Utkarsh Small Finance Bank

February 20, 2025

The BSE Limited

543942, 959644, 958226, 975790, 976203

National Stock Exchange of India Limited

UTKARSHBNK

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call on Financial Results of the Bank for the quarter and nine months ended on December 31, 2024

We submit herewith the transcript of the Earnings Conference call held on Monday, February 17, 2025, at 04:00 p.m. in connection with the Financial Results of the Bank for the quarter and nine months ended on December 31, 2024.

In compliance of Regulation 46 of the Listing Regulations, the transcript is being made available on the website of the Bank and can be accessed on the following link: https://www.utkarsh.bank/investors/

This is for your information & record.

For **Utkarsh Small Finance Bank Limited**

Muthiah Ganapathy
Digitally signed by Muthiah Ganapathy
Date: 2025.02.20 17:44:55 +05'30'

Muthiah Ganapathy
Company Secretary & Compliance Officer
ICSI Membership No: F5674

Encl: as above

"Utkarsh Small Finance Bank Q3 FY25 Earnings Conference Call"

February 17, 2025

MANAGEMENT:
MR. GOVIND SINGH - MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, UTKARSH SMALL FINANCE BANK
MR. PRAMOD KUMAR DUBEY - EXECUTIVE DIRECTOR, UTKARSH SMALL FINANCE BANK
MR. SARJUKUMAR PRAVIN SIMARIA - CHIEF FINANCIAL OFFICER, UTKARSH SMALL FINANCE BANK
MR. AMIT ACHARYA - CHIEF RISK OFFICE, UTKARSH SMALL FINANCE BANK
MR. ALOK PATHAK - HEAD (ASSETS), UTKARSH SMALL FINANCE BANK
MR. VIVEK KASHYAP - HEAD (JLG - SALES - MICRO BANKING), UTKARSH SMALL FINANCE BANK
MR. PUNEET MAHESHWARI - HEAD (STRATEGY AND IR), UTKARSH SMALL FINANCE BANK

MODERATOR: **MR. RENISH BHUVA - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Q3FY25 Utkarsh Small Finance Bank Limited Conference Call hosted by ICICI Securities.

As a reminder, all participants' 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 * and then 0 on your touchtone phone.

I now hand the conference over to Mr. Renish Bhuva from ICICI Securities. Thank you and over to you.

Renish Bhuva: Thank you. Good afternoon, everyone. And welcome to Utkarsh Small Finance Bank Limited Q3FY25 Earnings Call.

On behalf of ICICI Securities, I would like to thank the Utkarsh Management Team for giving us the opportunity to host this call. Today, we have with us the entire top Management Team of Utkarsh represented by Mr. Govind Singh – Managing Director & CEO, Mr. Pramod Kumar Dubey – Executive Director, Mr. Sarjukumar Pravin Simaria – CFO, Mr. Amit Acharya – Chief Risk Officer, Mr. Alok Pathak – Head (Assets), Mr. Vivek Kashyap – Head (JLG - Sales - Micro banking), and Mr. Puneet Maheshwari – Head (Strategy & IR).

I will now hand over the call to Mr. Govind for opening remarks and then we'll open the floor for Q&A. Over to you, sir.

Govind Singh: Thank you very much, Renish. And good evening to all of you. Thank you everyone for taking out time to attend our Q3FY25 Earnings Call.

As you are aware, operating environment remained challenging for microfinance sector in Q3FY25 on account of higher borrower level leverage and credit supply tightening for underlying borrowers following guardrail norms. While at the same time, we continue to see good traction on our franchise expansion, healthy growth in deposits as well in the secured loan portfolio.

In terms of business performance, our deposits have grown by around 33% year-on-year in line with our plan to Rs. 20,172 crore. Deposits growth was led by growth in retail term deposits which grew by 41% year-on-year. Our CASA deposit ratio was 19.7% as on December 24, largely at the same level of 19.6% as on September 24. And CASA plus retail term deposit ratio improved from 68.4% as on September 24 to 70.1% as on December 24. As for outlook on growth, we expect deposits growth to remain higher than credit growth and expect consistent decline in our CD ratio. As regards JLG book, we are seeing stabilization of collection efficiency in X-bucket. Overall, stress level is also peaking out and we expect environment to improve further in current quarter and first quarter of next financial year.

Overall assessment of JLG portfolio and operating environment is as follows: Collection efficiency is stabilizing in X-bucket. It improved to 98% in December 24 and in current month till February 15th, it is closer to 99%. Trend in net increase in par level is declining month on month and in current month till February 15th there is no increase in net PAR. It was declined marginally from month end January 25. We expect PAR level to start declining firmly in next 1 to 2 months. On account of higher SMA buckets as on December 24, fresh slippages could remain high in Quarter 4 FY25. However, as regular bucket collection efficiency stabilizing, we expect SMA book to normalize in Quarter 1 FY26 and fresh NPA generation would reduce meaningfully then. We are seeing improvement in collections from OD book, expecting meaningful improvement in collections from OD buckets from Quarter 1 FY26. While we continue to focus on collections in current environment, we expect JLG disbursements to normalize by Quarter 2 FY26. Micro banking individual loan, comprises 8% of our micro banking loan book. It is focused on graduating better profile JLG customers with good repayment track record. This portfolio is behaving much better on collection efficiency and asset quality, disbursements in Quarter 3 FY25 were higher by 7% quarter on quarter and 9% year-on-year. Individual loan portfolio is expected to grow faster. As for Quarter 3 FY25, microfinance disbursements remained lower in Quarter 3 FY25 as we continued to focus on collections and as a result, micro-banking loan portfolio has declined by more than Rs.1,200 crore vis-à-vis March 24.

