Utkarsh Small Finance Bank

August 9, 2024

The BSE Limited
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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 ended on June 30, 2024

We submit herewith the transcript of the Earnings Conference call held on Monday, August 05, 2024 at 16:00 (IST) in connection with the Financial Results of the Bank for the quarter ended on June 30, 2024.

In compliance of Regulation 46 of the Listing Regulations, the transcript is 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: 2024.08.09 15:34:04 +05'30'

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

"Utkarsh Small Finance Bank Limited
Q1 FY '25 Earnings Conference Call"
August 05, 2024

MANAGEMENT: **MR. GOVIND SINGH – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – UTKARSH SMALL FINANCE BANK**
MR. SARJUKUMAR PRAVIN SIMARIA – CHIEF FINANCIAL OFFICER – UTKARSH SMALL FINANCE BANK
MR. ALOK PATHAK – CHIEF RISK OFFICER – UTKARSH SMALL FINANCE BANK
MR. TRILOK NATH SHUKLA – HEAD – MICRO-BANKING – UTKARSH SMALL FINANCE BANK
MR. UMESH ARORA – HEAD ASSETS – RETAIL AND WHOLESALE LENDING – UTKARSH SMALL FINANCE BANK
MR. SANJAY SHARDA – HEAD – CONSUMER BANKING – UTKARSH SMALL FINANCE BANK
MR. ABHIJEET BHATTACHARJEE – CHIEF INFORMATION OFFICER – UTKARSH SMALL FINANCE BANK
MR. PUNEET MAHESHWARI – HEAD FINANCE – UTKARSH SMALL FINANCE BANK

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

Moderator: Ladies and gentlemen, good day and welcome to Utkarsh Small Finance Bank Limited Q1 FY'25 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Renish Bhuva from ICICI Securities. Thank you and over to you, sir.

Renish Bhuva: Thank you. Hi, good afternoon everyone. Welcome to Utkarsh Small Finance Bank Q1 FY25 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 SFB represented by Mr. Govind Singh, Managing Director and CEO, Mr. Sarjukumar , CFO, Mr. Alok Pathak, Chief Risk Officer, Mr. Trilok Nath Shukla, Head Micro banking, Mr. Umesh Arora, Head of Assets, Retail and Wholesale Lending, Mr. Sanjay Sharda, Head, Consumer Banking, Mr. Abhijeet Bhattacharjee, Chief Information Officer, and Mr. Puneet Maheshwari, Head, Finance. I will now hand over the call to Mr. Govind ji for his opening remarks and then we'll open the floor for Q&A. Over to you, sir.

Govind Singh: Yes, thank you, Renish. Thanks a lot. Thank you everyone for taking out time to attend our Q1 FY25 earnings call. In terms of performance for Q1 FY25, our gross loan book has grown by 31% Y-o-Y in line with our expectation of 30% annual growth. Deposits have grown by 30% Y-o-Y, largely in line with our plan. Our CD Ratio has declined by around 1% from 93.7% as on March 24 to 92.7% as on June 24, also in line with our strategy and plan.

Quarter 1 is usually a seasonally weak quarter for growth and there was additional impacts this time on account of severe heat waves in our core geography as well as operational limitations on account of general elections in April-May 24. In this background, our quarter-on-quarter loan book growth and deposits growth at 3% and 4% respectively is reasonably well and we expect business growth to move up in coming quarters.

In quarter 1 FY25, we have seen severe impact of severe heat wave and operational limitations on account of general elections on collection efficiency and asset quality. Micro banking lending is heavily dependent on physical connects with the borrowers, despite an increasing trend in digital collections and to that extent, collection efficiency and asset quality in micro banking was impacted during Q1 FY25.

In our view, during times of operational challenges we also see additional stress building in certain pockets as our ability to connect more frequently with borrowers over and above scheduled centre meeting goes down and as a result we have seen additional stress in some pockets in Jharkhand, Odisha, Uttar Pradesh and Rajasthan while stress in Haryana and nearby locations continues.

Recently, MFIN has issued recommendation for the sector to promote responsible lending, ensuring the long-term sustainability of the microfinance sector. In our view, MFIN's recommendation with respect to limit on indebtedness of the borrower and number of lenders for the borrower are structurally positive for the sector. We have already implemented these recommendations in our IT system. This would help in keeping overall leverage of the client under check. While these changes may have transitory impact on business growth over the next three to four months. As per our assessment, impact for us will not be much, would be in a single digit. At the same time, we will continue to expand our new customer acquisition and are confident that we will be able to maintain around 20% loan book growth in micro banking in FY25. One more point I want to highlight is that our average loan ticket size is one of the lowest among industry with average loan outstanding per borrower around INR35,000. Our maximum disbursement ticket size for JLG borrower is INR75,000 which is also one of the lowest.

