Utkarsh Small Finance Bank

May 9, 2025

The BSE Limited
543942, 959644, 958226, 975790, 976203

National Stock Exchange of India Limited
UTKARSHBNK

Dear Sir/Madam,

Sub: Transcript of the Earnings / Conference Call on Financial Results of the Bank for the quarter and year ended on March 31, 2025

We submit herewith the transcript of the Earnings / Conference call held on Monday, May 05, 2025, at 04:00 p.m. in connection with the Financial Results of the Bank for the quarter and year ended on March 31, 2025.

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

This is for your information & record.

For **Utkarsh Small Finance Bank Limited**

Muthiah Ganapathy
Digitally signed by Muthiah Ganapathy
Date: 2025.05.09 15:05:25 +05'30'

Muthiah Ganapathy
Company Secretary & Compliance Officer

Encl.: As above.

"Utkarsh Small Finance Bank Limited

Q4 FY '25 Earnings Conference Call"

May 05, 2025

MANAGEMENT: **MR. GOVIND SINGH – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – UTKARSH SMALL FINANCE BANK LIMITED**
MR. PRAMOD KUMAR DUBEY – EXECUTIVE DIRECTOR – UTKARSH SMALL FINANCE BANK LIMITED
MR. SARJUKUMAR PRAVIN SIMARIA – CHIEF FINANCIAL OFFICER – UTKARSH SMALL FINANCE BANK LIMITED
MR. AMIT ACHARYA – CHIEF RISK OFFICER – UTKARSH SMALL FINANCE BANK LIMITED
MR. VIVEK KASHYAP – HEAD JLG- SALES- MICRO-BANKING – UTKARSH SMALL FINANCE BANK LIMITED
MR. PUNEET MAHESHWARI – STRATEGY AND INVESTOR RELATIONS HEAD – UTKARSH SMALL FINANCE BANK LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to the Utkarsh Small Finance Bank Q4 FY '25 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Renish Bhuva: Thank you. Hi, good afternoon, everyone, and welcome to Utkarsh Small Finance Bank Q4 FY '25 Earnings Call. On behalf of ICICI Securities, I would like to thank Utkarsh SFB management team for giving us the opportunity to host this call.

Today, we have with us the entire top management team of Utkarsh SFB represented by Mr. Govind Singh, Managing Director and CEO; Mr. Pramod Kumar Dubey, Executive Director; Mr. Sarjukumar Pravin Simaria, CFO; Mr. Amit Acharya, Chief Risk Officer; Mr. Vivek Kashyap, Head JLG- Sales- Micro-Banking; and Mr. Puneet Maheshwari, Strategy and Investor Relations Head.

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

Govind Singh: Yes. Thanks, Renish. Thanks a lot. So thank you, everyone, for taking out time to attend our Q4 FY '25 Earnings Call. FY '25 has been a challenging year on account of difficult operating environment for microfinance sector that emanated from higher borrower level leverage and credit supply tightening for underlying borrowers, guardrail norms. Microfinance sector stress peaked out towards end of the year with the stabilization of X-bucket collection efficiency and reduction in new PAR accretion as well as some improvement in disbursement.

However, we continue to see good traction on our non-JLG and secured loan portfolio, healthy growth in deposits, led by retail term deposits and CASA. We have also expanded our franchise significantly. We have more than 1,000 banking outlets now.

In terms of business performance, our deposits grew by around 23% year-on-year to INR21,566 crores. Deposits growth was led by growth in retail term deposits, which grew by 33% year-on-year; and CASA deposits, which grew by 31% year-on-year. Our CASA deposits ratio also improved to 21.8% as on March '25 from 19.7% as on December '24. Share of CASA plus RTD ratio improved from 66% as on March '24 to 71% as on March '25.

We have a strong network of 331 general banking branches, largely covering top 100 centers of the country, primarily in the metro and urban locations. These branches are focusing on deposit mobilization and retail asset loan sourcing. We see significant potential to scale up from these locations. Our deposit mobilization strategy revolves around customer 360 degree perspective, improving product per customer and comprehensive customer engagement, including digital enablement.

We have also launched NRI banking in quarter 4 FY '25. In line with our strategy, we have been reducing our CD ratio, which declined to 87% as on March '25 versus 94% as on March '24. And if we net off refinance borrowing from advances, CD ratio declines to 78% as on March '25.

Recently, we have reduced interest rates for savings deposits for certain slabs as well as highest rate for retail term deposits by 25 basis points, which will lead to reduction in cost of funds gradually.

As regards the JLG book, stress peaked out in quarter 4 FY '25, we have seen improvement in X-bucket collection efficiency for quarter 4 FY '25, which was 99.1% for quarter 4 FY '25. We also witnessed improvement in JLG disbursement towards end of FY '25. We expect this momentum to continue in FY '26 as there is decline in leverage level of underlying borrowers in Microfinance segment and guardrail norms are ensuring tighter control on overall leverage level of microfinance borrowers.

