"Ujjivan Financial Services Limited Q2 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Ujjivan Financial Services Q2 FY2019 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, Bikram. Good evening, everybody, and welcome to this earnings call. From Ujjivan Financial Services, we have Mr. Ittira Davis, MD and CEO; and Mr. Deepak Khetan, CFO and Investor Relations. From Ujjivan Small Finance Bank, we have Mr. Samit Ghosh, MD and CEO; Mr. Sanjay Kao, the Chief Business Officer; Ms. Upma Goel, the Chief Financial Officer; Rajat Singh, who is the Business Head for Micro Banking and Personal Loans; Mr. Murli Manohar, who is the National Manager for Financial Planning and Analysis; and Ms. Sneh Thakur, who is the Head of Credit and Collections for the Micro banking piece. I would request Mr. Ghosh to take us through the key highlights for the quarter, post which we will open the floor for Q&A. Over to you, Sir!

Samit Ghosh: Thank you, Praveen. First of all, we are today on entirely mobile technology. So this is the first time, we are doing it without the landline. So we will have to manage with the mobile. So if there are some disruptions, please excuse us.

Good evening, welcome, and thank you for joining us for our second earnings call for the financial year 2018-2019. The first half of the year witnessed a steady growth of business coming out of the challenging 18 months when we cleaned up our books and built the platform for scaling up our banking business.

Loan disbursements in Micro Banking have shown moderate growth in the first two quarters. MSE and affordable housing have been ramping up rapidly. We also launched new asset offerings like personal loans, two-wheeler loans, wholesale lending to NBFCs and overdraft facility for MSE customers. Despite the recent volatility in the money markets, our liquidity position is comfortable.

Our balance sheet, asset liability structure is very conservative and largely comprises of microfinance loans with maturities between 14 and 18 months and are funded by 3 year term borrowings and refinance facilities from institutions like NABARD and SIDBI. Along with this we have been able to raise wholesale and retail deposit through our financial institution group, TASC and retail banking teams respectively. These are largely fixed deposits of 1-year tenure. We had raised funds from the CD market to lower our cost of funds, although well before the market turmoil we started reducing our exposure to the CD market and they comprise 14% of our funding today. Our maturity profile of our assets and liabilities are matched. In fact conservatively skewed towards long-term liabilities. We have been discussing with IFC for the last 6 months to raise $50 million of Tier II capital to further strengthen our balance sheet and our capital position. We plan to conclude this transaction in the last quarter of this financial year.

We expect growth in the Micro Banking loan book to significantly ramp up in the second half. We had taken several steps to achieve this goal including opening up of new catchment areas at branches to boost new customer acquisitions, remove credit restrictions imposed during demonetization and we have added significantly to our field force which were earlier diverted towards collection. In addition the festive season has historically seen significant rise in loan demand year after year.

Rural banking, which is largely in the micro financing area, has grown significantly. We are planning to have 120 unbanked rural banking outlets by the year-end. We are already seeing good results.

MSE business has also grown 26% quarter-to-quarter with increased focus on secure loans and hence our ticket size also are going up, while the yields are moving down. Affordable housing segment has shown a healthy progress of 28% quarter-to-quarter growth. In personal loans, our focus for the year will be Tier 1 and Tier 2 cities where Ujjivan presence is strong and our target will be blue collared salaried workers have been Rs. 20,000 to Rs. 50,000 salary income as these segments were highly underpenetrated. Our main differentiator is that we have merged the process of fin-tech and banks to a hybrid model where we are able to use the best in technology and keep the robust risk framework of bank. Secondly our process is less of physical and more digital with largely eliminate paperwork that the customer has to do in other banks to avail loans. Two wheeler loans in currently cross-sold only to family members of our existing micro finance clients who has good repayment track record. Our overall asset business has been moving in the right direction and we are all set to actually 30% to 35% growth in this fiscal year.

We had deferred rollout of banking outlets last year in order to manage our cost in view of unforeseen large credit costs due to demonetization. We plan to accelerate the establishment of banking outlet this year, which is on track. We established 180 in the first 2 quarters and doubled our footprint. Ujjivan now has 367 banking outlets and 95 asset centers. We expect the number of banking outlets to reach 475 by end of March 2019, out of which 120 will be in the unbanked rural centers. The balance 48 asset center branches will be converted it in the next financial year.

