"Ujjivan Financial Services Limited Q1 FY17 Earnings Conference Call"

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Moderator: Good day, Ladies and gentlemen, welcome to Ujjivan Financial Services Limited Q1 FY-17 Earnings Conference Call, hosted by Axis Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the updater by pressing "*" then "0" on the touchstone phone. Please note that the conference is being recorded. I would now like to hand the conference over to Mr. Praveen Agarwal from Axis Capital. Thank you and over to you, Sir!

Praveen Agarwal: Thank you, Lizann. Hello everyone and welcome to this conference call of Ujjivan Financial Services. We have with us Mr. Samit Ghosh, MD and CEO, Ms. Sudha, CFO, Mr. Rajat Singh-Head Strategy and Mr. Hiren Shah-Head Investor Relations.

I would like to congratulate the team on a great set of numbers reported and would request Mr. Ghosh to take us through the key highlights of the result, post which we will have Q&A. Over to you, Sir!

Samit Ghosh: Thank you Praveen. Good afternoon everyone. This is our first quarterly analyst call and we look forward to your participation in this call. As you are all aware, we had an excellent quarter both in terms of profitability and business growth. Our net profits actually doubled compared to the quarter in the previous year and our business growth has also been robust as per our plan. The MSE and housing business has started moving up and now is an increased proportion of our total portfolio. We have been consistently among one of the best places to work for, under the Great Place to Work and the Economic Times, India survey conducted annually, but this year was a very pleasant surprise, because we were the third ranked among all companies in India, the only Indian company to reach that position which was the third position, after Google and Amex. So that has been a great success for us and we are very proud of it.

As far as our stock price is concerned, we have been very pleasantly surprised with the way our stock prices have moved up and there has been a lot of interest in Ujjivan. One of the side effects of this has been that our foreign shareholding has gone up to 54%. We are in discussions with the regulators to figure out ways so that we can reduce the foreign shareholding of the company to around 49%, below the 50% mark. So for this, we are in constant dialogue with our regulators and hope that we achieve this in the next few months.

Further, in terms of our preparation for the small finance bank especially on the IT side; we have engaged Wipro as the system integrator. We have tied up with Infosys for the Core Banking system, Finacle. The whole technology side is moving in full force and we are on track on that front.

We have also made some changes in our organizational structure in terms of senior management as we are moving from a largely single product company which was the micro finance earlier, where we had a sort of a geographical kind of organizational structure, to more towards a multi-product kind of company and to that extent we have moved Mr. Jolly Zachariah, who was the COO for our Western Region, to help the multiple channels, which we are going to introduce under a small finance bank. We have also transferred Ms. Carol Furtado who was our Head of South to head a very responsible position as the Head of Human Resources. She has been here with us for the longest period of time and we felt that it was very critical to have her help the human resources function, as that is one critical element in our transformation. We have hired Mr. Santosh Kumar who was with Kotak and previous to that ING Vysya and Axis etc., as the Head of Liabilities from the Retail Liabilities, which was a key position we wanted to fill up and we have also hired Mr. Ravi Subramaniam as our Head of Treasury.

Those are roughly key management changes we have done in this last quarter and with this I would like to hand over to Sudha to take you through the financials of this quarter. Thank you very much.

Sudha Suresh: Welcome to the call and as Sir enunciated, we have had an excellent Q1 performance, starting from our gross loan book at about 5,851 Crores, which has been almost a 66.5 % year-on-year growth and 8.57% compared to the last quarter, also in terms of the active borrowers who have reached about 33 lakh from the 24 lakh that we had at the same time last year. We have done pretty well in terms of our net profitability and all the others business and profit ratios.

During this quarter, among the other key changes, we have also had our long-term bank rating upgrade by CARE and ICRA to A+, as also the short term rating upgraded by CRISIL and ICRA both to A1+.

As Sir had indicated, the award of the third Best Place to work for in India has come as a pleasant surprise for us and it does make us very proud and is a very strong motivating factor. In terms of our transition to SFB, we have also seen and moved according to our planned schedule, be it in terms of the IT technology front or in terms of the HR front. Critically, all the senior positions are on board.

In terms of our NII and NIM both, I think, we have kept that in line with the projection. We have a NIM of about 13%, which is an increase from 11.59% in the Q1 of FY2016. Similarly, in terms of the NII at 172 Crores, which is an increase of about 76.93% over the similar quarter last year and about 13.26 % over the last quarter.

In terms of disbursement, the disbursement has seen an increase of about 55% over the same time last year and in terms of the disbursement, which when compared to the last quarter, it is roughly 10% less, because the March quarter- the closing quarter of any financial year normally records the highest. We have added 2.2 lakh new borrowers during this quarter and our total borrowers stand at about 32.79 lakh. Our Gross NPA is at 0.18%and our Net NPA is at about 0.04%.

In terms of our ROAA, we are at 4.85%, a healthy one and ROAE stands at about 20.27%. So in terms of our growth and all the profitability parameters, we have done quite well. Parallely, we are also focusing on two things, one is the SAP transition related processes and the growth in our MSE and Housing business. Compared to the last year, we have an increase of around 2% in terms of the MSE and Housing portfolio as a contribution to the total portfolio. So starting from last year where it was about 11.6%, this year we are at about 13.4%. Correspondingly, the contribution of our share of micro finance business has come down from 88.4% to 86.6%. I would now leave the floor open for questions.

Moderator: Thank you. Ladies and Gentlemen. We will now begin the question and answer session. We will take the first question from the line of Digant Hariya from Antique Stock Broking. Please go ahead.

Digant Hariya: Congratulations on good set of numbers. My question is mainly on the operating costs as to how much of the one-time transition costs, transitioning to a bank cost will come in the second half of this year, and how much comes for the next year. If you can just give any guidance on cost to income ratio for this year and the next year, that could be very helpful?

Rajat Singh: Whatever plans and numbers we have discussed during the announcement of our annual result, those numbers still hold true. We are on our path to meet those numbers, so whatever guidance we have given in the previous call of having cost to income ratio moving up to 66.63% that still holds true even as of now.

Digant Hariya: When you say that most of the senior hiring is done, does it transition into branch managers or we are still at the Area Manager or the Regional Manager level kind of hiring or we still have to go down to such granular levels?

Rajat Singh: When we see senior management hiring, it was largely L1 and L2 positions, people at Leadership Team and those hirings has been done. As far as branches and regular business is concerned, those are still in work-in-progress. We have made significant progress and we are as per the schedule. We generally do not have people at this stage. It will be closer to the launch of our bank.

Digant Hariya: Thank you so much. That is, it from my side.

