"Ujjivan Financial Services Limited Q3 FY2019 Earnings Conference Call"

January 23, 2019

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Ujjivan Financial Services Limited Q3 FY2019 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Mundhra from Axis Capital. Thank you and over to you, Sir!

Vikash Mundhra: Thank you, Ali. Good evening, everybody, and welcome to the Q3 FY2019 earnings call of Ujjivan Financial Services. Representing Ujjivan Financial Services, we have with us Mr. Ittira Davis, MD & CEO; and Mr. Deepak Khetan, CFO & IR. From Ujjivan Small Finance Bank, we have us 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 now 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 very much. Good evening and welcome to our third earnings call for the financial year 2019. The third quarter marked significant improvement in our business both on the liability as well as in the asset side. This is in line with our business plan. Our disbursements were to Rs.2885 Crores up 21% quarter-on-quarter. This led to gross loan book growth of 12% quarter-on-quarter to Rs.9349 Crores. Micro Banking vertical has shown good traction with disbursement growth of 17% versus the previous quarter. This is in line with what we have been mentioning over the last two calls and the result of number of new initiatives undertaken by our Micro Banking team.

Micro and small business, affordable housing, rural banking has all been ramping up rapidly. Financial institutions group now has a book of 100 Crores with 75 Crores disbursed in this quarter. We expect this to ramp up in the next quarter, the current quarter. This is also our effort to support the well managed NBFC during this challenging period. We opened 97 branches in the quarter taking our branch network to 464 and are fully compliant with the RBI requirement of 25% banking outlets in unbanked rural centers. We have 10 more branches to be opened in the fourth quarter. We will have about 49 asset centers to be converted to bank branches in the next financial year. All are converted banking outlets and even our rural branches are showing impressive traction in retail deposit.

Our liquidity position is comfortable as we have brought down the dependence in the CD market from 29% at the beginning of the year to around 10% and high cost term borrowings inherited from the NBFC period is now down from 16% to 2% as a percentage of the total borrowing. We replaced the CD borrowing by long-term refinance facilities, retail and wholesale deposits. This has significantly improved our asset liability management position by replacing short-term funds with long-term refinance facilities and term deposits.

We planned to raise $15 million equivalent in rupees in Tier-2 capital in this quarter from IFC, which will further strengthen our balance sheet. The MSE business asset under management grew 28% quarter-on-quarter increase focus is on secured sourcing, which now constitutes 80% plus of the quarter disbursement. Our ticket sizes are going up while the yields are moving down. Affordable housing segment also has shown a healthy progress of 25% quarter-on-quarter growth in AUM. Rural business, which was launched this year, has shown an impressive initial growth in assets and liabilities with network of 117 rural branches we expect this business to grow at a rapid scale.

Overall our asset business has been moving in the right direction and we are all set to achieve 30% to 35% growth in this financial year. We continue to improve our retail deposit business driven by expansion of our branches and opening up of new channels like multilingual mobile banking app. Retail deposits stand at 36% and CASA ratio is at 10%, so we have opened 10 lakhs savings accounts for our micro banking customers this year of which 4 lakhs were added in the third quarter. We added 1.4 lakh new bank deposit customers this year of which 60000 were added in the last quarter.

This year we aim to convert around half of our micro banking borrowers as banking customers. We are introducing an advanced version of corporate Internet banking to serve medium size companies and institutions. For the year we plan to cover 65% to 70% of the total assets by deposits of which retail would be about one third. Our customer growth, which was stagnant in the first two quarters, has started to move upwards. We have 43.7 lakhs unique customers, which is a growth of 2.1 lakh during the year, 1.7 lakhs increment was made in the last quarter, and this has come largely from our asset customers.

Our net profit has been steady as per our focus at Rs.45.2 Crores. Our cost to income ratio is at 77.7% which is marginally higher than the last quarter. We expect this to start declining with the completion of the big spurt of our branch conversion and scaling up of our businesses. We have evaluated multiple options of listing the bank by January 2020 and dilution of the promoters holding to 40% by January 2022 as required by RBI. We have consulted with number of bankers, legal counselors and tax experts over the last two months. These have been reviewed by both our boards keeping in mind the interest of the shareholders, stamp duty impact and all the compliance and other regulatory aspects we have arrived a couple of options both of which required regulatory and legal approvals from RBI, SEBI and NCLT.

Details of the final roadmap will be provided after receiving these approvals. The board of the bank and the holding company has completed the process of identifying three candidates for the new MD & CEO. We will submit our application to RBI by end of this month for their approval. Overall our business and financial performance has been good and on track. We have made substantial progress in the areas of meeting regulatory requirements. We look forward to a strong last quarter in line with our performance in the third quarter and with this I would like to handover to Ittira Davis to take you through further details of the financials of Ujjivan. Thank you.

