



“Ujjivan Financial Services Limited Q2 FY2017 Earnings Conference Call”

November 9, 2016



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*Ujjivan Financial Services Limited
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Moderator: Ladies and gentlemen, good day and welcome to Ujjivan Financial Services Limited Q2 FY2017 Earnings Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchstone phone. I now hand the conference over to Mr. Praveen Agarwal from Axis Capital. Thank you and over to you, Sir!

Praveen Agarwal: Thank you, Ali. Good evening everybody and welcome to the Q2 earnings conference call of Ujjivan Financial Services. We have with us Mr. Samit Ghosh, MD and CEO, Ms. Sudha, CFO, Mr. Rajat Singh, Head Strategy, and Mr. Hiren Shah, Head, Investor Relations to discuss the results. I would request Mr. Ghosh to take us through the key highlights for the quarter, post which we will open the session for question and answers. Over to you, Sir!

Samit Ghosh: Good afternoon. This is the second earnings call for the second quarter of this year and as you all have seen our business and financial performance has been excellent, so I think we will discuss those numbers much more in detail with Sudha, Rajat and Hiren. The other highlights of the quarter which went by, we were again able to reduce our foreign share holdings to below 50%, this is the second time we have done it and after that we have a plan for our final banking license from RBI and we are told we are very close to receiving the final license, of course RBI is pretty preoccupied right now. So, we are hoping to get it either this week, next week, sometime soon, and as soon as we get it, within two to three months we are ready to launch our small finance bank as we have targeted always that by first quarter of next year. On the IT front, actually we have invested fairly substantial amount in new technology and all that is under final step and ready to start by the first quarter. We have completed all our hiring of senior staff, which we required for new areas for which we are going to go into as a bank like Liabilities or Treasury, and also some of the support areas like Risk Management, etc. We have also worked out a branch rollout plan and initially we will start with appointment of about four branches in the first month. We will test out all our systems and after that we will roll out the

rest of the branches. As you may know that RBI has come up with revolutionary change in the branch distribution system where they are moving away from the brick and mortar banking to sort of ultimately branchless banking and we are re-adjusting our plans and strategies accordingly. So, with that I even wanted to say that first of all, as a microfinance institution one of the things which plays us is the cash transaction, so what the Government and the Reserve Bank has introduced, we welcome it. We may go through some temporary problems because our customers are largely in the cash economy, but that will be purely temporary and we will help them actually to get over that very fast. So, I do not think that will have any adverse impact in the long run for us and I think it is all for the best even for the microfinance industry. And the second thing, which we were discussing today, was thank God our industry is immune of who becomes President of US. We will survive and do well irrespective of that. With that I will ask Sudha to continue with the presentation. Thank you.

Sudha Suresh:

Good afternoon and before I indicate highlights of our performance for the second quarter, I would just like to inform that in accordance with the company's plans and in accordance with the RBI's in-principal approval letter and guidelines, we have found 100% subsidiary called Ujjivan Small Finance Bank Limited in July and also started it off with initial share capital of 100 Crore. We have transferred in fact 110 Crores to set up the subsidiary and as the business operation in the SFB has not yet started we have kept the amount invested, which has earned an interest income for this particular period. We have had the incorporation expenses of the subsidiary to the set of against this kind of income and all other transactions with reference to the SFB are part and parcel of the Ujjivan accounting. Accordingly, all the financial systems also provided are with consolidated numbers for the convenience of understanding and the comparison. Moving on to our performance, during the quarter we have reported a growth of about 58.65% in our gross loan book, which stands at 6485.93 Crore. With the continued focus on increasing our IL portfolio in terms of both the secured and unsecured products mainly in the MSE and housing schemes, which is around 13.62% by end of September 2016. Even though we have not opened new branches, we have added about 2.02 lakh new customers

during the quarter and almost 6 lakh plus customers during the half-year. At the same time, we have managed to keep the credit quality of the portfolio improved with a GNP of 0.17% and NNPA at 0.04%. In line with our guidance and objectives, our securitization portfolio stands at about 485 Crore that is an increasing amount of securitization is what we had indicated and we will continue to increase as per our plan the securitization of our portfolios in the forthcoming months also. On a Y-o-Y comparison we have reported a jump of about 89.69% in our net profit to 73.01 Crore for the second quarter while the net interest income has grown by 63.85% to 360.08 Crore for the same period. The SFB related costs have gathered some momentum with roughly about at least key expenses of about 13 Crore during the quarter. The cost to income ratio however remains low at about 46.95% for this quarter end. We have had efficiency and productivity including lowering borrowing cost all contributing to the same. On the borrowing side, there have been significant improvements in terms of both improvisation in costing mix and lower marginal cost of borrowing for both term loans and the NCDs, not to mention also the CPs that we raised during the last quarter. Therefore our average cost of debt has come down and also the marginal cost of borrowing has come down by more than 100 BPS. We have achieved a NIM of 13.02%, return on average assets of 4.6% and return on average earnings at 20.02%, which is comparably better than the corresponding numbers from September 2015. This has been essentially possible on account of our excellent growth coupled with robust credit risk management and duly facilitated by lower finance cost. With this, I would like to hand over the session back to the moderator.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press “*” and “1” on their touchtone phone. If you wish to remove yourself from the question queue you may press “*” and “2”. Participants are requested to only use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles. We will take the first question from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: Thank you for the opportunity and congratulations on good set of numbers. My question first on this bank, we are starting bank by first quarter of next year, so this cost to income ratio when we will see the impact coming in terms of higher cost to income ratio because of the certain cost we have incurred, so whether it is Q3 or Q4 we will see and how do you see the cost to income ratio for the second half especially?