MFIN guardrail 2.0 with respect to number of lenders not exceeding three lenders are fully implemented in our system with effect from April 1, 2025. Furthermore, with respect to state level ordinance and related disruption, we do not have any direct exposure towards JLG lending in Karnataka as well as Tamil Nadu.

As we highlighted during the last earnings call, we expect SMA book to normalize by quarter 1 FY '26. SMA book in microbanking portfolio reduced from 10% as on December '24 to 5% as on March '25. And accordingly, we expect fresh NPA generation to reduce meaningfully in some time. We are seeing improvement in collections from OD book, expect meaningful improvement in collection from OD buckets in H1 FY '26.

While we continue to focus on collections in current environment, we expect JLG disbursement to normalize by quarter 2 FY '26. As for quarter 4 FY '25, JLG disbursement was INR1,340 crores, marginally higher than INR1,296 crores in quarter 3 FY '25. As we continue to focus on collections, and as a result, JLG portfolio declined by around 18% during FY '25. We expect JLG loan book decline to get arrested by end of quarter 1 FY '26.

We have seen significant pickup in disbursements towards microbanking individual loan (MBBL). MBBL portfolio grew by 36% year-on-year to INR910 crores. MBBL disbursement for quarter 4 FY '25 was higher by 49% quarter-on-quarter and 25% year-on-year. MBBL comprises 9% of our microbanking loan book. It is focused on graduating better-profile JLG customers with good repayment track record. This portfolio is behaving much better on collection efficiency and asset quality. Individual loan portfolio is expected to grow faster.

We are seeing good traction in our non-JLG loan portfolio, which grew by 45% in FY '25. MSME loan portfolio grew by 52% year-on-year to INR3,875 crores. Disbursement yields also improved by 180 basis points over same quarter last year. Within this, we are also seeing traction in Micro LAP portfolio, wherein disbursement yield is around 18%. We see good growth potential for this product in our geographies and given our strong franchise.

Housing loan portfolio grew by 36% year-on-year to INR918 crores. Disbursement yields also improved by 80 basis points over same quarter last year. CE and CV loan book increased by 26% year-on-year to INR1,188 crores. Within this, we are focusing on increasing share of used vehicles.

We are strengthening our presence in BBG lending, entire portfolio is secured against immovable collateral. This book grew by 52% year-on-year to INR903 crores. We are seeing much better traction on cross-sell on both sides, asset products, that is MSME, housing and Micro LAP through our liability-focused GB branches and deposit account for our asset customers, essentially more products per customer.

Further in line with our strategy, we have been increasing share of secured loan in our portfolio. It increased further from 34% as on March '24 to 43% as on March '25 and is likely to increase further. On account of significant de-growth in JLG loan book, overall gross loan book growth was moderate at 7.5% year-on-year and 3.2% quarter-on-quarter.

As for outlook on loan book growth, we expect JLG disbursements to normalize sometime around quarter 2 FY '26. Expect good growth in MBBL portfolio (individual loan). We are expecting healthy growth trend to continue for non-microbanking portfolio, which is largely secured loan portfolio in FY '26 as well.

We're consistently expanding our franchise and opened more than 200 new branches during FY '25. Our total branch count exceeded 1,000 branches as on March 31, 2025, which are spread across 27 states and UTs. We have significant large franchise which is adequate for our target growth, and hence, we may not need much expansion of branch network in FY 2026.

On account of challenging operating environment in microfinance lending, our fresh NPA slippages were high in quarter 3 and quarter 4 of FY '25. And as a result, our gross NPAs increased from 6.17% as on December '24 to 9.43% as on March '25. As we are expecting SMAs to normalize by end of quarter 1 FY '26, fresh NPA slippages will also decline meaningfully.

As mentioned on our last earnings call, we were holding floating provision of INR190 crores, which we have utilized towards loss on sale of stressed assets and the non-performing assets during quarter 4 FY '25. We have also registered with CGFMU for credit guarantee for unsecured JLG portfolio and are looking forward for credit guarantee cover for our JLG disbursement post our registration date, that is January 17, 2025.

We are strengthening our collection team as well as efforts and expect collection trends to improve. We are reducing case load per staff as well as strengthening collection team of microbanking, set up call center for reach out to OD clients. We are also focusing on improving critical processes like center meeting discipline and other processes. Additionally, on an ongoing basis, we continue to split our large MB branches to maintain better control.

Our profitability during the quarter was impacted by stress in JLG book, because of which credit cost was high as well as there was higher interest income reversal. Profitability is expected to remain under stress in H1 FY '26, post which we expect material improvement in profitability profile. For us, FY '26 would be a year of operational and financial optimization, whereby we would focus on improving asset quality first and grow all focused and profitability-driven businesses, along with superior customer experience.