Ittira Davis: Thank you Samit. It is almost two years since the bank commenced operation. Our building phase is almost done. The seeds of growth planted over the period are now showing some green shoots. The numbers for the last quarter, which I have shared with you, provide that confirmation. Business growth, credit quality and other business numbers show the all round strength of the bank. From this quarter onwards the cost to income ratio will also show improvement. Ujjivan is now well set to move to the growth phase. Some of the numbers that I would like to just highlight very quickly, the overall disbursement is around 27%, gross AUM up 22%, net interest income for the bank up 34%, NIM for the bank is 10.8% for the nine months of the financial year and 11.5% for the consolidated entity. Consolidated profit for the quarter is 45.2 Crores, capital adequacy is at 22.2 and as we said before the number of branches completed are 464. The asset quality is very robust with the GNPA at 1.4% and the NNPA at 0.3% and the provision coverage ratio stands at 81%. I will not go into very much more of the numbers, but I will stop here and give you some more time for the questions. Before I hand you over I would like to thank the Axis Capital team for hosting this interaction. Now I hand over to the moderator. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Thank you for the opportunity. Very steady performance given the context of the quarter, first question on the balance sheet growth, which is quite strong and secondly given the liquidity scenario in the sector do you see some pressure on the disbursement in the coming quarters and secondly MFI segment some of the states have announced a loan waiver, so do you see any impact on the high delinquency in those states?

Samit Ghosh: From the liquidity point of view we have no issues at all, we have sufficient funding and we have been able to replace as I mentioned in my introduction a lot of the short-term funding largely through refinance facilities and growth of our deposit business a lot of which is done deposit. We also want to raise $50 million worth of Tier-2 capital in this quarter, so liquidity is not an issue with us to the extent that as I mentioned we are out supporting a lot of the good NBFC by providing the funding we have done back in the last quarter and we intend to continue do in the next two quarters. As far as portfolio quality problem is concerned with this announcement of loan waivers, etc., I will request Rajat to speak to you about it. He can explain to you in more detail.

Rajat Kumar Singh: Overall in terms of impact of loan waiver on our portfolio quality impact has been minimal so far. We are seeing some challenges in select pocket of MP, but given our portfolio is very small there and largely it is urban and semi-urban portfolio we are not very largely impacted because of that. Apart from MP at this moment there is no other problems related to loan waiver in our portfolio.

Manish Ostwal: Secondly on the issue of this listing of Ujjivan small finance bank at the time of giving license the RBI had given license to 10 it should be including Ujjivan, so the condition, which now is that they have to list within the three years, in that case there are so many other NBFCs are not doing very well, is there any possibility of deduction on this front or this is the case and we have to list by 2020?

Samit Ghosh: RBI has made it quite clear that we have to list by February 2020, so that means we have to complete the listing process by January. We are looking at multiple options for that we have spent the last two months actually lot of time with bankers and tax consultants and your legal advisors and we have reduced it towards the options by which we can achieve this, there are two aspects of it, one is lifting and also dilution of the promoter shareholding to 40% in five years time. So we are approaching these all required regulatory approvals, so we will be approaching both RBI, SEBI and NCLT for these approvals and once we have these approvals we can come back to you, but the way stands RBI requires us to list, but there are various options the various ways to list the bank, those are what we are excluding.

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

Alok Shah: Thanks for the opportunity Sir and congratulations on the great set of numbers. I was specifically looking at the slide 23 of your presentation and what do you mean by deposit customers and new to bank deposit customers, if you could help me understand how this transition has happened adding a 5 lakh customer base quarter-on-quarter or even a 0.6 lakh customers new to bank deposits, so what is the strategy being used there and also what is the average deposit ticket size that we are looking at?

Samit Ghosh: So, could you repeat, which slide are you talking about?

Alok Shah: Slide 23 of your presentation, I think this is the first time you have introduced this, your customer base growth.

Samit Ghosh: Right.

Alok Shah: This is an interesting slide, I am pretty impressed with the numbers that we see, just trying to understand how these numbers have shaped up and what is the average deposit size that we talk about in this?

Samit Ghosh: You see our deposit customer base has increased almost by 5 lakhs, bulk of this increase have come from micro banking segment and in the third line we have mentioned what is the customer base addition in branch banking, new to bank deposit customer is close to 2.3 lakhs, so in the open market category, which is branch banking our average deposit for the savings account is close to Rs.7500 to Rs.8000 and for micro banking customer our average deposit base is close to Rs.2000 to Rs.2500, so that is the average.

Ittira Davis: It seems like what you realize is that 40% of our asset customers have deposit with us, so from a strategic perspective we have opened their account while providing them loan. We transfer the disbursement into their account, so first we open the account and disburse into that account, so at the end of about one month there is still about 8% to 10%, which remains there and progressively deplete, but that also instigates the customer to start using the account, which helped us to build a 40% penetration into the 41% penetration in asset book and of course in the deposit it is a open market strategy, which led to source 2.3 lakhs and we are doing a lot of embellishment on that strategy to grow that even further.