Growth in non-microbanking portfolio, which is primarily secured lending, continues to remain healthy in line with our expectation at 42% year-on-year. MSME loan portfolio has grown by 58% year-on-year to Rs. 3,453 crore. Disbursement yield has also improved by 130 basis points over same quarter last year.

Within this, we are also seeing traction in micro LAP portfolio, wherein disbursement yield is around 18%. We see good growth potential for this product in our geographies, and given our strong franchise. Housing loan portfolio has grown by 36% year-on-year to Rs. 855 crore. Disbursement yield has also improved by 50 basis point over same quarter last year.

CE and CV loan book increased by 35% year on year to Rs. 1,134 crore. Within this, we are focusing on increasing share of used vehicle, which has increased in disbursement from close to 5% earlier to 20% now. We are strengthening our presence in BBG lending, entire portfolio is secured against immovable collateral. This book has grown by around 60% year-on-year to around Rs. 800 crore.

We have also launched a secured credit card, which is progressing very well. Overall, we are also seeing much better traction on cross-sell on both sides – Asset products, i.e. MSME, housing and micro LAP through our liability focused GB branches and deposit account for our asset customers, essentially more products per customer. On account of decline in disbursements in JLG, overall gross loan book growth moderated to 16.2% year on year as on December 24. As for outlook on loan book growth, we expect JLG disbursements to normalize sometime around

Quarter 2 FY26. Expect good growth in MBBL portfolio that is individual loan. We are expecting a healthy growth trend to continue for non-micro-banking portfolio which is largely secured loan portfolio in Quarter 4 FY25 as well as FY26.

In line with our strategy, share of secured loans in our portfolio has been increasing. It increased further from 34% as on March 24 to 41% as on December 24 and is likely to increase further. We continue to build our banking franchise and opened 61 new branches in Quarter 3 FY25, overall 140 new branches in 9 months of FY25 taking total branch network to 1,028 branches as on December 24. With current year expansion, we have significant large franchise which is adequate for our growth target and hence we may not need much expansion of our branch network in FY26. From asset quality perspective, key factors which impacted collection efficiency and asset quality in microfinance segment currently included over-indebtedness level of borrowers, restricted credit supply in JLG lending segment and bandwidth issues on account of higher overdue buckets. We're strengthening our collection team as well as efforts and expect collections trends to improve. We have added around 350 more people in our micro banking team in Quarter 3 FY25 and almost around 2,000 people in nine months of FY25. We're reducing case load per staff as well as we have collection team of micro banking of more than 800 people. We are also focusing on improving critical processes like center meeting discipline and other processes. Additionally, on an ongoing basis, we continue to split our large MB branches to maintain better control.

As I mentioned earlier, we are seeing stabilization of collection efficiency for X-bucket as well as improvement in net PAR accretion. This is likely to improve further in current quarter and Quarter 4 FY26. Overall, primarily on account of weakness in JLG book, our gross NPA increased from 3.88% as on September 24 to 6.17% as on December 24. In near term, our primary focus areas include: maintain X-bucket collection efficiency at around 99%, net reduction in PAR level, activate maximum OD clients even if these clients remain in OD but should remain paying customer, bring center meeting and other discipline back in JLG lending and improve on our customer connect and overall improvement in collection efficiency and asset quality of JLG portfolio. We have also registered with CGFMU for credit guarantee for unsecured JLG portfolio. Further optimization of disbursement yields and profitability in non-micro banking portfolio. We have set up system, processes and people and are well placed for healthy growth in non-microbanking businesses as well, building a more granular liability franchise and further improve on CASA plus retail term deposits.

Our profitability during the quarter was impacted by stress in JLG book because of which credit cost was high as well as there was higher interest income reversal. Profitability is expected to remain under stress in Quarter 4 FY25 while we are seeing peaking of stress in micro banking. We are not giving any specific guidance on profitability and asset quality in current environment for Quarter 4 FY25, will share outlook as well as guidance on both for FY26 at the time of our Quarter 4 FY25 numbers. We are holding floating provision of Rs. 190 crore as on December

24 of which Rs. 173 crore was created for unforeseen risk in JLG portfolio. We have requested Reserve Bank of India to allow using this provision in current stressed time.

As on December 31, 2024, we had surplus liquidity of more than 2,500 crore, which is higher than our usual liquidity requirement. In line with our strategy, we have been reducing our CD ratio, which declined to 92% as on December 24, from 99% as on December 23. And if we net off refinance borrowing from advances, CD ratio declines to 86%. We don't have any short-term borrowing on our balance sheet. We expect our CD ratio to decline further. We are also undertaking a business transformation project to make our technology architecture, and business processes future ready for our growth plans. As far as reverse merger part is concerned, of the holding company with the bank, we are on the track.

With this, we can move to now question and-answer session. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Participants who wish to ask a question may press ‘*’ and ‘1’ on your touchtone telephone. If you wish to remove yourself from the question queue, you may press ‘*’ and ‘2’.

We have the first question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much, sir, for the opportunity. I just wanted to understand first up, I mean, you mentioned in your opening remarks that overall, stress level has peaked out and we do expect even you're seeing some stabilization in collection efficiency in regular buckets as well as overall. So can one assume in terms of your credit cost of provisioning which we did about Rs. 420 crores this quarter is that the peak and going forward quarter-on-Quarter, one should see reduction in your provisioning?

Sarjukumar Simaria: Yes, it's going to be around that. That's what our presumption is that it will not increase from here.

