"Ujjivan Small Finance Bank Limited Q2 FY '26 Earnings Conference Call"

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MODERATOR: **MR. PRITESH BUMB – DAM CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Ujjivan Small Finance Bank Limited Q2 FY '26 Earnings Conference Call. As a reminder, all participant lines will be in the listened-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 your touch-tone phone.

Now I hand over the conference over to Mr. Pritesh Bumb. Thank you, and over to you.

Pritesh Bumb: I welcome you all to Q2 FY '26 earnings Call of Ujjivan Small Finance Bank. Today, we have with us Mr. Sanjeev Nautiyal, MD and CEO; and the whole senior management team of the bank. I would like to thank the management for giving us the opportunity to host this call.

And on that note, I would like to hand over the call to Mr. Nautiyal for his opening remarks. Over to you, sir.

Management: Thank you, Pritesh. Good evening, and welcome to our quarter 2 and first half financial year '26 earnings call. I'm happy to walk you through the business and financial performance of the bank for the mentioned period. Please note, references will be made to Q2 '26 versus Q2 '25 as Y-o-Y and Q1 '26 as Q-o-Q, along with the comparison of H1 '26 against H1 '25.

India has remained the fastest-growing major economy, recording real GDP growth for Q1 '26 at 7.8 %, coming ahead of consensus estimates of 6.7 %. In the recent MPC, RBI has upgraded GDP growth estimates for Q2 and FY '26 to 7% and 6.8%, respectively, while lowering the FY '26 inflation forecast to 2.6 % from 3.1 %.

This was done in continuation of a neutral stance in monetary policy. This broad-based growth and recent policy actions like repo rate cut, GST rationalization and tax cuts bode well for the economy's outlook, external headwinds notwithstanding.

The RBI's MPC has introduced a glide path for the transition to the ECL framework. While this is not applicable to SFBs, we have studied the details and remain watchful to any future implications. A change has been proposed through the risk-based deposit insurance framework. We will share any implications once the notification is issued.

Coming to the overall business. We have delivered a well-calibrated growth for the quarter by ensuring absorption of excess liquidity, thereby taking our CD ratio to 88 %. Total deposits rose 1.5% Q-o-Q, up 15.1 % Y-o-Y at INR 39,211 crores. CASA grew 14.9 % Q-o-Q and 22.1 % Y-o-Y to INR 10,783 crores, crossing INR 10,000 crores for the first time, while retail TD plus CASA deposits remained around 71 % of our total deposits.

Our CASA augmentation efforts are beginning to take shape. The MF distribution would be rolled out to customers in Q3 '26. Incremental rollouts of ASBA and forex will further drive CASA mobilization. We have proactively reset rates in both TD and SA in various buckets, resulting in improvement of cost of funds by 23 basis points Q-o-Q and 17 basis points Y-o-Y.

As you are aware, the CRR reduction would be carried out in four phases of 25 basis points, each of which two tranches have already become effective, supporting lower funding costs. We expect further COF benefits coming in the next quarters.

Coming to the asset side, loan origination remained strong this quarter with the highest disbursements ever of INR 7,932 crores, up 21% Q-o-Q and 48% Y-o-Y. For H1 '26, disbursements grew 36% to INR 14,471 crores, led by the continued momentum in the secured loan book.

Our gross loan book grew 3.9% Q-o-Q and 14 % Y-o-Y to INR 34,588 crores, driven by our disciplined approach to diversify asset suite and build a sustainable loan book. This has led to share of secured loans improving to 47 %.

With the MFIN guardrails now in place, our microfinance portfolio is stabilizing, showing consistent repayment behavior with bucket X collection efficiency improving month-on-month from 99.46 % in July '25 to 99.50 % in September '25.

In line with our stated branch addition plans, we added 14 branches in Q2. We shall be adding 11 branches in H2 '26 to expand our network. These branches will start offering micro banking asset products from day one, while other products will be rolled out in due course of time.

In Q2 '26, we added roughly 1.26 lakh customers in the micro banking segment and have witnessed a graduation of approximately 32,000 group loan customers to individual loans. The graduation of MB customers to secured product lines such as gold loans, vehicle finance and micro mortgages also bodes well for the bank.

Moving on to specific asset updates. It is heartening to inform that micro banking has grown meaningfully during Q2 '26 by INR 277 crores, which is 1.5 % of June '25 base. The group loan book stood at INR 13,106 crores, registering a growth of 1.1 % Q-o-Q, backed by a quarterly disbursement of INR 3,131 crores in Q2 '26, up 29.5% Y-o-Y and 10.1 % Q-o-Q.

On individual loans, gross loan book remained strong at INR 5,464 crores, registering 9.3 % Y-o-Y and 2.5 % Q-o-Q. Disbursements for IL in Q2 '26 stood at INR 1,128 crores, up 3.5 % Q-o-Q. The growth in secured book is well aligned with our long-term vision of increasing its share and this grew by 52.9 % Y-o-Y in Q2 '26.

We have already grown 15.6 % in H1 and are on track to meet the FY '26 guidance of 35% plus secured book growth. This was on the back of strong growth from the affordable housing and micro mortgage loan book, supported by MSME and other emerging products with gold loans, vehicle finance and agri loans.