Sudha Suresh: We will see the impact of further cost towards the transition of SFB hitting us in the next quarter and by Q4 we would have already started the bank so I think the impact would have flown in by then because the entire undertaking could have got transferred to the bank.

Manish Ostwal: Second question again the new government rules on cash transactions, so on a daily basis what amount of cash recovery we are doing and because in your presentation the disbursement percentage of cashless disbursement is 60% almost, but in terms of recovery what percentage is cashless and secondly in cash transaction what is the total daily number?

Samit Ghosh: A bulk of our repayment today is actually in cash. A very small portion maybe less than 5% may come through cashless. All the microfinance clients predominantly use cash to repay. On a monthly basis that number could be closer to 550-600 Crore of collection.

Manish Ostwal: Secondly Sir because there will be short-term inconvenience of your customer not getting that amount of new currency and some of your EMIs or payment may be delayed for some time, so how you are seeing this impact to play out on our business?

Sudha Suresh: What we see is that definitely with the announcement last night we do expect that there would be a temporary issue where our customers need to be supported in terms of being able to repay in cash in legal tender, so today of course bank holiday and tomorrow we believe the new notes will be available. It may take some time by the time these are all circulated across and the customers are able to benefit in terms of being able to withdraw and to repay. However, parallelly on behalf of the industry the microfinance institutions

network has approached RBI and it has also requested that the MFI be allowed to collect the money in cash and be able to deposit the same with the banks, as there is a clear backup on the center meeting collection. So this is just to facilitate and to ease the pressure on the customer to be able to tender legal money at this juncture where there is a question of 500 rupee notes.

Manish Ostwal: When you expect any clearance from RBI?

Samit Ghosh: This has been taken up today and already in the circular BCs are allowed to take up to Rs.4000 per day, so we have asked because these are poor people, a lot of them may not have bank accounts, some of them will have bank accounts, so it puts them in a lot of things, this has been taken up with RBI at the highest level, so we are hoping to hear something tomorrow, let us see if it happens, that is why I think this is a temporary phenomena which we can overcome within a week or so.

Manish Ostwal: Thank you so much and all the best.

Moderator: Thank you. The next question is from Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Good evening and congratulations on good set of numbers. On the new rules to understand it more clearly, you expect that the nature of the business both the disbursement and the repayment to remain in cash or maybe even becoming a small finance bank there is understanding or there is an expectation that some portion of the business will shift from being cash to cashless, just some colour on that?

Samit Ghosh: We are actually one of the pioneers in terms of moving towards cashless in microfinance and I think today we have about 60% of our disbursement which is done through bank accounts, but collection becomes a bit more difficult for our group lending customers, for individual customers we have been working with them through the ECS. So the other thing is once we become a small finance bank this is something which we are going to strive because first of all we are going to disburse all our loans into their bank accounts with us and at the same time we will try to educate them and make it easier for them to

transfer through standing instructions or something like that so they are able to repay. So the repayment part is slightly more difficult part, but we will definitely embark on a program and I am sure we will be able to move more and more towards cashless transactions.

Ashish Sharma: Perfect Sir. Second question you alluded to the changes in the branch strategy by the RBI whether that will change our branch plans, any changes or are we sort of maintaining status quo in terms of how many branches we want to convert the normal branches to bank branches just some colour on that?

Samit Ghosh: I think we will stick to our original plan to convert 200 plus branches. We will serve, as banking branches in the first year, but one of the big advantage of this paucity is we have to open 25% unbanked rural branches and by earlier calculation we had to open 150 of those. Now the definition of this what we call now URC, unbanked rural center, has been expanded to branches which are there in northeast India and also includes branches which are in lessening affected district. We already have 63 existing viable branches in these areas. That gives us the number of unbanked rural branches we have to open and it consequently has a very positive impact. In the long run, what RBI seems to be encouraging is to move towards branchless banking and that is something we will take a hard look at in terms of our strategy.

