



“Ujjivan Financial Services Limited  
Q2 FY2020 Earnings Conference Call”

October 21, 2019



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**Moderator:** Good day ladies and gentlemen and a very warm welcome to the Ujjivan Financial Services Limited Q2 FY2020 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Murarka from IIFL Securities Limited. Thank you, and over to you, Abhishek.

**Abhishek Murarka:** Thanks Ali. Good evening everyone, and thanks for logging into the call.

To take us through the Q2 FY2020 results from Ujjivan, we have the entire top management of the company. From Ujjivan Financial Services, the holding company, we have its MD and CEO, Mr. Ittira Davis, and from Ujjivan Small Finance Bank, we have Mr. Samit Ghosh, Managing Director and CEO; Mr. Nitin Chugh, President; Mr. Sanjay Kao, Chief Business Officer; Mrs. Upma Goel, Chief Financial Officer; Mr. Rajat Singh, Business Head – Micro Banking and Rural Banking; Mr. Murli Manohar, National Manager Financial Planning and Analysis; Mrs. Sneha Thakur, Head of Credit and Collections Micro Banking; and Mr. Deepak Khetan, Head of IR. I thank the entire team on behalf of IIFL for allowing us to host the call.

The management will now start with some opening comments and then we can open the floor for Q&A. Thanks a lot, and over to you, Sir.

**Samit Kumar Ghosh:** Thank you very much. Good evening and welcome to our second quarter for the full year 2020 earnings call. We are pleased to report a strong all round business performance, which continuous from the previous 2 quarters. Our assets and liability businesses have both shown excellent growth. We have maintained focus on cost and profitability. In this quarter, we achieved a PAT of 93 Crores versus 44 Crores in the previous year in the same quarter, both from strong business growth and also from the tax benefits, which we received in this quarter.

Disbursements were at Rs.3606 Crores, up 51% year-on-year and 22% quarter-on-quarter, which led the gross advances to grow by 55% year-on-year to Rs.12,864 Crores. Diversification of our asset business continues with the non-micro banking business, primarily financial institutions group, Affordable Housing and MSME businesses, continue to scale up and now stands at 21% of our gross advances.

Retail deposits, which constitutes 42% of total deposits, grew by 237% over second quarter previous year to Rs.4248 Crores. Our CASA book stands at 1202 Crores, up 45% over quarter ended June 2019. Now CASA book accounts for 12% of our total deposits. We lowered our cost of funds to 8.4% from 8.5% in the previous quarter. Our customer base has moved up to 49.4 lakhs from 47 lakhs in June 2019.

Micro banking business with disbursements growing at 18% over first quarter 2020 stands at a gross advance of Rs.10,191 Crores, up 38% versus second quarter 2019. We have successfully launched Sampoorna Family Banking in majority of our branches, providing savings and health insurance products to the families of our micro banking customers. Savings account balances have also steadily started building up. A number of business reengineering initiatives and process control practices are also being undertaken to scale up cashless repayment and transformation of the center meetings from sourcing loans to sourcing deposits from our micro banking customers. Repeat loan through phone banking will be piloted in November this year.

Agri group loans to mixed group customers was launched in fourth quarter 2019, now contributes 21% of the rural banking portfolio. Deepening of the footprint in URC and activities focussed towards agri skill development has led the rural banking portfolio to grow to 395 Crores. MSE business, which currently stands at gross advances of 835 Crores, was up 137% versus second quarter full year 2019, versus 22% first quarter full year 2020. The business has completely shifted towards secured lending, which accounts for 84% of the book as of September this year.

This has enabled us to increase our ticket sizes and move up in the MSME target market segments while the yield has declined marginally. The business is moving towards building relationships with secured, higher ticket sized loans and multiple products and services like overdraft for working capital, current accounts with corporate Internet banking, etc. This has enabled us to open over 10000 current accounts and build up average CASA balance in the current account to 44 Crores.

Affordable Housing stands at gross advances of 1212 Crores, clocking a growth of 127% over second quarter 2019. Scaling up operations and targeting projects in Tier 3, Tier 4 cities with products catering to economic weaker segments and low income group of the society have consistently aided to its growth.

FIG Lending continues to gain traction, achieving a sizable portfolio of 521 Crores. Continued disbursement to NBFCs in closely identified sectors has assisted in 45% growth over the previous quarter.

