Utkarsh Small Finance Bank

November 16, 2024

The BSE Limited
543942, 958095, 959644, 968226, 975790

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 half year ended on September 30, 2024

We submit herewith the transcript of the Earnings Conference call held on Monday, November 11, 2024 at 04:00 p.m. in connection with the Financial Results of the Bank for the quarter and half year ended September 30, 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: 2024.11.16 14:53:10 +05'30'

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

Encl: as above

"Utkarsh Small Finance Bank Limited Q2 FY25 Earnings Conference Call"

November 11, 2024

MANAGEMENT:	**MR. GOVIND SINGH – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER** **MR. PRAMOD KUMAR DUBEY – EXECUTIVE DIRECTOR** **MR. SARJUKUMAR PRAVIN SIMARIA – CHIEF FINANCIAL OFFICER** **MR. ALOK PATHAK – HEAD ASSETS** **MR. SANJAY SHARDA – HEAD – CONSUMER BANKING** **MR. VIVEK VISHNOI – HEAD FINANCE** **MR. PUNEET MAHESHWARI –STRATEGY AND INVESTOR RELATIONS**
MODERATOR:	**MR. RENISH BHUVA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Utkarsh Small Finance Q2 FY '25 Conference Call.

As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Renish Bhuva: Thank you, Sunil. Hi, good afternoon, everyone. Welcome to Utkarsh Small Finance Bank Q2 FY '25 Earnings Call. On behalf of ICICI Securities, I would like to thank Utkarsh's 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 – MD and CEO; Mr. Pramod Kumar Dubey – Executive Director; Mr. Sarjukumar Pravin Simaria – CFO; Alok Pathak – Head Assets; Mr. Sanjay Sharda – Head (Consumer Banking); Mr. Vivek Vishnoi – Head (Finance); and Mr. Puneet Maheshwari – Strategy and Investor Relations Head.

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

Govind Singh: Thank you, Renish. Thank you everyone for taking out time to attend our Quarter 2 FY '25 Earnings Call.

During the last quarter, operations and business environment were challenging specially in micro banking segment, while on the positive side, we saw improvement in deposit growth, overall liquidity scenario and non-micro banking businesses like MSME and housing continues to offer healthy growth potential.

In terms of business performance, our deposits have grown at a healthy rate of around 40% year on year and 7.3% quarter-on-quarter, largely in line with our plan. Deposit growth was led by growth in retail term deposits, which grew by 48% year-on-year and 9% quarter-on-quarter. Our CASA deposit ratio was 19.6% as on September '24, against 19% as on June '24, and CASA plus RTD ratio improved from 67.1% as on June '24 to 68.4% as on September '24.

As regards micro banking sector, Quarter 2 FY '25 has been a challenging quarter for micro finance industry. The initial stress in collection efficiency and asset quality, which was caused by heat waves and operational limitations during general elections, aggravated further in Quarter

2 FY '25 on account of higher borrower level indebtedness and stress accelerated further following tightening of credit norms post MFIN's guardrail advisory.

We believe guardrail advisory is a structurally positive step for the sector and significant positive of which will be there once the current stress alleviates. Guardrail norms give much better control on the overall indebtedness level of the borrower as well as multiple lender relationship of the borrower.

Overall, our gross loan book has grown by around 28% year-on-year and 1.6% quarter-on-quarter. Our loan portfolio growth during the quarter was impacted primarily by degrowth in JLG loan portfolio by 5.1% quarter-on-quarter, while non-micro banking loan portfolio has grown by around 10.8% quarter-on-quarter and 47% year-on-year.

Growth in the non-micro banking portfolio was in line with our expectation. We expect JLG disbursement to normalize from quarter 4 FY '25, and basis which for the full year JLG portfolio could remain flat against FY '24.

While non-micro banking portfolio growth expected to remain largely in line with expectation of around 45% to 50% year-on-year growth, overall, on account of our expectation of largely flat JLG portfolio in FY '25, we expect our loan portfolio growth to remain around 18% to 20% for FY '25 against earlier guidance of around 30%.

From a medium-term perspective, we expect JLG loan portfolio to normalize for FY '26 and expect it to grow by around 14% to 15% year-on-year and overall loan growth for the Bank in the range of 25% to 30%.

In line with our plan, we have been inching up our disbursement yield, which improved by 80 basis points year-on-year for MSME lending, by around 50 basis points year-on-year for housing loans, and by 30 basis points year-on-year for CE and CV as well. We will continue to work towards building these secure businesses and optimizing lending yields further.

In line with our strategy, the share of secured loans in our portfolio has been increasing. It increased further from 34% as on March '24 to 38% as on September '24. We have set up dedicated teams for each of the non-micro banking businesses like MSME, micro-LAP, housing and other businesses, experienced business teams as well as credit, operations, collections.

We have a large number of existing branches to cater to these products and our current scale is relatively small in each of these businesses. This gives us confidence that we can maintain strong growth in these businesses over the medium term considering our current scale.