We continue to improve our retail deposit business driven by expansion of our banking outlets, new product introduction and now continuous marketing efforts. All our banking outlets has shown an impressive traction in retail deposits and our retail deposit growth has been 68% Q-on-Q. Retail deposit stands at 31% and CASA ratio is at 9%. We have on-boarded 8 lakh micro banking customers and disbursed loans to their savings accounts, this will helped us significantly to build savings account balances. We also have added 2 lakh new retail deposit customers and have a very strong senior citizen program. We introduced new current account products specifically targeting small businesses. We opened our second phone banking center based in Pune. We offer mobile banking in five languages. This year we aim to convert close to 15 lakh of

Micro Banking borrowers and banking customers and add 3 lakh retail deposit customers. We plan to cover 75-80% of our assets by deposits of which retail should be 30-35%.

We are in constructive discussion with RBI for the last couple of months on the issue of listing the bank and dilution of promoter shareholdings through reverse merger; however, based on the recent RBI decision, we have formed both committees to carefully evaluate all other options. This will be done keeping in mind the interest of the existing shareholders, tax implications and compliance with all the regulatory authorities to achieve the RBIs mandate to list the banks by January 2020 and dilute the promoter shareholding to 40% by January 2022. We expect to finalize by January 2019, which will leave a sufficient time to execute the steps to be undertaken.

The recent Supreme Court decision on Aadhar will not impact bulk of our microfinance customers as they all aside up with the DBT transfer. However for our new retail customers, we need to modify our customer acquisition process as we will not be able to authenticate through e-KYC. We will, however endeavor to keep the process largely paperless.

Finally as you are aware, I will retire in November 2019. The board engaged one of the top talented firms. Both internal and external candidates have been reviewed. We are in the final stages of shortlisting to three strong candidates for RBI's consideration from both internal and external sources. We expect the board to finalize the candidates by January after which we will apply to RBI for approval. We are committed to a smooth transition, where the new incumbent will have at least 6-months overlap.

The fundamentals of our business are strong and we look forward to a robust growth in the second half of the financial year of our loan book, deposits and customer acquisition.

With this, I would like to hand over to Ittira Davis, to take you through further details on the financials of Ujjivan. Thank you.

Ittira Davis: Thank you, Samit. We have seen the numbers this evening and you can be rest assured that we are in the right way, moving on the right path with a net profit which is Rs.44.3 Crores against a loss of Rs.12 Crores last year. And the net interest margin for the bank is 11%, which is an improvement over the last quarter and 12% for the consolidated entity, all confirming that we are in the right direction.

I would like to take this opportunity to look at two important aspects and I think this is the right forum to discuss it. One is the issue of NBFC. Now as analysts, I guess we will inform the market about what NBFCs are and we are an NBFC holding company with bank as the operating company. I think there is a lot of confusion in the market about what NBFCs are and who are the NBFCs affected. I think it is important to understand that Ujjivan the holding company is CIC, a single holding company, holding only the banks as an operating company and to that extent is insulated from anything to do with the current market and is able to operate as a scheduled bank. The bank also is a scheduled bank as against a nonscheduled, so please keep that in mind as well.

This is very important when you give your recommendations and other things into the market to understand how we are structured. So I just thought I had mentioned this in this forum because this is a very important issue in the current circumstances.

The other question, which I am going to address which I think all of you have already noted and some of the questions will come along later, is our cost to income ratio. It is at 75% and we are moving in the right direction. We believe in building the base for a great growth as we move forward. So that is the philosophy which we have followed, now some of you may agree with that, some of you may not that it is something that we as a management team has taken on and we believe that, that is in the right direction. So just wanted to inform you that these are the 2 important things, which you need to keep in mind and obviously, there will be question and answers on this. We will take that as we go forward.

I would like to stop here and thank Axis Capital for hosting this interaction, and now I will hand over to the moderator for question and answers. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: My first question is that in this quarter, did we have any one-off income from securitization or the PSLCs?

Upma Goel: During this quarter, as far as one-off incomes are concerned, PSLC we had Rs.1 Crore and no securitization income.

Digant Haria: All right.

Upma Goel: Last quarter, first quarter, we had Rs.24 Crores of PSLC income, but this quarter only 1 Crore of PSLC income and no securitization income, even last quarter also there was no securitization income.

Digant Haria: Thanks for that. My second question is in the microfinance business like we have increased the lending rates from somewhere in September. So what would be our current lending rate in the microfinance book?

Samit Ghosh: 22%.

Digant Haria: Lastly, my question is that what has led to between Q1 and Q2, we have significantly increased our guidance for the microfinance piece that we were earlier talking of something like 20%, 25% overall growth. Now we are talking about 30%, 35%. So what has changed in, Ghosh Sir's remarks that there were 3 things, which has been changed and which is what you are expecting. But what is the fundamental change on ground like is there anything on ground that you saw improving or it was more Ujjivan specific things which Ghosh were mentioned that will be responsible for the higher growth?