Our deposit business has seen stellar growth this quarter and continues to improve its performance, backed by expansion of banking outlets and focusing on joint offering of products and services by our businesses, such as branch banking, MSME, TASC, etc.

Focusing on building on low-cost deposits, we piloted digital deposits and savings account in the month of August and have acquired close to 1000 customers as of date. We successfully launched privilege savings account during second quarter targeting high relationship value customers.

In the quarter ended September 2019, we have on boarded close to 69000 new-to-bank retail customers, which helped us to ramp up our retail deposit base. Our focus is acquiring new

customers and immediately on-boarding them on various digital platforms to ensure they are active transactors and building stable CASA.

Our credit book continues to be of the highest quality with a stable GNPA of 0.9% and NNPA of 0.3% despite multiple states grappling with floods. Our PAR>0 has declined to 1.6% compared to 1.8% in June 2019. We continue to remain focused on managing our costs and cost-to-income ratio of 67% in the first half and 69% for the second quarter.

During the quarter, we converted 46 branches and opened 32 new banking outlets, including 21 URCs. As on September 30, 2019, we have 552 banking outlets and 4 asset centers. Remaining asset centers are expected to be converted in the running quarter.

Ujjivan remains focused in addressing financial needs of the aspiring middle-class, which is the fastest-growing segment of our economy. Business fundamentals remain strong as the micro banking portfolio is largely unaffected by economic cycles, and we look forward to robust growth.

We are happy to announce that we have successfully completed the preliminary work for the upcoming IPO, and we are in advanced stages of listing the bank via IPO route. We are very confident of achieving the successful closure of the IPO within stipulated time lines.

I would like to welcome today in this meeting Nitin Chugh. He joined Ujjivan as President and designated MD on August 17, 2019. His induction and overlap with me is in progress, and he will be taking over from me on December 1, 2019.

I would like to stop here and hand over to Ittira to take you through the financial performance of the quarter and listing update. Thank you very much.

**Ittira Davis:**

Thank you, Samit, and good evening.

Today, this call is a milestone call for Ujjivan for several reasons. The first, of course, Samit had introduced Nitin, and that is a very important announcement and the changeover, which will happen from 1st of December. It also happens to be Samit's last call as MD and CEO, and I think that is very important because he has seen the company through from the starting to this stage, and interestingly, in a few weeks, we will have the second company in the Ujjivan camp, which is going to be listed, that is the bank. So going forward, from the next call, which is in January, we will have slightly different format in the call because you will have the bank which is listed as well as the holding company which is listed. So this is just by way of information and about the milestones that we have.

Now the most important thing of today's call is I was looking back and trying to see how things have moved in the last 6 quarters. As you know, 2017-2018 was a time we rattled with the

demonetization and everything else that came with it. We took care of that, and now we have seen 6 good quarters for the Ujjivan.

In the first quarter of 2018-2019, we saw 45 Crores, moved to the second quarter of 44 Crores and again the third quarter of 45 Crores, and then we moved, after having set that base, moved to the next level. Fourth quarter of 2018-2019 saw 64 Crores, and now in the first 2 quarters of this financial year, we have entered the 90s, 94 Crores in the first quarter of this year and 93 Crores in the second quarter. So I think all these track records speak for themselves. So I think the base has been set. The bank is in a good position, and we are in the business of doing banking and taking it forward.

For the shareholders of Ujjivan Financial Services, I just want to inform them that for the retail investors, we have a reservation of the IPO from the bank for about 120 Crores, and this reservation will be made available to the existing shareholders who are eligible from Ujjivan Financial Services at a special price, and that price will be at a discount of up to 10%, and that will be decided finally before the launch of the issue. So please keep that in mind, and if you are advising any of the shareholders, I think this is something that you can pass on to them.

Having said that, because we are in the IPO process, there is a limitation on what we can give you by way of forward-looking numbers, so please restrict your questions keeping that limitation in mind.

So without taking much more time, I would like to hand it over to the moderator for your question and answers, and please try to keep your questions to a maximum of 2 because we would like to give time to as many people as possible. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nishant Shah from Macquarie. Please go ahead.

**Nishant Shah:** This is Nishant. A couple of questions. Firstly, on the IPO, what is the planned fresh capital issuance within the IPO? Or is it entirely OFS?