Moderator: Thank you. We will take the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Good Evening. Thanks for the opportunity. Madam, if I look at the average ticket size of the group loan, last quarter number was 23,900 and this quarter it is 23,000 as compared to 23,900. So some decline while we were expecting this number to trend up. Are you seeing any pressure or have you changed strategy in terms of focusing also on average ticket size or is it just a quarterly aberration?

Rajat Singh: Ticket size is more or less stable. As mentioned in the previous call, our ticket size is optimally balanced because our credit policies are actually based on occupation. So I would say it is more of an aberration and we had one or two products, which were loyalty loan, which was launched in June month, which led to minor reduction in our ticket size.

Amit Premchandani: On a trend basis, where do you see this increase in ticket size on MFI loan say two to three years down the line. Every year what shall be the expectation of increase? Will it be linked to CPI or will it be linked to the loyalty of the customer if he is a repeat customer and that forms larger part of the portfolio, the ticket size increase can be much higher?

Rajat Singh: It will be largely linked to the vintage of our customer. So if we only talk about micro finance loan, as more and more people are taking higher ticket size, the average ticket size is expected to go up. But that increase may not be very significant because at this moment from the MFIN side, we have a regulatory guideline of having 60,000 exposures. If that has been divided into between two MFIs, 30,000 is the kind of ceiling one would involve. Anyone who requires a higher ticket size, we generally encourage them to take individual unsecured loan.

Amit Premchandani: So two years down the line, if the 60,000 limit stays, 30,000 would be the ticket size that we should look at?

Rajat Singh: That is the maximum ticket size that we can think.

Amit Premchandani: When are you planning to formally launch the bank?

Rajat Singh: In the first quarter of next year.

Amit Premchandani: Calendar year?

Sudha Suresh: Yes.

Amit Premchandani: So this 54% FII holding has crossed the 49% threshold. This will most likely to be required to be brought down to 49% before the launch. So the plans for this bringing down, is it through fresh capital issue or will it be just secondary market transaction?

Sudha Suresh: Currently we are in talks with various regulators and others, if you look at possible ways to bring this down. I am sure that we will be able to work out and resolve this matter in a few months.

Amit Premchandani: Is fresh capital issue ruled out?

Sudha Suresh: We would not like to comment at this stage because we are working on the resolution for this problem.

Amit Premchandani: Thanks. That is, it from my side.

Moderator Thank you. We will take the next question from the line of Parul Gulati from HDFC Securities. Please go ahead.

Parul Gulati: Good evening. Thanks for the opportunity. Just wanted to understand apart from the benefit from the lower systemic rate of interest in the economy, has there been some compression in the risk rate spread that the company was paying to the lenders earlier? I was saying apart from the benefit from the rates coming down in the economy. Is the company also seeing compression in risk spreads that the lenders were charging? Is there any compression in the risk spreads may be the relative spreads to the base rates that the companies were borrowing earlier to what it is borrowing now.

Sudha Suresh: I would definitely look at in the future, the borrowing cost and interest rate risk as we look at it or liquidity risk for that matter. We would look at the risks coming down in the future and to the extent that the entire short-term borrowing would be significantly at lower cost, we will be able to manage it better. Not only that with a good rating at this juncture where we have already moved to A+ and A1+, we hope that our performance can take us to the next level of ratings, which will in turn help us in terms of the borrowing costs.

Parul Gulati: I understand that, but if one looks at the spread that you are paying last year, the base rate that you are paying now, has there been any compression in that?

Sudha Suresh: Yes.

Parul Gulati: If any kind of number on that and your outlook?

Sudha Suresh: No. What we are doing is constantly monitoring the average cost of funds that we have and progressively that cost has been coming down. This is under constant monitoring because currently as an NBFC MFI, we are under the regulatory cap in terms of the margin, which will not be there once we become a bank.

Parul Gulati: Yes, understood. On the growth front, overall growth has been quite robust, and if we look at the disbursement for the MSE, and including all the individual segments, but if one looks at the disbursements for MSE it has lagged actually the overall disbursement, because our intention has been to increase the MSE shares. So are there any incremental challenges in this particular segment?

Samit Ghosh: Right now, we are actually building up the team for the MSE business on a large scale across the country. I think what you had seen in last quarter will not be repeated in the next quarter. You will see fairly robust growth in the MSE business in the next quarter.

Parul Gulati: Are there any incremental challenges to this apart from the team that still needs to be built in this particular segment and the type of asset quality performance?

Samit Ghosh: There are no incremental challenges on the side of building up a proper team. Right now we are in the process of putting that in place.

Parul Gulati: One more question. Fee income has been particularly robust. If you could look at the fee income from other financial services, so if you could kind of give your outlook on that as to what it constitutes because there in the growth has been quite sharp. Though it is one of small risk, but the fee income from other financial services has been quite strong?

Sudha Suresh: Some facts to that in terms of the greatest securitization, which we have, could generate some kind of fee income, but apart from that, we do not see any major change in terms of an incremental fee income.

Parul Gulati: The income, the spreads on securitized book it is booked here, not in the NII?

Sudha Suresh: Yes. As per the time slot, it gets booked.

Parul Gulati: The liquid assets that once maintained in the balance sheet, if one tries to get the sense of the reported numbers, it is quite volatile. For example, cash and cash equivalent was around 20% of balance sheet in FY2015 and now the reported numbers it says 7%. How much liquidity you maintain in the balance sheet as a percentage of assets or advances?

Sudha Suresh: Traditionally what has happened and you are well aware of this, banks have a tendency to disburse large amounts in the last quarter I think hopefully that problem gets solved because right now there is a mandatory in terms of maintaining across all the quarter the respective ratios. So still I would say till March 2016 there was a kind of lending which was maximized during the last quarter of each financial year and most of the MFIs did carry large liquid balances in their balance sheet in the last quarter of the financial year. Traditionally also the banks have taken time in order to process and by first quarter where the balance sheet and the financial statements are not ready most of the MFIs are also not geared to get for the institution of funds through bank loans. So that is been the reason why we would find a little volatility in terms of the fact that March balance sheet would carry the maximum amount of funding whereas in terms of the other quarters like June or September or December that would be significantly lower. In terms of a prudent policy of liquidity management we would like to maximize on the sanctions in hand but try to minimize on the liquidity that is there as at the quarter end. That is the endeavor, which the company has.

Parul Gulati: Thanks a lot Madam. I will come back in queue.

Moderator: Thank you. We take the next question from the line of Jackson Yeow from Hidden Champions Fund. Please go ahead.

Jackson Yeow: Thank you. I would like to thank Mr. Samit Ghosh and the entire team for the **(inaudible) 22.02** over the past ten years and a very good set of results in the first quarter. We are hearing some reports on the fast growth figures from **(inaudible) 22.13** so how do we manage the urge the simply grow along with the crowd and what are the policies Ujjivan has in place to ensure our loan officer grow their loan portfolios sustainably? Thank you.

Samit Ghosh: First of all, we do not actually follow I mean just because the couple of micro finance institutions are growing very fast, we do not necessarily follow their track and we have our own plans and basically our staff also have their orientation is not just towards sales but also the portfolio quality so consequently that leads to a fair amount of responsible lending on our behalf and that is the philosophy we have always had. So we just do not follow someone who is very aggressively growing their portfolio because we want to maintain a balance between business group and the portfolio quality.

Jackson Yeow: For each of the three aspects of credit financing which is one credit origination finding the people who needs a loan and two assessment of the people and third the recovery of the loan amount, on this three aspects front are you able to share with me the specifics of how Ujjivan distinguished itself from the others? Thank you.

Samit Ghosh: So I think one of the key distinctions in Ujjivan compared to other micro finance institution is that for each branch based on the history of that branch and experience we have had we have a credit policy related to that branch which limits the kind of exposure which we can take for different occupations you know I do not think there are any other micro finance institutions credit policy down to the branch level. The second thing is we are also one of the few institutions where credit is separate from sales and every credit is actually every loan is independently approved from credit, once the proposal comes in from the branch. I think these two are the critical elements but you know in general of course we can talk to you later in the group lending business in customer selection etc, its already build in to system that we actually select the best customers with the lowest risk but that is the separate discussion.

Jackson Yeow: Right. So my other question is Ujjivan has much more number of employee compared to your peers, for example Janalaxmi. I think Ujjivan has the most three times more employees while your loan portfolio is significantly smaller. So my question is how you do manage your overhead cost, how you transform to a SFB and open more branches? Thank you.

Samit Ghosh: Well, Janalaxmi has outsourced significant portion of their back office to outside institutions whereas apart from data entry staff, bulk of our work processing is done in-house and even if you look at our operating expense ratio, it is one of the best in the industry. So we look at it from that perspective, the measures are actually efficiency based on our operating expense ratio which is 7.2% at present. So we measure it from that perspective rather than in absolute numbers of employees.

Jackson Yeow: Just a last question. In your earlier press release you mentioned that the NPA might rise with more housing loans our loan portfolio so what is the eventual NPA expected and what are the steps that we can take to keep the NPA low? Thank you.

Rajat Singh: Okay, so unlike micro finance group model we are expecting higher NPA to come in unsecured individual loan and there while group loan NPAs are in range of 0.1% for individual loan in a sustained basis, the long term basis that can go up to 1% to 1.5%.

Jackson Yeow: Thank you very much.

Moderator: Thank you. The next question is from the line of Nitesh Jain from Investec. Please go ahead.

Nitesh Jain: Thanks for the opportunity Sir. Sir how do you see the competitive environment changing as micro finance institutions convert into a small financed bank because you may not be a part of MFIN and you may not be required to follow two loans per borrower sort of guidelines so how do you see that competitive environment changing has you convert into a small financed bank and what steps you are taking to mitigate those risks?

Samit Ghosh: So actually over the weekend the small financed bank met with the Reserve Bank and also with the MFIN on this very issue, the thing is the 2MFI rule will not apply to us because we no longer be MFIs but I think all of us will still abide by the loan cap of 100,000 which RBI has set for micro finance customers. We will still comply with that and I think RBI also would require us to comply with that otherwise there will be over extension of credit to these customers so that kind of discipline we will maintain.

Nitesh Jain: Sir secondly on your individual loan so when you extend individual loan to customer so you make sure he is not having any other loans from other micro finance institution or he may have loans from others?

Samit Ghosh: Actually we do check the entire debt exposure but we actually do a detailed cash flow analysis of the customer and see the debt servicing capacity before we give him a loan. In these cases of individual loans, we do in-depth financial analysis especially from the perspective of ability to service these loans.

Nitesh Jain: But does that loan counted as one loan from our micro finance distribution in the credit loan?

Samit Ghosh: Individual loan is not a qualified asset as per RBI so that two MFI rule does not apply for this.

Nitesh Jain: Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Ankit Choudhary from Equirus Securities. Please go ahead.

Ankit Choudhary: Basically I just wanted to know the breakup of your interest income, what is from the MSE, what is from the group lending housing etc.?

Rajat Singh: Those papers are not readily available, we can share that with you. Largely it will be in proportion to the portfolio; however, because bulk of our portfolio is still unsecured, detailed data can be shared with you.

Samit Ghosh: May be you can email that to us and then we will send you the breakdown.

Ankit Choudhary: Second thing I just wanted to know the movement of your GNP and NPA how is been the addition and what has been the recoveries?

Rajat Singh: There has been an increase of our GNPA from March but most of those, infact bulk of this increase is mainly because of some sporadic incidences in some of our branches, which we have seen and bulk of these are expected to get collected over a period of next one month or so. Some of these GNPA are also result of deceased customer and death of their spouses and there are some insurance cases pending and as and when those insurances cases are settled, these numbers will get recovered.

Ankit Choudhary: Okay, in your last presentation in Q4 you mentioned your housing AUM to be just 20 Crores and this time it is showing 286-295 Crores so as have you changed something in your calculation or something of that Sir?

Rajat Singh: See, I think last time when we mentioned about our housing portfolio we were talking about secured housing portfolio. Right now we also have an unsecured housing portfolio where we give loans mainly for the home improvement so this time we have included everything as a part of housing loan.

Ankit Choudhary: So last time it was under MSE and this time you moved to housing?

Rajat Singh: So I think even last time we had probably given the breakup on the housing only but we would have talked about our housing portfolio in terms of only secured loans.

Ankit Choudhary: Thank you.

Moderator: Thank you. The next question is from the line of Praveen Jain from Desai Brothers. Please go ahead.

Praveen Jain: Congratulations Sir for very good set of numbers. I have certain question, first is your capital adequacy is 29% so can we assume that you will not need any capital for next six to eight quarters?

Sudha Suresh: Yes, you may safely assume that Yes.

Praveen Jain: Second thing is I observe that cashless disbursements have not gone up in first quarter as compared to the Q4 last year in the last full year cash less disbursement went up by 13% but remains same practically in the first quarter now cashless disbursement going up is a good sing so why it has not gone up in the first quarter?

Rajat Singh: We already are at a very high level of cashless disbursements. There are some practical problems when it comes to rural area customers, as they are not very comfortable getting their loan in their bank account because they find it difficult to access their bank account. So we have hit the kind of ceiling. The incremental growth in cashless disbursement can only happen once we convert ourselves into a bank.

Praveen Jain: After we convert ourselves into bank do you expect this to go up practically at 100% because you will insist everybody to have account?

Rajat Singh: Yes, we would like to do that.

Praveen Jain: You said your securitized loan book in June 2016 is less than what it was in March 2016 what is the reason for having less securitized loans?

Sudha Suresh: Yes, so if you see overall the securitized book stands at about 293 Crores now and same time last June it was just about 23 Crores. Ujjivan as a policy has not done much of securitization in the last few years essentially because the commercial call on that was very much in favour of a plain vanilla terms on borrowing, we have been able to consistently borrow at extremely attractive prices and that is a reason why we had not come down on securitization. So what we are looking at is we will be looking at increasing the securitization in the forthcoming quarters in line with our plan and strategy to significantly increase securitization before we become a bank.

Praveen Jain: So can we expect this to go up to 20% of the total loan book when we become bank?

Sudha Suresh: Yes, you can expect that much.

Praveen Jain: Madam, can we expect the weighted average cost of debt to go down by 1% from existing 11.56% in the next two quarters?

Sudha Suresh: Probably we are endeavouring towards the same although we also have to balance out in terms of the liquidity resources that we would like to keep ready for our bank. We would also like to see in terms of a strategy where we want to borrow certain long-term debts in the nature of NCDs subordinating the debts as well as the debt this could come at slightly higher cost in order to secure the ALM position for the bank and these could be contract to the otherwise borrowing cost which are showing the declining trend.

Praveen Jain: One suggestion Madam, we are 32 Lakh customer now can we have a policy that we will lend for MSE and housing loans only through our best of this 32 lakhs customers if they need No.1, No.2 if they do not need then with their reference only we should lend MSE and housing loans which are of larger size so that we have limited or absolutely no NPAs?

Sudha Suresh: See part of our individual lending right now definitely a large part of it is constituted by customer who have graduated from group lending whose business size have increased and their credit off-take is better and they are now are MSE or HL customers. Going forward, we are also looking at the open market opportunities, which have been set base already in this year, and we would be looking at customer who do satisfy the credit criteria as envisaged by our credit team in order to expand on the MSE and HL business. Parallely they will also continue to graduate those group-lending customers of ours who are requiring an individual loan and whose businesses have expanded and their credit criteria fit in terms of moving them towards the individual borrowing.

Praveen Jain: Madam, can we expect to our 32 lakh saving bank account after one year of completion as asset be as we have 32 lakh customers?

Sudha Suresh: That would be our endeavour Sir.

Praveen Jain: Thanks a lot, thank you.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Thanks for the opportunity. Would it be possible to share the yields for this various different product lines?

Rajat Singh: So for group loan our interest rate is 22% for unsecured individual loan it goes to 24% and for secured home loan it is 15.75% and for secured business loan it is 20%. So broadly we can divide our business into three parts book loan where we charge 22% for our group loan, unsecured individual loan where we charge approximately 24% there are multiple product and secured loan where we have two variants housing and business for housing we charge 15.75% and for business we charge 20%.

Rahul Ranade: Alright Sir. And just a clarification if I heard it right the 2MFI rule does not apply to individual loans right?

Sudha Suresh: Yes, it would not apply.

Rahul Ranade: So does the gap of Rs.1 lakh also not apply to individual loans?

Samit Ghosh: No see individual loans are nonqualified assets. Under the qualified assets, which are largely group loans, the 2MFI rule applies and if there is an individual loan given within that qualified asset then the 2MFI norm will apply but individual loans which are given outside the qualified asset, under that the 100000 gap and the 2MSI rule is not applicable because there the loans are given purely based on the cash flow analysis of the customer.

Rahul Ranade: Just one quick data point. How much of our number of borrowers basically what percentage of the borrowers in the group loan would be just in a first cycle or in an early first or second kind of a thing if you could give me the number?

Rajat Singh: Almost 30%-35% of our customers would be in first cycle and others are in second cycle approximately 50% of customer would be beyond second cycle.

Rahul Ranade: Thank you.

Moderator: Thank you. The next question is from the line of Alok Shah from Centrum Broking. Please go ahead.

Alok Shah: Thanks for the opportunity and congratulations on good set of numbers Sir. I had three questions, could you please help me understand how are we looking at the growth for whole of FY2017 in a sense that we have already clocked 66% growth and some color there in terms of the MFI portfolio and the individual loan book there that is my first question for you?

Sudha Suresh: So in terms of our growth we are looking at sticking to our business plans where we have indicated that about 30% to 40% growth year-on-year is what we are looking overall.

Alok Shah: Okay and that will be kind of equally split between the MFI and the individual loan portfolio?

Sudha Suresh: No in terms of an individual track record you may see that the MSE and the housing would grow definitely at much higher percentage because of low volume rates whereas in terms of a micro finance business you could look at a volume which is closer to about anywhere between 25% and 30%.

Alok Shah: Now a continuation to this question can I have the average ticket size of a portfolio for Q1 of FY2016 something you have shown for Q1 of FY2017 broadly?

Sudha Suresh: I think we need to get back on that, however we have shared already the average ticket size across our major products in terms of our GL and IL asset.

Rajat Singh: If you look at our Q1 2016 numbers, group loan was closer to Rs.19000 average ticket size, which has gone up to around 21000-22000 only for group loan. If you take overall pictures including all the products in Q1 last year it was close to, 20600 and now it is closed to 25000.

Alok Shah: Maybe I will take it separately from you on segment wise. That is second question. The third question that I am trying to understand here is that whilst the system is kind of inefficient in able to capture the SAG kind of customer base how would you as an SFB look to ensure that a customer who is already an MFI borrower and who is looking to borrow from SFB is not excessively leveraged by different kinds of banking channel?

Samit Ghosh: We would follow the same process which we do now that is before we extend any credit we would pull out the Credit Bureau report and we would follow the norm in terms of total exposure even as an SFB. There will be no change in process in terms of credit, but you were talking about group lending right?

Alok Shah: No so as an SFB customer if I have approached for an individual loan at your SFB model now I would have already availed some line of credit from 2MFIs, which you can kind of, go?

Samit Ghosh: Yes, we would pull that Credit Bureau report and see as an SFB we are not bound by the 2MFI rule but the cap of let say 100000, which RBI has set for individual exposure as for group lending customer that would still apply.

Alok Shah: Yes, I take a point but how would you assess if I am also a SHG borrower? How would you assess or how does an MFI currently assess whether there is a particular borrower has also availed credit under the SHG route?

Samit Ghosh: We get it from the Credit Bureau report.

Alok Shah: Even the SHG?

Samit Ghosh: No not SHG. No, we do not have any information in the SHG. From the SHG actually they do not report. RBI has been trying very hard for them to report to the Credit

Bureaus but they have not been successful so there is no real way of our figuring out if the customer has borrowed also from the SHG program.

Rajat Singh: I would just like to add, if you look at the way SHG works, the average ticket size to the customers is very small, so although to that extent we keep our margin in our calculation so we do not know that but average ticket size will be much lower than the MFI and ticket size is.

Alok Shah: Fair, so in a sense you may have availed credit from those lines of channels but we are taking some kind of cushion there when we are doing some kind of individual loan there, probably something when we do SFB?

Samit Ghosh: Yes.

Alok Shah: Fair. Thank you so much for your answer Sir. I am done.

Moderator: Thank you. We will take the next question from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Just a couple of questions, one Sudha Madam I just wanted to understand this commercial paper that you have launched you put in this quarter any idea can you give us roughly what yield that you been able to place the paper at?

Sudha Suresh: So we started off on the commercial papers early last year end and we did a set of commercial papers in the last quarter closer to about 9.8% currently we are in fact launching other set of commercial papers closer to about 9.3% but our endeavour is to constantly do the commercial papers both for the purpose of branding, recovering the money market and also consistently get this pricing down so that we are well evolved when we start placing our CDs. So in fact we are talking to some of the institutions for the next commercial papers, which could be, sub 9-odd.

MB Mahesh: And as compared to that what are we borrowing from the bank at?

Sudha Suresh: Yes, so the bank borrowing rates are anywhere between the interest rates are anywhere between 9.75% and 11%.

MB Mahesh: Okay and the second question is the question for Samit. We have started seeing once you have reported this data have increasingly started to see higher rejection rates across time and even if you look at your presentation you have reported this trend in the same direction. Just trying to read how should we read into this data because there seems to be some level of higher rejection rates in the system? Second correspondingly you have also indicated that 77% of the customers have now an Aadhar Card is it possible for you to reverse the question and ask how much for you, have we come to a place or point in time where we been able to understand what is the borrowers leverage levels?

Rajat Singh: Manish, first question is increase in overall rejection is mainly because MFIN has started insisting on taking either Aadhar or voter card as a primary address proof or primary identity proof, earlier the rules were slightly relaxed but now any borrower who wants to take micro finance loans they have to provide either Aadhar or voter card increasing the overall match into the system. Earlier gaming the system was slightly easier now it has become difficult and hence matches are increasing and that is why our rejections are also going up so to that extent it is helping us wading out customers who are over leveraged.

MB Mahesh: But it does suggest that at the system level the leverage is probably a bit higher than what we think it is because if the bulk of the rejection is for the 2MFI reason which appears to be the case in most MFIs and there is an increase in rejection rate should we read in that same direction that as you reach 100% Aadhar customers this rejection rate will further increase?

Rajat Singh: Yes, this rejection rate may further increase as match will increase rejection rate is expected to go high but every rejection rate does not translate into loss of business so for some of these rejection rates, if customer have enough cash flow we also serve them with individual loans.

MB Mahesh: Perfect. And just on the head count, is it also possible for you to break this a little bit more between how many of them are field staff and how much of them are now assigned in individual lending as well as the housing loan business?

Rajat Singh: Yes, we could do that but those data are not handy at this moment. We can share that with you.

Samit Ghosh: Just send us email and we will give you the break down.

MB Mahesh: Sure Sir I will do that. Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Parul Gulati from HDFC Securities. Please go ahead.

Parul Gulati: Now that the company would be having a liquidity requirement to meet the regulatory assets SLR, CRR, PSL shortfall, now given the choice would the company like to keep the securitized book as low as possible so that capital is better utilized?

Sudha Suresh: So actually it is a combination that you would like to see and we are looking at both in terms of the short-term liquidity requirement of the bank as we set it up as well as also looking at the ALM position that we need to look at from a slightly longer-term perspective. So there is going to be a kind of a trade off that we need to do where we decide and what quantum can come and from which source. So to that extent there will be a strategy on how much we are going to take on a securitization.

Parul Gulati: Okay but given that we have an excess capital now would not be going the on book borrowing the better utilization of capital and reaching the better leverage level earlier?

Sudha Suresh: Correct.

Parul Gulati: On that perspective?

Sudha Suresh: The on book borrowing is on right now but as we move towards the last few quarters before we become a bank we will be increasing our strategy in terms of the quantum of securitization.

Samit Ghosh: Minimize our CRR.

Sudha Suresh: Because the same borrowing that we are doing from the banks right now purely it is for securitization towards the same bank I mean that is the kind of scenario, which is operating right now.

Parul Gulati: This may be a bit strategy question relating to quarter given the business model what kind of comfortable tier I capital that you think that this kind of business model would require going forward, though RBI capex at around 15% overall and tier I at 75 but given the comfort that be?

Sudha Suresh: So basically we can operate and leverage to an extent where we can almost move up to 6 to 6.2 times however as it is prudent to keep at least a 16% in terms of a bottomline and operate accordingly to that extent we can see how we can move forward and leverage both on the Tier I and then Tier II.

Parul Gulati: Yes, so when you say 16% its Tier I?

Sudha Suresh: Yes.

Parul Gulati: Yes, that is very helpful. Thanks a lot.

Moderator: Thank you. The next question is from the line of Jackson Yeow from Hidden Champion Fund. Please go ahead.

Jackson Yeow: Thank you. I would like to ask we have 220000 new customers are so in the first quarter whereas in the past year we have from 1.2 million new customers. Could you share with me is there any cyclicality in the business across the quarters? Thank you.

Sudha Suresh: Partially in terms of customer acquisition we have a cyclical effect. We will see that normally the business is up in terms of the second quarter compared to the first quarter we also have a cycle where we have a slight dip in the third quarter and similarly again in the fourth quarter one could see a business increment so according to that we do see it the customer build up varies from quarter-to-quarter.

Jackson Yeow: So how about the loans, disbursed in that quarter?

Sudha Suresh: Yes, so accordingly we will see that in terms of loan disbursement typically the cycle for the second quarter if you see in second quarter with the fact that there is a lot of activities which are centered around our events like festivals and therefore we have build up on the short term trade and loyalty loans so you will see increased business in the second quarter compared to the first quarter. In the third quarter again there could be a small dip and in the fourth quarter there could again be a small pick up so these are the various cycles which affect both the in terms of the customer acquisition and also in terms of the quantum disbursed.

Jackson Yeow: Right and after transforming to SFB do you have any targets in terms of SEBI amounts from your customer? Thank you.

Sudha Suresh: So our endeavour would be to see whether from the existing customer segment we can sort of encourage them to stay with us we would be opening savings bank account for our customers and there would be both in terms of generating customer awareness in terms of the various products that we have on our liability side and to encourage them to save with us. Nevertheless, we do hope the build on the liability side not as much from this customer segment as we would from a larger segment, which could be beyond this.

Jackson Yeow: So who are the target audience that you are targeting?

Rajat Singh: If you consider most of our customers who are there are sort of unserved segments of our society in terms of savings. There is also a section of customers not customer's sections which are micro entrepreneurs and at the lower end of employed category who live in the same areas where we operate who are under saved, who may have bank account but still continue to save outside the organized sector in various schemes which are there so we plan to attract them. We also plan to attract some customers who are probably unsatisfied with the kind of service they receive from other banks especially the public sector banks, which service these segments of customers.

Jackson Yeow: In order to attract customers who really have banking accounts with public banks does that mean that you have to give them a higher interest rates?

Samit Ghosh: No they are not that interest sensitive, they are sensitive more on service quality, access, to the services basically it is service, access to the services and they are not that interest sensitive as such.

Jackson Yeow: Right, okay thank you very much.

Moderator: Thank you. The next question is from the line of Sameer Desai from Finco Caps. Please go ahead.

Sameer Desai: Good afternoon and congratulations on a good set of numbers. My question is if we are looking to grow housing and MSE financing business do you feel our rates are competitive to accomplish this objective compared to our competitors?

Samit Ghosh: Actually we constantly monitor our competitor's rate and adjust our interest rates accordingly so at times we are not competitive but we monitor them closely and ensure that we are competitive in the market.

Sameer Desai: You had earlier mentioned the breakup so in secured housing rates at 15.75% do you think that still on the higher side or any thoughts on that?

Rajat Singh: 15.75% is the function of the cost of fund, which we have and also the customer segment we are serving to him. This segment generally do not get loan from regular financial institutions and although they have the ownership and they stay on the premise there is no clear document available which establishes their ownership so to that extent it's a very unique segment and at 15.75% we are able to get customers who are willing to take this call.

Sameer Desai: One more question, any guidance on de-growth post conversion to a bank?

Samit Ghosh: What is the question?

Sameer Desai: Any guidance on or revised growth or degrowth post conversion to a bank?

Sudha Suresh: I think we will stick to our business plan as indicated in terms of our growth even after conversion to SFB.

Sameer Desai: Thanks.

Moderator: Thank you. We will take the next question from the line of Sarvesh Gupta from Trivantage Capital. Please go ahead.

Sarvesh Gupta: Thank you Sir for taking my question and congratulations on a very good set of numbers. My question was while we are seeing inflation in the ticket size, has there been any attempt to capture the income growth of the targeted segment and what is the scene on that part?

Rajat Singh: Most of these customers do not have any valid proof of document which can help us understand their income so it largely is depending on the discussion on the house visit of that customer so while we are seeing some improvement over the period of time it is very difficult to establish it because we do not have any documented proof.

Sarvesh Gupta: But since you will be doing some sort of a cash flow analysis or let us say the individual loans have been overtime be able to capture what kind of growth we are seeing in the targeted segments?

Rajat Singh: So for the individual loan we are able to capture their income range. We don't have those numbers available with us at this point of time, its not handy we can share that number if required.

Sarvesh Gupta: Thanks a lot.

Moderator: Thank you. The next question is from the line of Venkat Subramaniam from Organic Capital. Please go ahead.

Venkat Subramaniam: Thanks for taking my question. I have two sets of questions, one with respect to the MFI because any movements there finally will affect our asset quality as well. They continue to not stick to the 2MFI norms because a lot of them are now converted to a small bank license so given that what is the first sign of stress that you will see in the system overall?

Rajat Singh: Who is not?

Venkat Subramaniam: The MFIs will not recognize and will not count the loans disbursed by the small bank.

Rajat Singh: It will not recognize. We will recognize the loan given to them in amount, not in terms of 2MFI rule in the sense that not more than two MFIs can lend through a group-lending customer. There are two caps. There are 2MFI rule and there is a 100000 cap, which is been put by the Reserve Bank. So we would continue to comply with the Rs.100000 cap, which is really the real measure of exposure debt exposure of the customer rather than the 2MFI rule.

Venkat Subramaniam: So as things stand now Sir, we do not see even the early signs of either stress or over leverage of the segment overall?

Rajat Singh: Right now, I think across the sectors we can say that there is no such sign of stress.

Samit Ghosh: There are individual pockets but that relates to the economic condition in their pocket, so but overall as far as the industry is concerned there is no such signs.

Venkat Subramaniam: My second question is on when we convert to a small finance bank at that point in time I think offtick will become as important so our effective interest rates of over 22%-23% etc., how will it be seen by RBI and what do you think will be the reaction?

Samit Ghosh: In fact, RBI is encouraging us to do risk based pricing so I think the RBI will not get involved in terms of how we price our assets but they will encourage us to do the risk based pricing which is required by banks.

Venkat Subramaniam: The last question Sir is with respect to the advantage that we could possibly have when we open savings bank accounts. Will we have exemption with respect to collecting cash outside the banking premise and how large advantage will that be?

Samit Ghosh: Yes, I think the doorstep delivery is still going to continue because we continue to meet our customer our field staff continue to meet the customers in the center meeting which are held in the neighborhoods where the customer live so that process will continue and I think that is what is happening with the organization like Bandhan who is already converted to a bank they continue to hold this center meeting and transact at the center meeting.

Venkat Subramaniam: If I understood what you said right, we as an organization now go beyond 2MFI rule but we stick to the 100000 rule and therefore a repeat customer will probably be a lot higher than some of the other people who are converting to a small bank like us?

Rajat Singh: We are an MFI NBFC, MFI now, so still we have to comply with the 2MFI rule but once we become a small finance bank then the 2MFI rule will not be applicable but the overall cap of lending to individual customers, which is 100000 for group-lending customers, will still apply.

Venkat Subramaniam: Understood Sir. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Praveen Jain from Desai brothers. Please go ahead.

Praveen Jain: Sir my question is what is going to be the cost of transfer of business from Ujjivan Financial Services Limited to Ujjivan Small Financial Bank which probably will be doing on first of January 2017 what is the cost of transfer of business and how we are going to write it off this cost?

Sudha Suresh: Basically the methodology we will follow is the transfer of business undertaking and we would look more added as a slump sale where it would be the valuation will be a single valuation. The methodology basis definitely would be the net asset value method and that is how the entire business will get transferred from Ujjivan to the bank, nevertheless may be a very small operating asset like cash or something could be retained in the holding company to manage the affairs of the holding company and there is no question of write off because through a business transfer agreement the entire assets and liabilities of Ujjivan shall stand transferred to the small finance bank.

Praveen Jain: Will there be some stamp duty or some sort of registration stamp duty charges for a transferring business from A company to B company?

Sudha Suresh: Yes, there are very nominal charges in terms of this transfer; we do not have any major cost there in terms of these cost or duty that you mentioned.

Praveen Jain: But we will be amortizing them for five years, whatever will be the charges will be amortized and written off in five years or will be written off in the first year only?

Sudha Suresh: Yes, it is a very nominal cost so it will go away right in the beginning itself.

Praveen Jain: Second question is what are the services as SFB we plan to offer like credit cards or may be demand draft or pay orders those will be there but are we having plan of issuing credit cards?

Rajat Singh: The basic banking services we will offer like deposits, remittances etc., loans which we are providing given the customer segment we are serving right now we have no plans to issue credit card etc., there will be a debit card which will go with their savings account.

Praveen Jain: Sir, can you offer some interest on current account also. As per RBI can we offer interest on current account also say 2% just to attract initially lot of current accounts because normally they do not get any interest from nationalized banks?

Samit Ghosh: I am not sure but as far as I know you cannot give interest on current accounts but I will check it out but we have certainly not planned to give interest on current accounts.

Praveen Jain: Okay and saving also we are also planning 4% only or we are planning 5-6 like Kotak Bank or Yes Bank based on amount in the savings account. Normally we will have very small amounts according to me so we are planning for 4% only initially same interest rate what nationalized bank offer in saving bank?

Samit Ghosh: See on savings account interest customers are not very interest sensitive; however, we will not get into a price war like Kotak or Yes Bank, we may offer slightly better rate than nationalized bank or something to the customer may be half a percent or something so that we have got to decide at a later date.

Praveen Jain: Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: Sir, good evening. Actually my questions have been answered so just congratulations on a good quarter and all the best for the conversion.

Management: Thank you.

Abhishek Murarka: Thank you.

Moderator: Thank you. We will take the next question from the line of Gaurav Jani from Centrum Broking. Please go ahead.

Gaurav Jani: Yes, just want to understand if you can throw some light on the customer retention ratio and so it has been decreasing on a Q-o-Q and Y-o-Y basis so how do you look at the customer retention ratio first and foremost?

Rajat Singh: It is a question of higher rejection rate I mean as we discussed sometime back, more customers are getting rejected because of 2MFI rule so that is been reflected in lower retention ratio, with the implementation of Aadhar.

Gaurav Jani: No, but my question is I mean what is the customer retention ratio?

Rajat Singh: So customer retention ratio is nothing but number of customers at that beginning of the year and how many of those customers have stayed with you over the period of next year.

Gaurav Jani: Okay so from one cycle to the next cycle what you imply?

Rajat Singh: Yes.

Gaurav Jani: Second is on the opex to AUM any particular guidance you can provide for FY2017 and 2018 the opex to average AUM we are at 7.22 currently?

Rajat Singh: Yes, I think in the previous call also we had mentioned about this number it will go up to 8.5% converting into cost to income ratio of between 62%-63%.

Gaurav Jani: Thanks.

Moderator: Thank you. We will take the next question from the line of Atul Pandit from Vantage Securities. Please go ahead.

Atul Pandit: Thanks for the opportunity Sir. Actually just one question regarding your MSE and housing portfolios out of the total borrowers, how many of them would be first time borrowers from us because we are trying to target the unserved segment of the society so how many of them would be first time borrowers?

Sudha Suresh: Can we get back on this number?

Rajat Singh: First time borrowers into the system you mean?

Atul Pandit: Yes, from those who are taking loans from you from Ujjivan, so are they the first time borrowers have they gone to some other SSB not SSB but other NBFC and MFI?

Rajat Singh: Yes, so there we see percentage back in range of 15% to 20% so apart from these 15% to 20% customers they generally do not have any borrowing history with the credit bureau.

Atul Pandit: Okay, it's safe to assume the 15% to 20% of the borrowers would be the first ones they are taking the loans for the first time?

Rajat Singh: No it is opposite of that, so almost 80% of customers do not have any history at credit bureau only 15% to 20% of customers who apply loan with Ujjivan we find their match with credit bureau for individual loan.

Atul Pandit: Sir one more thing you have given that next year you planned to grow the MFI segment at the rate of around 25% to 30% right so actually may be the industry is growing faster so where are we conservative like are we conservatively targeting new customers are, our ticket size is expected to grow conservatively like what is the strategy over there?

Rajat Singh: This financial year overall we want to focus our energy on transformation so we are in process of building new channels new products and we are converting ourselves into bank so we would like to spend more time on creating the bank and liability structure and that is why we have kept our low at moderate 30% to 35%. Because it will also result in lot of training which will kind of occupy our staff for a longer period of time and they will be focusing more on learning new things.

Atul Pandit: Thanks a lot Sir.

Moderator: Thank you. We take the next questions from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Thanks for the follow up. I just wondering if in the SFB guidelines if there is a concept on the line of MCLR, which kind of is a formula to arrive at the lending rate, which you were to like to adopt, or we will be required to adopt rather?

Sudha Suresh: We will be looking at it if such guideline comes through.

Rahul Ranade: Okay but right now there is a nothing like that is it?

Sudha Suresh: Nothing specific has come for the SFB we are expecting some kind of light to be thrown on this by RBI.

Rahul Ranade: Thank you.

Moderator: Thank you. We will take the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Just another question on the rejection rates and first time customers. What would be the cost to asset ratio or cost to income ratio of a repeat customer as compared to a first time customer?

Rajat Singh: We generally have not tracked our expenses that way. Generally fresh customers will be slightly costlier because of process involved is a bit more robust but we do not have exact number.

Amit Premchandani: Any ballpark of how much as repeats customers even ballpark?

Rajat Singh: See it is not only savings as the repeat customer also gets the higher sized loans so there is a double benefit actually in terms of lower processing of the loan, the lower cost incurred for processing of the loan and also that we are able to give a higher sized loans. I do not think we have worked out the numbers exactly but actually it is fairly significant and we always endeavour to keep a very high rate of customer retention.