As mentioned in our last earnings call, we have introduced differential rate of interest for our JLG customers from mid of May 2024 wherein we charge lower interest rate by 1% to 2% to our selective clients' basis asset quality, vintage curve, etc. This will help us build more effective risk-based pricing.

Asset quality in mortgage and CE/CV lending was also impacted in quarter 1 FY25 as we witnessed some delays in execution of orders with respect to repossession of properties and also credit behaviour of some of the stressed clients. This has come back to normalcy and fresh slippages in MSME and CE/CV segment expected to reduce significantly as well as recoveries, upgradation would pick up in Q2 FY25.

Overall, our gross NPAs declined from 3.13% as on June 23 to 2.78% as on June 24 – on gross advances including IBPC book, our gross NPAs was 2.5% as on June 24. Net NPAs declined from 0.33% as on June 23 to 0.26% as on June 24. We continue to build floating provisions to ensure resiliency to strengthen our ability to withstand any unforeseen event impact better.

We created additional floating provision of INR20 crores in Q1 FY25 and our total floating provision increased from INR149 crores as on March 24 to INR169 crores as on June 24. Our credit cost including floating provision was 2.7% and excluding floating provision was 2.2% in quarter 1 FY25. We will be strengthening our collections efforts further to keep credit cost at our guided range of around 2%. We have deployed senior field staff and business support team to contain flow forwards.

We have seen steady growth across our secured retail loan portfolio. In line with our plans, we have also inched up disbursement yields in MSME lending by around 70 basis points in quarter 1 FY25 and by 20 basis point to 30 basis points in housing and CE/CV as well. We will continue to work towards building these secured businesses and optimizing lending yields further.

On the liabilities side, our deposits growth is led by retail term deposits as we continue to focus on strengthening the deposit profile through broad basing of depositors. Our retail term deposits grew by around 45% year-on-year while bulk term deposits grew by only 12% year-on-year. On account of elevated interest rate environment and consequently depositors' preference towards term deposits, CASA deposits growth remained relatively lower vs. overall deposits growth.

As on June 30, 2024, we had surplus liquidity of more than INR3,000 crores which is much higher than usual liquidity requirements and to that extent it has impacted our NIMs as well. We expect to consume part of this surplus liquidity over next two quarters as loan book growth picks up and to that extent it will support net interest margins. Our CD ratio declined to 92.7% as on June 30, 2024 from 93.7% as on March 31, 2024 and if we net off the refinance borrowings from advances, CD ratio declines to 84.2%. We don't have any short-term borrowings on our balance sheet. We expect our CD ratio to decline further in FY25.

We continue to build our banking franchise and opened 28 new branches in quarter 1 FY25, taking total branch network to 916 branches as on June 24. We have completed appraisal cycle for all the employees in quarter 1 and rolled out salary increments effective from April 1, 2024.

We had healthy financial performance. Our operating profit for the quarter was INR311 crores, highest ever quarterly operating profit for us. Our profit after tax increased by 28% year-on-year to INR137 crores in Q1 FY25. Our ROA and ROE was 2.3% and 18.1% respectively during Q1 FY25 in line with our guidance for FY25.

The finance budget for FY25 aims inclusive growth with an emphasis on supporting MSME and small businesses, affordable housing, agriculture and women empowerment and skill development. We believe that inclusive growth paves the way for sustainable growth and has also significant positive impact on rural and semi-urban geographies. We have deep presence across rural and semi-urban locations with more than 50% of our branches in these locations. We will continue to strengthen our presence therein, create stronger franchise for our micro-banking business as well as for other retail lending, more granular liabilities franchise and offer relevant products to explore significant business potential of our core geography.

We are also undertaking a business technology transformation project to make bank future growth ready, details of which we have covered on slide 40 and 41 of our Investor Presentation. We believe this will help in superior customer experience, significant process improvement and growth prospects. We will request Abhijeet Bhattacharjee, our Chief Information Officer to briefly talk about this later during this call.

Lastly, our guidance for FY '25, loan book growth around 30% and increase in share of secured loans, deposit growth to be higher than credit growth and reduction in CD ratio, credit cost around 2%, cost-income ratio in the range of 54% to 57%, ROA of more than 2% and ROE of more than 18% for the financial year FY '25. I will now hand over to Sarju for taking you through financial performance for the quarter. Thank you.

Sarju Simaria: Thank you Govindji and thank you friends for participating in this earnings call for Q1 FY '25. Govindji has already mentioned about credit cost which is higher in Q1 FY '25. So, except for higher credit cost and maybe certain activities, the frutification of which we will see incremental CASA growth in the coming quarters, overall the bank has witnessed healthy financial performance for Q1 FY '25 and which is largely in line with our guidance.