**Upma Goel:** It will be of fresh capital.

**Nishant Shah:** Entirely fresh capital?

**Upma Goel:** Yes. Through this IPO, we are looking at raising entire fresh capital at this point of time.

**Nishant Shah:** Fair enough, and a little more strategically, is there any thought about probably allocating a higher number of shares to existing investors, so that when the merger has to happen, say 2 years down the line, there is a little more consensus or visibility on consensus? Is that something of a thought that you have given to?

- Ittira Davis:** Yes. I mean in terms of existing investors, we have a pre-IPO tranche, which is closing shortly. The existing investors are welcome to participate in that tranche, and if you need any further information, you can contact us separately with the investor team, and also, there is 75% of the IPO itself has to be done with institutional clients. So there is opportunity in that as well, and then as I said, 10% of the amount is reserved for existing investors of the holding company.
- Samit Kumar Ghosh:** Retail Investors
- Ittira Davis:** Existing retail investors. So I think there is a lot of opportunity for the existing investors to participate.
- Nishant Shah:** Fair enough, and second, little bit of an ambitious question from Nitin. Nitin, it is early days for you in the bank, but could you just highlight probably what kind of things are you looking at for the bank? Is it going to be something new? Is it just the same things done better? Anything that you can say at this time?
- Nitin Chugh:** Nishant, quite honestly, we are trying to do quite a few things. Focus obviously is going to be on the liabilities franchise. I think we are putting in a fair amount of plans to strengthen and grow that. As you have heard to Mr. Ghosh also we are very interested in a stable, granular CASA buildup. So it is obviously going to be high priority for us. At the same time, as we are diversifying and now that we have added 78 new branches in the last quarter, there is going to be a lot more focus on generating business from these branches, the new ones, as the older ones also continue to contribute, and the third one would be to also bring in a lot more users through our digital technology, and we have identified quite a few places all across the organization. So I think you will hear more from us. Unfortunately, we cannot get into too much of details because of the limitations. But yes, quite a few things have been worked on.
- Nishant Shah:** Fair enough that is it from me thank you Samit Sir.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Sir, my question is regarding IPO only. Now assuming after this dilution, maybe 15%, 20% dilution, the holding company will be holding about 80%, 85%, right? Or there is more dilution? Or have you given the number of dilution?
- Ittira Davis:** Yes. The dilution is about 10%. So yes, your numbers are correct. Go ahead.
- Deepak Poddar:** Okay. Okay. About 10% dilution. Now that is about the 3-year cap that RBI has put in now coming to 5 years that requirement that we have too also. Any plans on that? What we are planning to do on that front?

- Ittira Davis:** Yes. There are different plans, but obviously, it is a little bit early to discuss it. But yes, our objective is to mainly meet the targets set by RBI. So one of the things is that we will be discussing further with RBI as to how this can be achieved, and if reverse merger is possible, then that would help. But otherwise, we have backup plans also and trying to achieve the dilution from the level we are to 40%.
- Deepak Poddar:** To 40%? So that is a huge dilution that we are talking about, right?
- Ittira Davis:** Yes, yes.
- Deepak Poddar:** So even the merger is one of the option that you might be considering or discussing with RBI to kind of...
- Ittira Davis:** Yes. As soon as we have finished the listing, we will be starting the dialogue with RBI for that matter, for the reverse merger and see if it is possible.
- Deepak Poddar:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Gautam Jain from GCJ Financial Advisors. Please go ahead.
- Gautam Jain:** If I understand, you are raising about 1200 Crores in the IPO, right?
- Ittira Davis:** Yes, yes.
- Gautam Jain:** And you are saying the maximum dilution would be 10%?
- Ittira Davis:** No, 300 Crore of that is for pre-IPO and then the balance is that is reserve 10% for the existing shareholders and then 780 Crores is for the institutional and the normal IPO.
- Gautam Jain:** Overall amount to be raised is 1200 Crores?
- Ittira Davis:** Yes. That is what has been filed with the SEBI as well on the DRHP.
- Gautam Jain:** And for the existing shareholders who are owning more than 2 lakh worth of shares would not get any discount. Is that correct?
- Ittira Davis:** For that, we will advise you separately because definition of retail investor is individual and HUF. But even high net worth who come into that may also be then restricted from applying for shares in a separate category. So before we launch the IPO, we will let you know exactly how this is defined and take it forward.
- Gautam Jain:** And lastly, can I get the breakup of other income in case if possible?