Amit Premchandani: Sir generally the customer that you not able to retain what is the reason is it because you have rejected or because the customer is demanding at the higher ticket size or a lower rate?

Rajat Singh: Largely it is because this 2MFI rule and increasingly you know the customer KYC requirements are being tightened that more and more customers are required to give us the Aadhar number now Aadhar number ensured the much better match for our customer than any other KYC document and that is leading to a higher rejection rate.

Amit Premchandani: Thank you. That is, it from my side.

Moderator: Thank you. The next question is from the line of C. Ram from Metro Investment. Please go ahead.

C Ram: This question is addressed to Ms. Sudha. Madam, you answered for one of the previous questions that the interest what you pay for the loan taken from the commercial banks previously from 9.5 to 11%?

Sudha Suresh: 9.75% to 11% this 9.75% has come in the recent times.

C Ram: Now I feel the range is quite high I can understand this 9.75% to 10.25% or so I just want to know at what circumstances taking the loan at 11% or close to 11% when the lower of the range is about 9.75%?

Sudha Suresh: I will explain this. Traditionally in fact MFI loans across various MFIs that you see today the average borrowing cost could be anywhere between 12% and 13% and when we say borrowing cost we include both the interest cost as well as the processing fee. Ujjivan has been able to negotiate some of the finest rates from the banks and consistently we have seen that even an interplay of both the processing fee, which could be anywhere between 0.10 and 0.75 the interest cost could also be again ranging anywhere between 9.75% and about 10.5%. The typical reason where you see a range of about 11% for example NABARD today is willing to lend to us nothing less than 11.5%. Last year they lend at 11% and this year they are demanding 11.5%. Similarly, if you see SIDBI organizations like SIDBI they are also very stringent and they have just about come to about 11.5% now they have not even come down to 11%. There are certain banks who have come down very proactively some of the private banks have negotiated with us a rate which could be say 9.75% interest rate and a 0.25% or a 0.5% as processing fee but there are some public sector banks we say that nothing doing I mean maximum we could look at 10.5% interest rate and a 0.5% of processing fees so across public sector banks private sector banks two years terms loans one year term loans or three year term loans and across the institution like SIDBI, NABARD and now may be also Mudra you will see a wide range of interest rate.

C Ram: That is the case, since the private sector banks are charging or willing to charge a lower interest rate why does MFIs are taking loan from private sector banks and instead of approaching this banks like NABARD which are insisting on higher loan?

Sudha Suresh: Sir the advantage of going towards SIDBI and NABARD I mean and SIDBI has traditionally supportive of the MFIs and they have lent us from day one the reason is that in crisis times the private sector banks will disappear, the public sector banks will close the tap, but somebody like a SIDBI and NABARD would still continue the refinance that is primarily one of the reason. Secondly as you look at progressing towards this small financed bank the amount lent by SIDBI or NABARD as a refinance does not get into the calculation of the CRR SLR. So we should endeavour to keep our balance and also ensure a reasonable chunk is drawn from SIDBI and NABARD this year with as best as the interest rate possible because this 25% of the CRR SLR calculation where we have to keep almost 25% is not applicable and you know we get the exclusion on SIDBI and NABARD so in effect what we should do is look at a private sector banks rate and then add probably a 25% margin to that and look at that rate and compare it with SIDBI and NABARD.

C Ram: Okay, Ms. Sudha thanks. That is all from me.

Moderator: Thank you. The next question is from the line of Atish Matlawala from SHJ Finance. Please go ahead.

Atish Matlawala: My question is with respect to your risk management practice. Given that your most of your loans are unsecured can you share from your prior experiences what are the instances or client profile that pose the biggest credit risk to you some of which may be have been taken care off through your existing processes or may be even some instances, which may be you can just draw out for us which may not have been taken care off or may be gives you a secret insight?

Samit Ghosh: In micro finance the individual credit risk especially in-group lending is not that high because the system itself is so robust in terms of customer selection, in terms of support during stress period through the group etc., that individual credit risk is very negligible. However, the biggest problem crops up when there is an external factors, which come into play and where there is sort of what you call it, mass default which is usually engineered by some outside interest whether it can be for various reasons now these are not always predictable except I think one has to be very careful to ensure the risk in a particular areas this happens when there is excessive competition in a particular area and there is lot of lending concentrated in a particular area it also could come about because there is a industry, which in that area, which goes under for some various reasons it could be from import of textiles from China etc., so one has to be very careful from that perspective. The only way to respect yourself from this kind of a mass default is before you go into that area you have to do a risk assessment of that area and also ensure that if there is excessive lending, if you are already in that area and then there is already signs of excessive lending in that area then you have to just sort of slow down as far as possible because that mass default because of external factors which have the greatest cause of credit risk in micro finance.

Atish Matlawala: Just one more question, not a related one separate question, given that you are moving towards being an SSB can you give us some insight or may be can you help us understanding how you yourself would rate your systems and processes and may be in terms of the electronics systems to ensure that the ratio of cashless transactions improve going forward?

Samit Ghosh: We were one of the first one to introduce cashless disbursement and we are sort of leaders in that field but once we become a bank we plan for disburse all our loans into the bank accounts of the customer so virtually all our disbursements will be done in a cashless manner and slowly then we have to encourage our customers to start also repaying from their bank account through standing instructions etc., or so we would be working towards that so both the disbursement and collection becomes cashless.

Atish Matlawala: Thank you.

Moderator: Thank you. We will take the next question from the line of Atul Pandit from Vintage Securities. Please go ahead.

Atul Pandit: Sir just one thing, are we looking at the BC model once we get converted into a bank to get our liabilities franchise up in running because that could be one potential source of CASA?

Samit Ghosh: We are definitely looking at the BC model to supplement our distribution of branch infrastructure mainly to provide higher levels of assess to the customer and that is very much part of our liability strategy but probably the history of BCs has not been the best so we are moving very cautiously on that but certainly we would like to have the BC.

Atul Pandit: Thanks a lot.

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

Sudha Suresh: It has been a very interesting discussion and we would really like to thank all the participants, the analyst who have queried us on various aspects and that has been quite fruitful, I hope, to boththem and to us and we thank you very much for the time that you have taken out and your interest in Ujjivan. Thank you.

Hiren Shah: I would like to thank you all for being part of this conference call and if you need any further information or clarification please email us at investor.reations@ujjivan.com. Thank you very much.

Moderator: Thank you members of the management team. Ladies and gentlemen on behalf of Axis Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.