As of now, we are not giving any specific guidance for FY '26. We will share detailed guidance in mid of the year as we progress further. Our pre-provision operating profit (PPoP) increased by 1% year-on-year to INR1,007 crores in FY '25 versus INR997 crores in FY '24. During the current year, we changed accounting policy for recognition of loan processing fees collected from the borrowers and allied expenses for more appropriate presentation of the financial statement and alignment with the industry practice.

This change in accounting policy has resulted increase in bank's operating profit by around INR95 crores during FY '25. Our profit after tax was INR24 crores in FY '25 versus INR498 crores in FY '24. As on March 31, 2025, we had surplus liquidity of around INR3,800 crores, which is higher than our usual liquidity requirement and a LCR ratio of 190%.

We don't have any short-term borrowing on our balance sheet. We are also undertaking a business transformation project to make our technology architecture and business processes future ready for our growth plans.

Now we can move to the question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Mohan Raj, an Individual Investor.

Mohan Raj: So my first question is like, I just want to understand a bit on this microfinance business, because, like, if you look at the south side, like, that is government support started coming like, still Karnataka, starting from non-ordinance and now in the recent week, that is, ordinance from Tamil Nadu Government as well?

And we are not sure like the other states also will follow the same. So if there is a government support, so eventually it will impact the repayment behavior of the customers, right? So how we are going to tackle these things, if it emerges?

And my second question is, if you start covering the microfinance portfolio into CGFMU. So will that become a profitable business when there is no disruption? Let's say, if you have back to normalcy? Yes.

Govind Singh: Sorry, I couldn't follow the second question. What was that?

Mohan Raj: Yes. I mean, cover the entire microfinance portfolio into CGFMU. So let's say, like going forward, we will do the same in all the subsequent years. And when the microfinance business, it come backs, like, let's say, it should come back to the normalcy. So will it become a profitable business because the premium for this is high, right?

Govind Singh: Okay. So just to respond, first part is about what is happening in the states of Karnataka and Tamil Nadu. So these states, yes, the state government has come with an ordinance. The important thing -- yes, temporarily, it can certainly sometime it may have an impact on the portfolio. But we have seen in the past also in medium run, I mean, this doesn't have impact.

Secondly, what in both the ordinances, what they have done, they have specifically mentioned that the regulated entities of Reserve Bank of India are excluded from this. I do understand that sometime at the ground level, it may not go the same way and that's why there may be some temporary issue in terms of collections or, in the disruption of the operations.

But I think, in both the cases, I think RBI also was firm that the regulated entity should not be impacted by these. And even the industry association and SROs like MFIN and Sa-Dhan, they have also taken active part. And as I mentioned, the REs are not part of it. But I still take your point at some time, temporarily, there may be a disruption, which can cause some issue in the collections, for sure.

On the second part, if you look at the guarantee part, the cost of guarantee, may be on an annualized basis, maybe around 1% to 1.5%, broadly speaking, I mean, it may differ for some partners. But it's around 1% to 1.5%.

So I think the profitability of the sector or overall microfinance or overall JLG will not get impacted. I think it will still remain largely profitable and well sustainable. In fact, what also happens, if the guarantee is available, which is expected that I think most of the players are going towards that, this type of delinquency, sometimes we have seen abnormal delinquencies, those will be taken care.

So I think it will be more sustainable in long term. And when you say the highs and lows will be less frequent and more controlled. So it will be a more steady type of businesses which we'll see.

So our sense is, I think this guarantee is ultimately the way it is happening. It's good for all of us. And I think sustainability becomes more -- I mean, you can say -- I can use the word assured or more certain going forward if we get this cover. And the cost is not much of this cover.

Mohan Raj: Okay. So you mean, let's say, if it's cover the entire microfinance portfolio under the future family. And if there and -- if the microfinance business is back to normalcy, so the yield from this business, like, still be higher than the secured portfolio. Am I right, sir?

Govind Singh: That's true. See, ultimately, it is an unsecured portfolio from that angle. So yield will be certainly be higher than secured portfolio in these cases.

Mohan Raj: So my question is like even accounting this CGFMU expenses?

Govind Singh: Yes, certainly, yes. I mean, even if we account for the cost of the guarantee cover, this remains profitable and sustainable business for sure.

Mohan Raj: So the yield also will be higher than the secured one. Do we have any feel -- eventually the premium amount into it, right?

Govind Singh: Yes, generally, I mean, the way pricing happens, I mean, normally unsecured, whatever maybe form and format, will attract higher yield or higher rate of interest than the secured loan.

Mohan Raj: Right. So yes. So why I'm asking is, like, because instead of paying premium and if -- and the outcome yield is not better means, we can eventually like move towards the secured portfolio, right? So I just want to understand that part.