Ashish Sharma: Perfect Sir. That is it from my side. Thank you for the opportunity.

Moderator: Thank you. The next question is from Haresh Kapoor from IIFL. Please go ahead.

Haresh Kapoor: Sir, congratulations on good set of numbers. Just wanted to get an idea on the IT expense that you have incurred. How much have you actually incurred and what are basically you will have to incur in the couple of quarters moving forward?

Sudha Suresh: The IT expense is essentially divided into Capex and Opex. What we have already taken up is the entire technology on hardware and software be it across various software systems as well as servers and all the referendums, so to a great extent we have capital work in process, which should get operation wise once

we give the acceptance test and the go live conditions are all fulfilled and the other part of course is the Opex, so on the Opex off course it will be the regular AMC charges we can come up, which will be an ongoing thing which will come up. So that is it and I think we are fairly at an advanced stage in terms of all our technology implementations, which are getting covered and completed in about a couple of months from now.

Haresh Kapoor: In the next three to four years you wanted to invest in your IT and other infrastructure more than 200 or 300 Crores, is that right?

Sudha Suresh: That was the total cost that we have quoted and that included both of course Capex and Opex.

Samit Ghosh: 300 Crores, almost 50% was capital expenses and remaining 50% was operating expenses spread across five years. On the Capex side by end of this year probably we would have incurred majority of this 150 Crores. This year impacted largely from a Capex point of view, Opex impact will start getting this from next financial year. A portion of Capex, which was latest in this financial year, but bulk of it will come next year.

Sudha Suresh: So even Capex if you consider the fact that it is a go live and our depreciation is a hit because of Capex and the depreciation would most likely get operative almost for the last quarter or this may be a one quarter hit of depreciation.

Haresh Kapoor: So basically this you would be expensed in your P&L annual right?

Sudha Suresh: Only the depreciation will get expensed in P&L and as I said in the next quarter we are looking at for the quarter, which we mentioned as Q4 or the first quarter of the next calendar year, we are also looking at the bank getting started, so it could also be move into the banks books post the entire slump sale transaction is through.

Haresh Kapoor: Second part I just wanted to get an idea on cost to income you have mentioned previously that obviously Q4 may be the bank will be starting and you will have the cost at that point of time and you are on 46% cost-income right now,

so basically should this like in the next two quarters or so and shift towards 50% or how should that really be?

Sudha Suresh: We expect that the cost to income ratio definitely has to go up because part of the SFB expenses will get accounted in the next quarter and of course you will have the initial set of SFB start off and the initial set of bank expenses creeping up as soon as the bank is started, so we do expect the cost to income ratio to go up in the next two quarters.

Haresh Kapoor: That is it from mine. Thank you so much.

Moderator Thank you. The next question is from Utkarsh Gautam from Motilal Oswald Securities. Please go ahead.

Utkarsh Gautam: Thanks for giving me the opportunity and congratulations on achieving good numbers for this quarter. I had a couple of questions, have the SFBs agreed to abide by the MFI requirements pertaining to giving information post conversion was my first question? The second one is now with 8 MFIs now converting into banks and some now and others in the pipeline do you see the sectors offering due to nonadherence of cheques and balances?

Samit Ghosh: First of all we will provide the data which we are providing to the credit bureaus every week the way we are providing as an MBFC MFI so that will not change.

Utkarsh Gautam: Even post conversion?

Samit Ghosh: Also as far as the group lending is concerned we will abide by that 100,000 cash, which RBI has said for group lending, but obviously the two MFI business because we no longer will be an MFI does not apply to us, but more importantly the total credit limit is the more important part, which RBI has set at 100,000 we will stick to it.

Utkarsh Gautam: I got this point about 100,000 and so basically all the SFBs will continue to give information the way they are giving right now to MFIN and other SROs?

- Samit Ghosh:** To the credit bureau, we will continue to give our information.
- Utkarsh Gautam:** Thank you so much.
- Moderator:** Thank you. The next question is from Mb Mahesh from Kotak Securities. Please go ahead.
- Mb Mahesh:** Good evening sir. Just a few questions, one this exhibit on the efficiency parameters, if you look at this number of this two MFI loans and income greater than Rs.60000 that continues to remain the largest driver for the increase in rejection rates, either rejection rate itself seems to be on the upward trend over time, second this seems to be the single largest reason for rejection, any specific comments on, are you seeing any specific staged or anything to worry on this aspect?
- Samit Ghosh:** Actually we are tightening our KYC format so that most of our customers either have the Aadhar card or the voters registration, which is actually helping us to increasing the match, when we check on the credit bureau and we are actually finding why the rejection is in that category, we are finding that a lot of our existing customers when we give them a repeat loan have already got, another loan from another MFI. So consequently then we do not provide them another loan. This could be because for various reasons. This is something, which we have taken up because this kind of a thing should not happen. We are one of their existing lenders, so how did a third lender come in. As a result what happens is that when we have to give them a repeat loan we then have to drop out.
- Mb Mahesh:** Sir on this question from what we understood when you speak to the credit information bureau is that when a check happens to one of your borrowers that information actually feeds through to your systems as well right? It should have been captured at that point at least right? When the other borrower is actually taking...
- Samit Ghosh:** For the original loan, we were either the first lender or the second lender, but much to a surprise when that loan comes for renewal we find that there is already another lender, so this is some kind of maybe a systemic problem or

