"Ujjivan Small Finance Bank Q3 FY25 Earnings Conference Call"

January 23, 2025

MANAGEMENT:	**MR. SANJEEV NAUTIYAL – MD & CEO, UJJIVAN SMALL FINANCE BANK** **MS. CAROL FURTADO – EXECUTIVE DIRECTOR, UJJIVAN SMALL FINANCE BANK** **MR. MARTIN P.S. – CHIEF OPERATING OFFICER, UJJIVAN SMALL FINANCE BANK** **MR. ASHISH GOEL – CHIEF CREDIT OFFICER, UJJIVAN SMALL FINANCE BANK** **MR. VIBHAS CHANDRA – HEAD, MICROBANKING, UJJIVAN SMALL FINANCE BANK** **MR. SADANANDA KAMATH – CHIEF FINANCIAL OFFICER, UJJIVAN SMALL FINANCE BANK**
MODERATORS:	**MR. RIKIN SHAH – IIFL SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and 9-month FY25 Earnings Conference Call of Ujjivan Small Finance Bank hosted by IIFL Securities.

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. Rikin Shah from IIFL Securities. Thank you and over to you, sir.

Rikin Shah: Thank you. Good evening, everyone, and a very warm welcome to Ujjivan Small Finance 3Q FY25 Result Call to discuss the 3Q Results and the Outlook post the Results.

We have with us the Management Team represented by Mr. Sanjeev Nautiyal – MD & CEO; Ms. Carol Furtado - Executive Director; Mr. Martin P.S. - Chief Operating Officer; Mr. Ashish Goel - Chief Credit Officer; Mr. Vibhas Chandra – Head, Microbanking and Mr. Sadananda Kamath - Chief Financial Officer.

With this, we will pass the line to CEO. Over to you, Mr. Nautiyal, for your remarks.

Sanjeev Nautiyal: Thank you, Rikin. Good evening and welcome to our Q3 Financial Year '25 Earnings Call. Please note all references made during this address on Q2, Q3 and Q4 pertains to Financial Year '24-25.

Our strategy to diversify the portfolio towards a more Secured Book has seen accelerated results, now contributing 39% to the total loan book by end of Q3, led by Affordable Housing, MSME and FIG. Our overall Secured book grew by 13% Q-o-Q, 33% YTD and 52% Y-o-Y.

In Microfinance, we saw consistent improvement in collection efficiency month-on-month during the quarter. States like West Bengal, Uttar Pradesh, Bihar, and Rajasthan that earlier showed signs of stress are now witnessing improvement in collection efficiency. We expect a better performance in Q4 with higher disbursements seen in the first three weeks of January compared to similar period in any month since July 2024. Bank took a call to reduce interest rates in group loans and individual loans by approximately 115 bps and 75 bps respectively, with effect from 1st January 2025. This will not have a major impact on profitability for a couple of factors, namely stable cost of funds with expected margin improvements due to rate cuts, strong growth expected in high yielding products like micro mortgages, vehicle loans and Secured agri offsetting the yield impact to some extent. With our interest rates, one of the lowest in microfinance, along with the lender cap due to guardrails, this will ensure the acquisition of quality borrowers.

Micro Group loans witnessed disbursement of Rs. 2,029 crores in Q3 marking a 16% Q-o-Q decline. As of December, '24, these loans constitute 45% of the total loan portfolio. Contribution of repeat customers to overall disbursement has risen from 61%-73% Q-on-Q. To capitalize on growth opportunities, we have enhanced our pre-qualified group loan offerings in states with higher potential and robust collection performance. The individual loans portfolio comprises 15% of our loan book and is focused on graduating group loan customers with good repayment track record. It is expected to grow at a faster pace compared to group loans, having grown by 21% Y-o-Y.

For IL repeat customers, we have implemented a simplified self-service digital journey. This allows us to offer pre-qualified loans to existing customers, a key strategy for improving customer retention. Affordable Housing and micro mortgages comprising 21% of loan book demonstrates sustained growth. In December, disbursement exceeded Rs. 300 crores, marking a significant milestone. This book has reached Rs. 6,393 crores as of December ‘24, exhibiting a strong 11% Q-o-Q and 45% Y-o-Y growth expecting to close at Rs. 7,000 crores as of March 31, 2025.

Talking separately on Affordable Housing books, our highest volume contributing Secured business has grown to a book size of Rs. 5,867 crores, up 9% Q-o-Q and 37% Y-o-Y. Micro-mortgages, a high yielding Secured segment has shown promising performance growing at 34% Q-o-Q. This has a good mix of customers who graduated from individual loans and also from the open market. Our revamped approach to MSME business is contributing to the momentum growing by 12% Q-o-Q and 21% Y-o-Y to reach Rs. 1,694 crores. Growth has come from all products with LAP, working capital and supply chain finance. Disbursements crossed Rs. 150 crores in December ‘24. The new MSME book has nil NPA. FIG books continue to scale and reach Rs. 2,257 crores as of December ‘24, contributing 7% to the total loan book. This book grew by 11% Q-o-Q and 57% Y-o-Y.

The Vehicle Finance business witnessed impressive growth, reaching a book size of Rs. 375 crores and now contributes over 1% of our asset book growing by 43% Q-o-Q and 155% Y-o-Y. The Gold Loan business has experienced significant expansion with its availability increasing from 63 branches in March 24 to 198 branches in December ‘24. This book stands at Rs. 115 crores in December ‘24. Secured-Agri, which includes Livestock and KPC, has shown significant Q-o-Q growth of 27%, reaching a book of Rs. 459 crores. Overall, investments that were made last financial year onwards towards our product diversification strategy is yielding results. Secured book is showing promising growth of around 40% over March 24. In Q3, 46% of disbursement resulted from Secured products compared to 30% in the same quarter last financial year.