Let me give you some granular performance numbers. Our net interest income grew by 36% Y-o-Y and 6.2% sequentially quarter-on-quarter to INR573 crores in Q1 FY '25. The underlining being the gross loan portfolio which stood at INR18,798 crores registering a growth of 30.6% Y-o-Y and sequentially a growth of 2.7% quarter-on-quarter. Our cost of funds largely remained flat at 8% similar to the level of Q4 FY '24. The bank gainfully deploys its PSLC book and at a favorable borrowing rate, If I were to account for the lower cost borrowing through IBPC route our cost of fund in fact is better by 10 basis points which is at 7.9% for Q1 FY '25. Also, the retail book, inching higher yield has also seen the stability in the NIMs.

In terms of deposits, deposits stood at INR18,163 crores registering a growth of 30% Y-o-Y and sequentially 3.9% quarter-on-quarter. It is not only the deposit growth on a totality basis, we do focus on composition and our focus on RTD has seen a growth of retail term deposit by 48% Y-o-Y and the combination of RTD and CASA as a percentage of the total deposit is at 67% growing from 62% which was at immediately at the previous year end quarter.

The bank's other income for the current quarter Q1 FY '25 is a tad lower than the immediate previous quarter Q4 FY '24, primarily three reasons attached to that, Q4 FY '24 generally has a larger fee on disbursement, also the third-party distribution is also higher in Q4 and we had a very good write-off collection in Q4. Now, this is a natural phenomena where Q4 numbers for these three elements are generally larger in a financial year in Q4. However, our other income on a year-on-year basis increased by 14% to INR105 crores in Q1 FY '25 against INR92 crores in the immediate previous year end quarter.

Our pre-provisioning operating profit increased by 41% Y-o-Y and 10.3% quarter on quarter to INR311 crores in Q1 FY '25. Our operating profit in Q1 FY '25 at INR311 crores was highest ever quarterly operating profit for the bank. Our operating expenses increased by 25.2% Y-o-Y to INR367 crores for Q1 FY '25, this is primarily in line with our investment in the growth, we added about 65 banking outlets in the year from the previous quarter year end to the current quarter year end and added about 1400 employee headcount.

This year we have already rolled out increment for salary beginning 1st April 2024, given the incremental salary cost, yet our cost to income ratio in Q1 FY '25 was at 54%, much lower due to efficiencies against 57% in Q1 FY '24. In line with our strategy we continue to build floating provision, we have put INR20 crores element of cost provisioning against floating provisioning in the current quarter, we will continue to use this as a straight line, building in 20 crores of floating provision for each of the quarters for the coming three quarters too. The total provision amount outstanding as on June 2024 is INR169 crores.

As mentioned earlier while credit cost has gone up in Q1 FY '25, the GNPA when I compare Y-o-Y, the GNPA has come down to 2.78% against 3.13% and the net NPA has also come down from 0.33% to 0.26%. The net result including as I said the credit cost this quarter, yet our profit after tax has increased by 28% Y-o-Y to INR137 crores in Q1 FY '25 versus INR107 crores in the immediate previous quarter of the previous year.

Our return ratios again with all credit costs embedded in it, the return on assets at 2.3% and return on equity at 18.1% continues to be healthy and the bank continues to invest in people, products, processes and technology. On the balance sheet front, our balance sheet was at

INR24,891 crores which was ~INR19,400 crores in the immediate previous year quarter end, the balance sheet size is growing by 28% Y-o-Y.

On the capitalization front, we are having a CRAR of 23.18%. This is after accounting for the dividend that was declared by the bank and approved by the shareholders in the AGM in the immediate previous month in July, just about few days back. However, this CRAR of 23.18% does not include the profit for the current quarter because it's a limited review result. If I were to add this profit, our CRAR increases by 100 basis points and it actually becomes 24.2%.

Now, having an overall performance, looking at ability to use the surplus liquidity towards the business, one, most likely then not ability to control the credit cost and our healthy KPIs, not only for the current quarter but for previous eight quarters, we believe at this point in time, we are not deviating from the guidance that we have given. Having said so, before we take your questions, I will now invite Abhijeet, our CIO, to speak about his thoughts on the business transformation project that he's running for the bank. Thank you.

Abhijeet Bhattacharjee: Thank you, Sarju. Good afternoon, everyone. As Govindji mentioned, we are undertaking a business technology transformation project to make the bank future growth ready. Bank already has a robust technology set up for servicing its current customer base and acquiring new customers. Apart from the core and supporting application for retail and microfinance customers, we have a strong offering in digital acquisition of microfinance and as well as retail liability business and very strong servicing infrastructure via internet and mobile banking. We have also received ISO 27001 certification for IT and IT security operation.

In order for the business technology transformation we have adopted a holistic transformation approach sometime back to make the bank ready for the growth and move to the next level. For the same, we have reviewed the entire architecture and finalized the strategy of either a new or upgrade or replace of all critical element of technology and digital and data infrastructure.

The focus of the entire program is to support business expansion, new product launches, improve internal digitization and efficiency, strengthening core technology infrastructure, open banking technologies for digital-led partnership, deepen customer and partner self-service offerings, data as a key pillar on every process and system, and adoption of new technology coming up like AI.