Govind Singh: Yes. Sure. I just reiterate that the guarantee cover will certainly make it more sustainable and more steady from that angle. Maybe it's a matter of 1-1.5 years when we start getting benefit of that. Some players have already reached a stage where they will start getting benefit of it. And this will be more sustainable and it will be more steady and the highs and lows will be more controlled. That is how it will happen. But certainly, it will be much, much-- it will certainly be a profitable business for all the players.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, just wanted to understand, I mean, April 1 effective guardrail 2.0 was implemented. I mean, has it been implemented properly and as per condition? And how do you see -- I mean, how much time we are away that you see the MFI segment coming back to normalcy?

Govind Singh: So, as I mentioned earlier, one is that all the guardrails have been implemented. And though I'm not from SRO, but I think this has happened across basically. So because this is helpful when it happens across. So all have implemented and we have also implemented from 1st of April, all the guardrails, this is what we call 2.0.

And we do expect that this is going to help in controlling, and we have seen that happening, though there are stress because of earlier portfolio, but there will certainly be improvement in overall portfolio. As I mentioned earlier also, there has been stress, but level of stress is coming down significantly that we have seen during last 2-3 months and especially in quarter 4 of last year and now.

And as I mentioned in my opening remarks also, I think today, quantifying that may be a little difficult, but we expect that this pain, whatever, pain or stress is expected to be there for another 2 quarters, so quarter 1 and quarter 2 of FY '26.

Deepak Poddar: Okay. So another 6 months you expect the pain to be there. So -- but ideally, since you mentioned that the stress is coming down, is it -- I mean, in terms -- on a quarter-on-quarter basis, the credit costs that we have seen, we'll see a declining trend in terms of your provisioning? I mean, will that be a fair assumption to make?

Sarjukumar Simaria: So, as we've mentioned in the previous call, about Q4, we also mentioned in our earlier interim results that the X-bucket has improved significantly. We guess that the Q1, Q2, some pain, as MD sir mentioned, will be there, but it should be lower than the earlier 2 quarters, for sure. So it's in decline trajectory. And we are working hard to even improve and see that the level of decline and arrest is there in Q1 and Q2.

Deepak Poddar: Understood. That's fair. And just one last small thing. Any specific pocket -- I mean, in terms of our portfolio, any specific pocket in MFI where we are seeing abnormal stress, which is where we are operating basically?

Pramod Kumar Dubey: So, we are primarily present in Bihar, UP, Jharkhand, Orissa, Maharashtra, and Rajasthan. Out of these states, we see slightly higher stress in the state of Odisha and Rajasthan. Other states are equal, and they are much better than these two states.

Deepak Poddar: And Karnataka and Tamil Nadu would be how much percentage?

Pramod Kumar Dubey: Karnataka, we have negligible presence through our BC partnership. And Tamil Nadu, we don't have any presence.

Moderator: Next question is from the line of Vinay Nadkarni from Hathway Investments.

Vinay Nadkarni: I just wanted a couple of questions on the MB portfolio. You have opened some 204 branches. Out of this, 149 are MB branches in this year, the biggest in a year when you have the worst results. Now these MB branches have not impacted the collection efficiencies over the period. Is there anything that we are missing here?

Govind Singh: 149, you are right that we have opened more branches for MB. So largely, these branches, what we term like, the split branches. When the branch becomes large enough, because there are a lot of manual intervention still in case of JLG business. So it becomes a little manually controlled, control becomes difficult.

So we split the branches into two or sometimes we make three branch out of two branches, sometimes we make two branch out of one branch. So that is the exercise. And we see the medium term, we normally start getting impact of that because currently, the environment is that the full focus on collection.

Otherwise, collection improves for sure. That is -- even we have seen wherever we have done a split of branches, we have seen better collection in those places. At the same time, if the growth comes back, I think even the disbursement trajectory is better for those places.

But as you have seen the environment -- it is very difficult to compare right now because of the stress in overall environment. It's difficult to pinpoint today that what is the impact of or the positive impact of all these branches. But certainly, the investment in expanding this network will benefit us in terms of collection efficiency. At the same time, once the sector becomes a little normal in terms of disbursement also, we should also get benefit in terms of investments.

Vinay Nadkarni: Yes. I understand that. My -- the other question was, when I look at the operating costs in quarter 4, it is higher than the net interest income. Now this is not all cost of all these opening of new branches factored in. When the entire thing gets factored in, what would be the running cost for per quarter, operating cost?

Because you say that next 2 quarters are going to be a little tight. Would it be really impacting your overall performance, looking at Q4, which was otherwise a good collection efficiency of 99%?