On asset quality, we saw encouraging signs of improving bucket X collections in the group and individual loans. We increased our collection headcount by adding 345 staff, taking the count to 2260 as of December 2024 end. That helped us in improving resolutions in SMA / harder buckets. West Bengal, Uttar Pradesh and Bihar are showing good improvements month-on-month along with other states such as Punjab, Haryana, and Maharashtra. This is reflecting in our bucket X collections at 99.2% for quarter 3. Slippages from GL and IL book came in at Rs. 298 crores in Q3 versus Rs. 197 crores in Q2. Additionally, the Bank affected an ARC transaction of Rs. 270 crores in Q3, Rs. 207 crores from NPA book and Rs. 63 crores from a written-off portfolio. We hold 100% provision in the subscribed security receipts. Asset quality in the Secured book has been significantly better. The MSME new book which forms 48% of the MSME book has nil NPAs, housing and micro-mortgage portfolio continues to remain strong with 1.1% GNPA. At overall book, our GNPAs and NNPAs as on December '24 stand at 2.7% and 0.6% respectively, despite challenges specific to microfinance. We maintain our credit cost guidance at 2.3%-2.5% for the year. Bad debt recovery continued to be strong, collecting over Rs. 29 crores in the quarter.

Bank's total deposits reached Rs. 34,494 crores, marking a 16% Y-o-Y growth. Notably, CASA deposit saw 15% Y-o-Y increase reaching Rs. 8,662 crores which is 25% of overall book. Retail deposits stood at Rs. 25,274 crores accounting for 73% of total deposits and demonstrating a 24% growth over December 23. Retail deposits continued to stay about 70% consistently in the last 8 months. The Bank has relied upon strategies to enhance ease and convenience for our customers to accelerate granular deposit base, especially CASA. Among booking of digital banking products, the Bank has introduced digital current account in addition to digital savings and digital fixed deposits. Bank is effecting structural changes to have increased focus in onboarding and servicing larger share of customers under affluent, non-resident, corporate salary, and trader categories, enhancing customer acquisition through improved lead management services and customer management tools, strengthening relationship management via CRM and other tools to better manage existing customer base. We are confident of improving the CASA ratio and also reducing the cost of funds going forward.

Ujjivan is driving transformative change, powered by analytics to accelerate business growth, faster credit assessment, enhancing productivity, identifying new geographies for expansion and relevant product offerings. On digital banking, our digital current account launched in Q3 has a simplified journey in which account opening can be completed under 60 minutes. Digital fixed deposits and digital savings accounts have access from around 250 locations where we do not have branches. The Bank's own UPI app, Ujjivan Pay is undergoing testing and will be launched in Q4.

On financials and margins, the NIM for the quarter is 8.6%. The compression and yields on the overall portfolio is down to 18.2% in Q3 versus 18.9% in Q2 due to growing contribution from Secured assets. The cost of funds moved up marginally by 6 basis points to 7.57% in Q3 versus 7.51% in Q2 largely attributed to the retirement of IBPC book. Operating costs increased only 1% during the quarter versus 10% increase seen in Q2 over Q1. Other income was impacted due to lower processing fee, reduced insurance income and provisions on security receipts arising due to ARC transaction. Credit cost for the Bank was at Rs. 223 crore in Q3, higher than Rs. 151 crore recorded in Q2. In addition to this, we have taken an accelerated provision of Rs. 30 crores. PAT for the quarter was Rs. 109 crores and subsequently adjusted ROA and adjusted ROE for Q3 are 1.1% and 15.2%, respectively.

I am also delighted to announce that the Board has accorded approval to move the application for voluntary transition to universal banking in its meeting held today. We will be submitting the application to RBI shortly.

Lastly, I would like to summarize the Bank's key focus areas for the last quarter:

- Loan book growth will be led by Secured business which is poised to grow by around 50% during Financial Year '25 and contribute around 40%-42% by financial year end.
- Group loan and individual loan book to see better disbursements during Q4.
- Credit cost to remain range bound within 2.3%-2.5% as per our earlier guidance.
- Focused efforts towards improvement in CASA ratio with reduced cost of funds.

Before I conclude, I would like to introduce Mr. Balakrishna Kamath who has joined as CFO. He holds a varied experience over 30 years in corporate finance and corporate governance in various listed entities including the Tata Group. His profound experience will add strength to our organization. In a similar way, I would also like to introduce Mr. Hitendra Jha as Head of Retail Liabilities & TASC. He wins over 23 years of banking experience with him. For the last 17 years, he was with Kotak Mahindra Bank and his last role with Kotak was National Head Branch Banking emerging markets. Prior to Kotak, he has also worked with ICICI Bank and IDBI Bank and I wish both these incumbents huge success in Ujjivan Small Finance Bank. Thank you.

Now, I hand over the mic to you Rikin. Thank you. Please.

Rikin Shah: Operator, we can open the call for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rajiv Mehta from Yes Securities. Please go ahead.

Rajiv Mehta: Sir, my first question is on the NDA collection efficiency, which is improved in December. So, have you seen the trend continuing January and the sites adding people for collection, are we also seeing any improvement in center meeting attendance or the loan officer at region? And just a follow up on this, have we also started seeing any improvement in resolutions and rollbacks in the SMA buckets in recent months?

Management: So, our NDA collections have seen month-on-month improvement. July, August and September, we did see a reduction in bucket X collection efficiency. October, November, and December we have seen a month-on-month improvement. We are expecting that the same trend will continue January onwards. In terms of center meeting attendance, we see the same trend as what we had in the earlier quarter about 60% of attendance in the center meeting.

Rajiv Mehta: And the loan of accretion and the resolutions in the soft buckets, are they also improving?