Alok Shah: If I look at this ratio in September quarter you had 8.5 lakhs customers with asset and liability both on a base of 42 lakhs customer base, which is 20% and that number goes to 29% to 30% in one quarter, so what you said there is some amount, which stays in their account to add to it we have add new client additions, is that we are looking at it?

Samit Ghosh: Also there are branches being opened, conversions, which have started taking place, picked up stream in the second and third quarter, so that has also helped in that process.

Alok Shah: So, how do we look at this number in March 2019 or may be by March 2020, I think you did talk about something like converting 65% to 70% of your assets into deposit customers that is right?

Samit Ghosh: You know, we are looking almost about 55% to 60% of our asset customers holding a deposit account in March 2019 in addition to the open market growth.

Alok Shah: Thank you.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Thank you very much. Sir, my question is related to cost to income ratio, I mean listing we had some vision, we have some plan, we were talking about reaching near 50%, so where we stand there and how you see this changing over the next three years, why it is so late and by what way we will be changing to those type of ratio, this cost to income ratio of 77% if you compare this with Bandhan bank it is 33%, so where we stand and what is your thought process?

Upma Goel: Cost to income ratio, which is currently at 77% as we all know we are in the process of converting asset branches into full fledged banking unit, so this year we are expecting the cost to income ratio to remain in the range of 75%, but with our growth we are expecting our cost to income ratio to reach to the level of 50% to 55% in the next three to four years.

Sunil Kothari: And for that the major driver will be growth?

Upma Goel: Growth as well as the cost control measures, which we have been already institutionalized from this quarter.

Samit Ghosh: Largely it will be from scaling up the business, you are right.

Sunil Kothari: Sir, last question is whatever basic fixed cost structure already established or yet we require to be adding many people and many branches, what is your guidance about that?

Upma Goel: In the front of fixed side, , as of December end we have 464 branches, which are the full pledged banking and another 10 branches will be added in the next quarter, so from that perspective in fixed cost , there will be no major increase from the next quarter onwards.

Sunil Kothari: Thank you very much. Wish you good luck.

Moderator: Thank you. The next question is from the line of Venkat Subramaniam from Organic Capital. Please go ahead.

Venkat Subramaniam: Thanks for taking my question, Sir. In the opening remarks, Mr. Ghosh indicated that our ticket sizes are going up and yields are coming down, can you throw a little more light on that please?

Samit Ghosh: That relates to mainly MSE business because in the MSE business we are moving from unsecured business to secured portfolio and the secured loans obviously have a lower interest rate and the loan ticket size is larger. That is only related to MSE business and not for the other businesses.

Sunil Kothari: Does it have any reflection on our NIMs going forward on a blended basis?

Samit Ghosh: On a blended basis, currently our portfolio is 82% secured and 18% unsecured progressively the portfolio will come close to about 90% secured, so the current NIMs will deteriorate by about

100 basis points, but that will be more than made up by the reduction in the loss numbers that we will have over time.

Sunil Kothari: My second question is with respect to the number of retail customers that we have taken, given that we have such small ticket customers, what would be the cost of servicing them and what can be the potential pay off going forward, I would guess that at this point in time they are contributing big with respect to your savings really there?

Samit Ghosh: So, the thing is you know these microfinance customers, their deposit levels are relatively small at present, but we open that account more also from the perspective of efficiency so that we can disburse our loan into their account cashless and we are working also to select from a cashless way through standing instruction, etc., so this is not the only impact. It will also help us reducing our operating cost in the future, but we are also going to introduce in next quarter what we call family banking because we feel that these microfinance customers as a family have significant savings it can range anywhere between 16000 to one lakh, so we would be able to attract them through other called deposit products like recurring deposit or fixed deposit, etc., so overall relationship with the customer from the liability side and from the asset side is extremely profitable.

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

Nishant Shah: Just one question, could you speak about the discipline in the group center meetings and any trends over there, I think the last time I spoke to you, so any comments about that how that has changed?

Samit Ghosh: So, you are asking about center meeting discipline?

Nishant Shah: Yes.

Samit Ghosh: So, in some specific states especially in Maharashtra we were seeing the trend, very structured way we have started working on bringing that center meeting discipline, a lot of policy changes have also been implemented, so we are seeing a positive trend and it has also helped us in improving our on time repayment rate, so we are seeing positive traction already.

Nishant Shah: Rajat, you just mentioned some of these polices like what else are you doing?

Rajat Kumar Singh: So, for example customer is not provided loan after delaying three or four payments we have tightened those policy so that customers who are delaying payment of our loan beyond a particular point are not getting the repeat loan, we are constantly going and communicating them, but if they do not pay on time and come to center meeting there will be a repercussion on their next loan.

Nishant Shah: Could you just broadly quantify like how the attendance rates have moved I think it was closer to 50% or so, have that improved and how much has that improved by?

Rajat Kumar Singh: More or less in the same range, but collection at the center meeting has improved.

Upma Goel: So, at present our on time repayment rates are over 91% and we expect this to gradually improve over the next few months with all the measures we have taken.