Rajat Singh: We have maintained our guidance actually for overall group as well as microfinance. What we are saying is our overall growth will be 30% - 35% and microfinance growth will continue to be 20%, closer to 20%. So there is no change.

Digant Haria: Then we will also continue with this that overall non-microfinance will contribute to 20% of the overall loan book by the year-end?

Rajat Singh: Yes.

Digant Hariya: Thanks. That is it from my side. Thank you and all the best.

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

Rohan Mandora: Thanks for the opportunity. Referring to the Slide 24 of the presentation where you had given details for the type of loan disbursed, type of loans disbursement. So in this 23% is the loan disbursed in the fresh segment and 25% you see it. And last year this which was 44 and 50 index, so I am just trying to understand as we are rolling out newer products as well as adding new liability branches. So should this share of fresh customers be higher than 44? Or is it that mostly the disbursement that we are doing is towards as cross-sell to the existing MFI customers? Just wanted to get some color on this?

Rajat Singh: Yes. Sure. So quarter two FY2018 number where you see a breakup between fresh and repeat of 44% and 56%, I mean, it was one of the distressed time and our disbursements were limited, and we were limited in our disbursement and only giving loans to good customers, selected good customers and that is why that number is kind of onetime number. Our regular repeat versus fresh composition is close to 25% to 30% fresh and remaining repeat. And we are maintaining more or less similar trend in this quarter.

Rohan Mandora: But should the share of fresh increase going ahead? Or let us say next 2 years down the line should it now go further to 35%, 40% or will it remain at similar level? Just trying to understand that we will be focus more on existing cross-sell to the existing MFI customers or will be looked to tap newer segment of customers?

Samit Ghosh: As we progress, as we add on new product and this number should improve as we progress with that. It should go up with housing, MSE, and personal loans, two wheeler loans contributing, it should increase.

Rohan Mandora: Sir the set of repeat customers, does it also include the customers whom you would have given loans earlier, but they are not live customers right now?

Rajat Singh: Yes.

Rohan Mandora: Sir if you could give the split between the other income Rs.1 Crores of the settlement other than that like how much was the interest income on the investment? How much was the core liability fees and how much was the loan delivering fees?

Samit Ghosh: Okay. You are asking about the breakup of other income, right?

Rohan Mandora: Yes.

Upma Goel: When we look at into the breakup of other income, we have the fee income which totaled Rs.25 Crores. We have fee income from the third-party products Rs.5 Crores, income from the write-off assets recovery that is Rs.5 Crores, interest from non-fixed deposits Rs.1 Crores and our miscellaneous income Rs.6 Crores, total amounting to Rs.42 Crores.

Rohan Mandora: PSLC you said 25 it is only 1 Crores, I believe?

Deepak Khetan: Sorry that is YTD number. That is first half number.

Rohan Mandora: If you could just give for the 2Q number?

Deepak Khetan: Yes. I will give you the 2Q numbers. Treasury operations is Rs.25 Crores, bad debt recovery Rs.3 Crores, fee income is Rs.4 Crores and miscellaneous income is Rs.6 Crores. That is the breakup of Rs.38 Crores.

Rohan Mandora: With respect to the increase that we have taken on the MFI book only the incremental book would get repaid higher, is what I believe. So like in the next quarter like, how do we expect the NIM trajectory to behave in the second half of the year? What is your guidance on that?

Upma Goel: So for the second half, we are expecting the NIM to be in the range of 10.8.

Rohan Mandora: Thanks a lot.

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

Venkat Subramanian: Thanks for taking my question Sir. I had a question on cost to income ratio. Closer to the time when we converted during the IPO, we had guided that it will start coming down in a matter of 3 to 4 years. We have now reached almost 77.4 and we are talking about further 4 years to bring it down to 55. Can you kind of give us some color on why this delay? And what can be the best case scenario?

Rajat Singh: Our initial guidance was 3 to 4 years, and I think we might miss that by a year or so because of the demonetization and related loss of growth and loss of income. So there is not significant change, but our target has shifted by a year or 2.

Venkat Subramanian: Right. This is probably one of the main reasons why our ROE probably is still in single digit now. Closer to the time when you get your 55% kind of target, where do we think our ROA can be and where can ROE be?

Rajat Singh: So during that time, I think steady state will be 2.5% of ROA and close to 17%, 18% of ROE.

Venkat Subramanian: My second question is on income from third-party products. Now that our brand's rollout is actually gaining momentum. What is your vision in terms of where it can get to?