something which is there, but consequently what is happening is we have to drop out that customer.

Mb Mahesh: Are you able to spot any regions on this issue or it happens to be a bit more?

Rajat Singh: Multiple IDs, which is now being tightened up so let say customers are getting different IDs for different microfinance institution, in the last six to nine months MFIN has tightened up that process, so now Aadhar and voter card has been made mandatory so hopefully with this actually we should have lesser problem, lesser gap in terms of data quality, second of which is more of a technical reason is also that data has been provided to bureau on a weekly basis. During the week if something happens and if there is a record let us say both microfinance disburse during that week some customers go unidentified, that is the main reason is for quality of data and the different IDs, which will over a period of time should get rectified.

Mb Mahesh: Sure and Rajat there was some discussion around the entire SSG data being kind of digitized by this financial year, any progress has happened on that front?

Rajat Singh: We are not aware of any progress, it is a very difficult project as you know because SSG data are not at customer's level, so we do not know actually how it will be.

Mb Mahesh: So there is no progress?

Rajat Singh: Not to our knowledge.

Mb Mahesh: My final question the securitized income that you have colour on what was the income that you book this quarter and correspondingly one final question to Sudha, I just wanted to understand how much amount of reduction that we can expect on the interest rate on your cost of funds?

Sudha Suresh: I will answer your second question first. Definitely we have seen over the last two quarters reduction in interest rate across a couple of transactions, one is that in term lending itself we are able to negotiate better rates and therefore the

borrowal rates for the new term loans are coming down. Secondly we did a bit of commercial papers and there again we were quite successful in bringing down the rate and though deliberately we kept it short enough we managed the rates starting from 9.8 to almost 7.5. Thirdly even our NCDs we have been able to sort of bring the rates down on the recent NCDs than the proposed ones that we are planning. So in terms of the securitized income, I think we had roughly about 23 Crore is what we have had for the half year ended September and I think we will be also doing a fair bit of securitization in the forthcoming months, so that could again give us some amount of yield in the next financial year also.

Mb Mahesh: Thanks.

Moderator: Thank you. The next question is from Amit Jaswani from Stallion Asset. Please go ahead.

Amit Jaswani: Mr. Ghosh could you please give me some colour on the way disbursement and collections will happen for the next two months?

Samit Ghosh: You know the thing is as I said this full dislocation with demonetization of the current 500 and 1000 rupee note, we expect this to be resolved within a week by the time when people will be able to replace their existing notes, etcetera. So, once they have done that we do not expect any significant change in terms of our disbursement and collections, but as I mentioned earlier once we become an SFB we will 100% disburse loans into bank accounts, which would be with us and also enter some kind of a program which makes it easy for the customer through standing instructions etcetera to repay from their bank account and consequently reduced, but that is sort of a long term kind of plan. Repayments will be slightly more difficult to handle cashless.

Amit Jaswani: So we do not see any short-term risk right?

Samit Ghosh: No. I think there will be some short term dislocation because we have repayment dates every day and we have deferred that because the customers very frankly do not have the currency to repay us, the right kind of currency,

but that is a temporary dislocation which we are having right now and we have deferred also our cash disbursement because we do not have the new notes.

Amit Jaswani: Has the government promised you that after one week we will give you new notes like whatever?

Samit Ghosh: Whatever government has promised is in public domain.

Amit Jaswani: So you do not have a guideline like in the next one-week or two weeks for new notes?

Samit Ghosh: No, I am sure in the first few days there would be a mash scramble, let us see how it goes there.

Amit Jaswani: Thank you Sir.

Moderator: Thank you. The next question is from Parul Gulati from HDFC securities. Please go ahead.

Parul Gulati: Good evening. Just a question that can we expect another rate card given that the company still under at 10% margin gap before you convert to SFB?

Sudha Suresh: No. I think it is a very short time now and there would not be any other rate cut by the company in this short duration.

Parul Gulati: If you can give some figure on two-year marginal cost of funding with this quarter as compared to may be about three or four quarters away?