- Upma Goel:** For H1 our breakup of the other income is processing fees is 82 Crores, PSLC income 46 Crores, income from bad debts write-off is 16 Crores, income from third-party insurance products is 9 Crores, miscellaneous income is of 22 Crores, totaling to 175 Crores.
- Gautam Jain:** Thank you Madam, thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.
- Jehan Kersi Bhadha:** Sir, you just said that about 10% of dilution would be done for raising this 1200 Crores. So that implies that the total company valuation is around 12000 Crores. Is this assumption right?
- Ittira Davis:** Well, I mean, each one can make their own assumptions, but obviously, the valuation is based on certain assumptions. So I think the price will finally be determined based on market conditions.
- Jehan Kersi Bhadha:** Right. So this 10% is not fixated, right? I mean the dilution could be more also and...?
- Ittira Davis:** When you say the 1,200 Crores, it can be anywhere between 10% to 12%, 13%.
- Jehan Kersi Bhadha:** And second question, if I look at the presentation, there is a big difference between profits of consolidated financials and profits of SFB, because one is on Ind AS, consolidated is on Ind AS and SFB is based on IGAAP. So why such a big difference?
- Upma Goel:** So as you are aware, in the holding company, we have already adopted Ind AS, and in the bank, we follow the IGAAP. The major reason for difference between the Ind AS and the IGAAP are there are 3 line items. One is on account of processing fee. Second one is on account of expected credit loss, and the third one is on account of the ESOP charge that comes from holding company to the bank. These are the 3 major reasons for the difference between the Ind AS and IGAAP.
- Jehan Kersi Bhadha:** Right, and so once the SFB lists, it will be immediately switch to Ind AS?
- Upma Goel:** As of now, we will continue to be guided by the RBI regulations, and even after listing, we will be guided by the RBI direction. There are no indications as we speak by when Ind AS will be applicable for the bank. Once the notification will be released from the RBI, banks will follow the Ind AS.
- Jehan Kersi Bhadha:** Sure, thanks that is all.
- Moderator:** Thank you. The next question is from the line of Manan Patel from Equirus Portfolio Management. Please go ahead.
- Manan Patel:** Congratulations for good numbers. Sir, my first question is regarding the MSE part of the business. So it seems that it has been growing in line with the ticket size. So if you look at 100%



growth in AUM, the ticket size has also grown by 100%. So can you explain what is the nature of the business and why are we not able to grow the customer base as such?

**Sanjay Kao:** So on MSE, we have focused on the secured side of the business. We have stopped doing any unsecured business. On the secured business, and if you look at the total ticket size, ticket size has grown to 13 lakhs, which used to be 7.4 lakhs earlier, till last year, and so we have seen a growth in ticket size primarily, and since we are focusing on secured business, the growth on number of customers has obviously not been as much as we were doing earlier when we had done secured business too, and that is the primary reason how growth has happened.

**Manan Patel:** So going forward, now that it is completely secured, do we see customer base growth as well?

**Sanjay Kao:** So we will continue. As we have grown in the secured business, as we have learned in the secured business, we will be growing products to ensure that we grow the customer numbers as well.

**Manan Patel:** Okay. My second question is, Sir, Mr. Sachin Bansal is on our board as I understand on the bank's Board of Directors. Now he has also invested in another microfinance company and he is a CEO there. So do we see any conflict of interest there?

**Samit Kumar Ghosh:** I do not think we see that much. The MFI is relatively small, and we had discussed this before, I mean, he had discussed these investments with us before he joined us. So we really do not see that much of a conflict right now. It is a relatively small MFI.

**Manan Patel:** But still we are in the same line of business?

**Samit Kumar Ghosh:** True, but I mean, right now, we do not see that much of a conflict. We will see as we go along. I just want to add, we have changed our strategy on the MSE business. We were putting on a lot of small ticket unsecured customers earlier, and we have sort of moved up the ladder of the target market where we are now lending up to 2 Crores. So what you will see is larger ticket size loans and overall multiple relationship with customers, loans, overdrafts, current account, corporate Internet banking, etc., and the business will be more relationship-oriented rather than just individual loan oriented. So it may not, I mean, we may have seen many customers coming in earlier largely because there were small ticket unsecured. There we are not adding them anymore, and it will be sort of larger ticket size, but the business volume will grow.