Sanjay Kao: Currently where we stand on the third-party products, we are progressing pretty well our growth rates are good. We have launched a whole bunch of new products and new tie-ups by which our third-party products are growing well. And our expectation is that, we will in about 3 to 4 year's time, we should be hitting a number, which is at least about 6x to 7x of where we stand at the moment.

Venkat Subramanian: My last question sir is about our brand's rollout. We initially wanted to be only in unbanked areas. What has been our experience with respect to liability products during our rollout process? And where do you think there is scope for improvement?

Sanjay Kao: Okay. So on the branch rollout, unbanked so and so that you are talked is part of our mandate. So 25% of our branches have to be in unbanked rural centers and most of the others that we have done are really conversion of our asset centers and moved into high-speed branches in all those places. We have categorized the branches based on our expectation of what the market opportunity is and what the market competitiveness is in the different segments of the market. And in each of these markets, we are seeing really good traction on the liability products and that is a combination of open market customers as well as customers who are from the Micro Banking segment. And the open market customers obviously have much higher deposit bases versus that of the Micro Banking, which is as per expectation. And in the Rural Banking segment also, we are seeing good traction because we are the only game in towns when we set branches and run by centers and we have the entire gamut of affluent rural to the mass market rural banking we have there.

Venkat Subramanian: Do we get reasonable deposits even from noncustomers even to customers to whom we do not lend to?

Sanjay Kao: Yes absolutely. And that is our strategy that is our branch banking strategy is to go to open market customers and reach out to them.

Venkat Subramanian: Broadly, what would be a ratio from that segment out of our total deposits?

Sanjay Kao: In terms of number of customers or in terms of value?

Venkat Subramanian: Value?

Sanjay Kao: In terms of value, if you look at the per customer deposit, we are close to about a little over Rs.8000 in terms of average deposit numbers. In the case of Micro Banking that will be more around Rs.3000.

Venkat Subramanian: No. I meant out of our total deposits, what would be total non-lenders and in terms of absolute value we have about Rs.3000 Crores of customer deposits, right?

Sanjay Kao: Would be close to about our open market customers would be about 45% and 55% would be micro banking.

Venkat Subramanian: Very interesting that is all from my side I will stand on the queue. Thanks a lot.

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

Deepak Poddar: Sir, I just basically wanted to understand something on the absolute cost level like currently we are at Rs.232 Crores opex that we have done this quarter. We are planning to take the branches to Rs.475 Crores. So what is the kind of absolute cost trajectory that we are looking at maybe in coming 2, 3 quarters or what is the kind of a level at which you will reach and from there it will kind of stabilize? So some sense on those lines would be helpful.

Upma Goel: See as we are now, this year, we are on to the expansion mode and we are opening up our branches. In the Q3 and Q4, we are expected to convert as well as newly open again 108 branches. So we are closing the year with close to 74% of cost to income ratio. On absolute numbers, we have Rs.232 Crores in the Q2. We are expecting close to Rs.251 Crores in Q3 and Rs.269 Crores in Q4.

Deepak Poddar: When do you see the inflection point basically like from like currently we are in the expansion mode so is that is what we are envisaging for the next year as well or next year will be the kind of a improvement year for cost to income ratio?

Upma Goel: So from next year onwards, we will see an improvement in our cost to income ratio.

Deepak Poddar: So have you shared some guidance on next year cost to income ratio as well like you have given guidance for coming 4 years?

Rajat Singh: No. Actually, we have not shared any guidance from next financial year, but I can tell you directionally because our most of the conversion is over and onetime costs related to technology, setting up infrastructure and onetime people related costs are incurred in last 18 to 24 months. We do not expect that kind of cost to come in. So in next 3 years, we will see our cost to income ratio going down to 55%. And next year will be an important year to reduce this number significantly lower.

Deepak Poddar: So next year itself you are looking at maybe 74%, 75% is what we are looking at FY2019. So next year is what we might look to reduce this figure significantly, right?

Samit Ghosh: Yes.

Deepak Poddar: That is it from my side, thank you very much, all the very best.

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

Sunil Kothari: Sir, my question is related to little, I mean, historical this when we done IPO, Mr. Ghosh can I think do some clarification on this so the initial cost to income ratio was around 40, 45 and then we are talking about when we reach this branch expansion to roughly 65 and then coming back to around 50, 55. So is there any structural picture? That is what I wanted to understand? Or is it just passing some phase, which has increased this much 77%, 78% cost to income ratio?

