower side? Can you give some more insight on this?

Rajat Singh Yes. So, I mean, we had some quick learnings, but I mean, we had budgeted numbers at the beginning of the year. I mean, we have seen more or less, we are in line with those numbers. And per branch expenses, is close to Rs. 70 lakhs to Rs. 80 lakhs per month which I mean direct expense which holds good even now.

Vishal Rampuria: Rs. 70 lakh to Rs. 80 lakh per month?

Rajat Singh: Per year.

Vishal Rampuria: Per year, okay. And sir, and also one thing that overall, I think, on the TV interview today morning, it was mentioned that you want to lower our MFI book around 50%. So, what are the new products we plan to launch over the next two years - three years to go to that level of 50% of your non-MFI book?

Samit Ghosh: So this was a part of our original plan right from the beginning as we would diversify. It is not that we will be curtailing our microfinance business, but we will be diversifying. Bulk of it, we expect from affordable finance and from the MSE book. But we are also looking at personal lending now that we have become a bank and that is an area also we would also be looking at soon, these are the three new areas. I mean, Affordable Housing and MSE has already been there with us. Personal lending having become a bank, it is a new area we will be looking at.

Vishal Rampuria: Sir, out of this disbursement number of Rs. 20 billion for the quarter, how much was disbursed through bank account of Ujjivan only for example, if the borrower has to open account with us and only they will transfer the money to his account?

Rajat Singh: Yes. So see, overall cashless percentage is close to 60%.

Vishal Rampuria: Yes. That I saw in the Presentation, yes.

Rajat Singh: Yes. So, our own account, I mean, because number of banking outlets are limited to 92, I would say close to 10% of this total disbursement would have gone to Ujjivan's bank account.

Moderator: Thank you. We have our next question from the line of Gautum Jain from GCJ Financial. Please go ahead.

Gautum Jain: Sir, this year earlier, we said our loan growth would be around 20%. Do we stick to it?

Sudha Suresh: Yes. We will be having that kind of a growth, yes, during this fiscal.

Gautum Jain: Okay. And in terms of credit cost you said, it will be 4% of opening loan book, right?

Samit Ghosh: I mean, our year end loan book would be 4%.

Gautum Jain: Okay. It is close to Rs. 300 crores of provision this is what you want to say?

Samit Ghosh: Around that.

Sudha Suresh: It could be anywhere between a range of Rs. 280 crores to Rs. 300 crores.

Gautum Jain: Okay. Sir, can you guide us on OPEX for next year FY 2019 you said it would grow from 2018 level?

Samit Ghosh: We can expect, yes, approximately 25% increase on this year's OPEX.

Gautum Jain: Okay. And Rs. 38.8 crores we have reported other income. Can we know what kind of other income it is?

Samit Ghosh: Other income is consisting of processing fee and PSLC income and some other securitization income.

Gautum Jain: Okay. So it is kind of sustainable in natural? Fee**,** it is sustainable?

Samit Ghosh: Yes. Of course.

Sudha Suresh: Yes. It is sustainable.

Samit Ghosh: Yes.

Gautum Jain: Okay. And can you guide us on the credit cost from next year may be from 2019 onwards on a normalized scenario? What we expect from 2019 onward?

Samit Ghosh: Sure.

Sudha Suresh: On the credit cost, I think, with the fact that our new portfolio already constitutes about 63% of the total portfolio with a 99.7% collection efficiency. We feel that in the next financial year, the credit cost will go back to, what we can say, normal level. It could be 1% or sub-1% in the normal course of business.

Moderator: Thank you. We have our next question from the line of Ankit Agarwal from Centrum Broking. Please go ahead.

Ankit Agarwal: Sir, just want to delve a little bit on the target that you have set on 50% exposure to MFI. So just to clarify, growth ambition in MFI still remains, right? We are not looking to sort of roll this book down? And considering that the growth we have set at around 20% for the year. In the second-half, a significant amount of that has to come from higher growth in the MFI book?