Management: Yes, our SMA 0 resolution is in the range of about 30%. It has improved from about 25%, SMA-1 and 2, which were at 25% and 21%. SMA-1 has improved from 25%-35% and SMA-2 has improved from 21%-25%. So, across the SMA buckets we have seen improvement. And this is also, as we have mentioned, we have increased the collection team. So, that is also leading to a lot of efficiencies on the SMA collections.

Rajiv Mehta: Sir, my second question is on the credit cost. So, when you are maintaining credit cost guidance at 2.3%-2.5%, it implies a good decline in the 4th Quarter. So, then we are trying to rule out the possibility of taking any additional provision or accelerating the current provisioning policy. Would that be correct and what levels of PCR will be comfortable with maintaining because I can see that in this quarter PCR has improved, but we have also shifted floating provisions from standard to the NPA bucket. So, if you can also comment on what level of PCR you are comfortable in maintaining and whether the credit cost will go down in Q4 versus Q3?

Management: So, in terms of PCR, the mandate is at 70% and we have been consistently maintaining PCR above 70% for a number of quarters now. So, we will continue to maintain a PCR between 70% and 75% going forward also. In terms of credit cost, since the NPAs had gone up in Q2 and Q3, there will be slightly higher credit cost in Q3 and Q4. But I think that will start to get normalized as we go forward. To counter this, we have also taken some additional provisions in Q3, accelerated provisions in Q3 to the extent of about Rs. 30 crores. So, these accelerated provisions help us clean out the expected increase that we were expecting in Q4. So, largely you now get neutralized.

Moderator: Thank you. The next question is from the line of Renish from ICICI. Please go ahead.

Renish: Just two things from my side, one on the PAR zero bucket, so if we look at the group loans, it is at 6.6, IL it is at 4.5. Since you are also mentioning that collection is improving month-on-month, it is right to assume that the PAR level current numbers have picked out and going ahead, from Q4 onwards we would start seeing PAR portfolio coming down, even we will have write-off as well?

Management: So, this is the function of how the industry would show the numbers. We have seen a good improvement and we are hoping that there is going to be no disruption. Renish, so PAR numbers, there will be some stability of PAR during this quarter. So, we don't expect the increase in PAR numbers, but the speed at which the PAR was increasing will stabilize during this quarter.

Renish: So, in other words, stress, let us say the incremental stress formation has picked out, is that the fair assumption?

Management: Yes, so see the incremental stress post July, August, September that is when the stress had started to actually build up. October, November, and December was months where the PAR numbers continue to grow. We expect that this PAR numbers will stabilize here on and start to show a declining trend in the next maybe two or three months.

Renish: And sir, would you like to share January collection data?

Management: It is a little early for the January collection data because we have numbers only till maybe a couple of days back. If you look at bucket X collections on micro-banking, they are better than the same date December numbers.

Renish: Just a reconfirmation, if I heard you correctly in your opening remarks, you did mention that January collection is the best in entire fiscal year, is that the comment you made in opening remarks?

Management: Mr. Nautiyal was referring to the disbursement numbers. We have started to see a good demand in the market in the month of January. In fact, we started to see that towards the end of December. We have seen that after a gap of funding in the market, there is a bounce back which happens and we see this bounce back happening for the last four weeks. So, our January disbursement numbers that we have seen so far are better than what we have seen during this year so far. That is what you should note what I said.

Renish: And this is last thing, in terms of the account of guardrails, are we following 4 lender guardrail or we have already implemented 3 lender guardrails?

Management: So, we are following 4 lender guardrails. The 3 lender guardrails would come into effect on 1st of April. However, the other guardrails of 2,00,000 indebtedness and funding to SMA customers, these were already following. What we have additionally done is for the new-to-Bank customers, we have implemented the 3 lender guardrails.

Renish: So, for repeat loans, we are following 4, but for new-to-company customers, we are following 3?

Management: Yes, new-to-Bank customers, we have implemented the 3 lender guardrails in the beginning of January.

Moderator: Thank you. Next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Just as a feedback, sir, it would have been great had we stick to the regular time because we hardly got any time to see this lengthy presentation of yours. So, most of the questions that I decide to ask I have to ask it out looking at the presentation itself. So, I would appreciate it if you can stick to timelines from the next quarters. Secondly, sir, on the overall collection efficiency for the book, on the Secured side, did you see any stress in this and including January are you seeing any spillovers of the some of the stress in the microfinance on your Secured book?

Management: No. In fact, our collection efficiency for the Affordable Housing and for MSME as well as Vehicle Finance has been consistently above bucket X collection for Affordable Housing is in the range of 99.4%-99.5%; for MSME, it is above 99%; Vehicle Finance is above 99% and we have not seen any decline. In fact, we have seen a marginal improvement in Q3 over Q2. So, these Secured products, the bucket X collection had been consistent and improved.

Sarvesh Gupta: And overall collections have also Q-o-Q, sir?

Management: When you look at the overall collection efficiency, you will see a dip because the PAR numbers have gone up. So, when the PAR numbers go up, the collection efficiency on the SMA and NPA buckets is lower, which weighs down on the overall collection efficiency.

Sarvesh Gupta: And similar trend for January?

Management: January, I would say it is early, but on 20th of January, the efficiency in microfinance is better than 20th of December is what I could say.

Sarvesh Gupta: No, I was asking about Secured product, sir?

Management: Secured products, we maintain very consistent bucket X efficiency, so it continues to be in the range of 99%-99.5%.

Sarvesh Gupta: And sir, this guidance on the credit cost, 2.3%-2.5%, now I did not get the chance to sort of calculate, but how much have you done till 9 months? Again, this number that you are referring to and is it adjusted for all ARC sale etc., or how should we read this number? If you can give us absolute number, that would be great. How much have we done till now and what we are guiding for?

Management: So, we have 9-month credit cost is 1.55% for 9 months YTD December. And in terms of value is the first 9 months was Rs. 483 crores.