**Manan Patel:** Understood Sir that is very helpful. Thank you.

**Moderator:** Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

- Manish Ostwal:** Sir, question on the slippage during the quarter which has increased from 23 Crores to 41 Crores. Sir, which are the geographies contributed because some of the parts, there were floods, so which are the geographies contributed the slippages in the micro finance space, Sir?
- Sneh Thakur:** Yes. Addressing this question, there are 2 parts to it. On the micro finance side, we have seen some slippages coming from Odisha, and it is largely on account of Cyclone Fani, and the other area from where we are seeing slippages is the MSE unsecured book, which is running down. Otherwise, the book continues to grow steadily with an excellent portfolio quality.
- Manish Ostwal:** And secondly, just to confirm, you shared on the IPO a dilution, maximum 13% dilution at the SFB level, right?
- Ittira Davis:** Could you rephrase that question? What exactly are you trying to get at?
- Manish Ostwal:** Sir, we are raising equity capital through Ujjivan SFB. So my question is the maximum equity dilution at the SFB level will be 13%, and post the IPO, the Ujjivan Holding will hold 87% on the lower side, which is based on the pricing. I understand the pricing will depend on the market demand and supply scenario, but that is the rough idea.
- Upma Goel:** So we are raising 1200 Crores of total fresh capital from the market, up to 300 Crores we have reserved it for pre-IPO and 10% of the total issue size is being reserved for the retail shareholders of the holdings. Pricing process is going on. We will not be in a position to comment exactly on to the dilution what could be the dilution. We will be confirming the final dilution once we will be completing our pre-IPO, and we will be moving towards the IPO price. Dilution finally depends on to the pricing. Pricing is still not been worked on.
- Manish Ostwal:** And before the next earning call, the company will be listed, that is right?
- Upma Goel:** Yes. That is what we have been intending to do.
- Manish Ostwal:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Amit Nanavati from Nomura Securities. Please go ahead.
- Amit Nanavati:** Yes. Just few questions on the business side. We have been seeing very strong growth, both disbursement loan growth on the new segment that we started just 1 to 2 years back, and when I look at asset quality trends segment wise, housing, MSE, both have seen an inch up there. So how comfortable are we to kind of push the pedal now in terms of growth, especially when the environment is kind of getting more difficult to grow in this environment.
- Samit Kumar Ghosh:** So firstly, I just wanted to add that these businesses are not 1 or 2 years old. They are 3 to 4 years old. We have piloted each of these businesses, Affordable Housing and MSE, for over 3 years.

We have learned whatever we have to learn from those lessons, and obviously, you heard that we have cut down our unsecured business in MSE. So similarly, we have made a lot of adjustments to both these businesses. So now in both these businesses, we are in a position to scale up. So that is broadly, but I do not know, Sanjay, you want to add anything?

**Sanjay Kao:** Yes, and when we are scaling up, we are looking at the entire business from a solution perspective. Like Mr. Ghosh stated earlier, in the case of MSE, every business that we look at or every customer we look at, we look at it from a total solution perspective. So growth is not just an aspect of asset, but it is an asset and deposit and our core customer growth. So from that perspective, we are very confident as to the customers that we are going to, and of course, we have learnt like Mr. Ghosh said, we have learnt over the last 3 years which segments, which products to go with and that will stand us in good stead, we believe.

**Amit Nanavati:** The reason I ask is, again, MSE unsecured, you are quite comfortable. 2, 3 quarters back we have realized the MSE secured is a better way to do it. Again, when you look at, also segment wise asset quality, if I look at and I kind of do a 1-year lag the inch up would be even sharper, and so just and especially given the current environment, would it be fair to, or would it be more prudent to have a pause, look on how the early cohorts are moving and then kind of push the pedal on growth there, was the only question I had?

**Sanjay Kao:** Yes. So that is something we do consistently, and if you look at our lag portfolio and look at the way we have been growing, so there are 2 things we have done. One is we have decided on which segments we will be growing in from our learnings from the past, and secondly, the lag portfolio is declining as we go along, and so to that extent, we will see a better performance of our portfolio as we move forward.