Deepak Poddar: Okay. So maybe fourth quarter it will be around that, but from first quarter we expect some significant debt reduction?

Sarjukumar Simaria: Yes. That is what is anticipated. That's where all the efforts are going to see that this number obviously is on a downward trend.

Deepak Poddar: Okay. So from first quarter onwards we can expect some significant reduction. Fourth quarter around same level is what one can expect, right?

Govind Singh: Yes, it's very difficult to give the exact number, but certainly, yes, it will start reduction from Quarter 4 itself, because we are seeing the good stabilization, but it may not be significant. And as you yourself mentioned that in Quarter 1, we should see a much, much bigger decrease in this number, the way we have seen trends in last few months now.

Deepak Poddar: Understood. That's helpful. And my second question on your growth, I mean, what sort of I mean credit growth we are looking for this year. I mean this is just a fourth quarter left?

Govind Singh: So as we mentioned that this time we are not giving any specific guidance for a simple reason that JLG growth currently is not certain right now and we have seen that happening. We are seeing a good growth in the non-JLG business, the way we have seen around 40% to 50% growth in the non-JLG. So that will remain on the same trajectory. But JLG growth right now, is uncertain so we are not able to give any specific guidance for Quarter 4.

Deepak Poddar: Understood and JLG forms how much percentage of your MFI book?

Govind Singh: So JLG will be close to 51% far as the total portfolio JLG around 51% of our overall portfolio, not the MFI portfolio..

Deepak Poddar: Okay, so majority would be JLG only right because your 60% of your portfolio is right now, MFI only.

Puneet Maheshwari: So within MFI, about 92% is JLG and 8% is individual.

Deepak Poddar: Fair enough. And are we focusing towards this shift towards more individual and reducing JLG?

Govind Singh: Yes, certainly. In fact, we started this journey two years back, obviously because microfinance was there with us for a long time. So, individual within microfinance and the non microfinance book, I think both are growing well and we have seen good growth during last few years, the trajectory will continue. So, bank will keep focusing on the non-JLG businesses and the other business segment as far as the lending part is concerned.

Deepak Poddar: That is it from my side. Thank you.

Moderator: Thank you. Participants who wish to ask a question may press * and 1 on your touchtone telephone. We have the next question from the line of Kiran, an Individual Investor. Please go ahead.

Kiran: Good evening. So I'm an individual investor. My question is, now that we understand that people had over-leveraged under the microfinance business, what are the precautions that we are taking to prevent this in the future? Because I'm sure a lot more number of small finance banks are coming up. So people now can get loans with the mobile apps where they distribute the loans. How are we going to prevent this that has happened in the future? What has happened has happened. But I have been on the call for even the other small finance bank like Equitas and

Ujjivan, every other small finance bank is facing the same problem. But what are the precautions is what I want?

Govind Singh: So you must have seen the biggest change that has happened during the last few months is there are new guardrails given by the industry SRO and as there can't be more than four lenders to any borrower. So that is the new guard rail from the MFIN and in fact from 1st April they are moving to three lenders overall. In past though, there was guideline which says that you can't lend more than this amount but number of lenders was not restricted. So now that restriction is placed. It was put from 1st of August and you must have seen the stress has started building from 1st of August because you can't lend the way it was there. You can say over-leveraging is no more allowed. Everyone goes through a credit bureau check and then sees that this is not the situation. And it is being monitored by the SROs. There are MFIN and Sa-Dhan there are two SROs which normally all the people who are working for microfinance sector, they adhere to. So such situation is not expected to happen in future, the way it has been, I can use the word regulated or the way it has been protected now. So such issue is not likely to be there in future, this level of over leveraging part. I must tell it, I think all the players are following this and Sa-Dhan and MFIN are very closely monitoring this. Not only that, even the RBI, whenever they are talking to banks and NBFCs, they are also monitoring this closely.

Kiran: Sir, I have a follow up question. Basically do have a setup where when you want to lend money to somebody under microfinance, do you have a setup where you can actually see how much has this person borrowed or from how many banks, what is the amount, is there any setup or do you coordinate with other small finance banks?

Govind Singh: No, certainly it is there. See the current setup is that for any disbursement, you have to check the credit bureau record of the borrower. So as I mentioned earlier, people are now checking how many people have given loan to this person. That has been restricted and that is being checked by each and every one. In fact, this is through a system check itself. There is no manual intervention and most of the players including us, adhere to the process. So if the person has taken say four loans and he comes to us for fifth loan, the system itself rejects the borrower for next loan. So that system is there, and it is across, in fact. I mean, across means all the people who are into Microfinance lending space, they are adhering to that, and they are submitting that data to the credit bureaus. So that system is there, and it is being used by people. And now norms are also tightened so that these are adhered to 100%.

Kiran: Thank you. So one more question is, there was talk in some of the previous calls, I don't remember when exactly this was, but then there were talks that Utkarsh might apply for the universal banking license. Is there any progress on that or are we even pursuing becoming a Universal Bank?

Govind Singh: So in past also we have mentioned that yes obviously Universal Bank makes more sense because there are some benefits which are available to Universal Bank. Having said so, I think as a small finance bank you can offer all type of products and services and there is no difference per se for the end customer angle. So as and when we become eligible for this, I think we certainly would like to evaluate that for sure. But as of now, that is not on card right now.

Kiran: Okay. Thank you, sir and all the best.

Govind Singh: Thanks a lot.

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

Ashlesh Sonje: Good afternoon. Sir, data keeping question first. Can you share the total percentage of your microfinance portfolio where the borrower has borrowed from more than four lenders in total and more than three lenders in total?