Sudha Suresh: Marginal cost of borrowing this quarter was closer to around 9.75% and this is good 125 basis points lower than two to three quarters back.

Parul Gulati: Regarding the branch expansion plan I think the initial strategy was to have a branch expansion to just kind of comply with the rural unbanked area, now has there been any kind of addition to that branch to open some branches in urban or maybe semiurban areas as well?

- Rajat Singh:** Our branch expansion plan more or less remains same except for the change what Mr. Ghosh has mentioned in the draft branch authorization policy they have expanded the scope of URC, unbanked rural centre, so now since we already have few branches, which qualify us I think we would have to open lesser number of URCs, in that sense it is an advantage for us but apart from that we are not making any changes to our previous plan.
- Moderator:** Thank you. Ladies and gentlemen in order to ensure that the management is able to address questions from all participants, please limit your questions to two per participant. Thank you. The next question is from Dhaval Gada from Sundaram Mutual Fund. Please go ahead.
- Dhaval Gada:** Thank you for taking my question, just do you provide the GNPA for the housing and the MSE portfolio, I know it would be relatively small, but just wanted to get it?
- Sudha Suresh:** I think we do not have it readily available, we can provide it.
- Samit Ghosh:** Housing and MSE at this moment there is no portfolio, it is zero.
- Dhaval Gada:** One thing, as you convert into the SFB in the fourth quarter would you actually sell down or look at the BSLC road because that is something we expect that yields on those two portfolios are pretty good and would you consider that?
- Sudha Suresh:** We have a mixed strategy, initially we will have a sell down which is happening in bank formation, securitization, post that we will have a mixed strategy in terms of both BLSC3 and securitization, the commercial terms and liabilities will be the key deciding factor for doing like this.
- Dhaval Gada:** Thank you so much madam.
- Moderator:** Thank you. The next question is from Rajesh Kothari from Alfa Accurate Advisors. Please go ahead.
- Rajesh Kothari:** Sir, what is your average ticket size?

- Samit Ghosh:** That is available in one of those slides for different products it is kind of different, for microfinance it is closer to.
- Sudha Suresh:** For GL we have about 22,550, for MSE unsecured we have it about 66,764, MSE secured stands at about 3.94 lakhs, housing unsecured is around 67,000, housing secured is at 3.37 lakhs.
- Rajesh Kothari:** Good and basically these recent last two days whatever changes have happened that you think will impact more less than 1 lakh ticket size kind of a customer or you think it will be even for 1 lakh plus client?
- Sudha Suresh:** No, largely it is our real customers who come for our repayment through cash it is those customers who will get temporarily affected because they have to get a new denomination.
- Rajesh Kothari:** In the interim period when there is adverse impact on it what will happen basically you will stop lending because there might be a default for one week and you have what, weekly collection?
- Sudha Suresh:** No, we have only a monthly collection.
- Rajesh Kothari:** So if suppose for one month there is no payment or something like that then what will happen?
- Sudha Suresh:** No, the monthly collection, which is on fixed dates through center meetings. We presumed that this is going to be only a temporary issue till such time the new legal tender is available and initially to facilitate our customer for a few days the payments which are sort of due this week or so, but we feel that this problem will get solved in a short time and obviously in terms of our disbursements, which are cashless those remain unaffected, in terms of our repayments from our MSE or IL customers which is also cashless those also remain unaffected.
- Rajesh Kothari:** When you think response from RBI?

- Samit Ghosh:** Our sanction was raised with them today so we hope to hear from them from tomorrow because it is affecting the entire industry and there is already a precedent that these things are allowed to take up to 4000 per customer per day. So if they apply something similar to us also because it is the same segment of customer, we are waiting for them.
- Sudha Suresh:** Sorry I missed that. You said what is your demand to RBI?
- Rajesh Kothari:** When we are allowed to collect cash as repayments still such time that all the cash has been replaced with new currency?
- Rajat Singh:** When you say you are allowed to collect cash say X rupees or 4000 rupees that will be old denomination because the new denomination will not be available?
- Sudha Suresh:** Right, right.
- Rajat Singh:** That in turn you will basically put to the bank.
- Sudha Suresh:** We will deposit to the bank.
- Samit Ghosh:** These are all payments, which are well documented, so there is no chance of any trouble happening.
- Rajesh Kothari:** No, but the problem is the list space of MFI including the fuel one or two large unlisted also that is the only organized one, but there is probably bulk of it is still unorganized in unlisted space where there may not be any control.
- Samit Ghosh:** MFIs are all audited whether they are listed or unlisted by the RBI and they all have repayment records, so if anyone wants to come and audit they can come and audit.
- Sudha Suresh:** The centre meeting repayment works like clockwork. You have a repayment schedule with a name wise, center wise, and amount to be collected as EMI on repayment, which is the centralized document which goes to every branch and that can readily be produced as proof when we deposit that much amount of cash into the bank.