Sarjukumar Simaria: So you would appreciate that due to the NPA stress, you have a reversal of income that has been accrued prior year. That does impact the income line. And for that reason, you would find that the operating income is somewhere in line with the opex. But as we go along, as we have disbursement improving and by and large, the cost is going to be static. We have done the platform increase in terms of the branches that we have done over the last 2 years.

And so now we're going to be, as Govind ji mentioned, driving on the operating efficiency as we go along. So as we go ahead and get income generated from better disbursements, both in terms of microbanking and non-microbanking, the operating profit -- the buffer will be obviously higher -- much, much higher than what you are seeing today.

Pramod Kumar Dubey: One more thing I would like to clarify here is in Q4, the opex, what we see, INR465 crores is including the onetime impact we have taken because of change in our accounting policy, so DSA payout, which has been added, is not a usual thing.

Vinay Nadkarni: Yes. I understand. And that's the reason why I was just comparing the NII with the operating costs, not the total income. My only -- what is the amount of income reversal in Q4, if I can get, interest reversal?

Puneet Maheshwari: Yes, it would be close to INR40 crores.

Vinay Nadkarni: INR40 crores?

Puneet Maheshwari: Yes. It is on fresh slippages, about INR40 crores.

Vinay Nadkarni: Okay, okay. That's all. And if I -- can I push in one more question, if you don't mind?

Puneet Maheshwari: Yes, please carry on.

Govind Singh: Please go ahead.

Vinay Nadkarni: Yes, you have added a good number of people, some 3,600 people in the company -- in the bank. How many of these are in collections and how many in credit assessment? Because I understand new branch opening will also have a sizable amount of new people.

Govind Singh: Yes. So largely, these people are for JLG business only, almost close to 2,500 out of these people, I mean, 100 plus-minus in the JLG business. And we have created collection team, which has more than 800 people. They are dedicated people for DPD 60-plus, in fact, that is what they are focusing upon.

Even the other people, because in the microfinance, the centre meeting, the collection happened by the same people. So they are largely into collections, because we all have experienced that disbursement are not to the extent which normally used to happen.

So they are largely into collections. Besides they are around 800 people dedicated for collections only. So out of 3,500-odd people, around close to 2,400-2,500 people are only for JLG. And that's why even our case load has gone down significantly during this year.

The number of people have gone up, but the number of clients and the overall portfolio has gone down during this year. So that should benefit in days ahead as far as the improving the collections -- overall collections for the JLG portfolio. So focus has been more on improving the collections part across, in fact, and that's why this number.

Moderator: Next question is from the line of Anant Mundra from My Temple Capital.

Anant Mundra: Sir, so what is our PCR in the JLG book?

Puneet Maheshwari: So for unsecured book, PCR is close to 52%.

Anant Mundra: All right. So sir, we've seen a big spike in GNPA quarter-on-quarter while the SMA book has 0 to 90 -- SMA 0 to 2 book has considerably reduced. So now how should we think about how -- I mean, there's a lot of pain from the GNPA pool that is left to be absorbed. So are we going to take this provision consistently over the next 4 quarters? Or is there some onetime impact that we could see in our financials in Q1 or Q2? How should we think about this?

Govind Singh: So we have also seen the last 3 quarters where there has been stress. And as I mentioned, we expect that quarter 1 and quarter 2 are the periods when we should be able to -- we expect to completely bottom out. When I said there are two aspects. One is that the portfolio improves, the delinquency levels come down, but we use the word bottom out for that period, for that portfolio.

But as far as overall impact of the delinquencies, I think that normally goes to 3 to 4 quarters beyond that part. Maybe we should be able to assess during this H1, you mentioned yourself quarter 1 and quarter 2 and take a final call because we have improved our collection mechanism in a big way.

We do expect that there should be significant improvement in collections, not only the collection efficiency, but overall the collection from the overdue buckets also. So that is what we expect to happen. So we should be able to -- as you also mentioned, we should be able to analyze and assess the overall impact and we'll take a suitable provisions or whatever is required accordingly during this period of H1.

Pramod Kumar Dubey: One thing I would like to add here is that we are providing higher than what is recommended or prescribed by the RBI as per IRAC norms in all the businesses. So we have accelerated provisions.

Anant Mundra: Got it. And sir, could you give some color on how the non-JLG book is behaving? Like what is the gross NPA in that portfolio? And what has been the credit cost for this year in that portfolio?

Puneet Maheshwari: So, if you look at from an asset quality perspective, NPA in non-microbanking portfolio is close to 2.4%. And credit costs in these businesses have been in the range of 1% to 1.5%.

Anant Mundra: Got it. And sir, you mentioned that...

Pramod Kumar Dubey: Some of these NPAs also covered by the FLDG, which we do through our BC partners.

Anant Mundra: Okay. Okay. So I mean, the credit cost of 1%, 1.5% is after factoring in the FLDG or that benefit will separately accrue?