Nishant Shah: That is it from me.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Good evening and congratulations for the quarter. I have three questions, one is if I look at the numbers you have reported your yields have moved up by 100 basis points Y-o-Y, your costs have come down by 80 basis points Y-o-Y, but the NIM that you have reported is flat, so just help me reconcile this, the second question is with respect your branch openings, so we know what the conversion plans are that is fine, but apart from the conversion what is your branch addition plan and hiring plan for the next year or a couple of years if you can share that and the third thing is in MSE if I look at the net NPA ratio that has been going up and that is almost hit I think 1% in the quarter, now if I look at the MSE book it is not only growing fast, but incrementally as you said it is also growing through secured loans, so why is this NNPA ratio going up, so these are three questions? Thanks.

Rajat Kumar Singh: Let me take your first question , which is on the branch expansion. We have plans to expand our branch first of all we will convert we have 48 asset centers, which are still to be converted, which we will convert within the first half of next year and we have plans to grow branches further for which we are doing our surveys, which we do our internal survey to determine which branches those would be, but it is not going to be in the same measure as it has been in this year.

Abhishek Murarka: But any number that you can share or you have in mind?

Rajat Kumar Singh: Not till we completed our survey, once we completed our survey we will be able to share the number with you.

Abhishek Murarka: And hiring?

Rajat Kumar Singh: So, Abhishek we have opened close to 300 branches this year, next year that number will be substantially lower than that. That is all we can tell you at this moment.

Sanjay: On the MSE book, we realized very quickly that we had certain challenges in the unsecured book for which we had strategically changed the whole move to bring in secured loan and do more of secured loans in fact like I said earlier progressively close to 90% are in the secured book obviously depleting so to the extent of the secured book is going up the unsecured book is coming down as well and that combined impact is showing a higher NPA, but there are certain actions that we have taken because on account of which the numbers will start coming down in the next two quarters.

Upma Goel: This increase in NNPA is on account of some increase in delinquencies in the unsecured book like Mr. Sanjay has mentioned and when an account enters into an NNPA we do not take 100% provisioning immediately, so the provisioning will increase as the bucket change and move for different account and that is the reason you will see the spike in Q3 in terms of the NNPA percentage.

Abhishek Murarka: So, has the GNPA also gone up in percentage terms or is it just PCR dropping, which is creating this NNPA to go up?

Upma Goel: No, the PCR dropping has been on account of the write-off we have done on the micro banking book and the MSE book will have no bearing on the PCR given the size of the portfolio we have at this point of time, so the unsecured book has some increase in the GNPA and that is the reason why you see that spike in NNPA.

Rajat Kumar Singh: Finally about the NIM?

Upma Goel: When we look into the NIM our yields are at 20.9 I am now talking about the bank NIM, it is 20.1, which was there in Q2 and we have the same yields in Q3 similar is the situation for the cost of funds, the cost of funds were 8.5 in Q2 and in Q3 also we had 8.5, so banks NIMs are stable at 10.8%. For the consolidated NIM I would request Deepak to answer this question.

Deepak Khetan: Abhishek there is a difference in how you calculate banks NIM and NBFC NIM because in banks NIM you have processing fee, which is taken as other income where an NBFC will be included in your interest on calculation. I can give you the details of slide.

Abhishek Murarka: Sure, let us take that offline, no problem.

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

Digant Haria: My question is related to branch banking, if you can just highlight what are the top two things now for us at our branches because now I think most of the rollout is over, most of the operating costs have been taken, so what would be the top two things that we would focus on at the branches for say next four or five quarters?

Rajat Kumar Singh: So, our primary focus in the branch banking area is to increase CASA and strategically we are going through a segment & solution based strategy to do that and that is what we will continue to do as we continue to embellish our product, so we will go to segments provide a holistic solution to that segment while also embellishing our CASA product and the FDR strategy will continue to have higher than what competition is offering, the private banks that they offer to be able to gain foothold in the segment. From the new additions that we have done is on the current account product we have added a corporate internet banking module, which a lot of our customers amongst the medium sized companies asked for.. In addition to that we have also brought cash management solution, which is yet another requirement on these companies and both these are the differentiator that we have with this CASA product. On the savings account we have a whole bunch of things that we are doing with the debit cards, with the entire payment aspect of the savings account, which again is something where you built entire transaction through the savings account and whenever transactions have gone up we have seen an increase in terms of the savings that they keep with us, the balance that they keep with us. In addition, we have also given our customer base mobile app, which is in five languages and that again is something that we are promoting because it becomes much easier for our customers to transact in a language that they know well as opposed to this one being just in English plus we have had a fair amount of marketing that we have done and you know all our marketing that we do happens in the regional languages and the mobile app is one of the key things that we have marketed in the markets that we gone in the languages that we have gone with and the languages that we have are English, Hindi and we covers a very large range of Bengali, Tamil and Kannada.