From asset quality perspective, we saw significant stress in operating environment in JLG business because of which our collection efficiency declined from 96.2% in quarter 1 FY '25 to

92.3% in Quarter 2 FY '25. Key factors which impacted collection efficiency and asset quality in micro banking segment included over-indebted level of the borrowers, dilution in center meeting discipline post COVID, external disruptions like Karza Mukti Abhiyan in UP and Jharkhand, floods in few districts in Bihar.

In addition, restricted traded supply in JLG lending segment following MFIN's guardrail advisory and slowdown in disbursement by various entities following focus shifting on collection efficiency led to acceleration of default. As such, operating environment and collection efficiency trend in our key states namely Bihar and Uttar Pradesh remain largely in line with our overall portfolio.

We are constantly working towards improvement in collection efficiency and asset quality. We have deployed senior field staff on critically identified branches. In addition, we have created a task force to handle collections from 30 plus bucket. This team comprises trained and experienced staff from micro banking branches and work primarily on critically identified branches.

We are also focusing on improving critical processes like center meeting discipline. It should start on time, and conducted as per the process to bring complete discipline back. In addition, we have increased manpower in micro banking business to reduce caseload per credit officer. Additionally, on an ongoing basis we continue to split our large MB branches to maintain better control.

Operating environment and delinquency trend remain weaker even in month of October '24, and currently, we expect it to peak out towards the end of Quarter 3 FY '25 and reversal to start from quarter 4 FY '25.

Asset quality in secured loan segment, that is MSME and housing, has been under control. Overall, primarily on account of weakness in JLG lending segment, our gross NPAs increased from 2.78% as on June '24 to 3.88% as on September '24.

In near term, our primary focus areas include, 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, further optimization of disbursement yields and profitability in non-micro banking portfolio. We have set up systems, processes and people and are well-placed for healthy growth in non-micro banking businesses as well. Building a more granular liability franchise and further improve on CASA plus RTD deposits.

As on September 30, 2024, we had surplus liquidity of more than Rs.2,800 crore, which is higher than our usual liquidity requirement. Our CD ratio of 93% as on September 30, 2024, declined from 93.7% as on March 31, 2024. And if we net off refinance borrowing from advances, CD ratio declines to 85.7%. We don't have any short-term borrowings on our balance sheet. We expect our CD ratio to decline further in FY '25.

We continue to build our banking franchise and opened 51 new branches in Quarter 2 FY '25, taking total branch network to 967 branches as on September 24. Our profitability during the quarter was impacted by stress in collection efficiency and asset quality in JLG loan segment.

On account of current challenges in micro banking lending for both asset quality and disbursement, we are also revising our guidance for FY '25. Our revised guidance for FY '25, deposit growth remained healthy and no change in guidance on growth as well as our plan on reducing CD ratio. Loan book growth of around 18% to 20% for FY '25 against 30% earlier as JLG loan portfolio is expected to remain flat this year. We will continue to increase share of secured loans in our portfolio in line with our plan. Credit cost of 3.5% to 4.5% against earlier guidance of 2%. ROA of around 1% and ROE of around 7% for FY '25.

Now I will hand over call to Sarju, our CFO, for taking you through financial performance for the quarter.

Sarjukumar P. Simaria: Thank you, Govindji, and friends, welcome to this Bank's Earning Call for Q2 FY '25.

As Govindji highlighted, Q2 FY '25 has been a challenging quarter for the microfinance sector. This has impacted the Bank's performance at multiple levels, first being the JLG disbursement has been lower, and it impacted collection efficiency and asset quality for JLG portfolio.

This being on the negative side, I would also want to highlight the positive side. One that has been already alluded by Govind sir is we continue to build on with respect to our strategies of building secured loan portfolio, improving our disbursement yields and also healthy growth in liability franchise. You have seen not only the deposit growth growing by 40% Y-o-Y, but the internal composition is also showing the mix and the traction that we desire.

Now, again, coming back to the results starting from the top line, Bank's net interest income grew by 31% Y-o-Y to INR1,131 crore for H1 FY '25, and it grew by 26% Y-o-Y to INR558 crore for Q2 FY '25.

Now on the NIM front, the NIM was 9.1% for H1 FY '25 which is similar to the NIMs of H1 FY '24. However, NIMs during Q2 FY '25 was 8.8%. The primary reason behind the dip in the NIM for the Quarter 2 FY '25 has been elevated NPAs slippages. There are two impacts - one is the requirement of higher provision and also the accrual of interest gets reversed for the fresh slippages and the disbursement fell lower, which is the reason for a low end NIM for Q2 FY '25.

We raised tier 2 capital in quarter 1 which completed the fund raise on June 28. This tier 2 capital had two objectives, one to supplement the CRAR ratio and this also helps us in our ALM for moving to secure book. It's a long-term locked seven-year borrowing, and with this raise, our cost of funds increased marginally to 8.2% in Q2 FY '25. If I include the IBPC in the working and then the cost is lower by 10 bps at 8.1% for Q2 FY '25.