Puneet Maheshwari: So we had shared this last time as well. So in terms of borrowers, roughly about 13% is 4 or 4 plus. Basically, Utkarsh plus 4 or more than 4. And Utkarsh plus 3 is close to about 12%.

Ashlesh Sonje: Okay, 13% and 25% by borrower count?

Puneet Maheshwari: Okay, yes.

Ashlesh Sonje: But can you share the same as a proportion of portfolio?

Puneet Maheshwari: So proportion of portfolio is largely similar, Ashlesh. It is not materially different from let's say, a share in terms of count.

Ashlesh Sonje: Sir, and a qualitative question now. If I look at the slippages, especially in the last couple of quarters, they've been quite elevated. When you go and try to collect from these borrowers, what exactly is preventing you? Are you firstly able to locate and meet these borrowers and what is preventing you from collecting?

Govind Singh: So normally what is happening is Ashlesh, because the numbers are large right now, so it is taking extra efforts. And generally, the design is for center meetings. The moment you have to go door to door, it takes much more efforts and much more time. Generally, customers are available. I still feel that, I mean in some cases obviously you may not find the customers. But largely customers are available. It is you can say, inability of the players to reach out to all these people in time that was an issue and gradually if it start having one, that center meeting become more regular that is easier that we have been making efforts to. It's very difficult to say exact number, but at least 70% to 80% center meeting are happening regularly. So we are able to meet large number of customers at that place itself. And gradually we are seeing that more and more customers are starting paying. So 30%, 35%, 40% customers are paying regularly. Sometimes it may not be full installment or full overdue. So I think they are also gradually becoming regular in that sense, regular in payment. May not be regular as per their account is concerned. So gradually this number will come down and I think it will become more manageable to meet these customers on regular basis and do it. I still want to mention that we don't foresee much challenge that customers are not available. There may be a few, some small percentage of customers who may not be available or who might have migrated. But there's very small segment. I think large segments, because our own inability to reach these people in time was an issue, which is getting addressed by more and more discipline at the same time, enhancing our own teams also. As I mentioned, now we have 800 plus team only for collections which looks into 61 plus bucket. And also we have got close to 400 people as our general or normal center meeting people. So actually our number of clients have come down, but our employee base has actually gone up by close to maybe 1,000 to 1,200 during this period.

Ashlesh Sonje: Just a few more data keeping questions. If you can share the slippages for the quarter by segment. Secondly, if you can share what is the current PCR in the microfinance book and the provision policy in microfinance, that is the second one. And lastly, if you can share the trend of x-bucket collection efficiency in 2Q, 3Q, December, January, February?

Puneet Maheshwari: So, fresh NPA generation overall were about Rs. 738 crore, out of which Rs.650-odd crore was micro banking, and balance is not micro banking. In terms of provision cover, overall provision cover is, I mean, if we see for unsecured, it is about 46%, and for secured, it is about 38%. I'm talking about excluding floating provision. And from a provisioning policy perspective, so we start for unsecured or let's say for a microfinance portfolio, we start with a 40% provision cover. And once the account becomes NPA, and then every quarter we increase it by 15%, so by the time an account remains in NPA for a year, we would have 100% provision cover.

Ashlesh Sonje: If you can share the trend on x-bucket collection efficiency in the September quarter, December quarter and the last few months?

Puneet Maheshwari: If you see x-bucket collection efficiency, I mean, as Govind sir said, in month of February, we were close to about 99%. If you look at January, we were still more than 98.5%. December, we were close to about 98%. And September, October, November, we were close to in a range of 96% to 97%-97.5%.

Ashlesh Sonje: Those are all the questions. Thank you.

Govind Singh: Thanks, Ashlesh.

Moderator: Thank you. We have the next question from the line of Mayank from Incap. Please go ahead.

Mayank: Good afternoon, sir. Sir, I have one question. We are seeing that continuous provisioning is happening from last two quarters. So is this going to continue in future or why can't we do all the provisioning in one quarter so that in future we must be ensured that we are not going to see that type of provisioning in future?

Sarjukumar Simaria: As we mentioned that we are making a provision which is higher than the IRAC norms and we have a bucketing provisioning norms both board approved and which is as I said accelerated in any case. So, we have to be in tandem with the slippages and the natural behavior. I think probably in a fairness point of view well you may seem to be sounding to be conservative in prudence, but I think it is also appropriate to do that as it matches the reality and there is always efforts to get the collection, to get the recoveries. So in any case to assure you one that we already have a grade of provisioning which is higher than the IRAC norms.

Mayank: Moving from microfinance to non-microfinance, definitely in future we are going to see like yield would not be that much because in microfinance we see lot of like company used to earn a lot by interest and everything. If we move everything from microfinance to that particular banking and secured part, so in future like are you planning like if situation improves in future, so are you planning to move again to microfinance or your future will be in the secured part only?