Digant Haria: Thanks for this elaborate explanation, just a last followup with that is, in our SA account why do not we offer better interest rates may be as high as 6%, 7% because some of our competitors are trying to do that, so that is the first part and second part is that right now per branch if I look at your CASA deposits plus retail term deposits we are roughly sitting at around 4.5 to 5 Crores of deposit per branch and on the very, very higher end of this we have large private banks sitting at 150 Crores of deposits per branch so where do we want to go say in the next one or two years, what is our internal aspiration or target on this particular thing?

Rajat Kumar Singh: Like I said earlier, our belief is that we go to segments and we go through a holistic solution to those segments and we believe that relationship counts for far more than just rates and the service that we provide is a key differentiator there, also whatever we have done in our products as I spoke about, so that is going to be the way we will drive both our CA and our SA strategies as they got the branches yes 4.5 Crores is the average at the moment, but if we look at the vintages progressively there are a large number as the vintages have been growing a large number of our branches, their balances have grown and we are currently tracking at levels of because if we look from a vintage perspective most of our branches have been at about 9 to 10 months as opposed to other private banks, which have been there for many years, so at this stage we are looking tractions of going from 10 to 25 and so on, so we have a large number of branches that are well on the way to achieve those kind of balances.

Digant Haria: Alright. Thank you. All the best and thanks for this explanation.

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

Dhaval Gada: Sir, most of the questions have been answered, just a few data keeping question, one what is the breakdown of interest income between advances and investment income and other interest income, second is the breakdown between current account and saving account and the third is the breakdown of the free income between processing fee, PSLC and any other free income and treasury gain?

Deepak: Dhaval you can take down the numbers for Q3 FY2019 processing fees is 30 Crores, 0 PSLC, interest on investment is 26 Crores, securitization income is 3.6 Crores, bad debt recovery is 5.3 Crores, fee income is 5.1 Crores and miscellaneous income is 5.7 Crores.

Dhaval Gada: How much was bad debt recovery?

: 5.3 Crores.

Dhaval Gada: And after that the two numbers were?

: Fee income is 5.1 Crores and miscellaneous is 5.7.

Dhaval Gada: Got it and breakdown between current account and saving account?

Rajat Kumar Singh: Currently our card deposit is close to 50 Crores and saving account deposit is above 510 Crores.

Dhaval Gada: Perfect. Thank you so much.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Reliance Mutual Fund. Please go ahead.

Bhavik Dave: Just wanted to understand firstly on your MFI business, so around 30%, 40% of our business in the top three states that we operate in, so just wanted to understand how are these three states operating because not from an MFI, from a state perspective had gone through ups and downs like Karnataka has gone through the waiver, which is 13% of our business, so how are these three states West Bengal, Tamil Nadu and Karnataka are behaving from a customer perspective and from a business perspective?

Rajat Kumar Singh: Right now all three of these states are quite stable, we have good amount of growth coming from Tamil Nadu followed by West Bengal and then Karnataka. In Karnataka because it has gone through a little bit of challenge in previous years, in Bengaluru and urban area we are a bit more careful and moving towards semi-urban and rural areas. Our portfolio in rest of the Karnataka is doing pretty well. In Tamil Nadu we do not have any issue, our recent origination of last 15 to 18 months are also very, very stable, industry wise also we are not seeing any challenges at this moment, and even in West Bengal we are having more or less similar situation, very stable at this moment, there are no challenges coming out in these three states.

Bhavik Dave: How is the competition when it comes to West Bengal because we have a player, which is quite sizeable and has been a leader in West Bengal, so how do we cope up with the competition with the likes of Bandhan?

Rajat Kumar Singh: So we have been competing with them for the last 10 years. While we compete in some geography there are a lot of places where we are not present or where our customers do not overlap that much. Even in West Bengal close to one third of our customers are our unique customers and there are some bases where we share customers. So as far as competition is concerned we do not have any problem, we are not seeding around to them and our growth in West Bengal has been above average. At this moment we do not see any challenges. In fact some of the smaller MFIs have slowed down a bit in West Bengal in the last two, three months and to that extent we have got some benefit.

Bhavik Dave: Sure and secondly sir on the MSE business that we see that the average ticket size has gone up over this quarter by 27%, 30% in one quarter, what is leading to this average ticket size going up and who are these customers, are these the MFI customers that have graduated from the MFI to secure kind of lending, what is the colour of this MSE loan that we are doing, who are these customers, how many customers do we have, how this ticket size increased so rapidly?

Sanjay Kao: If you look at the MSE flows almost close to 85% to 90% of our flows are from the secured book now compared to what it was earlier, so that explains why the ticket sizes have gone up and in terms of these are all non-MFI customers, so these are new to Ujjivan customers not from the MFI book.

Bhavik Dave: How do we source these customers are they sourced via branches?

Sanjay Kao: We have multiple channels that we source them through. So one, there is a large part of the sourcing happens through the direct team, which is almost close to 75%, another staff referrals would be another 10% to 15% then we also have started getting customer referrals, although very small at the moment and we have also tied up with connectors who are in the range of 5% to 10%, so it is a combination of channels.