Rajat Singh: So such a high cost to income ratio is mainly because of the onetime infrastructure cost, for example, all the branches, which we are kind of redoing, we are converting our microfinance branches into bank branches. So their onetime cost is getting into cost to income ratio. Our recurring cost of running a branch is significantly higher, rental, etc., for a bank branch is significantly higher. So that is also getting into cost to income ratio, and income will take a while to kind of reach to that trajectory. Cost is kind of slightly moving parcel in this financial year and previous financial year. Next year onwards, we see a significant income stream to also follow because these banks will sell multiple products on the asset side as well as third-party products. So that will help us bring down our cost to income ratio. So it is largely onetime investment, a lot of technology investment, which is addition of people, we are adding a lot of people to support our banking operation. So those things were going into our higher cost to income numbers.

Sunil Kothari: But you do not see any threat to your objective or target within next 3 years, you want to reach this 55%? Or you feel there is, yes, there is some possibilities of some higher cost?

Sanjay Kao: No. So I think we are very confident that we can make that 55% cost to income ratio, and this confidence partly comes from our very healthy NIM and the way our NIMs are moving. And we have flexibility to kind of maintain slightly better NIM compared to regular banks and also our third-party income is expected to increase as we progress.

Ittira Davis: The other thing is, in these 2 years, we have made very heavy investment in technology in terms of people and in terms of typical infrastructure of branches, etc. We also had prepared a lot of these expenditures in the second year because in the first year because we had to take the demonetization cost, our cost has been pushed to the second year. So what we are currently seeing is fairly high cost to income ratio, but the investment will start leading higher levels of business in terms of top line and also bottom line and you will see that from the second half of this year, specifically in terms of growth of our topline and by next year, you will see the full impact of the revenue and income generation from all these investments we have made so that is what makes us confident in terms of lowering the cost to income ratio.

Sunil Kothari: Right, sir. Great. And sir last question is that as a layman I wanted to understand is how much better rate on FDs is offered to retail customer who comes to you and not gone to HDFC Bank or SBI? What type of attraction they have to come to you to put a deposit?

Sanjay Kao: There are 2 reasons. One, we offer better rates than anybody else does and we have done that through our one-year rate and through our longer-term or they rate kind of promotion. The thing is also we provide great service. We have facilities by which we reach the doorstep of the customer. And that is something that is particularly liked by customers who are senior and we advertise, we advertise through radio, we advertise to newsprint, we advertise through digital medium by which people come in. Also the fact that whenever a person opens a bank account, it is instantaneous. We done it digitally, we manage to do it digitally and that thing is a big attraction for our customer.

Sunil Kothari: Thank you very much sir, thanks a lot.

Moderator: Thank you sir. We have next question from the line of MB Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh: Just a few questions from my side, a question again on the cost to income ratio. You indicated that the second half cost to be somewhere in the range of about 260-odd Crores and given the fact that you seem to have given a guidance of about 75% in terms of cost to income ratio for this year. Just trying to understand are you expecting significant traction in terms of your revenue profile because for the last 3 quarters, your revenues has been kind of flattish at about Rs.300-odd Crores. Just trying to understand where is the confidence on the topline coming through? Second, a question to Rajat whether there has been some discussion on the MFIN table from whatever we have been hearing from a few MFIs that they could look to increase the average ticket size again from Rs.80,000 to close to about Rs.100,000. Just wanted your views on that and also are you seeing significant increase in the average ticket size in West Bengal? If time permits, a question on the CASA profile. Just wanted to understand the median deposit that you are getting, what is average ticket size and the refinancing that you are doing at what ticket size that you are doing out there?

Rajat Singh: I will start with the first question. In quarter 3 and quarter 4, we expect significant improvement in our income profile and that is mainly because our disbursement has started moving upwards from September onwards. And we have given that numbers in our presentation, September, October and we see similar update and even higher in coming months. So that will help us maintain this cost to income ratio, which we have quoted even with our higher costs. And it will be purely our operating profit there is very less onetime income, which we are kind of taking into our cost to income ratio. Second question on the increasing the exposure limit. So I mean, many of the SFBs have already kind of taken apart and in some of the select location and branches, they have increased their exposure to Rs.100,000. Even we have taken that part, especially in good areas and area, which has where income profile of customers are better and there is no issue on the ground, we have increased that to Rs.100,000. And I mean, I think, as long as we have repeat customers, they are known to us, we have their track record, we are also giving them a slightly better exposure. In West Bengal, we are seeing some of the competitors have to increase their ticket size significantly. There we are having our repeat customers keeping overall exposure limit in mind, which means that sometimes we also lose some of our existing repeat customers, but we are not going beyond Rs.100,000 in those areas at this moment. On third question, I will ask Samit to talk about?