Sarvesh Gupta: And sir, this is including accelerated provision and ARC sale the loss that we have incurred there?

Management: Yes, it includes both, ARC sale as well as accelerated provision.

Sarvesh Gupta: So, then in the last quarter, basically you are guiding for 0.8%-1% credit cost?

Management: Yes, 0.8%-0.9% that is right.

Sarvesh Gupta: And any guidance that you would want to give of how things can be for FY26?

Management: It will be a little premature to give a guidance for FY26. We can come back to you during the first quarter for the guidance of the full year, but as of now it would be a little premature.

Moderator: Thank you. The next question is from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead.

Suraj Das: Sir, one clarification first, on Slide #23, the collection efficiency that you have reported, this is for the overall book right, including delinquent customers?

Management: You are referring to the group loans lender wise trend, the Slide #23?

Suraj Das: Yes, sir.

Management: Go ahead, please.

Suraj Das: No, I am asking, this is including the delinquent book, right? This is total collection efficiency?

Management: Yes, it includes. This is total collection efficiency. That is right.

Suraj Das: And Slide #21, the collection efficiency table that you have reported, on the normal collection also, there is some OD collection, what is that sir for group loan and individual loan?

Management: Additional collection includes overdue collection. The additional collection is what you are referring to?

Suraj Das: No, sir, second column, after due there is collection where there is asterisk mark and then there is addition collection separately. So, what is this OD collection, sir?

Management: Overdue collections. We were referring to overdue collections, so collections which are due for the month and collections which are arrear from previous months, overdue collections. Overdue refers to arrears.

Suraj Das: The last question is sir, in terms of if I see the yield on the Affordable Housing side that has come down significantly, 40 basis points on a Q-o-Q basis, where do you see this yield settling in 0.1 and the 0.2 is overall margin, what would be your guidance on margin going ahead now given that probably your Secured book is growing faster than the overall MFI book? So, how do you see the margin trajectory probably for next 6-8 quarters?

Management: The housing yield has come down during the quarter due to 2-3 factors. The main one being it is a floating rate and the EBLR have come down during this quarter, due to which all the roles have been repriced and that has impacted this. And the second is you also have to derecognize the interest for the slippages during the quarter that also has been given effect. And there is one more factor.

Suraj Das: What EBLR has come down?

Management: No, there are base rate based on which it is a floating rate. So, the floating rate, the base has come down by 50 bps, so that has affected the entire book and that is why the rate has come down. That is one point. Second one is penal interest no longer can be charged as per the new RBI regulation, so it has been reclassified as penal charges, so it is not coming under this head anymore. And finally there is Rs. 9 crores adjustment for interest which has been derecognized due to slippages during the quarter. These are the three factors.

Suraj Das: And sir, overall margin trajectory how do you see that?

Management: It will be going steady at whatever rate it is now, it will be consistent going forward.

Suraj Das: And sir, on this micro mortgages PAR number, I think that is also going up from 20 basis points to something like 60 basis points over the last two quarters. So, do you see this trend continuing in January also? And are there overlap between your MM customer and your MFI customer?

Management: So, the micro-mortgage PAR is actually a very low number. 0.4, 0.5, 0.6 are actually very low numbers. We see that the quality of the book has been exceptionally good. So, these kind of numbers are quite competitive and very reasonable. In terms of overlap, we have about 40%-45% of our customers who get graduated from individual loans to micro-mortgages and about 55%-60% are open market customers. And the individual loan customers who move to micro mortgages have at least 4-5 years of experience relationship with Ujjivan. So, that is giving us a very good comfort in terms of underwriting those customers.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: First question is on the Secured segment. What is the medium-term strategy with respect to Secured? Do you see share of Secured going up in FY26 and to what level you expect share of Secured going up?

Carol Furtado: So, currently, our Secured book stands at around 39% and this will see year-on-year growth. Our Secured portfolio in housing, MSME and the newer business lines like the Gold, Vehicle Finance, Secured Agri, Micro Mortgages has started contributing well. We were supposed to hit the 60-40 mark in FY26, but with the phase at which we are going with the Secured asset portfolio, we should be hitting that much earlier.

Nidhesh Jain: Secured will be 60% by FY26?

Carol Furtado: It is 40% which was supposed to be done in FY26, but we are hitting that much earlier. Secured is 40% and unsecured is 60%.

Nidhesh Jain: And do you expect it to further increase in FY26 or at 60-40 you will stop?

Carol Furtado: Yes, we will be increasing the Secured portion and our newer business lines are contributing very well to this book.

Nidhesh Jain: And can you share the profitability of the Secured book in terms of ROA because as the share of Secured goes up whether the ROA of the Bank will see a compression over next 2-3 years, so if you can share the ROA of Secured book that will help, ROA Secured book or ROA of housing and SMA, whichever is convenient?

Carol Furtado: Yes, we will get back on this a little later.

Nidhesh Jain: And if you can just receive the ROA of the Secured book on whatever transfer pricing that we use internally, that would be useful.

Carol Furtado: We will do that.

Moderator: Thank you. The next question is on the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, first I want to understand, this 9 months we have grown by about 10%, right, and you mentioned that 4Q you are seeing some demand coming back and some traction on your disbursement. So, overall, for this year, what sort of growth range you are looking at?

Management: Overall growth all considered, we should be growing by around 9% or so. But individual side, the individual loans we would be going somewhere around 12% or so. On group loan, we are not actually giving any guidance because it still has been volatile and a little hard to understand, but we are seeing good traction going forward. So, Q4 is going to be better than the earlier quarters as far as the group loan businesses is concerned and on higher side we will be doing much better.

Deepak Poddar: And at the company level, you said 9% growth is what we are looking at?

Management: On a rough and ready basis, 8%-9% would be the overall book growth for the entire financial year for all the segments.

