Ujjivan Small Finance Bank to apply for universal licence this fiscal: MD Sanjeev Nautiyal

Synopsis: Ujjivan Small Finance Bank aims to secure a universal banking license by March 2025. The bank is focusing on building a diverse business mix and strengthening its secured loan portfolio. Efforts include expanding product lines and improving digital and IT infrastructure to address RBI requirements.

Amid concerns over overleveraging of microfinance borrowers at the industry level, Ujjivan Small Finance has started chasing the next aspiration—a universal banking licence. For the first time ever, the bank has said in no uncertain terms that it would apply for the licence no later than March 2025. In his first ever media interaction after taking the driver's seat, managing director Sanjeev Nautiyal discussed with ET's Atmadip Ray the business decisions that are taking shape at the bank's headquarters in Bengaluru. Executive director Carol Furtado also joined the conversation. Here is an edited excerpt.

Ujjivan is one of the just two small finance banks eligible to apply for universal banking licence at this point of time. AU has already thrown the hat in the ring. What is Ujjivan up to?

Sanjeev Nautiyal: We are working on a plan and within this financial year, we see ourselves in a very good position to make an application to the Reserve Bank of India.

Has the Ujjivan board approved it?

Sanjeev Nautiyal: The board is agreeable to the fact that we should apply. We are building a strategy based on the guidance provided by the board.

How are you preparing yourself?

Sanjeev Nautiyal: We have to decide what kind of business and to what extent that particular business that we would like to do, building a strategy on all the microfinance and the secured side that we are doing. We have to decide what the mix of business that we would like to do five years down the line. For each year, we will have a certain mix of business that we are already doing and further complementing it through additional product line, additional segment, additional geography, what our branch expansion should be like to support the growth in the different verticals that we are researching, what is the digital capability that we should have, what IT infrastructure we should have, what skills we would require. So, we are thinking through all the plans.

Would the business mix be very different from what it is now?

Sanjeev Nautiyal: Look, we will be building on what we are already doing. As we go along, we will add additional capabilities to our lines of action, product lines, customer segments, geographical reach. And there are various distribution channels through which we can do our businesses. Basically, whatever the universal banks of today are doing is what we would like to do. But we would like to address the mass market. That is our happy space to be. We are dovetailing our resources and our capabilities and our outlook towards building that future into the fifth final year of the strategy. And after that, there will be annual plans that we will continue to launch.

The Reserve Bank of India prefers a well-diversified book before granting the licence. Ujjivan is behind the curve in terms of raising the share of the secured portion of the total portfolio. How do you plan to address it?

Sanjeev Nautiyal: RBI knows where we are. It is with what intention and in what direction that we move forward in the next five years.

Our plan will always be to keep strengthening the secured side of the book. Microfinance will grow but the secured side will grow faster because it is a smaller book. But microfinance would still be a substantial book on our balance sheet.

In the next five years, I think an unsecured to secured ratio of 40-60 or 30-70 is the range in which we would like to see Ujjivan finally transitioning and settling into. We were somewhere around 69-31 or 70-30 when we began the year, and now at 65-35. The transition got a fillip also because of the fact that the entire industry is now a little cautious, circumspect and is conservative in its approach to handling the microfinance market.

Ujjivan has also tried to steady the ship and the book has de-grown from March.

Carol Furtado: Well-diversified can also be geographical diversification, product diversification, segment diversification, it can be anything. So we are there in everything and we are working on also to increase our secured asset portfolio.

As you progress, which particular segment would you like to emphasise the most on the secured side?

Sanjeev Nautiyal: Housing has been doing well for the past couple of years, this is a very steady business and offers a lot of focus on building relationships. MSME is the other part where we have revamped our product process systems and this is now beginning to show green shoots. Our focus would also go to agriculture, vehicle financing and gold loans. These products—gold loan and vehicle (two-wheeler), although on a small base—have a potential to grow and become a game changer for us.

Carol Furtado: In the future we would be also looking at the four-wheeler segment. But at the moment we are only in two-wheelers. Next year we will start looking into it. We will look into both the used and the new cars.

The two-wheeler segment finds synergies with the customer segment that we are working with. It's sort of a moment upwards for them. We are actually looking at products that will help the customers in the microfinance segment grow and take on various other products. So through that I think the used cars would be one of the requirements for the segment.

In the second quarter, Ujjivan's asset quality worsened. What has contributed to it, microfinance?

Sanjeev Nautiyal: Most of the stress… about 80% of it is coming from the microfinance side. It is an industry-wide phenomenon and we are also facing the challenges. But I think we are doing much better than most of our competitors in terms of handling the situation.

But we believe it is a three to six-month story. As this story clears up, I think microfinance will also start seeing better asset quality.

Unlike in the past when the microfinance sector came under stress largely due to external factors like demonetization or the pandemic, this time it looks like an internal issue – gaps were seen in the underwriting standard for many lenders. What is your reading of the situation?

Sanjeev Nautiyal: Microfinance is what the organized players engage in and there are also informal, non-formal players who also jumped into the bandwagon of lending. Those who do not report their data to the CIC (credit information company). So, because of the extension of the activities by other players, I think the situation got compounded. The lack of clarity in terms of data with the bureau also was one of the factors. Just in time data is not available and therefore one wouldn't know how many players are actually lending to a borrower. So yes, there could be (an issue of) underwriting standards. Some players would be violating it to a very large extent.

Several lenders have raised lending rates sharply after RBI deregulated it. Now, the central bank has started taking strict action for charging excessive interest spread over the cost of funds. Given Ujjivan's cost structure, is there a possibility of a review of lending rates?

Sanjeev Nautiyal: RBI sees the rate of interest as not being a problem. It only wants that the rate of interest should be worked out very transparently. How your rate of interest has been worked out, that should be clearly delineated and you are free to charge depending upon your cost of operations and a board approved margins over it.

So for Ujjivan, it has been a responsible lender to the microfinance segment. But once it is an industry-wide phenomenon, you also get sucked into the vortex. We will certainly look into those areas where we need to improve, and see whether there is a certain fine-tuning that we need to do further.

Broadly speaking, our appraisal mechanism has been pretty good. But we are open to looking into it because of the circumstances that we see around us and see whether those improvements will actually help us to navigate the situation better. Some players may be having too high rates, outlier kind of entities, but most of them are range bound.

On the liability side, there have also been challenges faced by all. How do you manage it?

Sanjeev Nautiyal: We face the same headwinds as other players in terms of customers wanting higher rates on deposits and there was a war for deposits. Some banks were in high CD ratio territories. We have managed our CD ratio very well so far... our CD ratio is in the range of 88-89%. So we would like to keep it below 90% and that is what we are continuously doing.

We calibrate our deposit mobilization to our requirements for asset side growth. We have been able to manage our cost of funds. I think it was 7.50% in the June quarter and it was 7.51% at the end of September quarter.

Have deposit rates peaked, or is there a possibility of rates going up further?

Sanjeev Nautiyal: I would say it should have peaked by now because the RBI is likely to reduce rates, I mean the lending rate, say in January or February. So in anticipation of that, the rates normally tend to go downward. There can always be erratic spurts, but, on the whole, the rates would go down by the time the new year comes in, January, February, or by the close of this financial year.

I think it's also a question of efficiency and giving excellent customer service, building on the relationships. So, if we can play on the other aspects of a deposit relationship, I think we can reduce (rates).