Govind Singh: No, there are two aspects. One, our microfinance will remain there. It is not that we are not completely moving out of microfinance. The share of microfinance will come down and you must have seen during last 4-5 years also, each year the share of microfinance comes down by around 5%-6%-7% each year. And the share of the secured and the non-microfinance book has been increasing. And I think the way we have been talking, the same trend will continue because during the last 4-5 years we have gotten a number of new verticals as far as lending part is concerned. I do take your point that the yield for JLG is certainly higher than when you talk of secured book, but at the same time, in terms of provisioning requirement, in terms of my overall cost of fund will also come down, there will be efficiency in overall operations of the bank also. So I think these will also play in the whole thing. In fact, obviously currently we are passing through a very different type of situation. The entire industry is passing through a different situation. Otherwise, there are not large dip in the NIMs and other ratios while we could reduce our JLG share by around 6%-7% on a year basis. So we don't expect that there will be much difference in that. In fact, we are also looking at some of the high yielding products like Puneet mentioned about the micro LAP where we are able to get around 18% and it's a secured type of product. So I think in mix and match plus our operational efficiency will go up, our cost of funds will go down. The difference may not be that large. Yes, certainly there may be some, you can say decline in the NIM over a period of like 2 to 3 years' time, but this will get offset by other positives, other operational efficiencies.

Mayank: Okay, thank you, sir. This was from my side. Thank you.

Govind Singh: Thank you.

Moderator: Thank you. We have the next question from the line of Mohanraj, an Individual Investor. Please go ahead.

Mohanraj: Good evening. So there are two questions from my side. One is like can you give me the state wise situation because there are news that in the south side, especially in Karnataka, like there is a new ordinance which is impacting the customer sentiment to repay the loans. So will there be any spillover effect on that, on the portfolio? Like when we go into the next financial year. And the second question is, so you have mentioned like you have registered with this CGFMU. So can we expect the, like most of your unsecured portfolio will be covered under that? so what's your plan there?

Govind Singh: As far as the first part is concerned, we have seen Karnataka situation and you must have seen the ordinance also which excludes all the banks, all the REs actually, the regulated entities of Reserve Bank of India have been excluded from that. And yes, there was some temporary challenge but it has been amicably or properly resolved. And we have not seen any after-effect or any such effect of that situation across the country. Incidentally, we are not in the Karnataka belt. We have a very small portfolio through our BC partner. But otherwise, we are not in the South, largely in the South right now. It is through our BC partners only. We are largely in the Northern and Central belt, from the JLG perspective. But we have not seen any after-effect or any effect of what happened in Karnataka. So that is one part. Secondly, yes, our large portfolio will get covered under this guarantee scheme. We are just evaluating each and every unsecured book that we have got and which are covered under this scheme because we have registered recently only and most of the book which is unsecured and which is eligible under this guarantee scheme, we will try to cover. But I think we are in the process of doing that right now. But most of this will get covered sir.

Mohanraj: Thank you so much.

Moderator: Thank you. We have the next question from the line of Vinay N from Hathway Investments. Please go ahead.

Vinay N: A couple of questions. One was just to take the same point what the earlier questioner had asked. Because you have nearly 70% lending in Bihar and Uttar Pradesh, now, are there certain districts there which are causing a problem, or how where is this NPA suddenly hit us so badly in the last two quarters?

Govind Singh: Okay, just to talk about this, I think Vivek can also add, but from the way we have seen, whenever such things happen, it hits in some of the pockets. So we saw some of the pockets in our core geography got hit more than what it challenged in the other places. So like in some of the pockets like Bhagalpur belt of Bihar, where it was a bigger hit. Similarly in Gorakhpur belt of Uttar Pradesh, where we got a bigger hit. Similar to some pockets in Odisha and some pockets in Jharkhand also, where the hit was little higher than other places. So these four states are quite large states from our JLG portfolio angle. As a bank, these may not be that large in terms of overall lending book, but from the JLG, from the Microfinance book, because historically we started from these geographies only, there the hit was little higher. And as I mentioned to counter that, we have already put things in place and we do expect that the way the normalization is happening, it should happen much faster and we don't expect at least this to go beyond this now.

Vinay N: My second question is, what was the reason why there was such a large default? Was it something locally in those areas or was it our collection efficiency that had dropped?

Govind Singh: No, this was largely, as we all are aware that this happened from the first week of August when the new guardrails of MFIN got implemented, where the people who are having more than four loans were not eligible for any further loans. So I think there is a scarcity of credit, I mean people are not getting credit. I mean at the industry level there may be around 13% to 15% of customers who are not eligible and there is an impact of that. The impact was higher in some of the geographies and lower in some of the geographies. That does happen sometimes. So that's the only reason. I mean, you can say that's a trigger. Before that, the heat wave had a big impact this time. And even in these states, especially Uttar Pradesh and Bihar, the elections also, because elections happened in seven stages. Unlike in most of the states where it happened in 1 or 2 stages, in UP as well as in Bihar, it happened in 7 stages. I think there was a prolonged period because of that. The field operation got a little disturbed during that period. Then there's a heat wave, and we had some flood situation also in some of the Bihar pockets. So that happened before the first August, and that got, you can say further triggered or further aggravated by the guardrails from the 1st of August, 2024. I think these are the reasons, and that's why it has taken a little longer time. We had seen situation in past also, but that used to come back normal very quickly. This time there are a series of reasons or series of things that happened, so it has taken a little longer time this time.

Vinay N: And you see these reasons now going away because the guardrail is further getting tightened from 1st April. But will that have a significant impact in the FY26 numbers for provisioning or you see some relief? Because more than 25% of your portfolio is with Utkarsh plus 3 lenders is it?

Govind Singh: Yes, so as Sarju, our CFO also mentioned that you know whatever is the our steps currently obviously will have an impact on Quarter 4 also because of the impact of that but going forward that's not the case. And second the change of guardrail will not have major impact, there may be minor plus minus can be there but not a major impact because see earlier what was the case I mean when we say 4 plus. Sometimes there are people with 6, 7 or 8 lending also. In this case, the number is specific and people are aware. And you must have seen the disbursement have gone down significantly during last almost six months now. From first August, I think all the players are experiencing 40% to 50% disbursement rate than the earlier rates, in fact. Everyone's portfolio is de-grown. So I think these further tightening of guardrails, whatever was to be done from first January that has already been done, you are aware of that. So for example, voter card is mandatory for each and every borrower. So all those things have been implemented by the industry and by us also. The only change which will happen from first April, pan industry will be, not more than three lenders. And we don't foresee much impact of that.