Bhavik Dave: And what led to this jump in the ticket size?

Moderator: Bhavik, I am sorry to interrupt, but may we request you to come back in queue for any followups. Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: On operating expense, how are we looking at growth on the current base for next year will it be the inflationary 10%, 15% growth or next year can be a higher growth on this quarterly run rate of 250 Crores of opex?

Sneh Thakur: So next year growth from the opex will be directly linked with our branches, which we will be opening it up, so as we say over a period of time we will look into the cost-to-income ratio of 50% to 55%, but the opex will be in line with the expansion, which we are planning for the next year.

Nitesh Jain: So any ballpark number in terms of growth if we look at this quarterly run rate broadly the full year opex will be around 1000 Crores run rate, so any ballpark growth that one should expect?

Sneh Thakur: So we are in the process of finalizing our branch expansions for the next year. We will come back with the numbers in Q4.

Nitesh Jain: Sure and just on the deposits can you share that percentage of deposits that we have got from microfinance customers?

Rajat Kumar Singh: So from microfinance customers, we have close to 380 Crores of deposit and we have overall total retail deposit of 2000 Crores.

Nitesh Jain: Sure sir. Thank you. Thanks a lot.

Moderator: Thank you. The next question is from the line of Aseem Pant from HSBC. Please go ahead.

Aseem Pant: One question is on this recent RBI circular allowing restructuring for MSME loans, have you done any analysis on how much of your portfolio would be eligible for that?

Ittira Davis: Right now, we are in process of putting in place a mechanism to do this though we do not have any such loan identified, which requires restructuring at the moment under MSME.

Aseem Pant: And secondly your individual loans how much of it I believe most of it is sourced from your existing group loan customers. Is that correct?

Sneh Thakur: Yes.

Aseem Pant: Thank you.

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

Rohan Mandora: With respect to the PSLC what kind of an excess PSLC would we be carrying at the beginning of the next year any guidance on that and second given the fact that MFI portfolio currently is behaving well, do we plan to have a policy wherein we will start to build some floating provision on that and thirdly there are some few data keeping questions. If you would share the average cost of institutional and retail FDs as well as the percentage of on group loan disbursements above say 1 lakh at the time of disbursements and thirdly what is the average ticket size in secured MSE portfolio?

Ittira Davis: I will take the first question, which is about the PSLC. So PSLCs will be definitely a source of income in the coming year also, but we will be able to estimate the amount during the budgeting process and we will give you those numbers after Q4, so that is about PSLC. Now please repeat your other questions.

Rohan Mandora: On building the floating provisions do we have any thought on creating policy on that for the group loans?

Sneh Thakur: So as far as the micro banking book is concerned we presently maintain a 0.5% provisioning on the standard asset book and we plan to review the norms in due course of time as far as the standard book is concerned, but however as I speak our cumulative provision form 1.6% of the total portfolio of Ujjivan, so which is adequate provisioning at this point in time.

Rohan Mandora: Average cost of institutional and retail FDs?

Sneh Thakur: Average cost of retail FDs are 8.38% and institutional is in the range of 8.14%.

Rohan Mandora: And what is average ticket size in secured MSME loans?

Samit Ghosh: Please give others a chance to give questions please.

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

Kunal Shah: Yes and particularly in terms of the deposit franchise when we look at it the rollout, which has happened maybe the quarterly addition of almost like 5 lakh odd Crores, so where do we see ourselves, is it just the start or maybe from the existing branches this is the run rate, which would have continued per quarter or maybe we could see a much better traction going forward?

Sanjay Kao: Kunal, as the branches gain vintage their traction has been growing and that is what we have seen and we have classified branches into different categories and for each category we have a trajectory for every vintage and based on that we will continue to grow our numbers as we move into the following quarters.

Kunal Shah: And any guidance for FY2020, maybe FY2019 you had given, but that is just quarter away, so when we look at it in terms of FY2020 how should we see the overall growth as well as maybe ROA, ROE and cost-to-income?

Ittira Davis: For the long term we have already given a guidance that we will continue to grow in the range of 30%, 35%, so that is the general guidance, if there is anything specific for the next year we will update you after Q4.

Kunal Shah: Thank you.

Moderator: Thank you. The next question is from the line of Yash Jhaveri from Meridian Capital Group. Please go ahead.

Yash Jhaveri: Just one question. Can I get a breakdown of the MFI book in terms of urban, semi-urban and rural if that is possible?

Rajat Kumar Singh: It is pretty much equally distributed among urban, semi-urban and rural at this moment.

Yash Jhaveri: And do we do significant business in any other lines, in the rural areas or not yet?

Sanjay Kao: We have rural branches where we have begun doing loans and asset and deposits, so we have created agri products that we sell through the rural branches and this will expand as we go as the rural branches grow as well.

Yash Jhaveri: Alright. Thank you.

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

Deepak Poddar: Sir, this is regarding your listing of Small Finance Bank. Any thought process on any kind of structure that you have in mind in terms of like how much percentage we would be holding as a holding company Ujjivan and any kind of restructuring or any thought process on that would be helpful?