M.B. Mahesh: Question is on the CASA front just trying to understand, a, what is the median deposits or the ticket size that you are getting today. And also how much of your liability or how much of your asset-side customers have moved to a liability-side customer and how aggressive are you pushing that and what is the refinancing rate at which you are doing today? The cost of refinancing that the borrowing, which is under the liability side.

Sanjay Kao: Okay. So let me take that one by one. First of all, we are looking to convert almost 50% of our customers in the Tier 2 banking of our Micro Banking customers, who were a borrower. They will become a customer for banking.

Sanjay Kao: I think Mahesh was asking how many we have. So we have Rs.8 lakhs, which is going to work to Rs.15 lakhs by the end of the year.

Samit Ghosh: Okay, so that is one. Second, these are balances that build up progressively. So we have pretty healthy balances at the moment with these customers ranging to around 3,000 per customer. What is your third question, please?

Sanjay Kao: Mahesh, actually when we are disbursing these loans into this account and we find that about 15% of the deposit, they gradually withdraw the entire amount, but 15% on the average, 15% of the disbursed amount is within the savings account which they gradually withdraw and we have not yet, I mean, we have also tried to cross-sell fixed deposits or recurring deposits with these customers, but that is not a significant number yet and we hopefully will start doing that much more in the next financial year. These are as far as micro finance customers are concerned.

M.B. Mahesh: Sure. And the cost at which you are borrowing today on the refinancing window?

Upma Goel: So on the refinancing of overall cost is in the 9.37%, that is the average cost and 40% of our total borrowing is by way of a refinance. This is a complete loaded cost, no additional cost from that.

M.B. Mahesh: I will just come back one, sorry just a follow-up question to Samit or Sanjay, whoever wants to take this question. See when we look at most bank branches in India, they seem to me even you looking at the mid-tier branches, they have an average deposits of about close to about Rs.60 Crores to Rs.70 Crores. Now at this point of time given the fact that you have just kind of started of these branches rollout, where do you think according to you, you guys are thinking that it will settle based on whatever feedback which you are getting on the ground with respect to customers acceptance as you as a bank? So that it just give us a bit more clarity as to how you are progressing on your bank's branch rollouts after you have converted everything in the next 1 year?

Sanjay Kao: So the number that we are looking at in a year's size range and this can vary between kind of branches, the kind of accounts that you are talking about, and particularly the account that you have spoken about, that kind of category is at around Rs.25 Crores.

M.B. Mahesh: That seems to be a good number to work with. So we can just kind of extrapolate, let us say, 500 branches in to Rs.225 Crores once it stabilizes at that number, you will start doing the rollouts of the next set of branches?

Sanjay Kao: The next set of branches that we were roll out that is the rolling thing. I do not think we are going to first and foremost we have to convert all our assets in terms of branches. So by the end of this year, we will still have about 49-odd centers remaining, which we will convert into branches. And at the moment, we are working on what the next set of branches is going to be when they will be launched. And that is based on an extensive area survey that we are doing of areas that we would like to get into.

M.B. Mahesh: Sure, thank a lot. That is it.

Ittira Davis: We would request that the participants restrict their questions to 2 each because there are several people who want to ask questions. Let us give a chance to everybody. Thank you.

Moderator: Thank you very much Sir. We have next question from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: I have just one question and it relates to credit cost. Pre-demonetization, your credit costs were about 60, 70 basis points. And if I look at the first half also on an annualized basis, it is around at 50, I guess. But considering that MFI is now going to become a smaller and smaller portion of your asset book, going forward what kind of credit costs do you think you would budget into your overall mix and into estimates, let us say, in FY2019 and more importantly FY2020, 2021?

Sneh Thakur: Sure. As far as FY2019 is concerned, we expect the credit cost to be sub-70 basis points, which is the guidance we have given earlier as well. And as far as the next financial year is concerned, as you rightly said with the different mix and addition of new products, we expect the cost to be slightly different and our present indication is in the range of 100 to 150 basis points.

Abhishek Murarka: Thanks a lot that is what I was looking for. Thanks.

Moderator: Thank you sir. We have next question from the line of Gautam Jain from GCJ Financials. Please go ahead.

Gautam Jain: Sir, can I get your RWA number, risk weighted asset number.

Upma Goel: Risk weighted asset number.

Samit Ghosh: We do not have that number handy.

Upma Goel: We will share it with you later.

Gautam Jain: Okay. And can I get the breakup of other income, which is the breakup of Rs.38 Crores.