Vinay N: Yes, my last question is basically now going forward as far as growing your revenues. While this will be there and I'm sure you have a team who will be focusing only on that. But would you also have a team which will be focusing on growing your revenues because your cost of funds has really come down quite nicely. If your yield of advances also go up now, you would have a much better cushion to bear these losses going forward. So is there any attempt to increase that and how is it that you're planning? Is it geographically, are you wanting to expand in some other states where there is better credit quality or what is the strategic thinking for FY26 and beyond?

Govind Singh: So certainly sir, and we'll come back obviously with our guidance for 26 in our next call but the way you mentioned we are also strengthen our various non-JLG verticals also. JLG we don't intend to expand too much there will be a very moderated growth as far as JLG is concerned but we have other verticals also and there are some verticals where we are able to get good yields also for example we mentioned about the used vehicles. So used vehicles gives me much better yield. And from 5% disbursement we have already moved to around 20% disbursement last 4-5 months' time. Micro LAP is giving us 18% plus. And this is a product apt for our geography. When I say our geography, it means our core area where we talk of UP and Bihar, Jharkhand, and that belt. So I think we have also identified these products which we are focusing upon. And these we will be able to expand and grow much faster in days ahead. So book will be secured more, I mean, this portion of security will be much higher. The blended yield will be, obviously a little lower than what we have been doing in last few years, but it will not be significantly lower than what we have done in past. And the credit cost or the credit quality is expected much better. And at the same time, our operating cost structure will also get much better. So I think overall, in next 2 to 3 years' time, we should see a much, much better traction in trajectory.

Vinay N: One last thing, what about gold loans? Are you into that also?

Pramod Kumar Dubey: Yes, we have started Gold loan and we intend to increase the disbursement and the book in next financial year.

Vinay N: How much would it be as a percentage in this result?

Pramod Kumar Dubey: Currently it's negligible. Maybe by next year we would like to make a book of Rs. 100 crore plus.

Vinay N: Thank you very much. Wish you all the best for future.

Govind Singh: Thank you.

Moderator: Thank you. We have the next person from the line of Shailesh from Centrum Broking. Please go ahead.

Shailesh: Good evening, everyone and thanks for the opportunity. Sir, I just wanted to understand first on the collection efficiency plan. You said the Feb number is 99%. So can you just define that collection efficiency and also reconcile the collection efficiency number what we have mentioned in the slide 26 for the third quarter? That would be helpful to understand.

Puneet Maheshwari: Okay, so the collection efficiency number which we have given on the presentation, that is collection efficiency for entire book. So that is for X-bucket, SMA as well as for NPA. So total collection during the month against the total demand. That is the collection efficiency which we have put in the presentation. Close to 99% X-bucket collection efficiency is basically let's say accounts which were there at the end of the previous month, regular accounts. This is the X-bucket collection efficiency for those accounts. So when we are saying, let's say, till February 15th, we had close to 99% X-bucket collection efficiency, this means that whatever accounts were regular at the end of 31st January, collection efficiency for those accounts is close to 99%.

Shailesh: Does that collection efficiency include any prepayments, 99%?

Puneet Maheshwari: No, none of the two includes prepayments. Basically, it's all regular or OD collections.

Shailesh: Okay, so if one EMI is due, one EMI is paid, so that is 99%, right? That understanding is right?

Puneet Maheshwari: That's right.

Shailesh: Okay, thanks. That's helpful. Continuing on this collection efficiency front, we have seen certain players changing collection methods from they are going from monthly to fortnightly or weekly. Any plans from the Utkarsh's side to do this as we have beefed up the collection team as well?

Govind Singh: So I can take this question. We moved from weekly to fortnightly a long time back based on, you can see, the overall efficiency, operational efficiency, as well as customer convenience. And you are aware that in JLG, we are largely a semi-urban and rural player. I mean, almost 80% of our portfolio comes from there. So our idea is to continue with this Fortnightly. This is the most balanced way of doing it. So we don't have any plans of changing it currently which is almost 90%-91% is fortnightly. We intend to continue with fortnightly only, not to move to monthly or to weekly.

Shailesh: Okay. And in terms of bookkeeping question, what are the current yields on disbursement on the JLG side and individual loan book, if you can give that number.

Govind Singh: Sorry, I couldn't hear properly.

Shailesh: What are the yields on disbursement this for the JLG and individual book?

Puneet Maheshwari: Yes, so for both individual and JLG disbursement yield currently is 24%.

Shailesh: Okay, the last question from my side, any time length in terms of reverse merger? We have earlier guided about first half FY26?

Sarjukumar Simaria: So we are on track there. The fact is that we already got an NOC from RBI. I think that's a good development. We also have got almost green signal from the two exchanges who have in turn sends it to SEBI and we are just now waiting for them to give their NOC. As far as the readiness to file the petition. I think everything is just on the table for a day or two or three at best after we receive approval from SEBI. The way I look at it is that we are in fact on track to do this before March. It could be even earlier, before end of March. And therefore our anticipated date of completing the consummation of the reverse merger process early Q3FY26 stands.

Shailesh: Okay. Fair enough. Anything on the valuation? How the valuation will work out?