Deepak Poddar: So, this quarter-on-quarter, we are expecting some decline, your base would be higher right of 4th Quarter, so that way?

Management: Yes. Microfinance in the last quarter, this year obviously would have done much better, right, bringing in the volumes.

Deepak Poddar: And what sort of cost to income, we saw some increase in the cost to income ratio, right? So, how do we see that going forward?

Management: There are two factors here. One is the operating cost as a percentage on the average assets have actually come down during this quarter. If you look at the Page #29, for Q3, it is 6.2% whereas the earlier quarter was 6.4%. So, due to the tough position in the microfinance industry, the company has put in place a good cost control plan and it is reflecting in that whereas the total cost income ratio has gone up only due to the reason that we invested some money for growing some of our good businesses which are the Secured business and the manpower and the branches which we had invested on for instance, we had around 2,500 odd employees during the year, so that has reflected on the manpower cost. But that is all for the Secured business side where we have shown a 50% growth and that has paid off. There are 2-3 other factors. We are working on universal banking license, so we hired some consultants. So, we have spent around Rs. 6 crores on that. We have also done some branding during this quarter which is around Rs. 10 crores. That is also to be recorded. Most of these costs are relating to the company's future plans whereas all other routine costs and operating costs are well under control. And finally, if you note the income also has come down into the percentage is always denominator and numerator, so denominator also is little down, which has also impacted the cost income ratio.

Deepak Poddar: But then at absolute level, how do we see that? I think if you take your operating expenses, it was close to about Rs. 700 crores this quarter, right?

Management: Yes.

Deepak Poddar: So, how do we see at the absolute level? Is that the going forward rate one can see or we can see some decline in this?

Management: Yes, it will be steady for some time to come. It may slowly come down also this quarter because there could be, we have to wait and see, but it will be more or less steady. That is what we see.

Deepak Poddar: And we have done around Rs. 270 crores of sale, right, in this quarter, stressed loan assets?

Management: Yes.

Deepak Poddar: So, was there any loss book in it in this quarter on that same?

Management: So, when we do ARC sale, we do full provisioning on SR. So, there was a loss of about Rs. 26 crores.

Deepak Poddar: So, that is included in your provision already, right?

Management: That has come in the other income.

Moderator: Thank you. The next question is from the line of Ritika Dua from Bandhan. Please go ahead.

Ritika Dua: Sir, two questions, just trying to understand the industry trends better. Hopefully, when you say that the demand or revival happened in January, could you just share some trends around that, what exactly because the perception is that it is actually not so much a demand issue, but more so like the fact that everybody had to meet the first regulatory guideline and that would have also meant some bit of growth coming off. So, when you say demand coming back, what do you mean by that? That is the first question and the second is a little longer question, but obviously because to the previous caller you said that obviously we are not giving the guidance for '26, which is fair, but still is it fair to say that maybe because you have still not moved on to the three norms, which obviously some of the other banks at least have. So, when you actually move in 26, this would not be obviously a normal year and credit cost again and secondly, sorry to draw parallels because I know it is not exactly the same book which one Bank versus the other, but still the kind of commentary which we hear from two prominent banks is that the slippages of third quarter could be the similar which could be there in the 4th Quarter? And some say that obviously the same could be even there in the first quarter as well also. You had obviously one among the first one to fall out the pain, so maybe that is something we obviously acknowledge, but still just maybe if you want to still draw some numbers to say that how it is 4th Quarter shipping could be well over third quarter?

Management: On your question number one, how we are seeing increased demand, in the month of January, as we said that we started witnessing from the month of mid-December only and it is something which has to do with the locations you are present and the states you are present. As we are seeing that overall the turbulence in the microfinance industry is fading, but it is not fading equally in all the state. The time period is different. And this has also hit different organizations and different customer segment very differently. For us, the earlier states which were creating issues like Punjab, Haryana, Rajasthan, Uttar Pradesh, Bihar, Jharkhand, West Bengal, these states are doing much better in the last 3 months. We have seen improved collections and we see increased demand in these states. At the same time, we would also like to mention that the state like some pocket of Tamil Nadu, some pocket in Karnataka, Kerala, and some pockets in Odisha for us are still to see the bottom and we are careful there. But as we are seeing increased demand in majority of states we are present, we see improved basement in the month of January so far. That is something which will also see happening in the coming three months that is something which we are able to see in the quarter. What was your second question?

Ritika Dua: Sir, you partially answered it, I was trying to understand that I acknowledge that your book is different from the other Bank, but another Bank had given a very guidance kind of thing that even a 4th Quarter slippage could be as high as third quarter, so that is one point. And the second point is that I was saying that if you could just maybe draw some parallels as to why you think 4th Quarter is coming out to be much better than third for you and the second additional point to this was that because you are still to move to the three lender rule, do you think that may be by FY26 can actually still see higher slippages because of maybe you are moving to the more and more 3 lender norm?

Management: So, in terms of slippages, slippages come with a lag of about 90 days, 90 to 120days, 120 to 150 days, from the time that an account gets into 1 DPD PAR. So, slippages will happen because our PAR started to increase in Q2 and Q3, so that there is a lag effect of that. So, slippages as we see are going to be steady. We may come down marginally, but not significantly. In terms of growth Mr. Nautiyal in his speech had said that we want to be among the preferred lenders, so we have actually reduced our interest rates to be more competitive in the market. We want to be more competitive and we want to be a preferred lender and this is in preparation to the three lender norm, which would happen starting April. So, in anticipation of that and we want to work with our customers, give them better offerings so that we can continue with our set of customers even after the three lender norm kicks in.

Moderator: Thank you. The next question is from the line of Pritesh Bumb from DAM Capital Advisors. Please go ahead.