Samit Ghosh: We are working on two or three alternatives and we are going to discuss this with RBI and SEBI and then we can get back to you once we agree on the roadmap based on their approval, so right now we cannot really give you any kind of definite response to this.

Deepak Poddar: No problem sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from TCG Asset Management. Please go ahead.

Rahul Maheshwari: And just one question that on the liquidity position and ALM. Just wanted though you have started your change in the mix towards the non-MFI, but if you look at the higher tenure more than one year your ALM gap, which is there, so just needed a colour that how you would balance in terms of the deposit growth and the advanced growth and the mix that will be taking place?

Sneh Thakur: On the liquidity side as reflected in our ALM, our long-term funding is more than covering our long-term assets as we speak and going forward as we are building it our term deposit the ratio will further go up, so on the ALM side we are very comfortable and the way we are building it up our non-MFI book we will be able to cover up our sufficient gap on to the assets and liabilities mismatch by way of the long-term funding from term deposit as well as from refinancing.

Rahul Maheshwari: But what the mix would be coming in, for an example right now more than one year if we look at the one year gap then the percent of total assets is coming at 33% and 48% is the liability where is the appropriate mix where you would be more comfortable where there is no negative ALM mismatch in terms of the micro how much is the percentage and the MSE and affordables, etc., and you have also raised the capital just wanted is this the sufficient capital that has been raised and going forward what would be the tenure or timeline where no raising of capital is not further needed?

Samit Ghosh: I think to answer your question capital is linked to the growth of the business, so as the business grows we will grow, we will take more capital, so right now at 22% we are adequately capitalized and as the business picks up we will look at different opportunities. We have already mentioned that we are taking in the subordinated debt, so that will help us on the ratios as well. We are constantly watching the ratios and constantly monitoring it, so as and when required capital will be brought into the company.

Rahul Maheshwari: This 22% ratio will fulfill till what timeline of the growth one year, two years, just needed on that, depending on your 30%, 35% loan growth, which you have guided for?

Samit Ghosh: Based on our targets, which we have in our internal guidelines, our requirement from RBI is 15%, so at 22% we are plus 7%, so that will take care of us for the next year or year-and-a-half.

Moderator: Rahul, I am sorry to interrupt. May we request you to come back in queue for follow-up. The next question is from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh: Just one question. This is a question to Rajat or even Samit, if anyone wants to take it, just wanted to understand that there is a general preference from most MFIs today to increase the average ticket size. More data points that come from Credit Information Bureau suggests that the average ticket size is increasing at a much, much faster pace across the board some colour as to why this is happening on the ground and one data keeping question if you earn more than 50% of the subsidiary whenever it is listed what is the DDT currently applicable on it?

Sneh Thakur: I just covered DDT remains at 20.56% that is being applicable.

M.B. Mahesh: Even if you want more than 50%?

Sneh Thakur: Yes.

M.B. Mahesh: Okay.

Rajat Kumar Singh: Mahesh average ticket sizes are going up largely because most of the banks and SFBs have made some changes to their credit policy and allow the maximum exposure to go up to 1 lakh. As earlier in MFIN it was restricted at 60000 and 60000 was a norm, which was almost 5, 6 years old, so it got reviewed and most of the SFBs today have moved up to 1 lakh and giving loans to customers where ticket sizes are going up. If you look at Ujjivan's disbursement, overall disbursement in micro-banking has gone up by 17.5% from Q2 to Q3, but in terms of ticket size increase is close to 6%, 7%, so our growth is combination of new customer acquisition, servicing existing repeat loans and retaining them and some part of our growth is coming from ticket size. Our growth has also come because we have in select branches, branches where we are comfortable and there are no credit issues for last one, one-and-a-half years we have increased the overall exposure for customer up to 1 lakh.

Moderator: Mahesh, please come back in queue if you have a followup. The next question is from the line of Kislay Upadhyay from Abakkus. Please go ahead.

Kislay Upadhyay: A small clarification on a couple of comments you mentioned. You mentioned our farm loan waiver impact has been low because we are more urban focused, but you also mentioned our MFI portfolio breakup between urban and semi-urban and rural are pretty even equally?

Rajat Kumar Singh: I was talking about MP in particular when I said that there our exposure is largely in urban and semi-urban areas. In Madhya Pradesh where we are seeing problems related to farm loan waiver in one of the branches, one of the districts there we do not have any major portfolio in rural area I mean significant, but if you look at PAN India, yes, in eastern part of country and some part of north we have portfolio in rural area as well, but in those areas there is no problem related to farm loan waiver.

Kislay Upadhyay: Thank you.

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

Dhaval Gada: Just one thing on the overall cost ratio, when we were MFI company our cost ratio used to be around 6% to 6.5%, cost-to-asset I am referring to, do you think that eventually in the next two, three years when you mentioned that 50% to 55% cost-to-income ratio you are essentially referring it to around 6.5% cost to assets. If you could comment on cost to assets how do you see that is tracking over the next two, three years that will be useful?