Moderator: Thank you. The next question is from Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: My question was more on the employee side, we are planning to start with four branches and then eventually move to 200 branches. So would these 200 branches be in the same premise, would they be in the new, and what kind of cost would be in cut, that is number one. Number two on the employee side, what kind of hiring have you have already done and what is going to happen in the next six months and then when do these costs start hitting the P&L?

Samit Ghosh: Most of our services branches are going to be in the same area where we have our existing branch, which we will shift to this one. Unlike what you seen with Bandhan where they have started a branch from scratch. We are retraining our existing employees to actually be employees of the branch. We are not hiring wholesale new. We are hiring a few, but in terms of I would say this is an 80:20 kind of thing. Only 20% would be new and 80% would be our existing staff. So there will be some incremental impact in terms of salary because naturally there is an expectation even from our existing employees that once we become a bank they will get a higher salary. So we build that all that in our plan.

Digant Haria: And I think last time we had given a guidance of cost to income that we should be hitting 63% at the peak and then eventually we will go back to 50%. So any idea on when do we reach that 63% or the peak cost. I agree that you need to get the RBI approval before commenting on this, but any rough idea, let us say you get the RBI approval as expected then would Q4 be the time when the cost to income heads the peak?

Sudha Suresh: No, I do not think so, the Q4 will hit the peak of the number like 63 that we mentioned. The bank has to take full force of the Opex also which starts hitting and therefore you may see that number maybe a little later if that happens.

Rajat Singh: As we mentioned earlier there is some change in our branch expansion plan. Now that we do not have to open that many URC branches, to certain extent we will be able to minimize this cost to income ratio.

Digant Haria: All right, thank you and all the best.

- Moderator:** Thank you. The next question is from Ankit Chaudari from Equirus Securities. Please go ahead.
- Ankit Chaudari:** I just wanted to know the yield on various products like microfinance, housing, and MSE?
- Rajat Singh:** For microfinance products so far our interest rate was close to 22% and that has come down to 21.25% from October 1, 2016. In housing and MSE, we have various products. On an average our housing products, weighted average yield could be in the range of 15 to 16% and for MSE it will be closer to 18% to 19%.
- Ankit Chaudari:** Apart from that you said that you have added around 2 lakh customers in this quarter right, so in which segment the customers have been added more?
- Rajat Singh:** Most of those additions was in microfinance.
- Ankit Chaudari:** So can you just give us a figure as to how many customers were added out of this 2-lakh customers?
- Rajat Singh:** 2 lakh was the net increase in our borrower base. Less than 4000 to 5000 customers would have come from MSE and housing. It is a different ticket size business, so our number of customers is smaller here.
- Ankit Chaudari:** Okay and the last question is can you give me an idea about this NPA movement, how has been the slippages over there and how many is in the recovery?
- Rajat Singh:** Our NPA has largely been flat. If you look at our number from last quarter to this quarter there is not much of a movement. So first time overdues are also under control and we were able to recover a lot of old dues as we had mentioned in the previous call that are some overdue to insurance settlement so we were able to cover some of those things also. Actually that has helped us keeping our NPA more or less flat slightly lower than what we had seen in June 2016.

Ankit Chaudari: Just one last question that I have. This is regarding your earlier guidance on Opex where you said that you know it will peak at 63% due to incremental Opex on the branches. So I just wanted to know that now that you have identified 60 branches that already qualify as URC, do you think the incremental Opex guidance stands, can it be lower than 63%.

Sudha Suresh: Yes, it can be lower than 63% definitely.

Ankit Chaudari: That is all, thank you.

Management: Thank you. The next question is Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani: Thank you for the opportunity. My question is on the SFB. So once we turn into an SFB what kind of an impact will be seen on our credit cost, the mode of borrowing, and the recognition of NPA?

Sudha Suresh: In terms of first on the credit cost, as we become an SFB even otherwise as our business plan stands, we will have increasing focus on our business on MSE and housing going forward. As a bank as the business progress, the risks of individual lending are definitely at a higher level than the microfinance business, so to that extent credit risk do have a possibility of increasing the forthcoming year. In terms of how do we go about on the safeguarding side, we have very robust provisioning norms right know. We have a provisioning norm, which are currently at 2% on the entire standard asset portfolio of the individual loans that is the MSE and the housing. So I think with that kind of a robust provisioning we should be able to hold forth and be good for some time.

Samit Ghosh: Actually I think one other thing you were suggesting that if you become a bank actually our provisioning policy is much more conservative in relative to what is required by the Reserve Bank, so that we know adverse impact from that perspective that since we have moved from an NBFC to a bank will we have to create a higher credit position, we will not. In fact, we probably have to make a lower credit provision because right now it is very high as Sudha indicated to you.