Other income increased by 5% Y-o-Y to INR207 crore in H1 FY '25, while it was lower by 2% Y-o-Y Q2 FY '25. The primary reason for lower other income was PSLC income, which was lower in this quarter compared to the last quarter. Primarily, this is the effect of demand-supply in the premium correlation.

Coming to operating expenses, operating expenses was INR751 crore for H1 FY '25, increased by 25% Y-o-Y, and it was INR384 crore for Q2 FY '25, increased by 24% Y-o-Y. We have been maintaining our investment in infrastructure in terms of creating branches, headcount, technology. These are in line.

When you compare this and embedded it in the cost-to-income ratio, our cost-to-income ratio is 56.1% for H1 FY '25 albeit 58.2% for Q2 FY '25. One of the primary reason of cost-to-income ratio a bit higher is the cost may be in line, but the income, the NIM has come down by virtue of the JLG stress that we have seen on the income and in the slippages.

Coming back to the line which is before the credit provisioning, PPoP, which is pre-provisioning operating profit, actually has increased by 28% Y-o-Y to INR588 crores in H1 FY '25 and by 16% Y-o-Y to INR276 crores for Q2 FY '25.

Now the line which is the most important line which has set the tone for the JLG sector weakness environment challenges and due to the weakness in JLG, the credit provision increased to INR333 crores for H1 FY '25 and INR208 crores for Q2 FY '25. Primarily, this converted into ratio, credit cost was 3.5% for H1 FY '25 and 4.3% for Q2 FY '25. This includes 40 basis point of discretionary floating provision, and if I were to exclude floating provision, my credit cost reduces to 3.1% for H1 FY '25 and 3.9% to Q2 FY '25.

We expect that given the guardrail effect will come sooner than later, but till the time it gives a positive effect, the stress in the JLG portfolio will continue and therefore our guidance as mentioned by Govindji for credit cost is now in range of 3.5% to 4.5% for FY '25.

Friends, I just mentioned about floating provision. One important decision that I want to share. Our floating provision accumulated number is INR190 crore as on September 30, 2024, which comprises of INR173 crore, specifically created for unexpected stress in the micro banking portfolio and INR17 crore is towards over and above floating provision on standard assets.

Now the thought process behind building floating provision was to build this provision in good times and this can be used during the stress time. Considering the difficult stress environment and consequential higher NPA provision, the Management and the Board has decided not to create additional floating provision for only JLG loan portfolio beginning October 1, 2024, while we will continue to create floating provision which is 20% of the standard provision for the period.

In addition, we are also looking to seek RBI approval to utilize existing floating provision for JLG portfolio of INR173 crore in full or in part. However, considering that the floating provision requires RBI approval, we have not factored this in our guidance for FY '25. We hope to get this approval and if we get, our credit cost will be lower than what we have stated in our guidance.

Our net NPA was 0.89% as on September 30, 2024, versus 0.26% on June 2024. The provision coverage ratio, since the floating provision is embedded in September results, the provision coverage ratio including floating provision was 78% as on September '24.

Our profit after tax reduced by 15% Y-o-Y at INR189 crores in H1 FY '25 versus INR222 crores in previous H1 FY '24.

Our returns obviously got impacted by virtue of the profitability numbers. Return on assets and return on equity was 1.5% and 12.3% respectively during H1 FY '25 and during Q2, ROA was 0.8% and ROE was 6.6%.

On the capital adequacy ratio, we are comfortable at 22.43%. Within that, tier 1 capital is 19.85% as on September 30, 2024.

As we mentioned, while the aberrations in terms of the guardrail and the leverage systematic risk that has emerged, we already were in the move to factor of moving more to the secured book. This was in our plan for the coming years, and therefore at a point in time when we had a 90% micro banking heavy, we are today at 57%, which is a trajectory, and that is what is going to continue. The business model is resilient in the sense to observe intermediary shocks.

I guess with this probably we can take questions and answers. One more point is on the reverse merger. We have already filed reverse merger applications formally to the stock exchanges and RBI. We are in dialogue with them. I guess, we are hoping to hear from them on a positive note closure may be early next quarter which will enable us to file the NCLT application, say, somewhere in mid of next quarter Q4 which then if I take six months, we are in line with the time frame that we had thought to see within 12 to 15 months by end of Q2 or early Q3 to get this transition consummated as far as the reverse merging of the holding company into the Bank is concerned.

Thank you for taking this time out. look forward to answer your Q&A.

Moderator: Thank you so much. We will now begin the question-and-answer session. The first question is from the line of Vatsal Shah from Knightstone Capital. Please go ahead.

Vatsal Shah: Firstly, on the MFI space, what will be our 4 plus lender book?

Puneet Maheshwari: In terms of number of customers, it will be about 14%.

Vatsal Shah: 14%, and this will be at the time of disbursement or as on Q2?

Puneet Maheshwari: This is as on September.

Vatsal Shah: As on September, okay, thank you.

Puneet Maheshwari: As per disbursement, it will be much lower, but it is as on September.

Vatsal Shah: And if you can give the collection efficiency for UP and Bihar individually, if that's available.

