

Transition into Bank to Hit Return Ratios: Ujjivan MD

Q&A

In a chat with ET Now, **Samit Ghosh**, MD, Ujjivan Finan-

cial, said from next quarter, cost of transformation to a small finance bank will start having an impact. Edited excerpts:

What has led to AUM growth which looks very solid? Will it continue in the quarters ahead?

AUM growth will continue to be as per plan for the year. As far as earnings for this quarter are concerned, it was better than expected largely because of normal business growth but along with it, we had the money from the IPO which will reduce our cost of funding for this quarter. So, it is a one off to a certain extent and also our impact of the cost relating to transformation has not started impacting us yet. Starting from next quarter, the cost relating to transformation to the small finance bank will start impacting us.

What about your NIMs (net interest margins) because they have also seen a very smart



expansion of 35 bps on a sequential basis. Is that sustainable? What is your margin outlook for the entire fiscal?

On the NIM side, the cost of funds this quarter was lower than anticipated because of funds from the IPO. I think that impact will disappear from next quarter.

As you prepare Ujjivan to become a small bank, do you think in the short term your return ratios will be compressed and the impact will be visible in the second half of FY17. Do you think market should realise that now?

Yes, we have always said that the two-year period, the period in which we are transforming and the two-year period following that our return would defi-

nately be impacted before it starts picking up again and becoming normal. We have always said that is a normal impact when you are making such a major change, all the investments we are doing right now will have an immediate impact on our cost structure.

Is it safe to say that in the short term your return ratios have peaked out?

Yes, it has either peaked out or is very close to peaking out.

There should be some pressure on how retention or hiring or employee cost shapes up. What is your sense and does that worsen in the quarters ahead?

I do not think we are bothered that much by retention but our employee cost definitely will be going up because we would be recruiting a lot of people from the banking sector and different set of people from what we have had in the past as a micro-finance institution and that will impact. We will have higher personal expenses along with our investments in IT etc.