**Sneh Thakur:** Just to add to this, we have also looked at the lagged delinquency numbers. Like I stated earlier as well, those numbers are primarily emulating from the unsecured MSE business as far as MSE is concerned, and the MSE portfolio quality continues to be robust, and we are not seeing any stress in that book. As far as housing is concerned, that book also continues to be very good and there have been some delayed repayments, but looking at the numbers we have, repayments are coming in with a slight lag.

**Amit Nanavati:** Okay, and one more question, just more on the technical side. On the IPO listing, right, or the reverse merger rather, so do you have any comfort or any discussion that you have with RBI, whether the 40% promoter holding and reverse merger can coincide each other and you do not have to reach 40% before discussing reverse merger? And secondly, on the dilution, which you are talking about, 10% to 13%, generally in an IPO, you have a 20% price band versus what you file at. What kind of flexibility do you have here, say, the pricing are getting better or worse than what you expected if you file that? Can you cut down the price by 30%, 40%, or increase the price by 30%, 40% or it is the 20% band that you have to look at?

- Samit Kumar Ghosh:** See, I will just take the first part. That is, we had discussions earlier with RBI regarding reverse merger, and that they are extremely positive about that. At the end of 5 years, they are open to reverse merger, subject to their regulatory comfort with us, and given that, we have a sort of impeccable track record, that should not be a very difficult proposition. But the other issue on the 40% dilution before fifth year, this is something we will take up with them after we complete the IPO, yes? So whether we can do it together or whether we have to complete it before it or we do not, those are the things, I think, from our discussions with them, basically, they said first list, comply with the first condition, and then come back to us and we will discuss. So that is where it is. As regards to the price band, I think, Upma will tell you a little bit about it.
- Upma Goel:** So as I said, we are in the process of, today our DRHP has been filed with SEBI, and we have got the final responses also from the SEBI. We are in the process of responding to that. Post that, we will be filing that RHP, and then the process of price band discovery, that will be taken up. Depending on the market conditions, we will come back to you for the price band at appropriate time.
- Amit Nanavati:** But you would still be allowed to change the price band beyond 20%? Or you will still be restricted to the IPO of within 20% which generally applies to as well?
- Upma Goel:** So there is no price band for 20%. I think what you are referring to, we have been looking at 1200 Crores of capital raise. From that, we have the flexibility of going 20% higher from 1200 Crores or 20% lower. But price band, once fixed, we will not be making any changes in that price band.
- Amit Nanavati:** Got it, thank you.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stockbroking. Please go ahead.
- Digant Haria:** Basically on the micro finance business. What do we see for the next 1 or 2 years? Like will it be a 30%, 40% kind of a growth business for us and 1% credit cost? Or those numbers have changed because of the 3 years of good run that this sector has seen and the competition by some very large aggressive players?
- Rajat Singh:** So getting growth of 30% growth in micro finance business is something which we have committed, and that seems doable, especially in micro finance business where we are moving some of our clients to individual loan business where we do better underwriting and we give them higher ticket size loans based on their track record with Ujjivan and the bureau records. So I mean as long as we have that strategy of moving customers from group loan to individual loan, we are able to deliver sustainable result and in terms of credit costs also, we do not see significant jump there.

- Sneh Thakur:** In terms of the credit costs, given the limitation we have in terms of the forward-looking statement, I would request you to look at the Q4 guidance given in the last financial year. That would go.
- Digant Haria:** Fine, that is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Pranav Mehta from Value Quest. Please go ahead.
- Pranav Mehta:** Congratulations on a good set of numbers. Sir, question is on this FIG book. It has seen a significant buildup in the last few quarters. So if you could just explain what is the average ticket size and tenure of loans that we are giving out here?
- Samit Kumar Ghosh:** So these loans are largely to NBFC MFIs, and it is mainly to NBFCs which we are very familiar with which do not have any kind of ALM mismatch and we have known them very well through the course of the year. In terms of governance and management, they have a very good track record. So we are very selective about it. The average tenor is more around 2 years, maximum 3 years, and the ticket size, what 25 Crores?
- Upma Goel:** Maximum 25 Crores.
- Sanjay Kao:** 10 Crores to 25 Crores.
- Samit Kumar Ghosh:** 10 Crores to 25 Crores.
- Sanjay Kao:** Average is 17 Crores.
- Samit Kumar Ghosh:** Average is 17 Crores.
- Pranav Mehta:** Right, and so second, just a follow-up on a question somebody asked earlier that now the difference between our Ind AS and IGAAP profit is quite significant. So like you explained the 3 points for which the difference is there. If you can quantify these numbers what exactly is the difference because of processing fee, ECL, etc., that would be helpful?
- Upma Goel:** So quantification is available in the presentation. I mean it is just again put across. Basically our IGAAP numbers are 187 Crores, that is the profit number, and Ind AS are 144 Crores. Major 3 items that are listed in the profit numbers. One is the expected credit loss modeling. That impact is 8 Crores, 7.7 Crores precisely. Processing fees impact is 31 Crores, and fair valuation of ESOP of holding company shares is 6.6 Crores. These are the major 3 impacts which has impacted the Ind AS profit.
- Pranav Mehta:** These numbers are for H1 or for Q2?