Puneet Maheshwari: So, our collection efficiency for the Bank as a whole was 92.3%. Both UP and Bihar, as Govind sir also highlighted, was very close to this number only. Bihar is marginally better than overall and UP is marginally lower. So, it's very close to the overall number.

Vatsal Shah: And my last question is on the SMA numbers. So, the 4.4% SMA-1 and 2, this is for the overall book, right?

Puneet Maheshwari: That's correct.

Vatsal Shah: So, generally, what percentage of this flows into NPA?

Puneet Maheshwari: No, it's actually, see, depends upon situation to situation also. So, in typical stress time, the flow forward from SMA-2 could be higher. In a normal time, the flow forward would be lower. And that is what we have seen. And it also depends, let's say, from which stress this SMA number is coming from. So, in situations like current, flow may be a little higher. But as situation normalize, flows actually comes down.

Vatsal Shah: Yes, I got that. But like an average, what is the number, like 40%, 50% just to get an idea of the slippages which could be coming our way?

Puneet Maheshwari: No, I mean, I would like to answer that question through the credit cost. Because as I said, the flow forward kind of keep changing depending on one, let's say, the time as well as underlying stress. So, that is what we have given in our guidance. So, credit cost guidance, we are giving 3.5 to 4.5. So, to that extent, actually, we are expecting a little higher slippages in Quarter 3. That is what is reflecting in our guidance as well.

Moderator: Thank you. The next question is from the line of Sagar Tanna from Alchemie Ventures. Please go ahead.

Sagar Tanna: Sir, a couple of questions. What is the NIM on our MFI book and non-MFI book? Or what are the yields, if not the NIMs, what are the yields on our MFI and non-MFI book?

Puneet Maheshwari: So, MFI is, you see, from our disbursement perspective, we charge between 23% to 25%. And on an average, on a portfolio basis, we are about 22.5% to 23% because there is dilution on account NPA as well. It's typically MFI. Non-MFI ranges between, on an overall basis, 12% to 13%.

Sagar Tanna: 20%, is that correct?

Puneet Maheshwari: 12% to 13%, I said.

Sagar Tanna: 12 to 13, okay. And the floating provisions created up to March '24 and in the current financial year, totaling amounts to what percentage of our outstanding book?

Puneet Maheshwari: So, if you see, we have INR190 crores, INR173 crores is specifically for a microfinance business, an additional INR17 crores and if we take a microfinance book of about INR10,000 crores, specifically JLG book, it is about 1.7%.

Sagar Tanna: So, this is what we would have created in this current financial year, right? And what about legacy floating provisions?

Puneet Maheshwari: So, this INR190 crores is cumulative.

Sagar Tanna: Cumulative.

Puneet Maheshwari: This year we have created about INR40 odd crores.

Sagar Tanna: And just one last clarification, sir. You mentioned on the reverse merger timeline of Q2, Q3 by next financial year, FY '26, is that correct?

Sarjukumar P. Simaria: That is right. For the consummation of the entire reverse merger process.

Sagar Tanna: And that would lead to what percentage of equity dilution?

Sarjukumar P. Simaria: No, I guess this is a complete reverse merger of the holding company, which is currently holding 69%. So, that is the entire lot will become listed in that sense. We have 30% public, which will become 100% public now.

Sagar Tanna: I got that part, sir. But would it lead to any equity dilution because of the merger, reverse merger?

Puneet Maheshwari: No, it would not lead to any dilution. I mean if you see the swap ratio which we have given. So, in fact, there will be a marginal benefit to the existing shareholder of the Bank with respect to the shareholding percentage. So, there is no dilution. So, the number of shares for the Bank as a whole will come down.

Moderator: Thank you. Now, the next question is from the line of Aryan Shah from IIFL Securities. Please go ahead.

Aryan Shah: Can you please help me with the lender 4%-plus of portfolio as a percent of portfolio?

Puneet Maheshwari: So, we had given, this is about 14%.

Aryan Shah: No, that is the number of customers, right? I want as a percent of loan outstanding.

Puneet Maheshwari: Loan portfolio I don't have readily available. Maybe we will come back.

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

Ashlesh Sonje: A few questions from my side. Firstly, can you talk qualitatively about how is the current bucket collection efficiency in the month of October, whether it has deteriorated versus September improved or remain flat? Just the current bucket part.

Govind Singh: So, thanks, Ashlesh. I think it has not improved, I would say, and maybe it has slightly gone down only. And that's why we mentioned that this October and till now, it is either in the same range or a little lower than that. And so, that's why we mentioned that the improvement should start from next quarter only. We don't expect much improvement in this quarter. So, it's almost in the same range what it was in the month of September.

Ashlesh Sonje: Sir, on a state-wise basis, can you comment or give us a bit more details on what are the challenges that your loan officers are facing on the ground? You highlighted a few things around over-indebtedness and Karza Mukti, but because if I look at the slippage numbers, they seem to be a bit on the higher side. So, if you can just comment around it, why the slippage numbers seem to be higher than others? And also, if you can give out the breakup of slippages across segments?

Govind Singh: Across segments or across states?