Given the large scope of the plan, implementation is spreading across multiple years and impact will be visible in a gradual manner. Request you to refer the slide number 39, 40 and 41. Would be happy to take any questions on this. Thank you.

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

Rajiv Mehta: Yes. Hi. Good evening. Congrats for good number. Firstly, if you can comment on how the micro banking collection efficiency is moving in July, has moved in July, and would slippages be similarly higher in Q2? Because when I look at the OD buckets, OD buckets are, significantly, swollen.

And I understand that you are putting a lot of effort to collect from them. But still, I believe that there will be a certain amount of forward flow coming into NPA. So, the question is on collection efficiency in July and whether, slippages will be as high as Q1 in Q2. And if that is the case, how would our credit cost guidance of 2% including the floating provision hold? Because in that case, then the ask rate for the second half will be very high?

Govind Singh: Yes. Thank you for attending and for this question. So, the way you mentioned, yes, I mean, July has, we have not seen this reversal trend to that extent so far in July also. And, but we have started our efforts and, the challenges which we had seen in the quarter one, like, especially the heat wave and because of some disruption because of the elections that is far behind us.

One very important thing, which I want to make very clear that, when we are going to field and talking to customers or looking at the rural and semi-urban economy per se, we are not seeing any stress and additional financial stress on the customer's part. It is more of, improving the efficiency of our operations and reaching out to all the customers.

The customer intent and as well as their ability to payment is not an issue. I think it is more to do, ensuring that the way we used to do earlier, the same way we are able to meet all the customers and, improve our collection efficiency. So, certainly, I mean, quarter two, the change or the improvement may be very marginal.

But what we do expect, it has happened in the past also, quarter three and quarter four are normally very good, period for microfinance in general and in other verticals also. So, our expectation is that, it may not significantly improve in quarter two. It maybe in the same range or somewhere in that range.

But quarter three and quarter four, we expect a significant improvement in overall JLG and microfinance collections. So, that is why we are telling that, overall credit cost in the range of 2%, we are very confident of as of now, for the year as a whole.

Rajiv Mehta: But slippages in Q2, you should be able to hold at similar level of Q1. Because generally, if I go by your own, trend of how much of SMA 1 and 2 flows into slippages or become slippages in the subsequent quarter, that is generally 45%-50% of the bucket. And if I were to do the same maths, then the slippages can be around INR400 odd crores?

Govind Singh: So I think, Yes, in terms of overall slippages, you're absolutely right. But as I mentioned, with additional efforts in the ground, in fact, our senior teams are just operating from some of the branches so that they are able to guide our team and see the ground operations better. So, we do expect that the type of slippages we have seen during the last three, four months, the same type of slippages we will not see from here onwards.

The only point I want to mention once again that the improvement or the overall improvement takes a little time, that we have seen in the past also. So, that's why the actual impact will start seen from the quarter 3 and quarter 4, mostly in that range.

Rajiv Mehta: Okay. And just one last question is on growth. Sir, if you can break up the growth of 30% that you are guiding into MFI and non-MFI products. And within MFI, what kind of growth in customer acquisition we are looking because you spoke about MFI guardrail being implemented by the industry and that will transiently hurt growth. But you said that you will make it up because you will be able to acquire, I mean, you will try and acquire more customers to mitigate that impact.

So, the question is, if the guardrails are being applied by the entire industry, then do you think that we would be able to mitigate the impact by acquiring more customers because a lot of customers may not fit into the new guardrail and especially in UP and Bihar, which are, slightly more competitive markets?

Govind Singh: Yes. So, broadly speaking, when I say 30% increase, in our AUM, around 20% come from micro-banking the way we had guided earlier also. And we had last year grown around 22%.

So, we're expecting around 20% odd growth in the micro-banking and around 50% growth in the non-micro-banking business, especially the MSME and affordable housing space. And also, we are seeing good traction in some of the, like this business banking group. So, we do expect that we will be able to grow by 50%.

The main reason is that the base, the current base is very small for these businesses. So, we will be able to grow by 50% in these businesses. Within micro-banking, we expect that JLG will grow around, say, 15% or so.

There will be higher growth from the individual lending, which is a part of micro-banking overall vertical. When we say micro-banking business loans, which almost doubled last year, we expect a significantly higher growth rate from the micro-banking business loans. So, overall, 20% odd from the micro-banking businesses and 50% from non-micro-banking.

So, that is the overall math. And as far as, growth for this year is concerned, I mentioned that in our ticket size for the micro-banking disbursement, our ticket size overall outstanding is generally lower than the industry. And we are largely in the interior of, when we say UP and Bihar also, we are more in the interior rather than in large cities.