Pritesh Bumb: Sir, just the slide 23, you have given group loans lender wise trends, just wanted to understand the slide. Basically when we look at PAR, lender wise PAR, for Ujjivan 4+ and above at 26, so that 26 basically is off from June or September, right? So, basically, 7.6% would have called 26% PAR is how that is to be read, right?

Management: The first table lender wise borrower trend refers to what is the percentage of borrowers. Let us say, November end we have 45% borrowers who are unique to Ujjivan and then unique to Ujjivan plus 1, 2, 3 and 4. So, 6.6% of our borrowers are Ujjivan +4 and above. The delinquency of this set of borrowers is 26.6%. And the delinquency of the part number of unique to Ujjivan is 3.9%. So, you would see that there is a wide variance between customers who are unique to Ujjivan and customers who have taken loans from multiple lenders.

Pritesh Bumb: What I am seeing is the 7.6% which you had in June as Ujjivan 4+ and above would have slipped overtime and that would have become PAR, right. So, what I am saying is that 7.6 has come down to 6.6, but then lot of that has slipped to PAR in that way, which has also the NPAs, right? So, that is how we have to look at it or is it very independent like 6.6% of that 26% is PAR?

Management: No, 6.6% of our customers, out of every 100 customers, 6.6 are multiple lenders and 26% of those 6.6 have moved to PAR.

Pritesh Bumb: So, part of that also the reduction which shows also would have repaid the loans, right? So, that is how also it would have dropped, right?

Management: Yes, we would have neither repaid the loans, so this number of Ujjivan +4 would continue to come down because Ujjivan +4 is no longer part of the lending policy.

Pritesh Bumb: Sir, second question was on the similar slide only. Basically, when you put in the numbers here if somebody in the lender side or the other lender side would have been got repaid on the loan, so just hypothetically, if somebody has repaid loan at some lender, how will this come in as a percentage, will it be a cut off or is it like every time you do bureau check and then come out to a number?

Management: So, we do a bureau check every time we get bureau wash on a monthly basis. And all the numbers that we follow are basis the bureau scrub that we do on a monthly basis. So, these numbers are updated refresh every month.

Moderator: Thank you. The next question is from the line of Aravind R from Sundaram Alternative. Please go ahead.

Aravind R: Sir, when I see the slide, I can see the collection efficiency coming down, but when I look it along with the expected collection efficiency, so it means that in the non-overdue accounts, the collection efficiency is being stable, whereas in the overdue accounts is where like we are seeing for the slippages, is that the right way to understand this?

Management: The value of the PAR has gone up. So, you look at the SMA book and the NPA book, since the value has gone up, they are weighing down on the overall collection efficiency. So, even if the bucket X collection efficiency has gone up since the SMA PAR has gone up in parallel that is bringing down the overall collection efficiency.

Aravind R: Like MFI PAR is 6%, so that is where the issue is there like you talk about, right?

Management: Yes. So, the collection efficiency is a weighted average of bucket X SMA and NPA. So, as the PAR goes up, the overall collection efficiency also comes down.

Aravind R: Sir. I can see like the portfolio yield of MSME itself has come down significantly in a quarter-on-quarter basis. And I understand like what you have mentioned in Affordable Housing, but like similar thing happened in MSME also?

Carol Furtado: Yes, the similar thing happened even in the MSME. It is because of the change in the accounting treatment that we also saw a decline and also the decrease in the EBLR.

Aravind R: And this portfolio like 14%-15% outside the guardrails, does it impact our growth in subsequent quarters as per number of borrowers outside the guardrails, I am taking into account the second set of guardrails also, I can see roughly 13%-14% of the borrowers are outside the guardrails. So, does it mean like it will affect the subsequent quarters of growth at least in the one year point of view.

Management: Yes, they are 6% and overall 14% customers who are peer mode and another way to look at it is that unlike even in past in microfinance, microfinance customer will also have to choose 3 lenders going forward and they will try to do the best one, in terms of interest, in terms of offering, in terms of product, in terms of graduation processes, in terms of easy policies, etc., and that is something we have built over the period of time. And we expect these customers to choose 3 and we will one of them. That is something we are looking forward to and something which we will be very strongly communicating to our customers as well. We have reduced our interest rates recently and our processes or product graduation programs, these are excellent, and that is something which gives us confidence that not only these customers will be with us and retain, but also customers, good customers from the industry will also come to us.

Aravind R: Since in MFI, you see like slightly better disbursement in January, like it means that the PAR ratios won't go any further, is that the right thing to take away from?

Management: Yes, as we said, the PAR numbers will stabilize from here on and the denominator effect will start to come in. So, the PAR numbers, while there was an increase in PAR, it was also getting contributed by the decline in the overall. So, now the book decline will get handled because our disbursements are increasing. So, the denominator effect will also start to show on the overall PAR.

Moderator: Thank you. The next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje: First question is on Slide #26, where you have shown the PAR performance for Ujjivan versus industry and there is a very significant gap in those numbers between you and the industry across the large states. Just a qualitative question here, when you look at these borrowers, would you say that their performance with you is better than it is at the industry level or would you rather say that you have a borrower base which is of a different quality altogether if you were to understand the difference in performance?

Management: There are various things behind this. First of all, yes, this slide, I was also trying to refer that though we are talking about that we are doing well in some other states and we are still to see bottom in some of those states, but overall in all the states we operate, we are much better than the average industry. That is the point number one. Second, it is to do when you start operation in any district or any area, your branch selections, your customer selections plays a very important role in overall quality of your portfolio. That is what we also saw in previous crises also, during pandemic, during demonetization, before that in another crisis also and that is very visible now as well. As we see the state wise performance also, it is very different, almost 2.5 times down compared to industry, state by state. That is very visible. The reason behind this was as I mentioned, the quality of customer acquired, the branches you open, the wider spaces you find and then your trade policies and policies around customer selection underwriting is very important. That is something which we have been able to build over the period of time. Also, the IL graduation program and even further graduations that is something which I would say that now, after years of experience, this graduation program and filtering of customers is doing very well. If you look at our GL performance and then look at IL performance, IL is doing better than GL. Our M-LAP program is doing better than IL and that proves that our graduation program and our filtering process or data analytics is working fine. These are some of the reasons why you see these numbers.