- Upma Goel:** These numbers are for H1.
- Pranav Mehta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Asim Panth from HSBC. Please go ahead.
- Asim Panth:** Just a couple of questions. One is one small data point. For how many of your micro finance borrowers are you the only lender? And how has that trended, let us say, in the last 2 years?
- Sneh Thakur:** So customers who are unique to Ujjivan stands at 30%, and it has been constant at 30% over the last few quarters.
- Asim Panth:** And secondly, Sir, in terms of the new applications that you get for micro finance, what are the rejection rates? I mean is the number changing? Or is the number fairly stable? How is that moving on?
- Sneh Thakur:** The rejection rate for quarter 2 is at 18%, and it has been in the range of 18% to 20% in the last 2 to 3 quarters.
- Asim Panth:** And the rejection rate is for the new applications, meaning the new to Ujjivan customers, right, not for your existing customers who migrate to...?
- Sneh Thakur:** No. It includes both fresh and repeat loans. If we look at the breakup of fresh and repeat, new to Ujjivan customers have a rejection rate of around 22%, and on the repeat loans, we have around 14%.
- Asim Panth:** Thank you, wish you all the best.
- Moderator:** Thank you. The next question is from the line of Amit Mantri from 2Point2 Capital. Please go ahead.
- Amit Mantri:** Just wanted to understand this tax benefit that we have got in this quarter. Can you quantify that?
- Upma Goel:** Yes. So your question is over?
- Moderator:** Sir, it seems his line dropped. We will just move to the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.
- Rohan Mandora:** Rohan here. Sir, just wanted to understand, have we got any thought on the universal banking license after 5 years? And if so, any timelines on that?
- Samit Kumar Ghosh:** We definitely plan to apply for the universal bank license, but that would take place only after we, see I mean we want to finish listing before February. After that, our milestone is reverse

merger, if we can resolve the 40% issue before that, and that will happen only after completion of 5 years, then it may take up to 1 year, the entire legal process, etc., and only after we complete that, so in 2023, I presume, we would apply for a universal bank license.

**Rohan Mandora:** Sure, and Sir, secondly, like, when we are moving customer, giving customers individual loans and moving out from group to individual, so what kind of income growth has these households seen in last 2 to 3 years typically? Any assessment on that?

**Rajat Singh:** See, first, one small clarification. Group loan customers, we provide them unsecured individual loan, not MSE loans. MSE loan is largely given to a different segment of customer. When we move group loan customer to individual loan customer, we generally focus on the creamy layer, customers who have relatively higher income than the group loan. Exact number will be difficult to quantify at this moment.

**Rohan Mandora:** Sure, Sir, and then lastly, overall, like whatever commentary we are hearing from ground and even in some of FMCG companies have indicated that the consumption demand remains weak even in rural and also at certain corridors of urban. So how is the income volatility in the customer base that we are having in the micro lending space? Any feedback that we have received, Sir, from the ground level?

**Rajat Singh:** So we have only also kept a very close ear to the ground to understand what is going on. So far in the last 2, 3 months, we have not seen any significant impact. We are very, very careful in areas where we are hearing such kind of issues. But so far, nothing, I mean it is not showing up in any of our leading indicator.

**Rohan Mandora:** Sure, and Sir, lastly, the incremental CASA of 351 Crores during the quarter, if you could give some color on the granularity of the same?