Puneet Maheshwari: After factoring in on an overall basis for non-microbanking book.

Anant Mundra: Got it, sir. And sir, you mentioned that you've implemented guardrails 2.0 from 1st April. So do you expect the SMA 0 to 90 book should be stable and in a declining trend going forward in spite of the implementation of the guardrails? Like what has been the early trend because we've already seen the first month of the implementation of guardrail 2.0. What kind of impact do you see of that?

Govind Singh: So if you look -- if you compare with quarter 4, I think we expect quarter 1 on the almost a similar trajectory. There may be a little elevation in the April, because of immediate implementation. But our assessment is the quarter 1, will be in the range of what we have seen in the quarter 4 of last year, the overall collection efficiency and 1 to 90 bucket.

Puneet Maheshwari: Yes. So I mean, last quarter also, we had highlighted that 1 to 90 DPD bucket will start normalizing. And it has come down from December to March number and -- I mean, by end of quarter 1, it would normalize further.

Anant Mundra: Got it. And sir, one final question. So we had some buffers in our balance sheet in terms of -- there were some contingent provisions and also we had a onetime recognition due to change in policy of fee income. Just wanted to check, are there any more buffers available in the balance sheet in case there is a credit cost that has to be absorbed in future?

Sarjukumar Simaria: Well, we have been mentioning this in the previous call, and one of the items was floating provision. And you would appreciate that floating provision was set aside from profits in the earlier years with a very clear intent to make that floating provision in good times and use it when the stress actually is visible. By the way, this floating provision is also under, so to say, regulatory radar, and we have taken requisite approvals. We have used this floating provision.

And if you recollect, we had mentioned that whatever we had until September. From October onwards, we had also stopped making any further floating provision for the reason that you can't go for reversal and at the same time, make floating provision, both are in that opposite direction. So as we stand, we have utilized fully the floating provision.

And as you just mentioned, I just wanted to confirm to the fact that the entire floating provision with approval from the regulator has been utilized in this quarter for the year. At the same time, I think it's important to mention that we were looking at, in terms of comparability with the peer set and the banks and one of the accounting that we used to do is while we received loan processing fee upfront in cash, but we used to amortize that.

And therefore, when we are receiving it in cash, it made a lot of sense to again for some comparability to align with the industry and we choose to -- in discussion again with the auditors, board and the regulators, we thought we will align this completely. So both of this has been done. There is -- otherwise, both were sitting out of the profit carve-out, as we mentioned earlier. As such, there is nothing in the sense like buffer that continues, frankly, to answer that question. There isn't anything that is kept aside.

Govind Singh: The only thing I think what I would just like to add that we don't have -- we have used the entire floating provision, but our normal provision is extra -- it's beyond the RBI required type of provisions. And that certainly is there. But we are not trying to quantify that, but that is there. But normal whatever we have created, we have utilized that.

Anant Mundra: Got it, sir. And sir, one -- second question, sir, what is our AUM of Utkarsh plus more than 2 borrowers?

Puneet Maheshwari: Utkarsh plus more than -- I mean, in total, if you take 3 plus, 4 plus, I mean everything put together, it is close to 25%. Out of this, 12% Utkarsh plus 4 or higher, and 13%-odd in Utkarsh plus 3.

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

Rajiv Mehta: Just a couple of things. Firstly, on the answer you gave with the previous participant about how the collection efficiency will be in this quarter. You are saying that overall number will be very similar to Q4. And if that is the case, see, Q4 I believe you had an improving month-on-month collection efficiency between January and March. So are you saying that in April, we have already seen some decline, because of implementation of three lender cap and that will get covered up in May and June?

Pramod Kumar Dubey: Yes, absolutely. So if there is a slight decline in the month of April, which will cover up in the month of May and June. So overall, we see that Q1 should be similar to the Q4 and Q4 was, I would say, quite satisfactory in terms of collection efficiency in the initial four buckets.

Rajiv Mehta: Okay. And could you tell us what is the profitability of the secured products, MSME, housing and CV & CE? As a portfolio you've been running them for a few years now. What is the current profitability? And what is the road map for profitability in the next 2, 3 years? And what are the factors and levers through which the profitability can be turned around or further improved for that?

Pramod Kumar Dubey: So as far as our secured portfolio is concerned, it's moving in the right direction in terms of -- we have improved our yield. So yield is quite satisfactory. opex has been coming down. opex to AUM ratio is coming down year-on-year, because of increasing book as well as because of the operational efficiency.

Credit cost has been in control. Our fee income has been as per expected lines. So year-on-year profitability ratio is improving and it is on track. So I'd say a few of the segments in those businesses are already making profits. And all other businesses are fully on track. We are quite satisfied with that.