Ashlesh Sonje: Just one follow up on this. Would you have done any analysis to understand how the performance of your borrowers is with you versus how it is for the rest of the industry? Any color from there because I understand the first point which you made, one is that customer selection itself is different, but are the same customers behaving better with you versus industry? Is there any way to prove that?

Management: Yes, we do, customer paying to us, not paying to others and customers paying to others and not paying to us and what I would say that overall, customer paying to us, not paying to others is little better, but at the same time geographies where it becomes little kind of community issue etc., where you don't have control and there you will see that the community don't pay to anybody. So, that is something, but overall level, we see our customers behaving better for us compared to others.

Ashlesh Sonje: And one last data keeping question. If I go to Slide #23, the table on the top left where you have shown 8.0% and 6.6% for Ujjivan +3 and Ujjivan +4 and above in November, is there a rupee equivalent of this number?

Carol Furtado: We can get back to you on this.

Management: We can do the math and send it to you.

Moderator: Thank you. The next question is from the line of Abhishek M from HSBC. Please go ahead.

Abhishek M: Sorry to come back to this slide 23. For this Ujjivan +3, the table on the left and Ujjivan +4 would it be a fair assumption that the portfolio mix would roughly be similar as the borrower mix? Or would there be a difference in ticket size for Ujjivan +3 and Ujjivan +4?

Management: No, you would see only a decimal point difference there, so borrower and value would roughly be the same.

Abhishek M: So, given that you have not applied the 3 lender guardrail yet and because this Ujjivan +3 is more or less stable over the last 5-6 months, so fair to assume that these customers are also getting repeat loans or renewal loans as of now?

Management: Yes, they are. Based on the credit policy that we have any customer who is eligible for a repeat loan gets a repeat loan. So, this is again based on the policy parameters, but they are all getting repeat loans as of now.

Management: And one more thing is that co-lender is one thing, then you have indebtedness limit. You also have a policy that if we don't lend to customers, so far we have no not lend to customers who are even 1 DPD with others. So, those policy also take into account when customers past behavior and that helps you choose customer better.

Abhishek M: But if that is the case, then the PAR trend that is going up and the moment you hit April and you probably stop lending or stop giving renewal loans to these customers, then that PAR trend can also go up as sharply as what you see in Ujjivan +4 and above. And that means that could lead to more credit cost in 1Q and possibly even in 2Q. So, how do we read this?

Management: So, when you look at Ujjivan +3 for example, there is 8% contribution to book. These customers, good customers from here, it would be our job to retain those customers and continue the relationship and strengthen the relationship with them. Customers who are in PAR that could be a little bit of a disturbance because the relationship may not get renewed, but that effect, I would assume has already happened during the last one or two quarters. So, there could be a marginal impact, yes, but not a very significant impact.

Abhishek M: Because if I just think about it, the book size, let us say 8% and 6.5%, similar book size, but that book size will have the same experience that these 6.5% had from September or from July to

November. So, if you see the PAR movement, it really shot up after June, right, then went to 19 and then further increased to 22 and 25. I am thinking this 13 will have that same experience from April and then that goes up with a similar trend. That is why I am coming from?

Management: We don't know whether this will go up to what extent. What we see is we have already started to communicate to customers and this is what we have done proactively is April onwards, you will have only three lenders. So, if you continue your relationship with us, we will give you better interest rates and this is something that we communicated to customers. What we have also told them is if you have smaller loans with other lenders, kindly repay them, so that you can continue relationship with us. So, these are the steps that we are taking on the field as of now. Some customers would be flip, there is a possibility that the PAR number may go up, but we will try our best. That would be the effort that we would make to continue with the asset quality. Is there a chance of this number going up, yes, there is a chance, but to what extent is very difficult to say as of now. From our side, what we would do is retain our best customers and give them the best service and reduced interest rates.

Moderator: Thank you. The next question is from the line of Sagar Shah from Spark PWM. Please go ahead.

Sagar Shah: First of all, my question was related to the industry level. You have clearly highlighted that in the PPT as well as on the call that how you felt better than the industry as far as the macrofinance collection is concerned. But I wanted to have a little bit of a long-term view that going forward, how do you look at the group loan structure, the group loan's disbursements going ahead? How do you look at the business after this all stabilizes in the next 2 quarters? Do you see some sort of visibility in the resumption of disbursement growth as far as this business is concerned for Ujjivan as well as the industry or how do you see?

Management: As we mentioned that we have already seen green shoots in many of the large states where we are operating. At industrial level also, these states are large. At the same time, there are few other states which will normalize, say in the next 2-3 months. This is what we feel, but at the same time as you also asking about what will be the structure in microfinance going forward so what to say that we have so far seen is that entire customer aspirations have changed a lot in the last 3-4 few years, especially after pandemic. At the same time, if you look at the kind of regulations that has come in, I would say asset regulations in form of Guardrail 1.0 and then 2.0 customers will be limited to three lenders. At the same time as aspirations are changing, many customers are now trying to move from GL to individual lending, and that is something which we would say that we have advantage there because we are very old and refined graduation program. We have more than 5000 products of portfolio already in individual lending and we see a lot of potential in GL to IL graduation. At the same time, the same customer segment we also see that customer graduating to other products that we have within Bank and also the cross sell opportunities that we have around as we are Bank we are also offering other products to the customer segment as well. At the same time, as we go forward, we have seen this in past crisis also that some kind of consolidation may also happen and we will see large players getting the market.