Megha Hariramani: And as you mentioned that the credit cost will move high. By how many basis points do we see it going up and for how long will it stay on that level?

Sudha Suresh: I think it is too early to tell now because our MSE and housing business are moving up right now and we will have to watch the trends once you build it over a couple of years to see what kind of credit cost will come up.

Megha Hariramani: And the NPA impact?

Samit Ghosh: The thing is both MSE and housing will have a fair amount of secured portfolio which is not there at present. So consequently even though the MSE may have higher level of delinquencies that will be more than offset by the secured nature of the portfolio. At least a substantial portion of the portfolio will be secured, but it is very difficult to right now predict because there are multiple impacts, which happened, the securities are there and on the other hand the business of the MSE business has shown historically that it has higher delinquencies. So we will have to wait and see on that. It is difficult to tell you a number now.

Megha Hariramani: And the last thing is the impact on NIMs. Do we see the NIMs being maintained at the current levels?

Rajat Singh: NIMs are expected to come down as we proceed due to two reasons. One is our affect profile changing from microfinance we are moving towards secured loan also and second, as we become bank, probably as our cost of funds reduces we will be passing on some of the benefit of that to our customers, but that may happen after a couple of years, but overall it will come down.

Megha Hariramani: Okay, that is from my side. Thank you.

Management: Thank you. The next question is from Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much sir for the opportunity. My first question is regarding your AUM, if we speak to other microfinance companies if you take an outlook of the next two to three years of 45% or 50% CAGR growth is what most

people are talking about or kind of guiding. So what is our thought process on that?

Rajat Singh: Overall CAGR for the next two to three years our projection as communicated earlier is in the range of 30%. Since we are going through a major transition, we will be kind of keeping it slow. So there is a good market to grow, but we will be focusing more on building our liability franchise.

Deepak Poddar: Right, understood, fair. Now my second question is on your ROA because in your earlier calls you have mentioned that because of this cost structure or due to coming from SFB we might see marginal reduction maybe 40 to 50 basis points from what we were at that level. So we currently stick to that guidance or are we kind of reducing because you mentioned that lower number of branches is to be opened now in unbanked areas?

Rajat Singh: At this point of time, our ROA actually it has peaked out due to increased efficiency as well as the capital base. I mean this number looks on the higher side. Microfinance ROA will be closer to 3.5% and if we take SFB transition into account it should be further lower.

Deepak Poddar: Further lower than 3.5%? Considering the SFB impact, which might peak out may be in the mid next financial year, right?

Rajat Singh: Right.

Deepak Poddar: My last and final question is on have we come up with any kind of agreement with the banks in terms of mitigating the risk in terms of number of institutions, which can give a loan to a particular customer with the upper limit on the amount because we were in discussion?

Rajat Singh: We will be complying with that 100,000 cap and banks are also falling within the norms.

Deepak Poddar: I heard that three institutions and 60,000 cap so is that what we are looking at or one lakh is what we are looking at?

- Samit Ghosh:** Right now RBI requires two MFI and has a 100,000 cap for customers for group lending and that is something which we will stick to even when we become a small finance bank.
- Deepak Poddar:** I know that, but I was kind of referring to the internal MFIN kind of...
- Samit Ghosh:** There were various discussions. There was no agreement on that.
- Deepak Poddar:** No agreement we have reached. Sure, that is from my side. Thank you very much.
- Moderator:** Thank you. The next question is from Abhiniti Gupta from PCS Ltd. Please go ahead.
- Abhiniti Gupta:** Thank you for giving me an opportunity and coagulations on a good set of numbers. My question is pertaining to the SFB. You gave a guidance that you will be converting 200 branches into SFB branches right?
- Rajat Singh:** Yes.
- Abhiniti Gupta:** And how many new branches will be you opening?
- Rajat Singh:** We do not plan to open any new branches. We will be converting 200 of our existing branches into full service bank branch. Our remaining branches will continue to serve our existing customers from asset as well as from a liability point of view, but there will not be any major infrastructure upgradation in those branches. They will be largely focusing on existing customer. So we will not open any new branches apart from branches which is required in URC, unbanked rural centers, which is around 50 to 55 is the number.
- Abhiniti Gupta:** Secondly you gave us figure of 300 crores would be your Capex right?
- Rajat Singh:** On the IT side.
- Abhiniti Gupta:** On the IT side and what will be the full Capex for converting these branches?