Rajiv Mehta: But since we've been doing this business with certain profitability in mind in the future, what is the profitability number, ROA number, an aspirational number that you think that you will achieve for which you are gaining and accreting scale?

Pramod Kumar Dubey: So at this point of time, we'll not be able to actually give any numeric to that. But we believe that in this financial year, we'll have satisfactory ROA from those businesses. And next year, it will be much better than that.

Rajiv Mehta: Okay. Just one last thing. Any changes in lending rates in MFI in response to how the risk has played out or maybe because of higher credit cost? Are we tweaking our lending rates in MFI, maybe up or maybe even down if you think that for growth you need to keep it slightly down? Any changes?

Govind Singh: As of now, there are no plans of any change in MFI rate of interest, I mean, either way, in fact, we don't have any plans right now.

Moderator: Next question is from the line of Ashlesh Sonje from Kotak Securities.

Ashlesh Sonje: Sir, first question is purely a data keeping one. If you can share the segmental slippages, that is one. The next question is, now that it's been about 3 quarters of this asset quality down cycle, 3 quarters of weak collection, I assume you would now have a much better idea of the borrower situation on the ground?

So just wanted to check with you what has exactly happened to these delinquent set of borrowers? How many of them have gone missing? How many of them were involved in some kind of identity frauds? And what are you essentially doing about them, about recovering from this?

Puneet Maheshwari: So, Ashlesh, first on data points. So overall fresh NPA was about INR770 crores in quarter 4, out of which about INR665 crores is microbanking and balance is non-microbanking. And, in non-microbanking also, roughly about INR28 crores is BC book, which includes both JLG and the non-JLG portfolio. And as we said earlier also that BC JLG slippages or any other BC-related slippages are covered by FLDG, which we have from the BC partner.

Ashlesh Sonje: Got it. On the other question, sir?

Govind Singh: Yes. If you look at our experience of the customers, -- we all understood that this time the JLG, the way JLG operates was not operated. There are a lot of customers who are delinquent and the design was not for a door-to-door collection. And that is why it is taking a long time. Our broad finding -- I mean, we don't have any exact data for that, but our finding is that we still see that most of the customers maybe were not able to contact during that period. I'm talking 6-7 months back.

Our current efforts are to contact each and every customer who is overdue currently. We are seeing a little better center meeting discipline also. Again, not an exact data, but maybe around 65% to 70% of center meetings are happening. Some of the customers are coming, some of the customers are still not coming there.

But if you look from the livelihood of customers, I think that this time, that is not a major issue, which was the case in second COVID and those periods. I think maybe 3%, 4%, 5% customers are under stress. But most of these customers because of the guardrails, which were put forth and there are some stress and people are not able to get funds, because of stricter following of the guardrails. There are some real stress because of the cash flow mismatch that we are seeing.

So contacting customer and real cash flow mismatch. I think these are the two reasons and which I think we and the other players are also trying to implement through collections team, through the normal team, which is currently focused on collections only. It's very difficult even to currently predict what type of amount we will finally be able to recover.

But I think recovery of the overdue part, I'm saying that should be much better from here. That is what is expected, because I think now we are able to -- or again, as mentioned, this is largely about the industry also, people are able to connect the customer, contact the customers and the ability of -- or ability of getting this money back out of the arrear part is much, much better, much, much bigger now.

Because there is not a livelihood issue in most of the cases. I'm not saying it is not there at all, in most of the cases. It is the over-leveraged and which gradually is getting addressed.

Ashlesh Sonje: Understood, sir. And just lastly, at a very broad level, how do you think about the loan mix going forward?

Govind Singh: So loan mix, we have guided also. Again, it's not seen as a guidance, but we have been increasing our secured portfolio by 4% to 5% on an annual basis year-on-year. And our expectation is that at least if you look at the medium-term horizon that should keep happening. Our secured book will keep growing by around 4%-5% in terms of percentage on a year-on-year basis.

So you are aware that we have -- during the last 5-6 years, we have put a lot of efforts. We have proper collection, credit, product and sales team for each and every vertical that we have put in place. So our expectation is around 4% to 5% increase in secured book if you look at the medium-term horizon.

Moderator: Next question is from the line of Gaurav Phulwani, an Individual Investor.

Gaurav Phulwani: My first question is, if you can share an update on the reverse merger?

Sarjukumar Simaria: Yes. All right. Okay. We have got the NOC from RBI. We also know that the two exchanges through which SEBI ultimately is in okay. So both of them have given their NOC. Currently, we have already responded queries to SEBI. I think, we are in the queue. I've seen some of the sequencing, our application was in December, and then there are some of the applications for merger amalgamation even filed prior to us, which are still open.

We hope that our's -- in the queue comes as soon as possible, hoping this month. All that is awaited is SEBI okay and trying to see that we also approach them if we can -- if there's anything that remains to be explained, hoping that we get that approval this month early as possible.