Deepak Khetan: It is Rs.25 Crores from treasury operations, Rs.3 Crores from bad debt recovery, Rs.4 Crores fee income, Rs.6 Crores miscellaneous.

Gautam Jain: Okay. And what was the reason behind the lower tax rate in this quarter? It comes to 29% on the PBT.

Upma Goel: On the lower tax, as per the union budget in financial year FY2017, our turnover was Rs.250 Crores. And on Rs.250 Crores turnover, the tax applicable tax rate is 25%. After considering DTA and DTO now the effective tax rate comes at 29%, and that is all getting reflected in the tax part.

Gautam Jain: Okay. So you are talking about FY2017, not this year right?

Upma Goel: No. We get the benefit this year basis on the turnover of FY2017.

Gautam Jain: I will come back in queue thank you.

Moderator: Thank you. We have next question from the line of Siddarth Malhotra Individual Investor. Please go ahead.

Siddarth Malhotra: So my first question is, Mr. Ghosh said in a recent interview, he had spoken to the customers that Ujjivan will finally get us about 10x in the next 7 years. So say from 4 million, we will go to 40 million in the next 10 years roughly. Would it be all right to expect our profit to move 5x in the next 5 years too?

Samit Ghosh: I think there will be a significant increase in profit. Our goal is to grow our customer base 10x and hopefully our bottom line also will follow that kind of a number. We have built a platform already to achieve that kind of growth, we invested very heavily in technology, in terms of branch network, in terms of people, and though we will continue to make investments in the future, but not in that scale. So our goal internally we have set is that we should go for a 10x growth in our customer base and that will largely will come from 50% of our Micro Finance business because we will extend our banking facilities to the entire family, which we will be started and 50% of the growth in customer base will come from new customer acquisition. And our target is largely in the semi-urban/rural place where urban is a very crowded market and our marketing and all these efforts will be in regional languages etc. So that is our strategy going ahead for the next 7 years.

Siddarth Malhotra: Right, Sir. My second question is, sir, in this current NBFC crisis, you did mention in your interview recently that this does offer a window of opportunity for you. And it might be a little bit early, but are you seeing any market share gains coming to Ujjivan as a result of the current crisis, Sir?

Samit Ghosh: Yes. I mean, see, obviously it is a difficult time for a lot of microfinancing institutions, especially the smaller ones. So we see a significant opportunity of growth in the microfinance business, which you will see in the second half of this year. And the other thing is that we also have started a program where we lend to other microfinance institutions because we know that segment very well largely to the medium-size well-run, well-managed institutions so that also gives us a little bit of opportunity to grow our business.

Siddarth Malhotra: Thank you very much Sir and I wish you all the very best to your new innings post November 2019.

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

Sonia Lalwani: Good evening Sir. Could you share the active borrowers count in the Q2?

Murli Manohar: So our active borrower base is close to 37 lakhs at the end of Q2. And the total customer base is close to 40 lakhs at the end of Q2, which is on the microfinance side. And if you put all the customers together, then our total customer base is 42 lakhs.

Sonia Lalwani: Okay, including non-MFI?

Murli Manohar: Yes.

Sonia Lalwani: So 37 lakhs include MFI and non-MFI, both?

Murli Manohar: Sorry.

Sonia Lalwani: 37 lakh customers include both MFI as well as non-MFI borrowers?

Murli Manohar: No. So that would be 42 lakhs. So let me explain to you. First of all, let us talk about microfinance. In the microfinance, we have a customer base of close to 40 lakhs. And of that 37 lakhs are active customers. So that is the microfinance. Then additionally, we have close to 5 lakh customers, including other assets and liability customers. So that makes the total customer base of 42 lakhs.

Sonia Lalwani: Sir 5 lakhs, could you share the breakup of 5 lakhs into non-MFI borrowers as well as and customers?

Samit Ghosh: We have send it across to you.

Sonia Lalwani: Thank you Sir.

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

Gaurav Jani: Thank you for taking my question. Just a clarity on the holding company issue, while we appreciate that we have a timeline till January 2019, but if you can give us some color as to what are we discussing in terms of the dilution of additional shareholders or how will the exchange ratio be and at what kind of valuation? Thanks.

Samit Ghosh: Right now, our timeframe actually is January 2020, and we will setup a 2 board committees actually to check out the various options in terms of listing and that will be based on making sure we have the interest of the shareholders in mind and also minimize or optimize our tax rate. So there are various options we are looking at, and I think we do not have right now in terms of drawing board and we should have a clear picture in terms of what we want to do by January of this year. So it is too premature now to say 50%, 60% or whatever, but we would like to accomplish both the goals one is listing of the banks and also the valuation as such. So we are looking at various options. It is right now, very premature to say what exact path we will follow. But by January, we will have a clear line of action.