So, we do expect that, getting new customers or disbursements to existing customers would not be a problem to have a growth of around 15% with JLG. See, if you look at the industry, people are talking of much higher growth rate, in past also and for this year also. But we are talking of very moderate growth rate, which we are confident of achieving.

And we have a large, even from the existing customer angle also, we have a large customer base. more than 3 million customer base is there with us in JLG. So, even through subsequent cycle loans, I think we should be able to, get this 15% plus JLG and overall 20% micro-banking.

We don't foresee any challenge in that. Even if you look from the, if you compare from the last year also, our growth of microfinance, in quarter 1 has been better. It may not be, around in the range what we would have expected, but it's certainly better than what we had done last year.

And in spite of all that, last year we grew around 22%. So 20% growth for microfinance should not be a problem for us.

Rajiv Mehta: Got it, sir. Thank you and best of luck.

Moderator: Thank you. Next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: Hello. Good evening. Can you hear me?

Govind Singh: Yes, We can hear you. Please go ahead. Thank you.

Rahil Shah: Yes, sir. So you mentioned about the stress in some pockets in Jharkhand, Odisha, UP and RJ and even a couple more. So if you can just give a few more points and elaborate what is causing the stress, how are you planning to tackle it and so what's the situation now?

Trilok Nath Shukla: So we have some stress in Jharkhand, Odisha, Rajasthan and few parts of UP and Bihar. So, main reason behind that, as it is already said, that the main reason was very severe heat wave this year in Q1 and then few issues were followed by this flood was there. That was another issue. But these are the temporary issues.

And in fact, there are some issues of migration also in Jharkhand and Odisha. So when heat wave is there, they migrate to other places and when there is monsoon, when rain start -- they come back to their home location and they start cultivation and all these things and they start paying also. So we had this experience in last year, in previous years also. So that is not like something permanent phenomena and that is temporary and we will recover out of it, of course.

As far as UP is concerned, so there are some pockets like in Deoria and Gorakhpur areas where this Karzamukti Abhiyan is still there. So they are creating few problems in districts like Maharajganj, Kushinagar, Deoria and Gorakhpur. But they are also again not spread in all over the area. So they are in few pockets only, they are in few villages only and we are taking appropriate action also through our SROs and industry bodies. So we will overcome that also.

In Bihar, there was some temporary issue of flood in North Bihar. So few of our branches were impacted by that. But again, we are recovering on those branches also because now flood has gone in those areas. So if there is no flood, means there is no further flood in Bihar and in Rajasthan also again there was some issue of migration. So they are again coming back to their location.

So, we don't see any challenge to recover this temporary phenomena. So I think this Q2 we will be able to recover from whatever we have means like we have some SMA1, SMA2 increased in Q1. But those are very new ODs. So, we will be able to recover those fast. In fact, in previous year also we have such kind of challenges and we have recovered out of those very fast.

Rahil Shah: Okay. And secondly, if you could also provide us some guidance on NIMs, how will they shape up for the rest of the year and branch additions?

Sarju Simaria: So, the NIMs as we speak, we were at 9.9% in the immediate previous quarter. We are at 9.4% in Q1 FY'25. Partially, we have had a large surplus liquidity. Probably, our over the envelope computation, maybe that's hitting the NIM by 20 basis points. And certainly, NPAs will stop accruing interest. So that also results into interest being lower. But as we are able to deploy our surplus liquidity funds in businesses in the coming month and quarters. And as we just mentioned that higher credit cost apparently being a temporary phenomena and most likely we will recover. We presume that we continue to have the NIMs, Of course, we have mentioned it's going to be upward 9%. But I think we will be in that trajectory at 9.4% as we go along.

Rahil Shah: The second question is branches as well.

Govind Singh: So, we have plans of opening 60-odd general banking branches which are liability led branches and more than 100 micro banking branches. And micro banking branches, almost three-fourths of the branches are split branches. As we mentioned that when the branch becomes large, sometimes it becomes difficult to operationally manage those branches. So wherever we have large branches, we try to split those branches into 2.

So that is what does happen. So, we will end up having at least 150 plus branches during this financial year. In fact, the number may be a little higher than this, especially from split angle because operationally it is very, very important to make the branches I will use the word operationalised. In fact, that is very important so that we don't have large number of customers to be serviced from one branch. So, at least 160 odd branches and the number can go a little higher also.

Rahil Shah: So given that you still will be able to accomplish your cost to income guidance?

Govind Singh: Yes, certainly. In fact, that has been already factored in our entire projections. These 160 plus branches, it is already factored in. So, what Sarju mentioned is for NIMs for this year -- I mean overall 9% plus in a medium term what we had mentioned in past also and in the range of 9.4% for this financial year is on the card. There is no issue on that part at all.

Rahil Shah: Okay. Thank you and all the best.

Govind Singh: Thank you.

Moderator: Thank you. Next question is from the line of Shailesh Kanani from Centrum Broking. Please go ahead.

Shailesh Kanani: Good evening, everyone. Thanks for the opportunity, sir. Sorry, sir, to harp on this asset quality issue. When we are not seeing any meaningful recovery in terms of asset quality improvement in the month of July and we are guiding that second quarter would be kind of same like first quarter in terms of performance. And third quarter is where the festive season holidays would start where we have seen some dip in collection efficiency last year as well. So what gives us confidence to say that we would be maintaining our credit cost guidance? Can you just give some color on that?

Govind Singh: Yes. So, two aspects. In fact, one, besides JLG, I also want to speak about the non-JLG part where I mentioned that, because the businesses are different. So in case of non-JLG, we saw that there was elevated credit cost in the quarter one. And in fact, July has been much better month from that perspective because we were able to get some of the orders from some of the courts and getting recoveries from the mortgage and wheels business was much easier or much better in case of July itself. So one we will see a significant improvement in the non-JLG part as far as the overall credit cost or overall delinquency are concerned.

Second, on the JLG also, as I mentioned, we have started the program in terms of where we have deployed people across, in fact, and there is a big focus on the delinquent customers, on the -- in the NPA customers, even on the write-off wherever we had write-off in past. And we should see the traction because we are currently focusing on a few branches which actually cause this type of lower collection efficiency. And the efforts this time are a little different than what we have done in past.

And we do expect that they will start giving -- yielding results from quarter two. I am not saying quarter two will not happen, but it may not be significant improvement or significant jump from quarter one to quarter two itself. It may take some time and we should start seeing better results from the quarter three onwards. That is what we are expecting and that is what we are right now working in the field. So still, we are very confident that overall we should be in the range of 2% or so in terms of overall credit cost.

Shailesh Kanani: Okay. Fair enough. Sir, one more question with respect to opex. I think we have done good amount of addition in the first quarter in terms of employees and also in the opening remarks you had indicated about the performance bonus or incentives or increment given. But how is that not visible in the opex front? We have been able to do it well with respect to CTI. Can you throw some light on that?

Sarju Simaria: So, Shailesh, are you asking that the quarter-on-quarter opex are lower and why they are lower? That is what you are saying?

Shailesh Kanani: Yes. I mean, considering that we have added employees and you also mentioned in your opening remarks about improving.

Sarju Simaria: We have added HC over a period of one year, so you are right. But Q4 generally, what happens, the financial year '23-'24 bonus clarity appears after the December results and when you are in March you exactly know. And therefore, generally Q4 has a provisioning of bonus aligned to the performance of the whole year which obviously is because in Q1 as we say as the growth goes along is differential lower and also the fact that disbursement, the expenses are directly related to disbursement.

And if disbursements are higher in Q4 and a bit lower in Q1 this does have an impact of lower initial quarter having a lower cost and also the efficiency part. I think each time, each quarter, the efficiencies will lead to better savings. So, Q1 actually has been a 54% cost to income ratio compared to the immediate previous quarter or the quarter immediately previous year.

Shailesh Kanani: Okay. So, just last question from my side. Any update on the reverse merger?

Sarju Simaria: Yes. So, I think by all appropriateness for the valuation swap ratio, June result is what we are going to use. What we are going to look at is in this quarter is to go to the respective boards for approval of the scheme and we are also looking at filing the applications to stock exchanges, which goes to SEBI and RBI as well. We are going to see these activities being completed in this quarter.

Shailesh Kanani: So, just to clarify, we have already got the formal approval last time around in last quarter, right? With respect to reverse merger from the boards.

Sarju Simaria: Yes. In principle approval to go ahead with the scheme as an option for the reverse merger. Now, all the formalities, which is to actually get the scheme approved, which is the conclusion of the entire scheme in the realm of the regulatory requirement will happen in this quarter.

Shailesh Kanani: Okay. And the reporting date or the financials will be of the first quarter end, right? That is what you are saying, right?

Sarju Simaria: Yes. For the valuation, for the swap ratio purpose it will be June quarter for both the entities, the bank and the holding company.

Shailesh Kanani: Okay. That is helpful. Thanks a lot, sir and best of luck.

Moderator: Thank you. Next question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: Yes. Hi. Sir, just three questions. Firstly, if I look at the disbursement yield, the disbursement yield seems to have improved across products in this quarter versus last quarter. So, just wanted to understand at a portfolio level, how big is the disbursement yield versus the portfolio yield? How big is the difference?

Puneet Maheshwari: So, Gaurav, that is what we have been highlighting in our earlier discussions as well that we are basically working on improving the optimization of yield in all the non-micro banking verticals. So, in MSME vertical, we have seen yield improving by about 70 basis points and in housing loan and the wheels business, we have seen yield improving by about 20 to 30 basis points in quarter one.

We think that this trend will continue. I mean, we look for further optimization in all the asset classes going forward as well. In terms of disbursement versus portfolio yield, I mean, if you look at micro banking, it's largely aligned now.

I mean because last time also we had highlighted that we were planning to do a differential rate of interest for micro banking, which again we have implemented from mid of May. So, we are lending at a lower interest rate by 1% to 2% depending on the vintage of the customer, location of the customer and so on. So, that has reduced our disbursement yield by 10, 15 basis points. But at the same time, whatever re-pricing was still left that has given us the same amount of benefit. In retail lending, as disbursement yield move further over next three - four quarters, we would see further improvement in portfolio yield.

Gaurav Kochar: Got it. So, let's say going forward, a couple of things. One, the disbursement yield and the portfolio yield catches up in other products. And also, the 20 basis points, I think what Sajju Sir mentioned about the liquidity drag today that would also get normalized in the next two quarters as the liquidity is deployed into more loans. So, in that case today, your current NIM of 9.4%, do you expect that to improve in next two quarters, maybe towards 9.5, 9.6, given the catch-up of the portfolio yield and the liquidity easing?

Puneet Maheshwari: No, we are not expecting, let's say, a significant improvement from here because let's say, we will get these two benefits. But at the same time, as we have been saying that we would be increasing share of secured loans. And every 1% increase in secured loans also kind of dip NIMsS by about 10 basis points. So, while on the one side, there would be improvement on NIMs on account, utilization of liquidity as well as higher disbursement yield, we would also be increasing the secured loans share. But more or less, we would be maintaining NIMs where we are. And there should be a little bit of additional benefit, I mean, as we improve on asset quality.

Gaurav Kochar: Got it. That's helpful. Second question is on slippages. INR180 crores. Can you give break-up of MFI, non-MFI and within MFI maybe JLG, what could be the component of this?

Puneet Maheshwari: Yes. So, roughly, I mean, out of this INR180 crores about INR125 crores is the micro-banking and balance is non-micro-banking. And within micro-banking, it's largely JLG actually. So individual loan, as we have been highlighting this is to the better profile customer. So, collection efficiency as well as asset quality has been better there.

Gaurav Kochar: Got it. And also, balance, let's say, out of the 180, if you say 125, then the remaining is INR50 crores-INR55 crores is the non-MFI piece. Do you expect at least this to normalize and maybe, because we are mostly into secured other than MFI, do you believe we can normalize this or recover this in the coming quarters? And this may have essentially been due to the heat wave issue. Is it a normally just to extrapolate, let's say, the mix of 180 roughly two-thirds is micro-banking, one-third is non-micro-banking. Has the mix been similar in the previous quarter or this quarter there is an anomaly?

Puneet Maheshwari: No. So, as Govind sir highlighted earlier this one-third portion which is non-micro-banking, we will certainly see improvement in quarter two. I mean both sides. One is the slippages should be lower as well as recovery upgradation on this piece should be higher. On micro-banking, it may remain in the same range. So, that's how we are.

Gaurav Kochar: Sure. But is this a normally or historically, let's say, in 4Q or 3Q last year, were the mix of the slippages similar or the slippages were more towards MFI, which is not the case in this quarter?

Puneet Maheshwari: So, I mean, mostly the share of MFI has been higher. I mean, again because of the fact that this is unsecured asset class and others are secured asset classes. So, mostly the share of micro-finance has been higher.

Moderator: Mr. Gaurav, does that answer your question? There is no response from Mr. Gaurav. So, we will move to the next question from the line of Shivani Agarwal from A91 Partners LLP. Please go ahead.

Shivani Agarwal: Hi. Thank you for your time. I just wanted to ask if you track or would be able to share borrowers which are say, unique to Utkarsh versus borrowers who would be lending with other SFB or other lending institutions as well.

Puneet Maheshwari: Yes, we track this number. So, our unique borrower has been in a range of about 30%.

Shivani Agarwal: Okay. And would you have a sense of whether that's the case for and the other sort of like the 70% would be borrowing from other NBFCs and would this percent be higher or lower for the MFI versus the other asset classes?

Puneet Maheshwari: You're saying MFI versus other asset classes? I didn't get this point.

Shivani Agarwal: So, 30% borrowers are unique to Utkarsh, right? I'm saying in MFI this number would be higher or lower?

Trilok Nath Shukla: So, 70%, rest of 70% will be borrowing from NBFC MFIs and SFBs, basically. A few banks are also there like Axis Bank, Bandhan Bank, all these few universal banks are also there now in all areas.

Puneet Maheshwari: But for us, this has been around this range that is 30% to 35% range. In one or two quarters, we have seen a little bit of a dip and in one or two quarters, we have seen a little bit of an increase as well.

Shivani Agarwal: Understood. Thank you so much.

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

Ashlesh Sonje: Hi, team. Good afternoon. Sir, just a couple of questions. Firstly, on the MFIN guardrail, would you have a sense of where the other lenders are in implementing these guardrails and is there any way for the industry to ensure that everyone follows through eventually?

Govind Singh: Okay. So, I don't have any exact data whether people have already implemented but my sense is people are in the process of implementing. And the way we speak with MFIN also and they are very strict and because they are SRO also technically speaking they are SRO, so they can get it implemented and influence.

It may be a matter of one or two months in fact, when people will start implementing this. But as of now, I don't have any exact data who have already started we have not done so far. But my sense is process on, at least among the major MFIs and major SFBs, who are into microfinance space, it is on. I mean, there might be different stages.

Trilok Nath Shukla: We have implemented it as of 1st of August and most of the SFBs and MFIs who are mainly our competitor in our area, they have either implemented or they will be implementing in next 1 or 2 months.

Ashlesh Sonje: Got it, sir. Friend, how would you try to resolve those borrowers who are ineligible for a repeat loan because of a breach of these guardrails?

Govind Singh: So, normally, typically what happens, now policy has come today, so when they come for a next loan with any of the MFIs or SFBs or banks or even if it is Section 8 company also, I think they will not give him or her this second, next loan, in fact. That is typically happens. So, people don't recall these loans.

Otherwise, they have a different challenge. But what happens, this gets, regularized or this becomes, you can say everyone starts following this up in next 6 months to 9 months time. I am talking the existing customers, wherever they have taken more loans than say 3 or 4 loans or they are not meeting or they are above INR2 lakh zone, whenever next loan comes for renewal with any of the microfinance practitioner, it gets regularized at that time because they won't get the next loan now.

Ashlesh Sonje: Got it, sir, and secondly, in terms of, have you seen any improvement in your zero bucket delinquency in any of your geographies? You can leave out Bihar because there was a flood issue over there in July. But let's say after the heat wave has ended, have you seen any improvement in the zero bucket delinquency? I mean, loans which were not delinquent earlier, what is the collection efficiency in those set of loans? Has that improved?

Govind Singh: So, it is almost static right now. I think we have not seen, that type of improvement so far. It is almost static. But normally what happens, whenever there is a reversal of trend, it takes a little longer time because, efforts are more and there are some people who the number also goes up. So, it takes a little longer time. But as I mentioned, as Trilok also mentioned, I think we should see this reversal in this quarter and improvement from next quarter. That is what we expect.

Ashlesh Sonje: Got it, sir. Perfect. Thanks a lot.

Govind Singh: Yes. Thank you.

Moderator: Thank you. Next question is from the line of Pranav Gupta from Aionios Alpha Investment Advisors. Please go ahead.

Pranav Gupta: Yes, my questions have been answered. Thank you so much.

Moderator: Thank you. Next question is from the line of Anirudh Gangahar from Avendus Wealth Management. Please go ahead.

Anirudh Gangahar: Thank you for the opportunity. Two questions. One, you mentioned, sir, that the MFIN guardrail will impact growth by about 1 percentage point. Did I get that right? And the second thing was that in your guidance earlier, you had mentioned Net NPA of zero, negligible or nil. Is that also still intact? Those are my two questions.

Govind Singh: Yes. So, on the first point, I mentioned the single digit. I think I may not have mentioned clearly. But our mention was that the changes what MFIN recommended, it can lead into a decline in disbursement in the short term by, say, around single digit. So, I mean, not 1% type of thing, but single digit. It may not be much from that perspective. It won't have much impact on overall portfolio growth and the yields part. But yes, it can go within single digit. It will contain. The other portion was about the?

Govind Singh: Net NPA. Yes, we had guided that it will be closer to zero. I think our endeavor is still to do that part. As I mentioned, it has gone up. We have seen that because of little higher slippages in quarter 1 and currently we are focusing that, facing that. But I think our endeavor and we still think that we should be closer to zero when we close this financial year of FY’25. So, our guidance remains in the same range right now.

Anirudh Gangahar: Right. And so, just to clarify, when you said disbursements may be impacted by single digit, this is being captured in your guidance for loan book growth of 30% already?

Govind Singh: Yes. Certainly, yes. As I mentioned, last year also we had grown by 22% and our quarter 1 growth for this year has been better than for last year for sure. So, against 22%, we are saying we'll grow by 20%, around 20% this year. And this largely applies to JLG and JLG growth we are also talking about, 15%-odd for this financial year. So, these have been factored in when we are talking of, the 15%, 20% growth rate, post-MFIN guidelines also.

Anirudh Gangahar: Right. Thank you very much.

Govind Singh: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference to the management for the closing comments.

Govind Singh: So, thank you very much for attending this call and, we appreciate your interest and your asking questions. You are keenly watching the performance of the company and, the way we have guided also. We'll ensure that our guidance are maintained throughout this. We have seen good ground operations and we have seen a good growth overall.

Yes, in some of the pointers, we need to work a little more and we have very clearly understood that it needs to be done. So, once again, thank you very much on behalf of entire Utkarsh management for joining this call and we'll stay in touch. Thank you.

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