Govind Singh: Sorry, can you just repeat? We couldn't hear properly.

Shailesh: On the reverse merger, how that valuation will work out? Any numbers on that?

Govind Singh: We have already announced the valuation numbers. It is 6.99x actually is the valuation. It's already in public domain now.

Shailesh: Okay. Thank you. Sir, just last one question. This current collection efficiency is 99% for the month of February. How is that stack up to February 2024? Is it in line with what we were earlier before this current crisis?

Puneet Maheshwari: Can you come again? Sorry, couldn't hear you properly.

Shailesh: Yes, so basically the collection efficiency for the month of February is around 99%. How would that be one year back in February 2024?

Puneet Maheshwari: So I don't have the precise number for February 24, but it should be closer to this level, right?

Vivek Kashyap: It was closer to same level. Somewhere around 99.2-99.3%, something like that.

Shailesh: Okay. So we are reaching a normal collection efficiency in steady state of movement. That is what I want to say.

Puneet Maheshwari: Yes, for X-bucket. Absolutely.

Shailesh: Okay. Thanks a lot sir and best of luck.

Govind Singh: Thank you. Thanks a lot.

Moderator: Thank you. We have the next question from the line of Purshottam, an Individual Investor. Please go ahead.

Purshottam: Sir, I'm having only a small question. This, your list, though you are a private company for last so many years, now the listing in NSE and BSE took place just two years. I think it is January 23. So this visibility of huge NPA successive quarters provision and all, it was not anticipated during your IPO issue, because most of the public investors are feeling like this NPA, this visibility of getting so too much impacted by NPA was not, are you not aware of at the time of IPO? Because many have taken share at the price of 50 and above 60 and all and thinking that your EPS posting and normal metrics, we have been thinking by this time share price would have shot up above 100. So now where as the case hovering around 23-25 now. So is it not a hiding game you are playing? No, I'm putting it in a blunt way.

Govind Singh: No, absolutely, sir, absolutely. I mean, so I just want to clarify one that, we are in public domain for a long time. We may be a listed company for recent time only, and you must have seen the track record of Utkarsh. And yes, there has been situation in past also when suddenly the credit cost goes up. We have seen in demonitization time, we saw in the COVID time also. And as we just mentioned on this call, and if you see all the newspaper also, all the players, it's not specific to Utkarsh, it is for the general industry, in fact. All the people who are into unsecured or in microfinance space.

Purshottam: Sorry for the intervention. My question is, this successive two quarters.

Govind Singh: I'll tell you, sir, I'll tell you. I'll complete, sir. Just give me one minute.

Purshottam: All this NPAs become successive two quarters or it was accumulated from so many years, people might have defaulted so many years even.

Govind Singh: Let me just complete this thing.

Purshottam: So that visibility you may be having, so that clarity and when we go for an IPO, you should have cleared the book in a proper transparent way before IPO. See, IPO tantamount something you are hiding your NPAs, your asset quality is not 100%. Am I right?

Govind Singh: No, sir, that is what I am trying to tell you that there is nothing of that sort. This is what entire industry is facing, it is not only Utkarsh, if you look at all the people who are in the JLG or microfinance space, they are facing this issue and this got triggered from the first of August. So you will see that there is a decline in the asset quality from 1st of August because of the changes the way regulations or the SROs brought in. Even if you look at our March 24 numbers, our net NPA was very close to zero actually.

Purshottam: Is it your deterioration of collection efficiency and all, is a recent development of all these 400-odd crore wrote-off in the Q3 is not an accumulated thing 2-3 years back only.

Govind Singh: Not accumulated at all. In fact, if you are aware that even the overall tenure of our loans, especially for the JLGs, the microfinance loans are 14 months to 24 months. So they are actually short term loans only, 24 months and 14 months. So the entire stress was built up during last 6 months only and this is what is happening across. And we all are coming out of it. So there is no question of having any stress earlier which was not disclosed. There is no such question. And if you see our results for previous years, and even March 24 also, there were no stress. This got caused from 1st of August because it changed the way the lending was changed. And we are mostly seeing in other players also that there has been little stress in the system for unsecured and microfinance lending. Rest assured of that part, sir.

Purshottam: The point is, when the people to whom you have lended is defaulting, is it you are just leaving then, detaching the compartment and moving, or you are making an effort to still maybe your sectoral reconstruction company, you might maybe auction that is one part. But why don't our internal arrangement itself to work and try to extract maximum before auctioning to the Asset re-construction company and all. So our collection efficiency improvement, what action you are contemplating now?

Govind Singh: Sir, we mentioned that we have strengthened normally in JLG or the microfinance, people normally do not have collections team. So now people have also put their collection team in place. We have also put a specific collection team in place even the portfolio that has been sold to ARC we have taken the collection responsibility for that and whatever are the benefits that will also accrue to us. So it's not that the benefits will not accrue to us. So there has been a big focus on collections and obviously we are aware of this fact that you know wherever there have been delinquencies or wherever there have been stress in the portfolio, that remains our top priority and that's why you must have seen the growth rate has at least for the JLG has come down. And that is what we have been talking for some time that there is a significant improvement, obviously it is yet to normalize it is taking little longer time and those are the efforts and I think we all are committed to that.