Sneh Thakur: So as we mentioned in the next two to three years we are expecting 50% to 55% as cost-to-income ratio, which translates into 6% to 7% of the total assets.

Dhaval Gada: So 6.5% in the next three years is something one can expect from the business?

Sneh Thakur: Yes.

Dhaval Gada: Thank you.

Moderator: Thank you. Due to time constraints we will take the last three questions. The next question is from the line of Gaurav Jani from Centrum Broking. Please go ahead.

Gaurav Jani: Quickly sir, just a sense on your sustainable credit cost as you are progressing towards the secured portfolio considering the larger ticket size, one and two how is our SA per customer is shaping up what it is now and what is the target there?

Rajat Kumar Singh: Gaurav, can you repeat the second question?

Gaurav Jani: Yes, the savings account per customer what was it earlier what is it now and what is our target there, how do we see it shaping up in the future for the next two, three years?

Sanjay Kao: So on the savings account last quarter if you look at the averages it is 6400 and the average account holding now is close to 7800 odd, 7700, and we expect that to progress the same way and in fact a little faster. If I look at the active accounts, our active account balances are close to about 11000 and as the accounts become more and more active, again as the accounts become more and more vintage they will progress towards having holding larger balances and also like I said earlier that we are doing a lot of work around our product and in the way we serve our customers that itself will help grow the accounts even more and the balances.

Gaurav Jani: And my second question on credit cost please?

Sneh Thakur: Yes, could you repeat the question please?

Gaurav Jani: My question was madam as we move towards a larger ticket size secured portfolio how do we see our sustainable credit cost for the next two, three years?

Sanjay Kao: You know as we progressively move towards a secured portfolio and in comparison to what it is now the portfolio will automatically, behaviourally become much better than what it is at the moment.

Samit Ghosh: That is for MSE.

Sanjay Kao: MSE.

Gaurav Jani: Any guidance on credit costs in terms of basis points?

Sneh Thakur: Our guidance for this year remains same which is some 70 basis points on the portfolio. In terms of next year our present guidance is in the range of 100 to 150 basis points; however, this is very indicative and maybe we will come back to you with the numbers after Q4.

Gaurav Jani: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Agam Shah from Agog Investments. Please go ahead.

Agam Shah: Just a question on the CASA ratio side. I am seeing like it is completely improving in the last three quarters this leads to 10%, so where do you see it may be stabilizing for the hiring growth and second question would be in terms of new offerings, any new offerings which you have done to introduce maybe next year, and any new hirings in that space?

Sanjay Kao: So in terms of new offerings we are currently piloting our two wheelers, so that is something that we are looking to expand because that sits very well with our mass market customer and also personal loans that we had launched, which was completely digital has taken a hit because of the KYC and E-Sign having gone out we have reworked the entire thing and that is another area of expansion that we are looking at. Sorry what was your first question?

Agam Shah: In the CASA front I was asking, so let us say when majority of the products of the banks once reaching after the CASA ratio let us say 25% the next incremental becomes a bit difficult, so any type or anything where you will reach this target or just comments on that, how you are planning to increase our CASA ratio?

Rajat Kumar Singh: Currently our CASA ratio stands at 10% and in next three, four years we expect it to be in the range of 30%.

Agam Shah: 13%?

Rajat Kumar Singh: 30%.

Agam Shah: Thank you.

Moderator: Thank you. We will take the last question from the line of Siddharth Malhotra, an individual investor. Please go ahead.

Siddharth Malhotra: Firstly a big congratulation to Mr. Ghosh and Mr. Davis and the team for taking it even to demonetization, conversion to SFB. So my question is to Mr. Ghosh really. Mr. Ghosh, can we expect a significant bump up in net profit from the first quarter of next year?

Samit Ghosh: The first quarter of next financial year?

Siddharth Malhotra: That is right.

Samit Ghosh: I do not know it will be much better, but to what extent I think we will be able to give you a better idea in the next call.

Siddharth Malhotra: Okay.

Samit Ghosh: Definitely it will be much better, but we are still watching our budgets and everything and by next call we should be able to give you a much better direction.

Siddharth Malhotra: Right. So is it safe to assume that Ujjivan's best years are clearly ahead of it?

Samit Ghosh: Yes, because in the last two years we have basically invested in the bank in terms of physical infrastructure, technology and the people and the new businesses, which we have started, so we expect the scaling up of this business should continue over the next few years, so the cost-to-income ratio should come down, your profitability should improve because most of the investments are done and now you have got to see the results from the scaling up of business.

Siddharth Malhotra: Thanks very much. Good luck sir.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Davis for closing comments.

Ittira Davis: Well I would like to thank all the participants. We have had a good set of questions and clarifications and it is been a constructive discussion, so thank you for participating and I would like to thank Vikas for coordinating this session and to the Axis Capital team for making it possible. Thank you and goodbye.

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