Puneet Maheshwari: So, slippages, I can give you, Ashlesh. Total slippages is about INR356 crores, of which about INR300 crores is micro-banking and balance INR55 crores is non-micro-banking.

Ashlesh Sonje: And just commentary on the collections across states, what are the challenges that you are facing?

Govind Singh: No, Ashlesh, the challenge remains the same that because of the recent guardrails by MFIN, I think there are a lot of customers who have become ineligible for any fresh loans. So, that is causing stress and we are seeing some of the pockets, especially in some of the pockets in Bihar, Uttar Pradesh, some pockets in Odisha and Jharkhand, where we are having, you can say, little bigger challenges than other pockets.

So, we are finding little, for example, in Maharashtra it's better than all these places, though we have a small portfolio in Vidarbha in Maharashtra, but there it is a little better than the other places what we have seen so far. And largely because one is that 4 plus lenders are there and everyone in the industry, the Bank, the small finance Bank, NBFC, all have stopped lending to these people. So, there is a stress built up right now and that is causing challenge.

Typically what happens, because normally we all go for collection through center meetings, if there are some, say, around 10%-12% customers who are in various buckets who have not paid, then sometimes you have to go for door-to-door collections, which is really time consuming. That is causing more stress, I will put it this way. So, gradually we are seeing that those customers are getting weeded out. And that's why I am confident that next 1 to 2 months' time you will see that the situation will improve from here. In terms of the customer who are eligible, they will come forward and there will be no new slippages because of this reason. So, that is how, what we are facing or what we are seeing.

In some pockets, we have seen things like Karza Mukti Andolan, like Gorakhpur and that area, a few pockets in Jharkhand also. And incidentally this time, we have got a good support from the administration and even police authorities also. And they are not able to take this forward. But sometimes temporarily for a week or for 10 days, this certainly impacts. But it has not an impact beyond that.

Ashlesh Sonje: And just lastly, any update on equity capital raising plans?

Govind Singh: So, right now we are not in the process of raising any equity. In terms of capital adequacy, we are quite comfortable. And certainly, at least for this year, we may not require any tier 1 equity.

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

Sonal Minhas: Sir, I wanted to understand the vintage of your JLG customers basically. So, we have 100 customers. What would be the vintage of customers who have been with you for more than 3 years or more than 5 years? Any slicing on that sort that you have done if you could share some data?

Puneet Maheshwari: So, we can give you a cycle-wise data, loan cycle-wise. So, about 26% of customers are in first cycle. Second cycle and the third cycle are again close to 20% each and balance is 4 and 4+.

Sonal Minhas: So, you said 23% are in the first cycle.

Puneet Maheshwari: 26% is first cycle. Second and third cycle each is close to 20% and balance is 4 and 4+.

Sonal Minhas: Sir, I just wanted to understand your recognition bucket. If you could explain that vis-à-vis the industry as to what levels of DPD you provide for what, that would just help understand how conservative you are in terms of your bookkeeping. If you could help with that.

Sir, I wanted to understand your recognition buckets for the basis on DPD. Like at 0 to 30 DPD, what do you provide for? At 30 to 60 DPD, what do you provide for? When do you write-off a loan? What are these vis-à-vis the peers in the industry? If you could explain that,that will help.

Alok Pathak: So, for provisioning we are calling for all unsecured loans. So, we start with 40% provisioning on the 91st date. And then every quarter...

Sonal Minhas: Could you be a bit louder sir?

Alok Pathak: So, for all unsecured loans we start with 40% provisioning the moment it is crossing 90 days. So, it starts from 40% and then every quarter it will get added 15% each. So, within 12 months we provide 100%.

Sonal Minhas: So, 100% is provided at 360 days basically?

Alok Pathak: Correct. So, it starts with 40% on 91st day when it becomes a NPA.

Sonal Minhas: And between 30 and 90 days, are you seeing collection improve significantly based on customer behavior or is that something which also is pretty close to what the bucket post of 90 days is?

Govind Singh: So, typically for JLG, the normal course, it used to be a quick turnaround. You know, we used to get a higher collection. But because of the last 2-3 months when we have post this guardrail had been put by, because these are the stress customer around 12%-13% for the industry level also. There I think we are finding the slippage is more and recovery from slippage is less in fact.

Sonal Minhas: My question is generic, sir. Like, do customers pay after 60 days to you? Behaviorally I am trying to understand. Or typically it is easier to assume that after 90 days, most of these loans slip up to be kind of write-offs.

Puneet Maheshwari: No, if you see historical data, see we have seen even our collection from a written-off account. So, as Alok Sir was saying, I think even if we have provided 100%, post account has become NPA, after a year we have provided 100%. And after that point we have written-off as well. But historically we have seen even more than 10% collection from a written-off pool. And NPAs also we have seen reasonably good collection.

But typically, it also depends on time-to-time and stress-to-stress point. So, typically when there is a very high stress time, the entire focus will go on collections from softer buckets and from regular clients. The moment the stress alleviates, actually your focus moves on collecting from a harder bucket client as well. So, in normal time you see good collections from NPA as well.

Sonal Minhas: So, my question is that, let's say, if 10 accounts slip after 60 DPD and out of those, you are saying that 10 accounts slip after 60 DPD. How many of those accounts actually reach, let's say, 360 degree DPD centers? All of them or very few of them?

Puneet Maheshwari: Alternatively, what I can tell you is roughly, let's say, whatever accounts slip to NPA, typically in past we have seen recovery of about 25%-30% from that pool as well. And as I said, little more than 10% from a write-off pool.

Sonal Minhas: I will just fall back in the queue. I have more questions.

Moderator: The next question is from the line of Pritesh Bamb. Please go ahead.

Pritesh Bamb: Just a couple of questions. Just wanted to check how many, so if you can give your data point, how many number of accounts are in, falling in overdue, and how is that panning out across months?

Puneet Maheshwari: Pritesh, we have given the portfolio breakup, I mean, the DPD breakup of our micro-banking portfolio in terms of amount. Are you looking for number of clients?

Pritesh Bamb: Yes. So, I am just looking for a forward flow. How much number accounts are falling into overdue each of the month? So, just trying to see if that has come down or is moving up.

Puneet Maheshwari: So, I can tell you two things, Pritesh. One is Govind sir covered in his opening remarks as well, that the overall operating environment remained difficult in October, and so basically the flow rates remained there. And secondly, instead of the low forward rate, what we have put in is the guidance on our credit cost for the full Financial Year '25. We have given a guidance of 3.5% to 4.5%. And, our credit cost in H1 was about 3.5%.

Pritesh Bamb: So, just coming to the credit cost part, which you mentioned, so 3.5% or maybe it will be more from microfinance. So, right now already 300 crores slippages, which means 6% of the book. And given that write-off policy is there at about 210 DPD, we do 100%. So, it seems that the 3.5 also will be breached because that credit cost will be maximum going to MFI. So, any views on that?

Puneet Maheshwari: So, if I just reflect this 3.5 also, it was about 5% for microfinance and about as we have been guiding in past as well, 1% to 1.2% for non-micro banking.

Pritesh Bamb: Seems to me that it will breach because your write-off this quarter also is quite low. Seems to be when you will be doing write-off, and that will put pressure on your PCR, and that's why you will have to do a higher credit cost.

Sarjukumar P. Simaria: That may be the case. I think a lot of intervention that's mentioned by Govindji in terms of how we are going to tackle to see that we remain within the range of 3.5 to 4.5 is going to be the essence. Notwithstanding, I guess if the environment further gets stressed, it's a different outcome. But keeping into account the way the ground level force, I guess we should be on a number basis within the 4.5 upper cap of the stress or credit costs that we have just given guidance to.

Pritesh Bamb: So, two more questions. One is, how much is new to Bank in MFI this quarter? And will it be sole banking? Will it be only Utkarsh?

Puneet Maheshwari: So, on an overall basis, we have about 32% unique to Utkarsh. The new customer acquisition is not a focus right now. So, new to credit customers anyway we are not acquiring too much because the focus is completely on collection. And on a book basis we have about 32% client which are unique to us.

Pritesh Bamb: And how much is the collection team number? If you can give the number, that will be great.

Puneet Maheshwari: So, both credit officer and collection team put together, we are close to about 6,500 people plus.

Pritesh Bamb: And only collection?

Govind Singh: So, typically the way it happens, collection is done, I mean, the people who source the customer, they also do the collection part. So, now when you say hard collection, we have around 1,000 people who are dedicated for collection. Obviously, they support the branch staff also. So, that is the team. Otherwise, entire team is in front for collections only.

As Puneet mentioned, right now there is no focus on acquiring new customer or acquiring or disbursement the way it used to be. So, the entire team of, in fact, not only 6,500 loan officers, but we have close to 2,500 people who are the supervisors. The branch managers, the branch operations manager, the area managers, division managers, the entire team is working on the collection part right now. So, some people will be dedicated for hard collection. Otherwise, the entire team is working on that.

Moderator: Thank you. The next question is from the line of Swaroop B. V., a retail investor. Please go ahead.

Swaroop B. V.: Sir, when we look at the over-leveraging problem, at the ground level, many of them have taken, like 4 plus leveraging has happened from cooperative societies and non-organized Section 8 companies. So, will they be also included in MFIN guardrails further, sir?

Govind Singh: So, as far as guardrail is concerned, we normally go by the credit bureau. And it's now at the family level. Earlier it used to be individual level. Now it is family level. So, if there is any type of credit history with the credit bureau of the entire family, then it comes into play. I am not sure about the credit society, whether they actually report to credit bureau or not.

Having said so, I just want to mention only one thing, that in the core geography of Utkarsh where we are talking about Uttar Pradesh, Bihar, Jharkhand, there are not many credit societies in that area. But I am not saying that, you know, I don't have the exact number right now, but there are not many. And I am not sure about whether the credit bureau will come and visit or not.

Swaroop B. V.: But as per MFIN guardrail, sir, which is going to be followed further, will they be also covered or not, sir?