**Sanjay Kao:** So this is, it comes from a mix of both micro banking and open market customers, and within that, we got various segments that we work with. So there is an open market stand-alone SA customers that we come through. There is also a whole cross-sell that we do for CA with our MSE base. There is an entire salaried section that we have where we get CASA from, and there is, of course, the whole micro banking space for which we get a bunch of customers. So our strategy is to go through different identified segments that we have and address them through a total solution, and part of which is, of course, generating more CASA. We can share exact breakdown with you later.

**Rohan Mandora:** Sure Sir thanks a lot.

**Moderator:** Thank you. We will take the last 3 questions. The next question will be from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

- Dhwanil Desai:** Only one question. So when you move the micro finance customers from group loan to the individual side, in group loan, you have a social collateral in place. So when you move to the individual loan, do you take any kind of collateral for a small unsecured lending that you do?
- Rajat Singh:** No. It is based on cash flow assessment and customer's track record with us as well as their bureau record.
- Dhwanil Desai:** It is an unsecured lending in that sense, right?
- Rajat Singh:** Yes, yes. This is unsecured lending, and I think as part of micro finance, micro banking business, MSE lending is a completely different business, where they focus on secured.
- Dhwanil Desai:** Understood, thanks that is it from my side.
- Moderator:** Thank you. The next question is from the line of Asim Pant from HSBC. Please go ahead.
- Asim Pant:** Sir, just a follow-up question. The individual micro loans are given to only your mature client micro finance customers or is it to other lenders, group loan customers as well?
- Rajat Singh:** So it is given to group loan customers, and I mean in most of the cases, we make their spouse the co borrower, and 90% of our individual loan goes to our group loan customers only. In 10% cases, we are also doing open market from the referral from our customers.
- Asim Pant:** Sure, and just a follow-up, how much of your SA would be from your micro borrowers right now? Or what would be the average micro savings borrowings?
- Sanjay Kao:** From the micro borrowers, they contribute 46% of our total SA portfolio.
- Asim Pant:** Thank you Sir, thank you.
- Moderator:** Thank you. The next question is from the line of Krish Shanbhag, an individual investor. Please go ahead.
- Krish Shanbhag:** Yes. Sir, I am comparing your 3-year performance between September 2016 and September 2019 and I see that our AUM has more or less doubled.
- Upma Goel:** Yes.
- Moderator:** It seems the participant has lost connection. We will just move to the next question from Ashish Pandey, an individual investor. That would be the last one.
- Ashish Pandey:** My question has been answered. Thank you.



- Moderator:** Thank you. The next question is from the line of Nishant from Macquarie. Please go ahead.
- Nishant Shah:** Yes. Just a follow-up on one of a previous question. So I think you mentioned that 46% of your SA accounts are from micro borrowers.
- Sanjay Kao:** Yes.
- Nishant Shah:** So out of the 1200 Crores of CASA that you have, 46%, or that is roughly around 550 Crores, is from micro borrowers, your micro finance customers.
- Sanjay Kao:** Sorry. 46% is of the savings book.
- Nishant Shah:** Okay. So could you just try and break up the CASA book in its entirety? Like 1200 Crores, what would be the split of it between CA and SA and thereafter between micro and rest?
- Sanjay Kao:** Okay. So the CASA book is 1200 Crores. 200 Crores is CA, 1000 Crores is SA. So 46% of the SA book is from micro banking, the balance 54% is from the rest, and in CA from the micro finance book is very, very small.
- Nishant Shah:** Okay. Okay. So even if I assume it is 0 that still means that 38% of your CASA, like so 460 Crores roughly is from your micro borrowers?
- Sanjay Kao:** Correct.
- Nishant Shah:** And out of this, you have also mentioned in your PPT that this 1200 Crores number includes your institutional CASA as well. So what would that institutional CASA amount be?
- Sanjay Kao:** That is very tiny. Institutional CASA is about 38 Crores.
- Nishant Shah:** Fair enough, that clears it up. Fair enough, thank you, that was it.
- Moderator:** Thank you. That was the last question. I now hand the conference over to the management for their closing comments.
- Ittira Davis:** We would like to thank IIFL for supporting us through this call and for the previous calls as well, and for all of you for participating in this Q&A, and if there are any other questions that you have, you are most welcome to contact us separately at the Investor Relations number or by email, and we look forward to seeing you in future meetings and calls. Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of IIFL Securities Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines