Utkarsh Small Finance Bank

May 02, 2024

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Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai – 400001	5th Floor, Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra East, Mumbai – 400 051
Scrip Code: 543942, 958095, 958226, 959644	**NSE symbol:** UTKARSHBNK

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call on Financial Results of the Bank for the quarter and year ended on March 31, 2024

We submit herewith the transcript of the Earnings Conference call held on Friday, April 26, 2024 at 06:00 p.m. in connection with the Financial Results of the Bank for the quarter and year ended March 31, 2024.

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

This is for your information & record.

For **Utkarsh Small Finance Bank Limited**

Muthiah Ganapathy
Digitally signed by Muthiah Ganapathy
Date: 2024.05.02 18:15:50 +05'30'

Muthiah Ganapathy
Company Secretary & Compliance Officer

"Utkarsh Small Finance Bank Limited Q4 FY24 Earnings Conference Call"

April 26, 2024
6.00 pm – 7.00 pm (IST)

MANAGEMENT:	**MR. GOVIND SINGH – MANAGING DIRECTOR & CEO** **MR. SARJUKUMAR PRAVIN SIMARIA – CFO** **MR. ALOK PATHAK - CRO** **MR. TRILOK NATH – HEAD, MICRO-BANKING** **MR. UMESH ARORA – HEAD, ASSETS (RETAIL & WHOLESALE LENDING)** **MR. SANJAY SHARDA – HEAD, CONSUMER BANKING** **MR. PUNEET MAHESHWARI – HEAD -FINANCE**
MODERATOR:	**MR. RENISH BHUVA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Utkarsh Small Finance Bank Q4 FY24 Earnings Conference Call hosted by ICICI Securities.

As a reminder, all participant line 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 operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Renish Bhuva: Thanks, Manuja. Good afternoon, everyone, and welcome to Utkarsh Small Finance Bank Q4 FY24 Earnings Call.

On behalf of ICICI Securities, I would like to thank the Utkarsh Management Team for giving us the opportunity to host this call. Today, we have with us the entire top Management Team of Utkarsh represented by Mr. Govind Singh - Managing Director and CEO; Mr. Sarjukumar – CFO; Mr. Alok Pathak – CRO; Mr. Trilok Nath - Head, Microbanking; Mr. Umesh Arora – Head, Assets, Retail and Wholesale Lending; Mr. Sanjay Sharda - Head, Consumer Banking and Mr. Puneet Maheshwari - Head Finance.

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. Thank you, Renish. Good evening to all. Thank you everyone for taking out time to attend our Q4 FY24 Earnings Call.

Quarter 4 has been a strong quarter for us with good business growth, healthy trend in asset quality and strong profitability metrics. Overall, FY24 has also been good business growth and profitability which shows continuous strengthening of franchise and adequate growth opportunity for our business. Our loan book has grown by around 31% during FY24, in line with our expectations of 30% growth. This is despite relatively slower growth in H1 FY24 on account of technological changes introduced in Micro-banking business in beginning of FY24 and relatively lower pipeline for subsequent cycle loans in Quarter 1 FY24 as it was discussed in Quarter 1 and Quarter 2 Earning Calls.

In micro-banking lending, we continue to witness healthy new customer acquisition. Subsequent cycle disbursements have also been good. New technological initiatives that are E-KYC and e-Sign have stabilized. Our micro-banking loan portfolio has grown by around 23% during FY24, largely in line with our expectation. We continue to believe that digital experience which we have brought in the form of complete digital onboarding for loan as well as savings account, e-Sign, E-KYC, digital collections through customer specific QR code, micro-ATM, video PD and other offerings will be a backbone for us to build a strong and sustainable franchise with cost efficiency.

Our individual loan product MBIL to existing matured JLG clients continues to see good traction with year-on-year growth of almost 100% with good asset quality. We see significant growth potential towards MBIL lending considering the large base of our existing and matured JLG clients. We have seen a healthy trend in collection efficiency and asset quality for micro banking loan portfolio. Collection efficiency improved to 97.6% for Quarter 4 FY24, marginally better than our guidance of 97% to 97.5% for Quarter 4 FY24. And as a result, NPAs and credit costs both declined during the quarter. We saw collections coming back to normalcy as we came out of a higher number of holidays period in Quarter 3 FY24 and strengthen collection focus. From the current quarter, we are planning to introduce a differential rate of interest for our JLG customers basis asset quality, vintage curve etc., which will help us implement risk-based pricing in micro-banking lending more effectively. We have seen steady growth across our secured retail lending portfolio MSME, Housing and CE/CV. We have disbursed close to Rs. 800 crores across these three products in Quarter 4 FY24, almost 50% higher than Quarter 3 FY24 disbursement for the three products put together.

On asset quality of retail loan book, we have strengthened our collections team by adding more manpower as well as separate team for bucket wise and vertical wise collection. We have also implemented EBIX collection application for better tracking of our collection efforts. These are yielding good results. Furthermore, wholesale lending book remains tightly controlled, we had nil NPAs in wholesale lending.

Our overall gross NPAs declined by 50 basis point during Quarter 4 FY24 to 2.51% from 3.04% as on December-23; on gross advances including IBPC book, gross NPAs was 2.3% as on March '24. Overall credit cost declined to almost 1.7% for Quarter 4 FY24, well within our guidance, a guided range of around 2%. Overall, credit cost for full FY24 at 2.2% was little higher than our guided range of around 2%, but we are confident that we will be able to reduce credit cost to our original guided range of around 2% in FY25. Nevertheless, the credit cost for FY24 included additional floating provision of around Rs. 56 crores excluding this credit cost was around 1.8% for FY24. We will continue to build floating provision further in FY25 to strengthen our ability to withstand any unforeseen event impact better.

On the liability side, our deposit growth is led by retail term deposits as we continue to focus on strengthening the deposits profile through broad basing of depositors. Our retail term deposits grew by 42.9% year-on-year while bulk term deposits grew by only 12.3% year-on-year. We experienced relatively tighter environment for CASA deposits growth and CASA percentages on account of elevated interest rate environment which kept depositors preference towards term deposit. Our CASA ratio was 20.5% as on March 31, 2024. We will work to strengthen our CASA deposit growth and CASA percentage significantly over FY25. We have been able to diversify our funding profile through tapping lower cost IBPC borrowings as well as refinance borrowings at competitive rates. We are maintaining a comfortable liquidity position with surplus liquidity of around Rs. 2,500 crore at the end of March '24, and LCR ratio of 166%.

Our CD ratio declined to 93.7% as on March 31, 2024, and if we net off refinance borrowings from advances, CD ratio declines to 84.3%. We don't have any short-term borrowings on our balance sheet. While on overall basis, liquidity and interest rate environment remains tight, we expect deposit growth to be tad higher than loan book growth for FY25, which would also help us moderating CD ratio further in FY25. We continue to build our banking franchise and opened 8 new branches in Quarter 4 FY24 and 58 branches during FY24, taking total branch network to 888 branches.

We also implemented new lead management system, (LEMS) which will help us in cross sell as well as improve new sourcing across products. We are also undertaking technology and business transformation project to strengthen our technology architecture to make it future growth ready. We believe there are significant growth opportunities available in our core geographies given the good growth potential and relatively lower financial penetration. We will continue to strengthen our franchise and presence and explore significant growth potential through our relevant and suitable product offerings. We have been constructive about passing on increase in cost of funds and as a result we maintained our net interest margin well which improved to 9.9% in Quarter 4 FY24. Furthermore, we have reduced credit costs, including floating provision to 1.7%, well within our guidance of 2%.

Overall, we had a healthy financial performance as reflected in our highest ever annual operating profit (pre-provisions) of Rs. 997 crores and PAT of Rs. 498 crore for FY24. Our ROA and RoE was 2.4% and 19.5% respectively during FY24. We will continue to build our own strategies of creating stronger franchise for our micro-banking business as well as for MSME lending, housing loans and wheels lending and more granular liability franchise. We will continue to build floating provision further in FY25 to strengthen our ability to withstand any unforeseen event impact better. We will strengthen our positioning, franchise and product further in FY25 and years to come to build a stronger banking platform.

Our guidance for some key numbers for FY25 are as follows:

We expect gross loan book growth of around 30%, deposit growth to be higher by at least 3% to 5% vs. loan book growth and with the target to reduce CD ratio further in FY25.

Focus on maintaining strong asset quality with nil net NPAs and credit costs at around 2%. Credit cost guidance includes an additional floating provision which the Bank will build in FY25.

On profitability – return on assets of more than 2% and return on equity of more than 18% and cost income ratio in the range of 54% to 57%. I now hand over call to Sarju - our CFO for taking you through financial performance for the quarter.

Sarjukumar P. Simaria: Thank you, Govindji and good evening friends. Actually, this Earnings Call is the first call where we are going to talk about the full year performance and of course we have been speaking with you even prior to IPO during the road shows telling about company story and trajectory of growth and we also spoke with you during the September and December quarter results.

Let me reflect on the rear mirror and recollect the conversation that we have had:

The banks yield on advances has been 19% through and through in spite of the mix having changed. We ended Q4 with a yield on advances of 19.46% and for the full year, our yield continued to remain at 19%. On NIM with the reason of our good business model, we have seen that our NIM has been upward 9%. We ended NIM of 9.86% for Q4 and for the full financial year our NIM was 9.44%. We have been talking about our cost income ratio to be in the range of 54% to 57%.

We ended Q4 with our cost to income ratio at 57% and for the full year our cost to income ratio was 56.38% and our ROA has been upwards 2% and this conversation, as I said, we have been having through and through for last 6 to 8 quarters before IPO and during the subsequent IPO calls that we have had,Q4 ended at 2.91% and for the full year, our ROA is 2.45%. RoE as you know, we said that to be 18% with a larger capital base which we raised through IPO, our Q4 RoE has been 22.26% and for the full year, our RoE has been 19.54%.

Now, let me quickly go to the results per se and put numbers to what Govindji just spoke about:

For the March 31st financial year ended 2024, we reported a gross loan portfolio of Rs. 18,299 crores against Rs. 16,407 crores on the immediate previous quarter, which is a quarter-on-quarter raise of 11.5% and if I were to compare with the gross loan portfolio previous year end at Rs. 13,957 crore, our gross loan portfolio which is at Rs. 18,299 crores is registering a growth of 31% Y-o-Y. The total deposit we closed at year end was Rs. 17,473 crores against Rs. 15,111 crores, a quarter-on-quarter rise of 15.6% and on a year-on-year basis we were at Rs. 13,710 crores withtoday at Rs. 17,473 crores deposit, we have registered a Y-o-Y growth of 27.4%. Largely, the composition of deposit has been growth in retail term deposit exceeding 42% year-on-year from March 23 to March 24.

Now coming to the P&L:

We have registered a rise in net interest income, our net interest income for the quarter was Rs. 540 crores against the previous quarter, previous year corresponding quarter rise of 32% and on year-on-year basis, the net interest income was Rs. 1,886 crores against Rs. 1,529 crores, a Y-o-

Y rise of net interest income by 23%. Our total operating income was Rs. 661 crores for the current quarter compared to the previous year corresponding quarter FY23 at Rs. 479 crores. Operating income has gone up by 38% quarter-on-quarter and if I take the full year operating income we have done an operating income of Rs. 2,286 crores against Rs. 1,828 crores, a growth in operating income by 25%. If you look at our operating profit, we had Rs. 282 crores for the current quarter and Rs. 208 crores immediately previous year quarter Q4 FY23, registering a growth of operating profit by 35% and for the full year, our operating profit is at Rs. 997 crores against Rs. 838 crores for the previous full financial year and 19% growth in operating profit. In fact, both operating profit and I am just going to talk about PAT has been highest in couple of years of history of Utkarsh.

Our PAT for the quarter was Rs. 160 crores against Rs. 134 crores immediately previous year's quarter, a rise of 19% and for the full year we ended reported PAT of Rs. 498 crores against Rs. 405 crores, a growth of 23% Y-o-Y. Just a few more matter to say like we continue to create floating provisions and the number of floating provision that has gone into the financial year 23-24 is Rs. 56 crores which was at 1.5% of JLG book. We intend to continue this provision and inch it up to 2% this year on the closing portfolio of JLG book. This obviously is with the expectation to strengthen the balance sheet and make provision for any unforeseen circumstances and we have spoken before that this floating provision is a straight-line accrual in accounts month-on-month and quarter-on-quarter and this floating provision is used only in eventuality of some unforeseen circumstances. That this provision we generally would want to make at times when profits are available, and the business model gives a good return. So, we continue to work on making floating provision on the prudency basis.

Credit cost Govindji mentioned at 1.7% in Q4 with collection efficiency and better collection from write offs. This year credit cost is at 2.2, but the trending at the Q4 beginning at 1.7 we are hoping to keep that around 2%. On the asset quality side, gross NPA is 2.51 against 3.23, it has improved and net NPA is almost 0.03% inching to the three-digit 0 figure very soon, against 0.39%. I want to say that this year's strong financial performance for the quarter and for the full year is largely in line with our expectations. We look forward to answer your questions and queries and speak about it, while I just spoke about rear mirror, I think Govindji has already spoken about the wider windshield and opportunities that we have and he has already given the guidance on some of the KPIs**.** Thank you.

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

Rajiv Mehta: Sir, I have a few questions. Firstly, on the strong growth in disbursements of micro-banking JLG, can you split this growth between volume and ticket size and what was the average disbursement ticket size in Q4?

Govind Singh: I think I will just pass onto Trilok, but I want to make one mention that our ticket size has not gone up in Quarter 4. In fact, it has not gone up at all in the entire year also. So, the entire growth is on account of more number of new customers and disbursement to subsequent customers. But Trilok can speak a little more about this part.

Trilok Nath: So, our ticket size has not gone up in this year, but new client acquisition it was almost 50% in H2, 50% of our entire disbursement. So, basically, we produced the growth on that side and then we have the subsequent cycle disbursement in geographies like Odisha, Rajasthan Jharkhand and of course in UP and Bihar, so we have not disbursed means for last two years we have problem due to COVID. So, we have not disbursed too many clients neither have subsequent cycle nor on fresh center or fresh client. So, basically this growth came from the subsequent cycle disbursement and this new client acquisition. Also, we added clients at the existing centers, it is not only opening up the new centers going to the new villages and new Basti Mohalla but also adding clients at the existing center, so that has driven the growth basically.

Rajiv Mehta: And so that means has there been any change in customer retention rate in the main market for Bihar and UP which can may be due to increase in competition or leverage of the borrower, or it remains the same?

Govind Singh: So, the two aspects we mentioned that one is that we have got more and more new customers now. Post COVID there is growth of flow in terms of adding new customers. That is one part and second we had told in the previous earning calls also, we had some challenge because of the COVID you can see the next 1- and 1.5-years' time, we had very limited number of subsequent customers because we were not adding customers in 22 and 23. So, in the H1, we had a very limited number of subsequent cycle customers. So, in the H2 you can say both have happened better. We could acquire more and more new customers as well as our subsequent cycle. The base number of customers was much higher for this period. I think maybe Puneet have the exact number also.

Puneet Maheshwari: So, if you just look at the JLG growth, which is about 20% for full financial year, our average ticket size between March '23 and March '24 has gone up by about 4% and balance 16% growth has come on account of new customer acquisition and dropout has been largely same between Quarter 2, Quarter 3, Quarter 4. So, there is no material change in the dropout ratio.

Rajiv Mehta: And this significant improvement in collection efficiency in micro-banking 98 versus 96, last quarter with this factor of more holidays, but from a sustainability perspective, can the current collection efficiency of 98% and they are about to sustain in the coming quarters at best?

Trilok Nath: So, we have tried to create a structure around collections because in Q3 we have too many slippages due to holidays as you said. Then we have tried to create structure around collections, and we tried to follow up from head office levels, zonal offices and regional offices. The collection in each bucket, so these slippages were there, but sometimes when collection is up there sometimes we follow only 90 DPD or 88-89 DPD. So, instead of that we kept following on each bucket, so 1 to 30, 31 to 60, 61 to 90 so that helped us a lot. Again, we have driven these collections of written off accounts. So, there also we have good success in Quarter 4 specially. So, all these efforts put together this improved the collection efficiency. And we hope that it will continue because now the structure is in place, so it will definitely continue what we experience in this Quarter 4.

Rajiv Mehta: Sir, one last question on the deposit side, what is the current cost of retail term deposit and what is the incremental cost and what is the maturity profile?

Puneet Maheshwari: So, cost we have given on the presentation as well. So, from a term deposit perspective, the average cost is about 8.5%-8.6% for us. And if you see the highest rate what we are offering is 8.5% for a regular customer and 9.1% for senior citizen. So, that is how we are placed tenure and just I will tell you one second. So, in terms of tenure also, we are seeing incrementally more longer tenure deposits coming in. So, now in terms of breakup, if I just tell you, so right now deposits which are 2 year plus are about 12%-13% of our total deposits, which earlier actually was much lower percentage. If you see, it also a function of the rate of interest I mean in terms of which bucket has the highest rate of interest. Now if you see the highest rate is between 2- and 3-year bucket and that is the bucket we are seeing a sizable deposit accretion.

Moderator: Thank you very much. The next question is from the line of Pritesh Bump from DAM Capital. Please go ahead.

Pritesh Bump: Sir, two questions. One is if you have mentioned anything about margins, they have been a little bit higher, is there any interest reversal or interest booking because of recovery and all, can you quantify if there is any?

Puneet Maheshwari: So, it is not much, only impact from our net interest margin perspective is the lower fresh slippages versus what was the case like say in Quarter 3. So, in Quarter 3 we had fresh slippages of around Rs. 135 crores and this quarter we had less than Rs. 100 crores. So, that is the only additional impact from an NPA perspective. Otherwise, the net interest margin is also positively impacted by the repricing of the microfinance loan book we had highlighted last time, so that is also in a way supporting the interest margins.

Pritesh Bump: Can you give how much is the disbursement yield, the outstanding yield on the microfinance book as well?

Trilok Nath: So, microfinance disbursement yield is 25% and our portfolio basis yield is 24% now for Quarter 4.

Pritesh Bump: And how much will that have changed in last 6 months?

Puneet Maheshwari: So, in Quarter 3, we were close to 23.5, in Quarter 2, we were at 23% and before that in Quarter 1, we were at 22.7%. So, it has been increasing by 30 to 50 basis points quarter-on-quarter. one obviously, it is the benefit of, this quarter is both benefit, one is lower NPAs and the fact that repricing is also happening.

Pritesh Bump: Second question was on OpEx, looks like a little bunching up in this quarter, what is the trend going ahead and anything to look into this quarter? And what will be our cost to income thought process basically?

Puneet Maheshwari: So, cost to income Govind sir had initially also talked about, so cost to income we think would remain in the range of 54% to 57% for us on an incremental basis and quarter-on-quarter, at times expenses are also like basis the activity level. So, as business activity or like some other ground level activity picks up quarter-on-quarter expenses may be a little higher than certain quarters depending on the activity level and that is what we have seen in this quarter. And on overall basis, we expect cost income ratio to be in the range of 54%-57%.

Moderator: Thank you very much. The next question is from the line of Aman Gupta from Oculus Capital Growth Fund. Please go ahead.

Aman Gupta: So, my question was on the merger and what is the timeline we are expecting?

Govind Singh: So, if you remember that we had discussed earlier also in the previous call and now we have got a formal approval from both the boards that we should go ahead with the process and we have initiated the process in getting the people when I say consultants and those who will help us in the whole process and so that process has already commenced. It is very difficult to pinpoint the overall time taken, but we have seen in other cases also takes around 12 to 15 months' time and we expect in terms of timeline it should be in the similar range, maybe around 12 to 15 months from now we should be able to complete the whole process.

Aman Gupta: And also, what could we expect about the reverse ratio like because I am asking will it be given at a discounted rate or a premium rate?

Govind Singh: No, it is too early to talk about that. We have not discussed also. So, maybe as and when discussion happens and it is closed, We will certainly come back to you, but it is not yet discussed also as of now.

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

Ashlesh Sonje: I have a few questions. Firstly, on the recovery income from the written off assets that was very strong this quarter, what is the outlook for that going forward given that we have also written off quite some Rs. 90 odd crores in the fourth quarter?

Govind Singh: So, our assessment is that obviously we have seen very strong in the case of Quarter 4, but on a regular basis when you look at, we expect that maybe around Rs. 6 - Rs. 7 crores on a monthly basis, that is the trajectory we are expecting this year. So, overall, maybe in the range of say Rs. 65 to Rs. 80 crores is what we expect overall write off collections will happen. Again, as I mentioned is indicative or guidance from our side. That is what we expect.

Ashlesh Sonje: And secondly, on the cost of fund side, that has gone up by only 10 odd basis points for the quarter, what is the outlook on that? Would you say that the repricing on the deposits is largely complete now?

Govind Singh: So, as far as repricing is concerned, it is almost complete, maybe around 10%-12% of deposits where the repricing is yet to happen. So, from now, we can say from a system angle, the rates are not going up. Obviously there was, you can say liquidity crunch and you must have seen we have very strong liquidity base right now, almost Rs. 2,500 crore at the end of March. So, our perspective maybe it can go up at the most maybe 10 to 15 basis points, not more than that and during this financial year if the market remains the same level where it is today, it might go up around 10 to 15 basis points, not beyond that.

Ashlesh Sonje: Sir, on the OpEx front, it has been a bit higher in this quarter both on the staff side as well as non-staff side, what is leading to it? Is it also related to the higher amount of focus that we have on collections starting this quarter?

Puneet Maheshwari: No, fairly we can say it is both largely a variable cost component which has driven, which is both, you drive like say some collection efforts and it is also a little bit, the variable component largely and on other operating expenses as I said, specifically if you see last 3 quarters and in between Quarter 2 to Quarter 3 our OpEx was largely the same. So, this is also dependent on the activity level, so some of the expenses like let us say, repair and maintenance, printing etc., were a little higher in this quarter. Some bit of the legal and professional expenses, etc., were a little higher in this quarter. So, essentially let us say from a quarterly trend perspective, what we can say is it is largely depending on let us say the activity level, both the business level activity as well as the ground level activity at times and from an overall outlook perspective you can say from a OpEx cost metric perspective whether it is OpEx by ATA or cost to income ratio, we would be largely in a range in financial year 25 where we have been financial year 24.

Ashlesh Sonje: Just one large data keeping question. Can you give a breakup of the slippages for the quarter across segments and specifically for the microfinance segment, can you give me the slippage for the past few quarters?

Puneet Maheshwari: Yes. So, for this quarter, we had a total fresh NPA generation of Rs. 93 crores of which micro-banking is Rs. 65 crores, MSME is Rs. 11 crores, CV and CE is Rs. 12 crores, housing is Rs. 4 crores and others are Rs. 2 crores and for the last few quarters, micro-banking in Quarter 3 was Rs. 98 crores. Before that it was Rs. 75 crores and before that it was Rs. 71 crores in Quarter 1.

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

Renish: Sir, just two questions from my side, on the non-MFI book. So, when we look at the MSME lending book, there has been a sharp jump in the disbursement during Q4, so when we look at the last 4 quarters, the disbursement has been range bound around Rs. 300 to Rs. 350 odd crores, but that has suddenly gone up to some Rs. 550 odd crores in Q4, so what is leading to that? It is just because we might be expanding our distribution network or is there something else to read into it?

Govind Singh: So, Renish, it is a combination of two factors. One is you mentioned expanding the distribution network because wherever we have general banking branches, sometimes even the micro-banking branches, we expand our MSME, housing and wheels network. So, that is one part for sure. Second, I think during the last few years, we have been able to have a stable team also because it normally takes around 2-3 years' time to reach that level. So, at least in MSME, we can say that we have a stable team now and the trajectory what we have seen in last year that will continue next year also. That is for sure from the MSME, not only in MSME, but even the other products also, MSME or wheels and housing and retail LAP also. So, the trajectory will continue. One factor certainly happens that Quarter 4 I think there is a greater activity level that goes up, so around 10% to 15% increase because of that also happens for sure, but overall trajectory for next year will remain in the same range. I am talking growth trajectory will remain the same range what we have seen in FY24.

Renish: And sir, related question to this on the yield side as well, so when we look at year back in Q4 last year, our yield was some 11%, which went up to almost 11.8 in Q3 and which sort of moderated by 40 basis point in Q4. So, this is let us say a general interest rate movement, or let us say we have changed our target segment from high ticket to low ticket or anything like that, is there something to read into the disbursement yield movement?

Govind Singh: Yes. Certainly, I think when you talk about disbursement yield movement we are focusing more and more on the lower end of MSME, our focus area is I am not saying we don't do transactions of a crore plus, but there is more focus on the Rs. 25 lakh to Rs. 50 lakh type of bracket where we can do a lot of work in some of our core geographies as well as the yields are better. We might have done more transaction and with competition also it gets intensified in Quarter 4. That is why a little lower yield in Quarter 4. But whatever, we just saw trajectory and yield in till Quarter 3, maybe around 30 to 40 basis points higher yield for FY25. That is what we can give guidance today.

Renish: And again, secondly on the housing loan side, so when we look at the average ticket size at around 20-25, certainly not the segment where most of the affordable housing finance guys are operating, those guys are at around 1 million odd. So, here who is our competition in this segment? Do we compete with the banks and hence the rates are at let us say 10.5% versus 13%-14% for the peer NBFCs, how one should look at this segment? What is the strategy?

Umesh Arora: So, as you rightly said it, our ticket size is ranging between like, Rs. 20 to Rs. 25 lakh. There are competitors like our peer banks and other small finance banks and some big like NBFCs. So, now here we want to see that the quality of the portfolio and at the same time, we are able to gather like 1%-1.5% higher rate of interest from the Universal Bank. So, we as you know that okay, our presence is into Tier-2 and Tier-3 and specifically in UP and Bihar and we want to leverage that level to our footprint in those locations and that is like we are able to garner higher rate of interest.

Govind Singh: Renish, I want to add one thing on this part, so the moment you go from Rs. 25-Rs. 30 lakh to say Rs. 10 to Rs. 15 lakh, I think team is not aligned to that. That is our experience, the same guy doesn't do that part. We can say to take care of that part what we are doing, I think we mentioned in our last earning call also, Micro LAP is one product which we intend to focus upon. We have already got a team and obviously we expect some good traction during this year. It takes little time to complete and make the team and generate volumes from there. So, that is one part, and we will also be considering rural housing type of thing. But for that we require a separate team. So, there the yields will also be better, and the ticket size will certainly maybe in the range of Rs. 7 to Rs. 12 lakh type of things. So, for that we need to create a separate team and especially in our core geography Uttar Pradesh, Bihar, Jharkhand in that area the opportunity is quite high. So, our idea is that FY25 should see some good traction in this and maybe some better yields also because of that.

Renish: Just wanted to understand that in housing loan segment, we will continue to operate in this Rs. 20 to Rs. 25 lakh ticket size or we intend to get into the rural housing loan wherein ticket size will be done at like, what the strategy in FY25?

Govind Singh: So, in short term, we will continue with this segment as well as build our Micro LAP and rural housing both and maybe after down the line, 1 to 1.5 year down the line we can review that what makes sense in long term for us or not. Today, we intend to certainly build this portfolio as well as create 2 new segments where the yields will be much higher, but the segments are different and the teams are also getting created separately for that purpose.

Renish: So, we have already started investing to build a Rural Housing?

Govind Singh: We have already started for Micro LAP for sure. We have around 50 odd people team which already in field and they have started getting trained and product has been launched and some sourcing has already started in the beginning. So, that has already been done and Rural Housing we will see next 2-3 months' time that will also get launched by end of Quarter 1 or maybe beginning of Quarter 2.

Renish: And just the last clarification, so when it comes to the non-MFI book, it is right to assume that broadly we will start with our core geographies, which is UP and Bihar and then maybe after stabilizing process a bit of handle on asset quality, etc., then we will take the other geographies?

Govind Singh: Yes. That remains the thought process always and in this case also, we will start with our core geography only.

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

Shailesh Kanani: Sir, couple of questions from my side. Sir, can you give some color on in terms of AUM breakup for the next year where you said that 30% growth would be envisaged how would that mix look like and what does the management think of corporate loan or 10% or 11% wholesale funding what we do, so what is our view on that?

Govind Singh: So, maybe I will ask Puneet to give the breakup for next year, but broadly speaking our thought process is, we have done corporate lending for this, the corporate lending are not the way Universal Bank does. Our ticket size will be Rs. 10 to Rs. 30 crores largely average around 15-17 when we do NBFC and HFC type of books. So, our idea is not to grow that book wherever we are there may be around 3%, 4%, 5% growth, not more than that. That is what even internal plans and even the board guidance is not those lines that you be there, but don't try to grow this fast. So, that is one part of the NBFC space. The other book is what we call the Business Banking Group, BBG group where we try to give largely working capital or sometimes term loans also to smaller entity that is technically SME space for us where we normally do around Rs. 3 to Rs. 10 crores type of segment and average will be around Rs. 4 to Rs. 5 crores for us and till date all the cases are 100% plus hard collateral loans we have given. So, that segment we certainly intend to grow because that segment comes with all other businesses also to us. Normally, we will be preferred banker for them or sometimes we will sole banker for us, not in all cases, but in most of the cases. So, that is the segment what we intend to grow. We have grown well, we are around Rs. 500 crores plus right now and our idea is to grow by around 40% to 50% in that segment for next year. And that will be on a long-term basis because the customer will be with us. I think the way we mentioned that growing together type of things. So, that is what is happening is for BBG, but I will just ask Puneet to give.

Puneet Maheshwari: From a portfolio composition perspective, if you see micro-banking as on March '23 was 66% for us, which has come down to 62%, 4% in terms of share. This is our expectation for financial year 25 as well, so maybe share of micro-banking will come down by 3% to 5% anywhere between 57% to 59% for financial year 25 and businesses, I mean in terms of let us say MSME, Govind sir had talked about Micro LAP, housing and wheels are the businesses which will increase in terms of size. Wholesale lending, which is at about 10% now would remain at about 10%-11% in terms of portfolio composition.

Shailesh Kanani: Sir, couple of two questions. One is on non-interest income, this quarter we have seen a very good jump in that. So, was is on the sustainable basis, how can we see that non-interest income because the fourth quarter was excellent, so can you throw some color on that?

Puneet Maheshwari: So, non-interest income, obviously we had seen a good write off collection this quarter. As Govind sir had said right of collection obviously let us say may not get repeat let us say each quarter something like this. But at the same time if you see the PSLC income was much lower in Quarter 4, it was only about Rs. 7 crores, for the full year we have booked PSLC income of more than Rs. 100 crores. So, on an overall basis, we think the non-interest income would remain largely at a similar level in terms of RoA metrics or marginally lower depending on PSLC, demand supply dynamics and the write off collection level, but otherwise overall other income should remain strong. I mean the other streams like let us say, either the sale of third party products or the transaction income etc., should remain healthy and should increase as we are penetrating our liabilities account better.

Shailesh Kanani: Sir, last question from my side, on credit cost, are we seeing so obviously fourth quarter has been excellent for us in terms of collection efficiency, but overall, on the MFI book, are there any painpoints or pressure in general we are seeing or how are you seeing FY25 in that case for us?

Govind Singh: So, generally, I think we have not seen any specific issue at a larger level, but sometimes we do face some local issues in some of the geography, some of the branches and that keeps happening and as a MFI player, we have been handling those in past also. So, there is nothing which is very specific to us. And as we mentioned earlier also, our trajectory for the collections which were in the range of 97.6% or so, we expect that this will remain here or maybe a little better in FY25. We don't have any specific issue in any of the places, but there might be some time some of the unit level issue or some plans level you should do prop in, but not otherwise. Trilok want to add something on this.

Trilok Nath: We don't have any specific area, but we have few districts and few states like there are two three districts in Jharkhand, there are 4-5 districts in UP, again 2-3 districts in Haryana. Otherwise, we don't have any specific geography where we are facing any such problem which can affect our credit cost.

Moderator: Thank you very much. The next question is from the line of Sarvesh Mutha from Antique Stock Broking. Please go ahead.

Sarvesh Mutha: My question would be on margin, so somewhere like that steady state margin should be around somewhere between 9.2 and 9.3 and plus minus 10 basis points, now we exit at 9.9, so where do you see margins going forward and how much of these margins are led by the JLG repricing and how much of that has been done?

Govind Singh: So, in margins is combination of multiple factors as you are aware, and it was certainly much better in case of Quarter 4. But the way we discussed in the last earning call also if you look at the medium term scenario, we mentioned the next 2-3 years horizon, I think margins NIM will always be above 9%. That is what we have given guidance earlier also and that remains today also. Obviously 9.9 will not be sustainable, but if you look at next year, maybe 9.4 or 9.35 type of margins are certainly there and in medium term, it will always be (+9%). Medium when I say 2-3 years time. Any specific point you want to add, Puneet?

Puneet Maheshwari: From a repricing perspective, I just want to highlight right now, I mean sitting as on March '24 there is about 20% book which is yet to be repriced fully. But at the same time Govind sir had talked about the differential rate of interest which we plan to implement. So, our thought process is that these two would offset each other incrementally for financial year 25 and hence from a from a microfinance yield perspective, we would remain where we are at in quarter four.

Sarvesh Mutha: And this differential rate, how much of difference would that be?

Puneet Maheshwari: So, that is what I said roughly, our sense is that on account of this repricing, we would have gained additional 20-25 basis point, and we think probably this will be let us say the decline in yield on account differential rate of interest and broadly, these two would offset each other in financial year 25.

Sarvesh Mutha: So, your current disbursement on MFI would be around 25% and you plan to do differential disbursement yields, so how much of a difference would that be in the yields?

Puneet Maheshwari: So, what we are planning, I mean we are still assessing, but our sense is that we would be doing let us say 1% to 2% lower than our card rate for select better quality customers, better vintage customers and so on.

Sarvesh Mutha: And also on CD ratio, you had said that you plan to get it down further, so any broad range that you intend to get it down to?

Govind Singh: So, I think in last earning call also mentioned that on a year-on-year basis, we expect around 3%-3.5% decline in the CD ratio for next 2-3 years' time till we say 85% and below and that trajectory for FY25 will continue.

Moderator: Thank you very much. The next question is from the line of Vinay Nadkarni from Hathway Investment Private Limited. Please go ahead.

Vinay Nadkarni: I have just two questions. One is the CD ratio, last year you gave 2 numbers for the year as a whole 93 and then 84, what was the 93 number?

Puneet Maheshwari: So, 93 is our CD ratio which is coming lets say on the face of the balance sheet and 84% is because we have refinance borrowing from our balance sheet when we reduce refinance borrowing like from our loan because those borrowings are taken to refinance amount and then if we calculate our CD ratio it is 84%.

Vinay Nadkarni: And lastly on the number of branches that you expect to open in FY25?

Govind Singh: So, this year we have a plan for opening around 150 odd branches. I mean, the number could be plus minus based on getting property, getting property in time and those type of things. But around 150 odd branches we expect this year. Out of that general banking branches around 60 odd will be general banking branches and the next 90 plus will be our micro-banking branches across the country.

Puneet Maheshwari: Just one more clarification, I mean on data point with respect to the deposit tenure, which we had shared. So, I meant basically let us say deposit more than 3-year category is about 11%, 2-3 year is about 20%, less than one year is about 6% and balance is largely in one-to-two-year bucket.

Govind Singh: And you also clarified on the ticket size of microfinance, it has gone up by 4% during last year and the rest of source is on account of new customers.

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

Govind Singh: Thank you very much for coming and joining this call and you have been always supporting us and we look forward to continued support. I think you have seen the results. Last two points which were not discussed, I just want to highlight two points. One is that we have started paying dividend from this year, so we will become a dividend paying company and that is what is a small beginning from our side and second I want to re-emphasize on the floating provision. This year the board has directed us or guided us to make 2% floating provisions on our JLG book and the way we had told in past also we intend to create a sizable floating provision, so that any issue we are able to withstand. And the way we have guided also, 30% plus growth in the overall assets and overall advances and 3% to 5% higher growth for deposits for this year. That is what we are aiming at and other some of the ratios like ROA of 2% plus and RoE of 18% plus and cost income in the range of 54% to 57% and NIM being above 9% in the medium term, not for this year alone, but for the medium term. We have some of the guidance from the management, from the board discussion. So, again thank you very much for joining this call and look forward to your continued support. Thank you.

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