Govind Singh: It's very difficult for me to respond right now. I mean, at least I am not aware of any such discussions or any plans right now.

Moderator: Thank you. The next question is from the line of Vinay Nadkarni from Hathway Investments. Please go ahead.

Vinay Nadkarni: Just wanted to know a few things on the MF loans. Can you just spell out what are the disbursement yields and what are the portfolio yields of both Joint Liability Group as well as MBBL?

Puneet Maheshwari: So, for JLG, we have our disbursement yields ranging from 23% to 25%, and for MBBL, it's 25%. And if you see weighted average, as I said earlier, it ranges between 22.5% to 23% on a portfolio basis.

Vinay Nadkarni: And secondly, when we are looking at this Joint Liability Groups, these are supposed to be secured, I mean, instead of putting individual, we used to go to Joint Liability because there was a more shared pool of assets, right? I mean, liability to pay would be more joint. Is that causing a problem that you are now going into individual or how is it?

Govind Singh: No, when we talk of microfinance or JLG loans, these are group loans only. The only challenge is when there is a stress in the system and a lot of people who are especially 4+, they won't be able to honor their commitment. The others are also under stress right now because I think there is an issue of overall funds flow within the microfinance borrower. So, currently what we are seeing, in fact, in ground that the joint liability is operating or working for a few, you can say, a few fortnight or few months only. Maybe 10 years back it used to for the entire period.

That's why we also mentioned that one of the focus area for us to bring the discipline of center meeting again. So, that discipline, one of the reasons why this stress is there, one of the reasons is that discipline is not the way it used to be earlier. And we are seeing when there are real stress, then after few installments we are not finding that people are contributing.

Also what is also happening, post COVID, the center meeting, the conduct of center meeting is not that regular the way it used to happen earlier. In many of the cases, because of center meeting not happening properly, people are having door-to-door collections also. So, maybe, it's very difficult to say what is the number, but my sense is 70%-80% cases center meetings are happening, rest of the collections are happening through door-to-door. And that's why this challenge is there right now.

Vinay Nadkarni: But tell me about the tenure of these loans, the micro loans, this will be what, typically what tenure?

Govind Singh: So, these are 14 months and 24 months loans. On a blended basis, around 17 months will be average tenure of these loans for us.

Vinay Nadkarni: And the loans that you have disbursed over the last four quarters, do you see any difference in terms of the response of payment, or I am just trying to understand whether the problem that you are facing is a vintage problem or is it also including the fresh disbursals?

Puneet Maheshwari: No, see ideally the way we should look at it is the disbursement pre and post implementation of guardrail and not really, let's say, 12 months before from now or otherwise. This is post guardrail actually there is a significant stringent norms are kind of introduced. So, maybe in after few months' time, we would see a clear differentiation in terms of performance of the pool which is kind of originated post-guardrail implementation and which is pre-guardrail implementation. Otherwise also, if you see what happens in JLG, a large part of loan is actually subsequent cycle loan as well. So, even if, let's say, it is a disbursement, a new disbursement, it is post, let's say, the customer has foreclosed or closed the earlier loan and the customer is migrating to the subsequent cycle.

Moderator: Thank you. The next question is from the line of Franklin Moraes from Equentis Wealth Advisors. Please go ahead.

Franklin Moraes: So, first, I wanted to understand the reasons that were mentioned in the past because of elections or floods or whatever be it. Are those reasons still prevalent as of now or most of the reasons are done with?

Govind Singh: Our assessment is the reasons which I mentioned, that was the reason why there are slow collections in quarter 1, but the current reason is basically the guardrails put from 1st of August 2024, which restricts, you can say on the industry level you must have seen around 12%, 13%, 14% customers who are not eligible for any loans. So, the cycle for those customers is a challenge right now.

So, currently, whenever we are talking to any clients or any of our people also and even at the industry level, I think this is the reason for that, and that's why I keep repeating that once we are able to come out of these 14%, 15%, broadly the range is that the things should start moving or should start improving from there. That is what we think. But currently, the prime reason is the guardrail where we can't give loans to these set of customers who are over-indebted.

Franklin Moraes: What would be the difference in maybe collection efficiency or NPA level or delinquency level between these 4+ and the others?

Govind Singh: So, our experience is that it is almost more than double, in fact, for this segment of customers who have taken 5 loans, 6 loans, 7 loans. I think there it is almost double.

Franklin Moraes: And RBI also did come out with a netting off regulation sometime. So, just wanted to understand if we have to assess our customers or wherein we are giving another fresh loan before the culmination or rather the entire repayment of the existing loan, what percentage maybe in terms of volume or value of our customers would fit that criteria?

Govind Singh: So, normally, I want to clarify there is no guidelines from RBI so far on this part. Yes, obviously, there were some discussions, the netting off should not happen.

Franklin Moraes: I wanted to understand whether we do wait for the entire existing loan to get repaid entirely before giving out a fresh loan.

Govind Singh: No, sometimes it does happen that the customer doesn't wait for the entire period and suppose 5, 6, and 7 installments are still pending, they pay that installment and take the new loan. That also happens. They may not wait for the entire period of 24 months; they will not wait. At the end of 18 months, 19 months, 20th month, they will come for the next cycle and normally based on obviously their requirements, they will get a higher loan next time. So, they don't wait for the last day. This typically happens in all the cases.

Franklin Moraes: So, safe to assume that for a 24-month loan, generally after 18, 19 month you would be giving out a fresh loan in most of the cases.

Govind Singh: No, it depends on obviously customer to customer. In fact, even 20% customers will drop out also, but I am trying to say that this can also happen. They become eligible for a higher loan after they have completed for a certain period, and many of the customers avail that. So, they will not wait for the last day.

Moderator: Thank you. The next question is from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: So, my question is, till what level of PCR decline are we comfortable with? Because we have already applied to RBI for utilization of floating provision, which is already a part of our PCR. Then we will also have higher slippages coming in the next two quarters because we have a huge SMA pool, which is about 1,000 crore in micro banking. Hence, how should we look at PCR? What level it can decline to by March? Or maybe what is built in as a level by March in your credit cost guidance of 4% to 4.5%?

Sarjukumar P. Simaria: So, we are at PCR, you know, as it stands today, we would want to see all in terms of the provisioning that is likely to happen anywhere between 65% is where we would like to be upwards. That will be the endeavor. This is excluding the floating provision.

Rajiv Mehta: And then one more question on, you know, has there been any recent tweaks in lending rates in JLG or individual loans in microbanking in the recent months? Or do we plan to do anything at all?

Govind Singh: So, we are evaluating that part also, and now we are yet to conclude that part, but we are evaluating that whether there is a case for reviewing the rate of interest in the JLG loans. Maybe we will take our call very shortly.

Puneet Maheshwari: 1st of May, actually we implemented differential pricing. So, earlier we were lending at 25%. At that point of time, we started lending from 23%, 24%, 25% depending on the credit profile of the customer, and the branch performance.

Rajiv Mehta: Sorry, earlier we were at flat 25 before this?

Puneet Maheshwari: Yes. So, basically till April '24, we were at flat 25. From May, we started a differential rate of interest, which is 23%, 24% and 25%. So, for the best of the profile customer, as well as if the branch performance is good, we could lend at 23% or, let's say, 24%. Else, it was 25%.

Moderator: Thank you. The next question is from the line of Kushal Borlikar, an individual investor. Please go ahead.

Kushal Borlikar: For the group loans portfolio, given the recent increase in delinquency and industry scenarios, have you taken any policy tightening or actions at the field level other than the MFIN guardrails?

Govind Singh: No, certainly we have done other than guardrails, guardrails anyway implemented by all the players from 1st August 2024. Besides this, we have done a lot of activities at the ground level besides the collection, strengthening of collection part, as I mentioned, strengthening of the center meeting discipline. So, I think the training of our people, I think we are doing those things also. And see, most important part, if you really ask me, is the discipline part besides the over-indebtedness part.

So, we are working a lot with our staff and with our clients by policy and process implementation. So, I think that isn't renewed, I will put it. It's not that it was not a process. It was a process, but I think it was not implemented with that rigor. Now it is being done for sure in terms of discipline part and in terms of the center meeting discipline part, and the discipline on the employee part also.

Kushal Borlikar: And is any of the group loans portfolio covered under any of the central government guarantee schemes?

Govind Singh: No, not as of now.

Moderator: Thank you. The next question is from the line of Aryan Shah from IIFL Securities. Please go ahead.

Aryan Shah: Sir, one clarification. Whether this 4+ lenders which you spoke about of 14%, whether it includes Utkarsh?

Puneet Maheshwari: Yes, certainly.

Aryan Shah: It is including Utkarsh, right?

Puneet Maheshwari: Yes.

Govind Singh: Yes.

Moderator: Thank you. We have a follow-up question from the line of Vatsal Shah from Knightstone Capital. Please go ahead.

Vatsal Shah: So, I just wanted to get an idea of ex-bucket collection efficiency, if you can give that, just to understand new flows into the SMA pool.

Sarjukumar P. Simaria: I think we don't have the number handy as we speak. You can connect Puneet or Vivek, and we will let you know on that.

Vatsal Shah: Yes, sure, no worries.

Moderator: Thank you. So, that was the last question. I would now like to hand the conference call to Mr. Govind from Utkarsh Small Finance Bank. Over to you, sir.

Govind Singh: Thank you all the investors for coming on this call and as we know that currently microfinance is one which is passing through a challenging phase. As far as the other businesses are concerned, we being a Bank, the non-JLG book, the non-micro banking book, as well as the liability franchise is working very well, and we have taken a number of initiatives to arrest or to improve the collection efficiency on the JLG part. And we do expect that not in the foreseeable future, in the next few months, we should see a good improvement in overall JLG or at least the pain, whatever we are seeing, should be over. That is what we expect. So, thank you once again for joining this call, and Renish and entire I-Sec team. Thank you very much for arranging this call. Thank you. Thanks a lot.

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