Ujjivan Financial Services banks on housing, SME segments for coming years

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Microfinance firm Ujjivan Financial Services has posted stellar Q1 numbers with profits doubling and income rising almost 50 per cent. Speaking to *BTVI*, Ujjivan Financial Services Managing Director and CEO Samit Ghosh explains the company's road ahead in transforming into a small finance bank. While group loans contribute about 87 per cent of the total business, individual loans, especially housing and SME, will contribute half of the loan book in the next five years, he said. Excerpts:

Your profits doubled in Q1, to ₹71 crore. The net income is up 77 per cent on a year-on-year basis. Can you take us through the key drivers in this quarter?

As far as the profits are concerned, the business is moving as per our plans and the momentum is there. We have had a reasonable growth in our business. However, on the cost side, there is a one-off impact — the funds we received from our IPO are still in this quarter, which helped us reduce the cost of funds. So that has very positively impacted our profit for this quarter.

Along with that, we have also been able to reduce our operating expenses. Our efficiency levels have also gone up. So those factors positively contributed to this quarter's profit.

Your net interest margin has gone up almost 100 basis year-on-year. Do you see that tapering off going forward? Is it sustainable at 12.96 per cent? Will there be any moderations in the forthcoming quarter?

There will be slight moderation in a sense that it is also affected (has gone up) by the funds we received from the capital infusion. So there will be certain impact from that.

In terms of the asset quality, the gross NPAs are at 0.18 per cent and the net NPAs are at 0.08 per cent. Is this trend likely to continue or do you see some strain on asset quality going ahead?

No, in case of asset quality, we do not foresee a major problem at all. Whatever minor blips are there in some particular parts of the country, we are able to tackle it and resolve it. We do not see the asset quality as an issue. But what would impact our cost is that we are transforming into a small finance bank. A lot of cost — relating to the investments we are making in terms of technology, infrastructure and hiring additional people — will start impacting us the next quarter onwards.

So that will increase our cost, but that really relates not to the regular business, but to the transformation cost of becoming a small finance bank.

Is your operational expenditure likely to go up on the back of the transition?

Yes, it will.

Your provisions are quite moderate — ₹6 crore right now as against ₹8 crore in the previous quarter. Will more stringent provisions be required? How are you provisioning for NPAs right now? How will your provisioning requirements change as you align and transform towards a small finance bank?

In terms of credit provisioning, we already have a very conservative plan. So I do not see credit provision in itself having a major impact when we become a small finance bank because we are already aligned to the RBI requirements for a small finance bank.

Our operating expense ratio is down to about 7 per cent, which is extremely good. Our cost-to-income ratio during the transition period will definitely go up. And that's what we plan when we start making investment in infrastructure.

What will be your average ticket-size for SME loans?

At present, group loans contribute about 87 per cent of our business while individual, education, housing and SME comprise the remaining 13 per cent. In five years, we expect almost an equal division between group and individual lendings. Largely, the growth will come from housing and micro SME business.

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> MD and CEO, Ujjivan Financial Services