Samit Ghosh: Right. We are not curtailing our MFI business and there will be a normal growth of around 20% in the portfolio. But at the same time, we are trying to accelerate the business from Affordable Housing and MSE and hopefully, in a five years' timeframe we will be able to get that balance. We want to add some new products also on the loan side having become a bank. So, we would be looking at personal lending also. Largely to the segment, which is unserved today.

Ankit Agarwal: So sir, the MFI book could grow by just pace that we have seen in the past. Is that something that is a reasonable estimate?

Samit Ghosh: We are talking about 15% to 20% growth annually.

Ankit Agarwal: Okay. In the MFI book?

Rajat Singh: In the MFI book, yes.

Ankit Agarwal: And sir, the new segment that we are getting into in the MFI we had a spread gap. Now, in these new segments, where you are again leading to a micro consumer there the spreads could be higher than then 10 or you think the spreads will come down only in this segment?

Rajat Singh: No. I think, you are talking about the personal loan business?

Ankit Agarwal: Personal loan, yes, sir personal loan.

Rajat Singh: That would be clearly lower than the microfinance business.

Ankit Agarwal: Okay. And sir, even the other MSE lending that we do in the, say, Rs. 2 lakh to Rs. 5 lakh sort of bracket?

Rajat Singh: Yes. Their margins are lower than microfinance. Microfinance has the highest margin.

Ankit Agarwal: Okay. And sir, so what do we see our ROA picture, maybe two years - three years down the line what is our target?

Rajat Singh: So steady state, we are targeting 2.5% of ROA coming from this business.

Ankit Agarwal: Overall, on a company basis?

Rajat Singh: Yes.

Ankit Agarwal: And sir, lastly, just wanted to get the sense on what bandwidth are we spending on technology? And how do we see that growing our business, improving productivity, if you could give us some insight there? And how do you see some of the newer start-ups who are present in the similar segment? How do they compete with us on technology front?

Ittira Davis: Yes, on the technology front, we are putting together or we have put together an offering, which is looking at the needs of the customers, our customer base and providing them with the quality that they require. So to that extent, we are in line with the market and to some degree in terms of being able to offer them products in the field and at their doorstep, I think, we are among the top group of banks. So to that extent, we will be continuing to work with our partners in the technology field to make sure that these products are enhanced and provided to the customers.

Moderator: Thank you, sir. We have our next question from the line of Bhavna Lalchandani from Purnartha Investment. Please go ahead.

Sandip: Hello, Sandeep here. I had a couple of questions. One was, can you please provide us fresh and repeat borrowers' ratio for the quarter, disbursement during the quarter?

Rajat Singh: So approximately, ratio will be close to 75% and 25%. 75% coming from repeat loan business.

Sandip: Okay. And the rejection rate has reduced. So how the credit demand is has the new borrower's number have reduced over the last quarter?

Sneh Thakur: No, the rejection rate is slightly reducing because of reduction on account of agri business cap increase in certain branches.

Sandip: Yes. And the new customer acquisition has reduced over last quarter. So is there any reduction in credit default or are we being conservative for lending the new borrowers?

Rajat Singh: So new customer acquisition has remained almost similar to the last quarter and that is a cautious call because some of the branches where we have portfolio issues, there we have restricted new customer acquisition. As those branches improve their credit quality, which we have started to see, we will remove this restriction and start acquiring new customers.

Samit Ghosh: So branches which are participant more than 5%, we do not permit them to acquire new customers.

Sandip: So what kind of number of branches more than 5% currently?

Sneh Thakur: That is about 41% of our branches.

Sandip: And can you please provide average tenure of advances?

Rajat Singh: So I mean, average would be close to 15 months.

Moderator: Thank you, sir. We have our next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, my question pertains to your basically the mix. Now we are focusing more on maybe Affordable Housing and SME. So we will see much higher growth as compared to microfinance, so your asset mix will move more towards these two segments. So what is the basically yield we are looking at on a consolidated basis basically given the asset mix changed?

Rajat Singh: So affordable housing, I mean, I will give you what kind of feel we are having right now. It is close to 15% and MSE business has an average yield of 17%. Over a period of time, in next three years to five years' time, probably these numbers will further come down by 2% - 2.5%.

Deepak Poddar: Right. And in terms of microfinance?

Rajat Singh: So in terms of microfinance, our yields are closer to 21% and there also, there will be some reduction as our cost of funds goes down and over a period of three years, there also we will see some reduction of 2%.

Deepak Poddar: 2%. And in 3 years, we might be looking at what 40% kind of share from this Affordable Housing and SME?

Rajat Singh: One-third you can say 30% - 35% could be Affordable Housing and MSE.

Deepak Poddar: 30% - 35%. So on a blended basis the 16% - 16.5% kind of yield would be a sustainable given the kind of outlook we have?

Rajat Singh: Right.

Deepak Poddar: Okay. And understood. And in terms of OPEX, basically we have already mentioned I think, Rs. 650 crores to Rs. 670 crores we are looking this year and about 25% growth in OPEX cost next year, right?

Rajat Singh: Right.

Deepak Poddar: Right. So given this kind of outlook, I do not see basically cost-to-income ratio to improve substantially over next like at least till FY 2019, right?

Rajat Singh: So even in FY 2019, we will have slightly higher cost-to-income ratio mainly because we will be converting some of our branches. We would have converted only 160 branches by this year end, remaining branches we need to get converted. So actually, in FY 2020 will be the time where cost-to-income ratio will be closer to 50% and coming down below 50%. In 2019, it will be closer to 55% - 60% range.

Deepak Poddar: Okay. But still we can achieve 55% to 60% range in FY 2019 itself?

Rajat Singh: Right. We can be closer to 60%, yes.

Deepak Poddar: And steady state ROA of 2.5% that I think, we have been stating. So that is what we are looking at by 2020 something?

Rajat Singh: Right.

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

Rohan Mandora: Sir, with respect to the data on Slide #9, portfolio at risk for all assets. If you look at the data from June to September, it has come down from Rs. 571 crores to Rs. 445 crores. Out of the Rs. 88 crores odd, the write-off of Rs. 17 crores is what we have recorded. So sir, just to what extent is the difference in the amount like in terms of reduction?

Rajat Singh: Just to clarify, you are asking for net reduction in NPA in quarter two?

Rohan Mandora: Net reduction in portfolio at risk from all assets from Rs. 571 crores to Rs. 445 crores?

Sneh Thakur: Okay. So the PAR reduction on all assets stands at Rs. 91 crores during Q2 and if you net off the write-off and we also had a small addition during Q2 then it will come down to Rs. 445 crores.

Rohan Mandora: Okay. What was the Rs. 91 crores amount?

Sneh Thakur: Okay. So I will explain this. So the opening for Q2 was Rs. 571 crores and we have written off Rs. 89 crores during the quarter. We had an addition of Rs. 54 crores during the quarter, and a reduction of Rs. 91 crores. So that takes us to the closing number of for Rs. 445 crores.

Rohan Mandora: Sure. And ma'am secondly, like, pre-demonetization versus currently in terms of the MFI group level that we are sanctioning, what would be the key changes that would have come around in terms of let us say the group structure or the credit underwriting or any documentation changes, if you could then share some color on that?

Sudha Suresh: So the key changes that we made is that we are in the process of doing away with the financial guarantee. And otherwise, in terms of the business model, the other aspects remain the same. Administratively, the group still exists, and we continue to operate out of the center meetings. However, we are doing away with the financial guarantees.

Rohan Mandora: So the group financial guaranty is what we are doing away with?

Sudha Suresh: Yes. And we also blocked areas where we have had issues from the customer's end and these are the customers who have turned hostile towards our staff. So we completely stopped our operations across these areas.

Rohan Mandora: Sure. And then in terms of the deposits that we have generated the retail deposits, what percentage would be only liability customers? And there is split between asset customers versus only liability customers, if you would give that share?

Rajat Singh: Sure. So I mean, Rs. 127 crores is our total deposit; almost 60% of that will be coming from new customers, which is only deposit customers.

Rohan Mandora: Sure. And lastly, what is the average tenure of these deposits that we are booking?

Rajat Singh: Bulk of it is coming as retail deposit is one-year tenure.

Rohan Mandora: Okay. And the non-retail?

Rajat Singh: There I mean, we are getting between three months to six months' time in deposits.

Moderator: Thank you very much, sir. We have our next question from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Sir, my question is this MFI business, which we are planning to grow at around 20% previously our track record was around 30% to (+40%). So do you see any major challenges in come back going back to 30% - 35% or what is the reason basically, we are a MFI company, having very good track record. Why we are so worried about not doing good business? What are the drawbacks newly created in this segment?

Rajat Singh: Microfinance business, we are projecting growth of 15% for coming years. Main reason is as you understand microfinance grows on the account of either higher ticket size or expanding into new geographies. For next three years, we are not opening any new branches. And in our existing branches, ticket size has been optimal and in group loan business, we do not want to go beyond that kind of ticket size. As the ticket size is closer to 30,000 and we want to kind of keep it in that range, maybe 10% - 15% higher than that. So these two drivers are not there and that is one of the reasons why we want to keep it kind of 15% range.

Sunil Kothari: Sir, basically, what I am asking is, is there any structural deficiency created in microfinance business or we just want to be cautious?

Samit Ghosh: The microfinance business is also maturing overall. So I do not think you can expect the kind of extraordinary growth which we have in the early years. So we have projected our growth at between 15% to 20% levels and as Rajat mentioned, we are not getting into any new geographies and neither is in this segment prudent to continuously increase loan sizes.

Sunil Kothari: Sir, my last question is sir, my last question is this 10% of NIM, how long it is sustainable?

Rajat Singh: I think he was asking about our NIM. So our NIM's are showing an improving trend. And that is on the account of reduction in our cost of funds and we are expecting NIMs to improve by 150 basis points over March 2017 numbers and we kind of stick to that guidance even today.

Moderator: Thank you very much, sir. We have our next question from the line of Deepak Gupta from Progress India Opportunities Fund. Please go ahead.

Deepak Gupta: I wanted one clarification, I heard in one of the comments that 23% of the customer base have not be paying regularly. Is that correct?

Sneh Thakur: I could just explain this clearly. Out of all the delinquent clients about 23% of the clients are those who have not paid anything after being delinquent and above 60% of the clients have been irregularly paying during the last six months.

Deepak Gupta: Ma'am, can you clarify how many customers has been delinquent from the 3.66 million customer base that you have?

Sneh Thakur: So we have total 2.8 lakh customers who are delinquent and the percentages mentioned earlier are on the total delinquent client base of 2.8 lakhs.

Deepak Gupta: Okay. And ma'am, can you just clarify what is your PAR more than 30 days? Like last time you had mentioned it was 7.8% of the portfolio, how does it compare this quarter?

Sneh Thakur: That is 6.1%.

Moderator: Thank you, sir. We have our next question from the line of Pallavi Deshpande from Smart Karma. Please go ahead.

Pallavi Deshpande: Ma'am, you mentioned about the reduction on the PAR was Rs. 91 crores, so just wanted to understand from which states is it coming? And is it due to an increase in the collection efforts or how exactly you have achieved this reduction?

Sudha Suresh: So this reduction is coming from across our various states and with Maharashtra being an exception, so a majority of our recoveries are from U. P, followed by Karnataka, and other clusters where we have certain amount of delinquencies.

Pallavi Deshpande: Right. And my second question would be what would be the urban and rural division in the portfolio?

Rajat Singh: Our portfolio is almost divided equally between urban, semi-urban, and rural. So one-third of our portfolio may come from rural area.

Moderator: Thank you. We have our next question from the line of Amit Rane Quantum Securities. Please go ahead.