Sagar Shah: My second, sir would be on the NIMs, as you are moving towards almost 40% of Secured, I know you have highlighted that there will be no change in the NIMs, but logically when your group loans is decreasing, when you are focusing totally on the Secured book which is yielding you much lower, almost 500 bps lower than the unsecured book, so what is your color on the NIMs? Will the NIMs fall below 9% at least in FY26 and FY27 when there will be balance 50-50 between the Secured and unsecured portfolio?

Carol Furtado: Yes, the NIMs will fall below 9%, but what we have done is that our Secured assets book, we also have products like the Vehicle Finance, Gold Loans. All these are high yielding products. So, this should help us in compensating the decline in the unsecured portfolio. And we have micro mortgages, we have Vehicle Finance which are very high linked product. So, we should be able to maintain within around less than 9.

Sagar Shah: And my last question was related to which we categorize as other loans. Now, we are offering good loans at almost you highlighted at around 128 branches. So, what is your outlook regarding vehicle and Gold Loans? Will the proportion for these two significantly increase and can you specify a number?

Management: Gold Loan, it is not 128. We are live in 198 branches and both from Gold Loan as well as Vehicle Finance, we see these two businesses are promising, business in coming up the next medium term, next 3-5 years and we plan to have offered the Gold Loan as well as Vehicle Finance expand this business to branches that we operate currently at this point of time in various states. So, yes, these two businesses are very promising for us. We have already seen that our housing business is one of the most prominent Secured businesses that we have, MFI has started taking in. At the same time, these two businesses pulling weight in the future gives us confidence that going forward our Secured versus unsecured ratio will move forward.

Moderator: Thank you. The next question is from the line of Amey Kulkarni from Candor Asset Management. Please go ahead.

Amey Kulkarni: My question is regarding the interest rates, is there any direct, indirect indication from RBI or Ministry of Finance to reduce interest rates in the micro lending segment either to Ujjivan or to the industry?

Management: The pricing of the risk is the discretion of individual lender. RBI is very clear about it, but what they would like to see is that the risk based pricing is based on appropriate inputs and that is all what RBI looks at. So, all entities would have looked at their pricing mechanisms and their competitive landscape and the business considerations and based on these factors, they would either increase or reduce their rates of interest in different points in time. But RBI would not question the rate of interest, but it can only look at how you have calculated.

Moderator: Thank you. The next question is from the line of Sonal Minhas from Prescient Cap Investment Advisors. Please go ahead.

Sonal Minhas: I am on Slide #21. Just a bookkeeping question that the chart on top which talks about collection efficiency. If I see month-on-month, your collection efficiency for group loans and for individual loans is going down from October to December. Am I reading this data correctly?

Management: Yes. Overall collection efficiency for group loan as well as individual loan is showing lower.

Sonal Minhas: Yes, month-on-month is going down, could you explain the reason for this number going down, if you could just explain this in detail?

Management: Some time back I had said that as the PAR goes up, collection efficiency is a weighted average of non-delinquent customers, customers in SMA buckets and NPA. So, as the PAR has gone, the average comes down because the SMA and the NPA collection efficiency numbers are normally much below, so therefore the overall collection efficiency gets impacted.

Sonal Minhas: And as you were saying to the last participant that your PAR is peaking this number is expected to improve from the December numbers as we speak, is that correct when you talk about January, February, March?

Management: Yes. So, as we said, we are seeing stability in the PAR now. In the last 4-5 months, there was an increase in PAR. That is starting to stabilize now.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today, which is from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Sir, again on Slide #23, I understand our individual lending are basically the group loan customers who are graduated, so when we see Ujjivan +3 and Ujjivan 4, have we done any working in terms of those customers who can be graduated towards individual lending? And they might be having an income level more than the threshold of 3,00,000 and so they can be tagged as non-MFI and those are good set of customers which can continue with Ujjivan?

Management: Yes, and this is something which we do and which we have been doing for long now where the customers, we choose customers on the basis of their repayment capacity, their loan ticket size requirement, and their family level income. On the basis of that we graduate customer from GL to IL. You are right, in this category also where customers are looking for loans from three or four different institutions. We will try to consolidate their loans and give them IL loans. That is a good customer, so repayment is good with us, with others every year.

Shailesh Kanani: So, my question was, have we done some kind of working on that already because we are kind of reaching the threshold and April 1st is the date so any ballpark number, any idea on that, this percentage of out of this 14% or would kind of qualify for individual lending, so they can still be customers of Ujjivan even after 1st April?

Management: So, I said it is a continuous process. If you look at even Ujjivan 4 and above, the repayment is 79%, that means that majority of customers are paying, the customers who are paying on time, the customers who are paying on time to others also and customers having income. That is the process we follow and graduate these customers.

Shailesh Kanani: Just to clarify, so they would still remain customers of Ujjivan post 1st April, but they will be customers, right?

Management: Not necessarily. If they pass our filter process they can be given another loan in terms of IL. That is, they will still continue with Ujjivan.

Moderator: Thank you. Ladies and gentlemen, as this was the last question for today, I would now like to hand the conference over to the management for closing comments.

Sanjeev Nautiyal: Thank you for very energetic interactions. As guidance, as my concluding remarks, I would like to state that our Secured book by the year end would be 40% plus, the Y-o-Y growth on the Secured book would be around 50%, the individual business growth should be around 12% for the entire year. Overall growth could be hovering between 8% and 9% on the overall book. Credit cost, we continue with our guidance of 2.3%-2.5%. Deposit growth will be in line with the requirements for the asset book in order to maintain a credit deposit ratio of around 89% or so. The NIM for the full year should be between 8.6% and 8.8%. And improving the CASA ratio would be one focus area for us, in this quarter, the last quarter as well as going forward. Thank you.

Moderator: Thank you. On behalf of IIFL Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.