- Rajat Singh:** For conversion of these branches overall Capex will be in the range of 80 to 100 crores.
- Abhiniti Gupta:** And how much of this will come in this year?
- Rajat Singh:** We have a phased roll out and we plan to start our operation in the last quarter of this financial year, depending on how soon we get the license and how we activate and the number can vary right if we start from February versus January and March, it is difficult to tell.
- Abhiniti Gupta:** And what would be Opex per branch?
- Rajat Singh:** Our Opex per branch in C, D states for a mature branch can go up to 6 lakhs per month for a SFB branch. For URC that number will be pretty small.
- Abhiniti Gupta:** And lastly, can you give a guidance for your loan book for this year, whatever has been happening for the last two days, how is this going to differ from what you have given already?
- Rajat Singh:** At this moment, we would like to stick with our guidance given earlier.
- Samit Ghosh:** We do not see there will be an impact, this is a temporary impact maybe for a week to 10 days, when our customers are able to replace their currency loan, those are repaying in cash, that will not impact us. We have also sort of temporarily stopped our cash disbursement, but that also as soon as we are able to replace our currencies and able to get new currencies which we should be able to do it within a week. It is a temporary aberration.
- Abhiniti Gupta:** Will it be possible for you to give a guidance of individual portfolio?
- Sudha Suresh:** Currently our IL portfolio stands at about 13.62% of our total portfolio, it is roughly standing at about 883 Crores. We have the MSE portfolio at about 316 Crores. We have the housing at 325 Crores. We have the agri and animal husbandry roughly at about 233 Crores. Miscellaneous at about 8 Crores. That is the break up.

Moderator: Thank you. The next question is from Harsh Thakkar from Pinnacle Forex & Securities. Please go ahead.

Harsh Thakkar: I wanted to ask regarding the depreciation on the new Capex that we are doing. This will start to kick in from the Q4 of the current FY right?

Sudha Suresh: Yes, most likely.

Harsh Thakkar: And, one more thing on the upcoming crowding in the space like Bandhan coming up, IDFC Bank also acquired a significant 10% stake in one bank. How are we posed and what we are doing separately to retain the customers?

Rajat Singh: Would you repeat the question?

Harsh Thakkar: Right now, with the new crowding in the space, IDFC Bank also they have acquired a stake in microfinance and Bandhan Bank and all other competitors, what we are doing uniquely to retain our customers, anything on that front?

Samit Ghosh: We are already competing with Grama Vidiyal. We do not see a significant impact in terms of competition. We will change the competition. Obviously Bandhan is a very formidable company, but we have been competing with them for the last so many years, and actually once we become an SFB we will have equal freedom to compete with Bandhan, now we are to a certain extent restriction as an MFI.

Harsh Thakkar: Okay, and one last question. Any set target for securitization in the coming financial year, right now we are at 408 Crores, any further securitization that we thinking of?

Sudha Suresh: Yes, we will be doing some significant securitization in the forthcoming months. We expect around 1000 Crore new.

Harsh Thakkar: Fine, that is all from my end.

Moderator: Thank you. The next question is from Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

- Kashyap Jhaveri:** Thank you very much for the opportunity. Just one question. Do we have any SLR compliant investments on the consolidated or a standalone book at this point of time?
- Sudha Suresh:** No.
- Kashyap Jhaveri:** Not yet, and we will build that in Q4 only once we go to the full-fledged SFB?
- Samit Ghosh:** Yes.
- Kashyap Jhaveri:** Okay, thank you very much.
- Moderator:** Thank you. The next question is from Gaurav Jani from Centrum Broking. Please go ahead.
- Gaurav Jani:** Thank you for taking my question and congratulations on a great set of numbers. Just a small clarification. Currently we have 469 branches and we plan to convert about 200 of them towards the SFB operation, is that correct?
- Samit Ghosh:** Correct, in the first year.
- Gaurav Jani:** So, of those you mentioned 63 needs to be in the specific area?
- Samit Ghosh:** In addition to that, we have already got 63 branches, which are in the northeast region, and which are in the districts, which are extremely, affected states. These are full branches of ours, which are very viable ongoing concerns, but with the new revision of RBI's definition of URC, we now can be compared as meeting our URC requirement. It reduces our burden in terms of how many additional URCs we have to open with that 25% calculation.
- Gaurav Jani:** Okay, 25% of 200 branches right?
- Samit Ghosh:** It is 469 plus whatever additional branches we open, it is 25% of that.
- Gaurav Jani:** Those need to be in the rural area, all these bank accounts.

Samit Ghosh: It should be in unbanked rural areas, which now they have renamed as URC, unbranched rural centres. Of our existing branches, out of the 469, 63 will qualify for them because they are in the northeast and they are in lessening affected districts.

Gaurav Jani: Sure, thank you so much.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to the management for their closing comments.

Sudha Suresh: We would like to thank you all for your interest in Ujjivan and participating. There were a lot of interesting questions. We are there to give you any further details that you require. Please contact Hiren Shah or Mantasha Mizaj from our Investor Relations team. Thank you so much.

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