Secured disbursements in Q2 '26 came in at INR 3,701 crores, growing 78.8 % Y-o-Y and 39.6 % Q-o-Q. AHL and micro mortgages, our housing book remains well balanced between salaried and self-employed customers and has around 94% of loans availed for self-occupied homes. Affordable housing loans delivered strong growth with a gross loan book of INR 7,656 crores, up 42% Y-o-Y and 8.3 % Q-o-Q.

Micro mortgages continued upward trajectory with gross loan book coming in at INR 1,094 crores, up 180% Y-o-Y and 23% Q-o-Q. Our GNPA on the housing book has been steady around 1.1 % for last 4 quarters, reflecting stability in the loan book.

MSME, during the year, the MSME business scaled up meaningfully with the loan book touching INR 2,559 crores, a growth of 69% Y-o-Y and 14 % Q-o-Q. Working capital and supply chain finance now comprise over 23% of the loan book, thus reflecting diversification and deeper customer engagement.

Gold loans: Our gold loan business improved its monthly disbursement run rate to INR 72 crores in the quarter. Our gold loan offerings have expanded to 326 branches to be further scaled up to 400 branches in financial year '26. The gross loan book stood at INR 412 crores, growing 6x over Q2 '25 and registering a robust sequential growth of 41% Q-o-Q. Agri loans are now available across 298 branches aimed at supporting individual borrowers, farmers. The gross loan book has scaled up to INR 510 crores in Q2 '26, growing 4x Y-o-Y and strong sequential 27 %.

Vehicle loans are now available in 262 branches with focus on funding new two-wheelers. In Q2 '26, gross loan book grew to INR 656 crores, up 150 % Y-o-Y and 17 % Q-o-Q. Disbursements stayed healthy at INR 165 crores with a robust growth of 117 % Y-o-Y. We expect strong demand for two-wheeler loans in Q3 '26 on the back of festivals across geographies.

On asset quality, the slippages have started to reduce and came in at INR 278 crores after staying at approximate levels of INR 350 crores for each of the previous three quarters. I am delighted to share that our SMA book as of September '25 is below 2 %, reflecting the lowest level since Q1 '25. This drop is driven by improvement in the MB segment. As anticipated, credit cost for the quarter came in at INR 235 crores. We anticipate a meaningful decline in credit cost in the second half.

Bank undertook INR 31 crores of accelerated provision in Q2 '26 and maintained PCR at 73 %. Additionally, INR 21 crores of floating provision is available as part of other provisions. The lower ticket secured segment is being closely watched and due prudence is being exercised to have a tight control over quality. As of now, we do not see any aberrations in these segments.

Secured vertical slippage stayed nearly constant at around INR 50 crores for 6 consecutive quarters. On our financial performance, net interest income stood at INR 922 crores, expanding by INR 65.7 crores Q-o-Q. Other income got boost due to higher disbursements and increased insurance penetration.

While we reported a steady INR 256 crores other income for the quarter, the share of processing fee and insurance products was 53 % compared to 40% in Q1 '26. This segment will continue to improve and contribute to total income.

Net interest margin in Q2 '26 came in higher at 7.9 % versus 7.7 % in Q1 '26, supported by utilization of liquidity buffers. Loan book yields were at 17.5 % versus 17.6% in Q1 '26 with an increased share of the secured mix. We expect NIM to stabilize around these levels for the financial year '26.

Cost to income remained stable sequentially at 66.4 %. PAT for the quarter stood at INR 122 crores with ROA at 1 % and ROE at 7.7 %, reflecting gradual improvement. Capital position remains strong with CRAR at 21.4 % and is aligned with our planned book growth.

In the end, I would like to add that bank continues to critically evaluate and improve its opex and finance cost controls while looking to expand productivity, efficiency to support the future growth.

Before I conclude, I would like to introduce Mr. Deepak Agarwal, who has joined as our Head of Strategy and Transformation. He has in the past driven strategy formulation, large-scale transformations and business outcomes in various organizations. He last held the position of Head of Retail Business Strategy at Axis Bank and previously worked with Mastercard, Deloitte and KPMG.

Thank you, and I hand over back to Mark for the Q&A session.

Moderator: The first question is from the line of Renish from ICICI Securities.

Renish: Two things from my side. One on this non-micro banking profitability piece. So when we look at the yields, which has been sitting at around 12% for last 4, 5 quarters despite introducing new products like Micro-LAP, retail etcetera, though the base is very low. I can understand that, but at 12% yield, I'm sure this...

Management: Renish, sorry, can you please just check your line? We are not able to hear you clearly. Could you please repeat the question?

Renish: Is it better now?

Management: Yes.

Renish: So my first question is on the non-micro banking profitability piece, right? So when we look at the non-micro banking yields which are at 12% for last 4, 5 quarters, and this yield, I'm sure non-micro banking vertical would be not even breakeven. So what is the strategy here in non-micro banking piece? I can understand that we have introduced many new products like Micro-LAP, retail etcetera, which is yielding 19%, 20%, but broadly when do you see this entire non-micro banking piece start contributing to at least PPOP level.

Management: Renish, can you hear me?

Renish: Yes, sir.

Management: So as you know -- okay, I'll answer in 2, 3 parts. First is regarding housing, you know, housing already making a decent amount of money, and it's been around for 7 to 8 years. So they are making enough money, and we need to scale it up further.

Now next is gold, it's a new product. And by next year, we should be in a position to definitely breakeven there and make some money. Coming to two-wheeler, two-wheeler is going to end up with around INR 1,000 crore book this year. Once it is INR 1,000 crores by end of this year, we should be breaking even in two-wheeler.

Micro mortgage has already broken even actually. So from that, you will make money going forward. So MSME is almost in breakeven stage. I think by end of the year, MSME also will come into shape. Supply chain is already in profit, working capital will breakeven, yes.

Renish: And any further data would you like to share, let's say, mortgage, I can understand it will be profit making since it's one of the oldest product, but is it fair to assume that the profitability currently would be less than 2% ROA at product level?

Management: Yes, we don't want to go into the detailed ROE at this stage and ROA sorry, but yes, it will come to the industry level within next 2, 3 years. That's what we are planning. We are not there still. If you look at the industry level comparison, benchmark, we will be there in next 2, 3 years. That's what is our plan.

Renish: Got it. Got it. And again, a related question on the vehicle financing fees, which is predominantly two-wheeler currently and I'm surprised to see that given it's a new product, despite that, our gross NPA is touching 2%, PAR is 5%. So what is happening in that portfolio? I mean, despite this not, gross NPA is already inching up. So are we changing the strategy product mix here? Or what is happening?

Management: Renish, in vehicle finance, yes, it is 18-month old product. Our GNPA of last year book is where the GNPA has come from, and even on a 12-month book, the GNPA has not crossed 2.5%. So it is moving in the right direction. There is not much bump up in GNPA we have seen in the last 6 months, specifically.

There is some part of the GNPA, which was pre-2023 book -- sorry, 2024 book, which -- these were locations which we have discontinued. So there is some amount of gross NPA there, which is almost about 30%, 35% of the overall NPA.

Renish: Got it. Got it. So broadly you're saying new book, let's say, 6 months...

Management: Yes. So Renish, we look at bucket X collection efficiency on a month-on-month basis, it's been hovering in the range of 99.1%, 98.9% consistently for the last 9 to 12 months. So bucket x collection efficiency being steady and bucket 1 to 90 being steady in the range of 60%, 50%, there is -- increase in slippages is not visible.

Management: Just to add to that, this is Carol. Our book grew 17% quarter-on-quarter in vehicle finance, and currently, our book size is around INR 656 crores, we are mainly in the Tier 1 and 2 cities and our metro urban % come close to around 75%. So our book is holding up at the moment.

Moderator: The next question is from the line of Digant Haria from GreenEdge Wealth.

Digant Haria: My question is on the microfinance piece. I see that we have started growing the loan book as well, and it's reflective in our net interest income yields, everything. So just wanted to check here that because you are the most diversified microfinance player.

So like what are the trends you are seeing that are more and more districts becoming, so to say, lendable that where you can go out and source new book? Or is it more like player dependent that in some districts, we may find growth opportunities, but other may not. If you can just highlight what do you see on the ground?

Management: So Digant, like we've been discussing in the last 2, 3 earnings calls, there was significant stress in the group loan book and we had called out that there was stress in Gujarat, Tamil Nadu and Karnataka got added in Q4 of this financial year, and therefore, the slippages that we were seeing were largely from these three, and we had also mentioned that there are some smaller states where we were not focused, for example, Kerala and Odisha.

In most of the other states, the slippages had peaked out in March and Karnataka also came back to normalcy. What we are now seeing on the ground is most of the districts are doing fine. Tamil Nadu has started to show 99.5% efficiency. Karnataka is coming close to that, and states in East are doing well with the exception of Odisha.

States in West are doing well with the exception of Gujarat. Gujarat probably will take a week -- a quarter or two more, and North has started to grow quite well. So if you ask me about specific areas, there are some specific areas in Gujarat and Karnataka, which are still not out of the woods yet. However, we feel that in most of the other parts of the country are quite ready for growth of the next phase.

Digant Haria: Okay. Okay. That's really detailed. So just like say, 12 months from now, the next 12 months, we can think of a 15% kind of a growth in the micro -- in this whole microfinance loan book, JLG plus individual loans?

Management: So Digant, we can look at H2 as of now. So we have been cautious in our growth in H1 because we were still not sure about whether the stress is going to continue longer. But in Q2, we started getting the confidence that, yes, there is demand coming in from the market. We feel that H2 will be much, much better than H1 in terms of both disbursement and growth. We see for the full financial year, a growth of about 7% to 8% on the micro banking book.

Digant Haria: All right. All right. All right. Fine. And the last question is on our credit cost. I think that has also started declining. So that flow -- we know that flow has reduced that we know since the last 2 quarters that flow has been reducing, but at least the stock, we are almost getting done on the provisions on the stock as well.

Management: In terms of provisions, we had also said that, look, Q1 and Q2 are going to be elevated because there was an NPA addition happening in Q4 and Q1, and over a period of time, the provisions would start to taper off, and you will start seeing this trend in Q3 and Q4 because provisions for most of the book has been done. There is a tail left, which will get covered in Q3 and Q4.

Digant Haria: Kudos to your team for being almost the first one to recover from this whole last 1.5 year of stress.

Moderator: The next question is from the line of Suraj Das from Sundaram Mutual Funds.

Suraj Das: So the question is, sir, on the individual loan book, on the individual MFI loan book, if you look at the PAR numbers, especially in Maharashtra, I think that number is slightly inching up. So is there anything to read into it in terms of how do you look at the number? While the group loan is doing well, but I think Maharashtra PAR 0, PAR 30, even PAR 90 on the individual portfolio is inching up for last 4 quarters -- 3, 4 quarters.

Management: Not much to read. If you look at it, Suraj, the NPA remains at below 2% and the PAR is in the range of 4%. Yes, is it -- is the PAR looking elevated at this time? Yes, compared to group loans, it is looking slightly elevated, but in individual loans, the collection efficiency as well as the flow to NPA is slightly slower as compared to group loans because a lot of collection happens in SMA 0, 1 and 2. So in terms of slippages, this trend will -- is showing up consistently for 3 or 4 quarters. We don't see any incremental stress in Maharashtra in individual loans.

Suraj Das: Okay. So currently, I think that number is 5.5, which was 3.5, 2 quarters back. Do you think that number will let us normalize in a couple of quarters because of this collection thing?

Management: Maharashtra, the overall PAR is 4.2 and the NPA is 1.9. So the SME book is about 2.3.

Suraj Das: On the individual portfolio, specifically, I was asking, Ashish.

Management: Yes, this is for the individual portfolio, overall PAR of 4.2 and GNPA of 1.9.

Suraj Das: Okay. Sure. Yes. So that is part one. Second question was more on the risk weight side. So if I look at the risk weight number, that has gone up by 9% Q-o-Q versus 4% loan growth. So anything to read -- I mean, what is the rationale here?

Because your MFI has not grown in that sense. Your overall growth was 4% versus MFI is 2% Q-o-Q, while your MSME and affordable housing has grown higher than the overall growth, but those are, I think, housing and LAP loan side. So what is the rationale of RWA growing faster than the loan growth?

Management: Suraj, it's Brajesh here. In this quarter, where the RWA and the risk weight has come down by 141 bps. Out of that, 55 bps has mostly contributed from some of the operational aspects like off-balance sheet adjustments, some rating related to our institutional borrowers, which will reflect over the time.

So it will get automatically adjusted. So effective RWA utilization was 86 bps which is commensurate with our loan growth of around INR 1,300 crores. So we expect the RWA to remain at similar level, looking at the estimated loan growth as well as the profitability and the PAT accrual, which -- estimated PAT accrual for the next 2 quarters.

Moderator: The next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Congratulations on good numbers. My first question is on the collection efficiency in September at the bank level has seen a good uptick on a month-on-month basis, and I believe there is no seasonality at play because last year, there was no such uptick in September versus August.

So is there something to read into in terms of can it be a sustainable trend for Q3, Q4? Or is it a function that you were able to recover a lot of overdues in the month of September. Can you just comment whether the September uptick is sustainable in the coming months?

Management: Rajiv, the collection efficiency that you see increasing from 97.2 to 98, this is a weighted average of non-delinquent SMA and NPA book.

Rajiv Mehta: Correct.

Management: So as the NPA book starts to slow down, the weighted average collection efficiency is expected to improve going forward also.

Rajiv Mehta: But any color on whether the SMA collections in micro banking, in particular, where you have a larger 1 to 90 DPD pool is also improving given the efforts that we put to ensure that, that pool doesn't roll forward?

Management: Yes, Rajiv. In fact, that was the strategy for Q1, and we had discussed it in the past that, look, when delinquencies start to go up, the best pools to focus are 1 to 90 and 91 to 180 because that is where the incremental slippages would happen, and therefore, to manage stress, what we had done was over managing collections in SMA and early NPA book 91 to 180, and the collection efficiencies have been very good in our SMA book. That is reflecting in our improved slippages.

Rajiv Mehta: Okay. My second question is on margins, and you've given the outlook that margins will remain broadly similar in second half. So I mean, my question firstly is on yield side. When I look at your micro banking yield, it's flat. But in the previous quarter, you had that 14 bps of one-off impact. So I mean, so we have not seen an expansion because of that absence. And plus the slippages were also lower in this quarter. Disbursements are going strong.

So the question is, will the micro banking improve on a Q-on-Q basis? And second is on the deposit side, when you look at the average bulk deposit pricing right now versus the prevailing market rates, is there any scope for further downward repricing? And on the retail term deposits, I see a sharp decline in the absolute deposit base. So how do we manage the traction of retail term deposits given that we want to grow at 20% at the bank level, and that is the biggest pool of deposit for us.

Management: So Rajiv, if you see the NIM has improved by 20 basis points coming at 7.9 %. Our micro mortgages book is growing strong. The micro banking has just about beginning to spread it wings coming back into the growth trajectory. The vehicle finance has been doing well. It is a high-yielding book, and the housing side also has, for the last 2 quarters, shown improvement and has maintained the higher yield than it was maintaining in the previous 2 quarters or so.

So overall, what we are seeing is that the yield on our portfolio is actually maintaining itself, of course, the repo cut notwithstanding, and the repo cut is actually applicable to only 17 % of our book, which is MSME, which is on repo rate and the FIG partial book which is on repo rates. So I think the cost of deposits that -- the steps that we took from April to August are only now beginning to show their effect.

The September quarter saw only the major impact that we did in the month of August, only a partial effect of that has flown into this quarter. The coming quarter, we are likely to see a better cost of deposits coming into our books, and therefore, we feel that the NIMs at around 7.9 thereabouts is very much possible, is very much on the cards for our bank.

Management: I hope this addresses your issue.

Rajiv Mehta: No, no, sir, clear about that. I had a specific question on why the micro banking yield did not improve Q-on-Q. Second was how do we manage the retail term deposit traction? Would we need to kind of start -- not cut pricing aggressively here because the absolute deposits have fallen pretty sharply, and we are also aspiring for much higher levels of growth. So we will require those deposits to flow in for us. So in that context, growth versus margin, that's the whole paradox.

Management: Okay. So on the term deposit side, as we explained in the last call, we had a gush of liquidity sitting on our books, and in this quarter, we flushed out the liquidity because of which the CASA was focused upon, and therefore, the kind of growth that we had and the room that we had over the CD ratio because we were at 85 or 86 % in the previous quarter, we had enough room to grow our loans on the existing set of deposits.

So it was a pure play on not taking high-cost deposits and managing with the existing liquidity that we had and also simultaneously flushing out the excess liquidity that was sitting inside. Of course, now we will -- we are seeing the growth coming back because that's the way we have modulated our team members, and therefore, there is no challenge.

There is no hiccup. It was a conscious call to actually be flexible in terms of the situation in which we were. So term deposits is all about that, and we are seeing the growth coming back because that's how we are now playing our game. And on the microfinance side, please?

Management: Yes, regarding micro banking yield, what you are asking, it is stable at 22%. We have not changed any rates. So we assume till the year-end, it will continue to be the same. Okay. Now over to Mr. Hitendra, he will answer on the deposits.

Management: So on bulk TD and retail TD, we had an opportunity to source bulk TD at lower rate. We had almost 67 bps lower than retail TD. So we focus slightly on a bulk TD. However, focus continues to retail TD. And also on -- if you look at maturity versus sourcing, we had almost a benefit of 108 bps on a sourcing side, maturity sourcing side on retail side. So retail TD, we can scale up whenever we want. It was a strategic call. It was not something which we had not anticipated.

Moderator: The next question is from the line of Abhishek Murarka from HSBC.

Abhishek Murarka: Congratulations for the quarter. Just picking up from Suraj's question, actually, if you see the IL PAR in 2 or 3 states, it has gone up, right? I think in Karnataka, Maharashtra, West Bengal, it has gone up. And the thing is that the weighted average looks good because in the other states, you're doing okay. But any risk that you see in IL, especially in the context that over the medium to long term, you want to increase it from 30% of the book to 45% or so. So any early learnings or anything from these three states? Or what's the real reason for this PAR going up in the IL portfolio?

Management: Abhishek, PAR has gone -- there are only two states which for the last 3 quarters have not shown a better PAR or a better NPA behavior, one of them is Karnataka, which, as we all know, had external issues. So therefore, the PAR was elevated. Otherwise, Karnataka always had an NPA below 2% Currently, the NPA is about 4.8% and PAR is about 7.4%. So it is an external reason.

There are two other states where PAR and NPA have not shown a significant improvement, one is West Bengal and the second is Bihar, which you are not seeing in the top 5 states. It's a smaller state for us. So in West Bengal, we have kind of been calibrated in our growth. We have not been growing much, and in Bihar, we have actually seen a flat book growth. So it's not been increasing again.

Our focus areas have been Maharashtra, Tamil Nadu, Haryana, and these are the areas which are doing well for us. Nothing in terms of the product construct or the underwriting or the income levels of the people. It is, I would say, related to Karnataka or West Bengal or Bihar, it is more like geographic areas not showing improvement as against the product construct or the income assessment.

Abhishek Murarka: Okay. So you're not feeling compelled to modify any of these -- any of the -- any features of the product or underwriting based on what you found in Bengal or Bihar? Or even actually even Maharashtra, your numbers from 1Q versus this has actually deteriorated a little bit, the PAR 30 and the PAR 90.

Management: Yes. Some little bit of improvement, deterioration, we can keep seeing over quarter-on-quarter, but not much to read in terms of the asset quality. There are only two areas which, as I said, West Bengal and Bihar, where we are not seeing any growth as well, it is a flat book growth.

Abhishek Murarka: Okay. Fine, and in terms of your overall credit cost, your full year guidance of 2.3, 2.4 remains. But your first half, even if I remove the accelerated provision, it's around 270 bps. So second half should be around 210 bps or lower. Is that something you are envisaging? And where is that improvement? So GL, of course, but are all the write-offs pretty much over in GL? Can you give some sense on how you expect to achieve this 2.4%?

Management: So as we said, we are not changing our guidance on credit cost. It will be in the range of 2.4. And H2 is going to be better than H1. That's again something that we had told in the last call as well because the bucket provisions were seen in the first half as compared to the second half.

In terms of write-offs, -- sorry, H2 write-offs are going to be significantly lower. Most of the write-offs that we have done in the entire write-off pool that we have done, I think only INR 2 crore comes from vehicle finance. Everything else comes from micro banking only. And H2, I think the same trend will continue, much lower write-offs and mostly from micro banking.

Abhishek Murarka: Okay. How much of the PAR 90 pool do you expect to write-off now in MFI?

Management: See, the write-offs normally happen when there is a full provision taken on any account. So very difficult to say what percentage will be written off. But you can take thumb rule of about 1.2% to 1.3% for the second half.

Abhishek Murarka: From the GL PAR 90, out of GL PAR 90?

Management: Yes, from the total micro banking, not GL.

Abhishek Murarka: Okay. Okay. From the total micro banking. Okay. Okay. That's right.

Moderator: The next question is from the line of Shreepal Doshi from Equirus.

Shreepal Doshi: Congrats to the entire team for a good quarter. My question was, firstly, if you recall, like the last couple of quarters, we've also seen issues pertaining to attrition as one of the reasons for elevated credit cost or even collection efficiencies being impacted. How has that trend shaped up, let's say, in the last quarter? And what are we doing in terms of measures to curtail it, particularly the lower level attritions?

Management: See from the attrition perspective, we have everything under control, and we are not seeing any kind of reasons why we need to worry on the attrition front. It is flat from the last quarter. And we are taking care of our employees as usual.

Shreepal Doshi: So what is it like at current levels at loan officer level or lower hierarchy level?

Management: Yes, we are at an annualized attrition rate of around 20% now.

Shreepal Doshi: Okay. And any particular teams where it will be elevated or where are the issues are more common?

Management: We are not seeing anything particularly, but it's sort of flattish.

Shreepal Doshi: Got it. The other question was on the disbursement side. So post the implementation of guardrails, what are the disbursement ticket size for new GL customers as well as what are the ticket size for the customers that we moved up from, let's say, GL to IL category? That's the second question that I had on the ticket size for these two post the, let's say, guardrail being implemented where you would have more than three lenders to a particular customer?

Management: Our group loan ticket size is hovering around close to INR 64,000 and GL to IL graduation. So IL ticket size is almost constant at close to INR 1.3 lakh for last 2, 3 quarters.

Shreepal Doshi: That would be the average number. And what would be the range basically for the, let's say, relatively vintage customer in GL, we go up to INR 80,000 or is it more than that?

Management: We go -- as per policy, we go up to INR 1.25 lakh. But for customers who are third cycle and above, the average ticket size is close to INR 80,000.

Shreepal Doshi: Okay. And in the IL category?

Management: IL category average, as I mentioned, it is INR 1.3 lakh. The customers who go to higher cycles, the average ticket size move up to close to INR 1.5 lakh, INR 1.6 lakh.

Shreepal Doshi: Okay. And what would be the higher range here, like, let's say, the bracket in terms of the higher bucket?

Management: Yes. GL, it is up to INR 1.25 lakh. In IL, the highest ticket size possible is INR 3 lakh.

Shreepal Doshi: Got it. Got it. And in IL, just one last question here. Do we really monitor the end use being business? Or is it not closely monitored?

Management: So both GL and IL are purpose-based loans. IL, we have various purposes, including business loan, livestock loan, home improvement loan. And similarly, in GL also, it is purpose-driven loan and LUC is done 100% for all the loans. And based on that, only the PSO classification happens. So LUC happens for all cases by a bank employee.

Shreepal Doshi: Got it. The last question was pertaining to data point. Could you please give out that CD book number because it's not given in the presentation.

Management: Asking about TD book, you're saying?

Shreepal Doshi: CD, certificate of deposits.

Management: CD, it is INR 411 crores.

Moderator: The next question is from the line of Shailesh Kanani from Centrum Broking.

Shailesh Kanani: Sir, just wanted to understand, in terms of book mix, this year, maybe we'll end up somewhere between 50-50 in terms of micro banking and non-micro banking given the growth. What would be our comfortable range in medium to long term? And how should we see that for FY '27, '28?

Management: Shailesh, as part of our 5-year strategy, we have contemplated that our secured book would be in the region of 65 to 70 % and the remaining would be the unsecured part. So as we go along each year, the proportion of the secured book will continue to grow faster than the unsecured part. Hope this is helpful.

Shailesh Kanani: Yes, yes, that's fine. And second question was with respect to our written-off pool. What would be that amount? And also in terms of recovery from that bad debt, if you can give some color, how can we expect that because that pool is on the higher side?

Management: So the pool that we have, there are two pools here. One is the written-off pool, which we have written off post-COVID, and there is a sale of assets that we have done. Put together, this is about INR 750-odd crores, and we expect anything between 15% to 20% recovery from this pool during this financial year.

Shailesh Kanani: So INR 150-odd crores, you are saying 15% to 20% out of that.

Management: That's right.

Shailesh Kanani: Sir, my third question was with respect to our second half performance.

Moderator: Sorry to interrupt. Due to time constraint, I request you to please rejoin the queue. The next question is from the line of Ashlesh Sonje from Kotak Securities.

Ashlesh Sonje: Provision coverage which you have specifically for microfinance, including any NPA...

Moderator: Sorry to interrupt. Sir, could you please reconfirm your question?

Ashlesh Sonje: Just one question on MFI. If you can share the provisions which you are carrying specifically for microfinance, including NPA provision as well as any other provision buffers which you have? And secondly, if you can just explain this additional slide which you have added on Page number 22 of the presentation, the line chart, which you have added.

Management: Okay. In terms of PCR, Ashlesh, we have 80% provisioning cover on micro banking.

Ashlesh Sonje: Any other standard asset or contingent provisions there along with that?

Management: So standard asset is about 0.5% that we keep on all the standard assets.

Management: On your question on the slide, this is nothing but after guardrail 2.0 implementation in April, we were just trying to show that as per MFIN guideline also, loans cannot be given to customers who are 60 DPD, though even when you follow 30 DPD, it is stringent compared to what MFIN guideline says. But internally also, we have guideline around customers' credit behavior. And based on that, we accept or reject loans.

So internally, based on customer repayment history, if customers are up to 30 DPD and between 30 to 60 DPD, we can still lend. But what trend shows that in the last 4 quarters, 5 quarters, the percentage of loans, which is going to customers who are over 30 to 60 DPD in their previous cycle, the percentage of loan there is below 0.5%, actually much below than 0.5%. That says that we are not encouraging customers who are not having good repayment history in the previous cycle.

Moderator: The next question is from the line of Anand Dama from Emkay Global.

Anand Dama: Yes. Most of my questions are answered. I had one question around the -- I think during the analyst meet, you had suggested that you had exposure to microfinance borrowers who in turn had -- were employees of the Tirpur-based textile corporates. Any stress that you have seen in that portfolio? I think that was about 2% of your overall microfinance portfolio borrowers as such.

Management: We have not seen any initial trend as of now. In fact, our repayment behavior in the Tirpur belt has not shown any decline. We have been watching Gujarat very closely. We've been watching NCR very closely. We've not seen any decline in the repayment behavior till now.

Anand Dama: What explains basically the surge that we have seen in the PAR portfolio, particularly in the state of Karnataka. It is still to do with that ordinance or like there are additional things which have actually happened because of which the...

Management: Nothing new, Anand. It is actually showing a very good improvement over the last 2 quarters. In fact, we are very close to 99.5% bucket x collection efficiency in micro banking, even in the state of Karnataka. So we have seen improvement in bucket x collection efficiency, improvement in slippages and the portfolio is coming under control now.

Anand Dama: But your PAR portfolio.

Management: externally, which is largely over.

Anand Dama: So that is basically the fresh set. But yes, the problem is that your PAR portfolio is still going up, right? And that could keep the credit cost higher in the state of Karnataka. And then you have Bihar elections now and then maybe West Bengal elections next year.

Management: So Anand, what -- if you look at it in terms of SMA bucket, early NPA and late NPA, the portfolio in Karnataka, which had gone into delinquency post the ordinance, that had to go through collections as well as recognition of NPA, both ways and credit cost. But last -- in the last earnings call, we said that 33% of our incremental slippages in the quarter were coming in from Karnataka because Karnataka was going through a lot of pain.

This quarter, we have seen that number coming below 20%. So there is a significant improvement in Karnataka portfolio. The early delinquency has more or less come back to normalcy. There is NPA recognition and credit cost recognition, which will happen during these 2 or 3 quarters, Q2, Q3, Q4. And I think by then, things will come back to normal.

Anand Dama: Okay. Lastly, we expect the universal bank license to come through. Any additional opex that we are already incurring in run-up to that license? Or how should we look at the overall opex growth or opex ratios in FY '26 and FY '27?

Management: Anand, our application is with the Reserve Bank of India, and they are evaluating and assessing our application, its contents. So the matter rests there. As we said earlier, we will await the decision of the RBI and as far as expenses or additional expenditure that we will need to do, I think nothing changes immediately as we become a universal bank.

Of course, there will be some matters which will gain immediate attention that will be about signages, our e-mail addresses, our -- all those kinds of letterheads. So those will be taken care of once we get a positive decision from the Reserve Bank of India, and the other expenses or the investments that we will do are part of the general strategy that we have chalked out, which is agnostic to any outcome that we may get from Reserve Bank of India. So not much expenditure. If at all, there is, yes, there will be some, but it is nothing of not or of materiality, trust this is okay?

Anand Dama: If possible -- lastly, if you allow me, basically, just want to check.

Moderator: Sorry to interrupt. Sir, due to time restraints, I request you to please rejoin the queue. The next question is from the line of Abhishek Tandon from Bowhead India.

Abhishek Tandon: So just a question on credit cost. Going into fiscal '27, just fiscal '27, your secured book obviously will keep increasing. And I guess there, the credit costs are pretty low because big parts of the secured book is affordable housing and FIG, where I guess you have very low credit cost. And microfinance would also be on a strong footing in fiscal '27. So is the assumption of, say, a credit cost of 1% in fiscal '27, a very aggressive assumption, would you say?

Management: So Abhishek, we'll come back on that, whether we want to take any assumptions for FY '27 as of now. But what we can surely see is the credit costs, this cycle would not extend beyond quarter 4 of this year. And therefore, we'll see much better normalcy in the next financial year. I would also like to add here that we have started monitoring the book that we have sourced in the last 12 months, and it is showing much better quality than the one which we had previous to that.

Moderator: The next question is from the line of Sagar Shah from Spark PWM.

Sagar Shah: Congratulations to the management for showing such a resilient set of numbers actually in such an environment. So my one question, sir, would be in terms of IL loans, individual loans. Individual loans as compared to the March '25 year ending, actually, they have been relatively on the flat side. So means I'm talking of the IL loans. IL loans have been shown very negligible growth actually.

So my question is that considering that we are nearing to the bottom of this crisis, micro banking crisis, and you would have got filtered out some good quality GL customers also after the 1-year debacle actually. So is it safe to assume in the next 6 months, in the next 2 quarters, our IL growth actually will grow better actually than the -- obviously, the GL growth due to the better filter of the GL customers? And will we get such good quality of customers? And what are you seeing on ground actually?

Management: So see, IL definitely, IL has been our growth engine in microfinance in the last 3, 4 years, and we want to grow this business. IL is mostly -- for us, it is GL to IL graduation, though we focus a little bit on open market acquisition as well. When we started this year, at that point of time, the industry was going through -- still going through a crisis and further fueled by Karnataka issue as well.

We were a little slower and cautious in the first quarter, though IL has done better than GL in terms of growth in the first 2 quarters of the year. But yes, going forward, in the next 2 quarters, you will see IL doing much better, much better than GL and overall in absolute values as well as we -- you rightly mentioned that we have good customers where the repayment history has been excellent. Their income levels are high and eligible for graduation. So in the next 2 quarters, you will see IL doing better than what we have done in the first 2 quarters.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Congrats on a good set of numbers. Sir, most of the questions have been answered. So just one question on the cost of funds. So we have seen a 30 basis point decline in this quarter from previous quarter. And how do you see this going forward?

Are there some levers because of this we will be able to reduce it or given that we have done high consumption in this on CD, so going forward, we'll be sort of increasing the rates again to capture more of this for our high growth ambition on the advances side?

Management: So we had taken rate cuts in both FDs and also savings account between April to August. And we have seen some of the benefits flowing in the second quarter. We expect further benefits to flow in as the repricing happens for the fixed deposits. So those benefits will keep coming, and we expect to see better numbers in the next 2 quarters.

Sarvesh Gupta: But where do you want, yes, sorry, go ahead.

Management: Sorry, sorry, please carry on.

Sarvesh Gupta: Yes. Basically, where do you expect this sort of a number to settle down eventually?

Management: So, what we cannot -- it's very difficult to give exact number, but what we are saying, TD repricing will happen. So cost of fund will go down from here. SA repricing has happened. So SA book is already repriced, okay? Cost of fund has come down there. TD, as we go along, whatever incremental TD is booking, they're booking at much lower cost. So we are sourcing at roughly what 7.38% now TD average cost.

Sarvesh Gupta: Understood.

Management: So just to conclude, we expect to end of the year with around 7.1%, something like that.

Management: Around 7.1%, yes, right.

Sarvesh Gupta: Okay. And sir, on the secured book side, so your yield is around 12-odd percent. Do you -- how do you see this increasing? Or do you think that this is what it can achieve because we are adding the other products, which have got higher yields. But overall, how do you see the non-microfinance book yields behaving in the coming quarters or years?

Management: The non-micro banking yields will go up a bit because of the newer segments which we have launched, which are higher yielding like micro mortgage around 19% plus, gold loans in the range of 15%, vehicle loans in the range of 20%. And with the contribution increasing in the non-micro banking book, overall, the yields for this book is expected to go a little upwards.

Sarvesh Gupta: Any number that you would want to reach there?

Management: No, it's difficult to put a number to this. We -- it depends on the book mix and how the products perform. So maybe here and there, but a little uptick should happen.

Moderator: The last question is from the line of Ashok Daga, a Retail Investor.

Ashok Daga: Sir, my question is that your -- this last 4 quarters, what I am seeing, you -- from your financing that is your main business, you are incurring a loss continuously. So what was the reason? And how you are going to control that? And due to this, even though you are showing your net profit is a positive due to other income, but your main business is showing the negative portion. So how this your cost of fund or all these things is going to make or bring you in the positive area?

Management: Sorry, could you please repeat the question, sir, we couldn't hear you?

Ashok Daga: My question is that your financial means whatever your cost -- your deposit and interest you are paying your expenses are there. From that last 4 quarters, you are showing a loss. Your profit is coming from the other income. Due to that, your net profit is positive, but your OPM is negative for the last continuous 4 quarters? My question is clear or require more...

Management: No. So we are not able to understand the question, sir, we'll connect offline and maybe take this question, sir. What I just want to highlight to you is that our pre-provision operating profits have been coming across and they have started to grow sequentially as of now, but we'll connect with you and take it offline as well.

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

Management: I once again thank all the participants for their time and interest. We at Ujjivan SFB, remain focused on delivering on our guided numbers while we build an enduring institution. I wish everybody a happy Deepavali in advance. Please reach out to our IR team for any queries that you may have. Thank you once again.

Moderator: On behalf of Ujjivan Small Finance Bank Limited, that concludes this conference. Wishing you all a Happy Diwali. Thank you for joining us, and you may now disconnect your lines.