Gaurav Jani: Thank you Sir that is it from my side.

Moderator: Thank you Sir. We have next question from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Sir just one question on one data point actually, what is the number of customers added in the MFI portfolio during the quarter?

Sanjay Kao: 1.7 lakhs.

Dhaval Gada: Fine, thanks.

Moderator: Thank you Sir. We have next question from the line of Krish Shanvhag, Individual Investor. Please go ahead.

Krish Shanvhag: Sir, one of my request is please allow a fair share for individual investors to ask questions. We remain in the queue for a long time and we are not given any time to ask any questions. So with that, I have just 1 or 2 questions. One is, do we have exposure to the IL&FS group and if so what is the amount?

Sanjay Kao: No. We have not.

Krish Shanvhag: Okay. My second question is again on the shareholding. We were owning 100% share of the business and now we own the holding company. So I request you to ensure that there is absolutely no dilution for existing shareholders? Obviously law permitting, but that is a request from shareholders who have held on to your company shares for a long time.

Samit Ghosh: Right. I mean, we are exploring all the options, but we have to comply with RBI regulation in terms of listing the bank. So as I told you by January, we will have a clear line, but one thing I can assure you that we will ensure that your interest is taken care of. But on the other hand, we really need to meet the RBI guidelines. We, as you know, for last 2 months, we were discussing with RBI in very constructive solutions, but RBI came back and told us that we just have to meet the licensing guidelines. So we are sort of back in that drawing board and trying to figure out what is the best solution for the bank and for our investors.

Krish Shanvhag: Sir please take this as a request from existing shareholders. When you communicate with RBI, this will completely kill minority shareholding if this happens because the entire business was owned by us. So there is no point in them holding into the shares with these kind of things when you get completely diluted for no reason of yours. So I think please take this request and in your conversations with RBI that minority shareholders have been protesting this. You can do as per rules and regulations, but the shareholding interest of minority shareholders should be upheld. Please take this request from our side.

Ittira Davis: Yes. Yes. That is the solution we were working on earlier. And we were a bit disappointed that we have to go back to the drawing board, but we will definitely keep that in mind and communicate that to RBI.

Krish Shanvhag: Thank you very much Sir.

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

Manish Ostwal: Thank you for the opportunity. The first question on this customer growth trend in last few quarters is very flattish kind of trend so despite of adding converging into banking franchise and the growing MFI portfolio, why our customer base is not increasing, Sir?

Rajat Singh: There are 2 main reasons. One, our repeat conversion was lower than what we were expecting and due to various challenges we were facing post demonetization, we have sort out all those problems, we have opened up all the areas and now that lot of discipline has come back to business in terms of customers coming to center meeting attendance and the meetings. Our field staff has a lot of time to focus on business again, give loans for repeat customers. So our retention has started improving. And that is how our customer base now is, as progress will stop declining. In addition to that, we have also opened up a lot of new areas in existing branch catchment and our new customer acquisition is also expected to go up. So on both sides, we are working and that should help us to improve the customer base in third and fourth quarter.

Manish Ostwal: Secondly, Sir, you shared that we are currently have an MFI rate of 22%, which is among the higher end compared to players like Bajaj Finance and Bandhan Bank. So how is your competitiveness in the market to get the top end of the customers at these rates?

Rajat Singh: I mean, customers are, our experiences with customers was not really the differentiating players based only on interest rate. I mean the ticket size, how quickly we can get them loan service plays a larger role than interest rate. So I mean, at this moment, we are not losing any customers because of our interest rate.

Manish Ostwal: What is called data but Sir, what is the cost of borrowing and cost of deposit on a marginal basis during the quarter compared to Q1?

Samit Ghosh: I will request Upma to take that question.

Upma Goel: During the quarter, our cost of deposits has been in the range of 7.7% and cost of borrowing is around 8.5%.

Manish Ostwal: That is on marginal basis, madam?

Upma Goel: For the quarter, that is an incurred one.

Manish Ostwal: Actually I want marginal basis, Madam?

Upma Goel: Marginal, our cost of deposit will be around 8.01% and borrowings are around 8.8%.

Manish Ostwal: Thank you.

Moderator: Thank you very much Sir. 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: I would like to thank all the participants for joining us this evening and bringing to the attention of all concerned about the changes that are taken place the growth in the business and also what is the potential coming up. I would like to thank Axis Capital for hosting this. Thank you very much and good evening.

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