Purshottam: Sir, one second. See the de-growth rate is understandable due to some RBI issue of more than four lenders one cannot take. Those are all understandable. But the thing is, all of a sudden, the NPA increases successively in quarters. See, what general investors think that once you massive NPA provisioning you make, so that means relevance. So then further 2-3 years nothing will happen. So significant provisioning may not be there, that will be the general perception. But here, successive about you are making something is eroding. That's what I feel. Because with this question, I would not have asked, had you been a listed company for so many years? If you are listed just two years back, so your asset quality should have cleared your book and came for IPO. See, IPO is a point where anybody begins, right? So, with a **(Inaudible) 0:54:28** book you can start with IPO. So, I think this is an accumulated effect much before the IPO happened. If that is the case, you kindly don't leave the people. It's not like somebody take maybe small, I mean, unrecovered and all, but still nowadays Aadhaar and everybody has an identity, is the proven identity people only, the collection efficiency you find out some mechanism and try to collect it because why I am saying it is failing I am holding 1.43 lakhs shares, originally 71 lakhs to a 54 average I have bought now again I have 29.42 another 71-72 thousand I added now I am having 1.43 at the average of so something like that, so it is really pain**,** I am a small investor only.

Govind Singh: So sir, as I mentioned, this is not specific to Utkarsh, it is an industry level problem and rest assured that we are on top of it and the full focus is right on the collection and improving the collection efficiency.

Purshottam: That should be your prime focus, because degrowth due to RBI, new regulation, this thing and all is understandable. But leaving the people aside for non-payment and you are just leaving the compartment and the rest of the compartment you carry means finally you will be left with engine only. Okay?

Govind Singh: I can only assure on behalf of that, it is recent pain and it is industry level pain and we all are working towards it and you'll see, you can see that there are certain improvement and we'll see further improvements in that.

Moderator: Thank you. We have the next question, line of Ashlesh Sonje from Kotak Securities. Please go ahead.

Ashlesh Sonje: Hi sir, thank you for the follow up. Sir, one question on the operational side. When you do the KYC for the borrower, what are the different identification documents which you collect as of now? And has there been any change starting from January because of the new guardrails?

Govind Singh: In case of normal banking, what we call OVDs, officially valid documents given as per the KYC norm. Specific to JLG customers, there are two documents which are mandatory. One is the Aadhar card and second is the voter ID card. And the important part from what has happened from 1st January, in fact because of that some clients may not be able to get disbursement also, these are validated from the back end in both the cases. From the system, these are validated that these are correct ones. So now we are using, or that is again as per the industry, everyone in the industry is using two documents. One is Aadhar and second is the voter ID card and these are getting validated also.

Ashlesh Sonje: Okay, and what is the change which has happened specifically in the case of Utkarsh from January?

Govind Singh: So voter ID card was not mandatory earlier. It has become mandatory and not only mandatory but it is also been cross checked from the system that this is a valid one.

Ashlesh Sonje: What would be the incremental drop-offs because of the Voter ID index validation becoming mandatory?

Govind Singh: Vivek, do you have any specific number with you? I don't have exactly with me but Vivek, a broad number?

Vivek Kashyap: It's a broad number, it's not a very calculated number but roughly around 6% to 8% we are seeing additional increase of drop outs.

Ashlesh Sonje: Understood. And just lastly, when you try to assist the borrower's leverage using data from the credit bureau, how does the credit bureau identify the borrower as in based on what unique ID?

Vivek Kashyap: Basically, the credit bureau identifies the borrower based on the voter ID card which we are submitting to the credit bureau. So since Aadhaar card number is not submitted to credit bureau, they cannot identify the borrower on the basis of Aadhaar card. And that's why across the industry, MFIN has implemented that voter ID card is mandatory and everybody is required to verify that voter ID card is valid and obviously they have to submit also to the credit bureau.

Ashlesh Sonje: Understood. Okay, so it's a little confusing because then if we were not taking voter IDs earlier, then for our customer set, if the voter ID is not available with us, how does the credit bureau end up identifying that borrower if we are not submitting voter ID or Aadhaar till December?

Vivek Kashyap: No, earlier also we were taking voter ID card, but we were not validating or it was not mandatory as per the RBI OVD rule, we are taking the document. Obviously, Aadhaar card was there, and other OVD documents we were taking, and numbers were there. But since it has been post the - implementation of guardrail 2.0, we have made it mandatory, and we are collecting, and we are validating through backend also.

Puneet Maheshwari: And Ashlesh, if you see, usually the way bureaus run, it's not just, let's say, a voter ID number or Aadhaar number, it also run with a multiple matches. So basically, there are multiple primary matches and secondary matches, which include name of the borrower, date of birth, father's name, mobile number, and so on. So basis all of that also, they basically let's say see whether the borrower profile is matching to get the bureau report.

Ashlesh Sonje: Okay, so in summary, it seems like the borrower identification process at the bureau level has become a lot better now, starting January. And that can lead to incremental rejections.

Govind Singh: Became more stronger and stringent actually, from that angle.

Puneet Maheshwari: Yes, but for us actually the let's say because we were already doing the eSign and eKYC, Aadhaar was one mandatory document. Now, Voter ID validation is also mandatory.

Ashlesh Sonje: Perfect, thanks a lot sir, that answers my question.

Govind Singh: Thanks, Ashlesh. Thanks a lot.

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

Govind Singh: Thank you, Renish and team for hosting this and thanks everyone for joining our call. You have always been supporting and yes, one of the segment of the bank because bank has multiple segment but microfinance is passing through a tough phase right now and we are seeing certainly some improvements in the overall the way things are happening for microfinance also and you have been always supporting Utkarsh and you will see that we are able to improve things much, much better from here. And once again, thanks for attending this call and always your support.

Moderator: Thank you. On behalf of Utkarsh Small Finance Bank, that concludes this conference. Thank you for joining us and you may now disconnect your lines.