Amit Rane: My question is on PSL, like how much is the excess of portfolio over and above the PSL requirement?

Rajat Singh: As we had started our operation in the month of February, in this financial year, our PSL requirement is pretty small. It is less than Rs. 1,000 crores and we have opportunity to sell almost Rs. 2,000 plus crores - Rs. 3,000 crores kind of portfolio for PSLC income.

Amit Rane: Okay. And sir, in Q2, we garnered around Rs. 6.7 crores fee income on sale of Rs. 400 crores of portfolio, right?

Rajat Singh: Right.

Amit Rane: And in Q2, this quarter, we have made Rs. 8.2 crores on a sale of Rs. 950 crores. So if you can give some insight as to how does this market work?

Rajat Singh: Okay. I mean, two things which influence the yield on this PSLC is, one, the timing and second, is nature of portfolio. So I mean, if somebody buys portfolio in quarter one that portfolio will be utilized for PSL compliance for four quarters. So generally, premiums are high in Q1. Second thing is also if you have agri portfolio which is more in demand, so you will command higher yield. So yield goes from 0.5% to 3% and 3% yield we can get it for agri portfolio in Q1. So I mean, in Q2, the portfolio which we have sold is largely non-agri.

Amit Rane: Okay. And sir, this Rs. 2,000 crores that we are expected to sell over how much period that will be sold out?

Rajat Singh: That was slightly difficult for us to answer. Depending on market and how it goes we have to take a call.

Moderator: Thank you, sir. We have our next question from the line of Agar Shah from Raj Trading. Please go ahead.

Agar Shah: My question was on the asset quality side. So as you can see there was a Rs. 53 crores reduction on quarter-on-quarter basis, right in the presentation you have said. So does that mean that Rs. 53 crores is what we have collected in the last quarter?

Sneh Thakur: That is the net reduction in the portfolio at risk, that Rs. 53 crores. It does not necessarily mean that, that is the amount collected.

Agar Shah: Yes, so my follow-up question was that so what do you make that of that it is a net reduction in the GNPA, right?

Sudha Suresh: Right.

Rajat Singh: So see, net reduction in GNPA meaning with write-off and collection, our GNPA has come down by Rs. 53 crores.

Agar Shah: Okay. And my next question was on the growth front, so we expect like across all verticals MFI, SME, and housing do all grow by let us say around 18% to 20% quarter-on-quarter basis, right from Q2 to Q3 and Q4 going ahead?

Rajat Singh: 18% to 20% growth is over March 2017 number.

Agar Shah: From March 2017?

Samit Ghosh: Yes.

Moderator: Thank you, sir. Due to time constraint, we are taking the last question. The last question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani: In one of the commentary you have said that the cost for branch per year is about Rs. 70 lakhs to Rs. 80 lakhs. If you could you just give us a number on, what is the cost of conversion versus setting up a new branch?

Rajat Singh: Sure. So average cost of conversion of a branch would be closer to Rs. 35 lakhs to Rs. 40 lakhs range, Rs. 35 lakhs being the average number.

Megha Hariramani: On cost of opening a new branch?

Rajat Singh: So I mean, actually last year, we are converting all our existing branches. So I mean, this will be the kind of number which we will incur for every branch.

Samit Ghosh: It is a new branch you know it is only our microfinance businesses also being done out of that branch.

Megha Hariramani: Okay. And my second question is on the grandfathered loan, how much is the amount outstanding currently? And within what duration are we expecting to pay off 60% to 70% of the loan?

Sudha Suresh: Yes. So on the grandfathered loans, as we said, there is already a repayment of about Rs. 2,300 crores now and out of the total grandfathered loans which was there on 31st March almost 67%

will be paid off which was about Rs. 6,290 crores, almost 67% will be paid off by this fiscal year and the balance 33% will be paid in the next fiscal year.

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

Sudha Suresh: So I think, we would like to thank specifically all the participants who have taken so much interest in Ujjivan's results and have put interesting questions on all critical parameters. We thank them, and we also look forward to similar calls in the future.

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