Govind Singh: In nutshell SEBI approval is left, I think we are still expecting that to happen soon. There has been some delay in what we had discussed last time also. It's largely because we are yet to receive SEBI approval.

And as soon as that happens, I think we are ready for filing with the NCLT. And thereafter, as you are aware, the NCLT process may take from 7, 8 months, 9 months or so, whatever is the normal time process. So that is what is expected. But I think SEBI approval is one important thing what we are waiting for right now.

Gaurav Phulwani: Okay. And the second question is that we have seen some changes in the senior management personnel at the bank. What has been the reason for it? Because we have seen this happening quite frequently in last 2 quarters?

Govind Singh: These were -- I mean, I can use the word -- of course, timing might be -- you might have seen on April 30, but these were some of the cases where people -- sometimes people want to move on also. And we have a very strong second line as far as -- it's not only about this, but across the businesses. You name the department, we have a very strong second line and which takes care of this. And there's no gap in between, per se, from that angle.

And also Pramod, he's on this call also, our ED, he has joined 8-9 months back. And he takes care of all the businesses. So the names you just saw, in fact, they also used to report to him. And he's overseeing all the businesses, including the liabilities part, the assets part, the micro-banking part, the collections part. So there is no gap per se in between as far as the day-to-day operations or even the strategic or our business plans for next year is concerned.

Moderator: Next question is from the line of Shrikant Shivsagar, an Individual Investor.

Shrikant Shivsagar: My question is on the lending side. After the NPA -- after we've seen the stress during this time, have you made any extra checks or any other improvement in the lending practices?

Govind Singh: Yes. Certainly, as you know, whenever such things happen, there are learnings also. Some might happen, happening because of you can say guardrails or because of the environment, but at the same time, especially if you look at JLG, the type of discipline we are talking of, the type of monitoring we are talking of, even use of technology, I think it's not that we are not doing earlier, but we have strengthened all those things, the underwriting norms, not in JLG, but even in the non-JLG part, wherever we thought that there are gaps and which became apparent during this period, I think those have been plugged.

Our CRO is in this call, he can also talk a little bit on the part wherever we have strengthened in terms of control and underwriting practices. I mean, right from sourcing, just to add one more thing, because we are in lending business, we have further strengthened our collections part also, be it the JLG and be it the non-JLG part.

Historically, in JLG, people are not having collections team. So now we are having 800-plus people collection team. And similarly, on the other side also, for the retail assets for all other lending mortgage and other things also, we have strengthened our collection team across the country. But he can talk a little bit on the other aspects of underwriting other things.

Amit Acharya: Yes. So just to add what MD has just told you, even on the MB side, all the guardrails or all the rules are being input into the system itself. So there is no manual intervention. The system takes care of all the rules and all the guardrails and automation is there.

As far as non-MB products are concerned, we continuously look very granularly on the data at a granular level and we see which CIBIL score band we are getting early delinquency or which are the policy norms even on the LTV side or the FOIR side or other parameters in Retail, because so many parameters goes into play on retail side.

And we keep on strengthening or changing those levers. So we have taken all adequate measures, and this has been continued since last 6 months, and we keep on doing this in future as well.

Shrikant Shivsagar: One more question on the secured lending side. As Govind sir previously mentioned, that we tried to increase the share like of secured lending approximately 4% to 5% each annual year. So any plans on the gold loan side? Because I think the percentage is quite low as of now.

Pramod Kumar Dubey: Yes. So we have started gold loans, and we intend to increase that, although the numbers at this point of time is a very, very small number. It's just the beginning, but we have started doing it in quite a few branches.

Shrikant Shivsagar: And lastly, last question. Do we have any plans to collaborate with any fintech apps to lend?

Govind Singh: So we do have fintech where we have partnership and under BC model we have a few partnerships where we are lending through fintech. And certainly, the experience has been good. The efficiency of fintech we are able to get, and we are also able to get the FLDG cover.

So I think we have a good experience. And certainly not in a very big way, but in a small way, we intend to keep exploring that. Wherever we are able to get good fintech partners and good products, we will certainly be exploring additional partnership under BC model.

Shrikant Shivsagar: And the SuperCard, which we have launched, I think, any response on it? How is the response on the SuperCard?

Govind Singh: Yes, it's a secured credit card, and our response has been very good. And we have also got, I may not be able to say sizable as on date, but we are also able to get good amount of fixed deposits in this. And so far, the experience has been good. And especially in some of the geographies, we are aware that credit cards are not available to people. So I think this product is doing good and idea is to scale this product in the future. So our initial experience has been very, very good.

Moderator: Next question is from the line of Vinay Nadkarni from Hathway Investments.

Vinay Nadkarni: Just wanted to pick up on a couple of questions. The Bihar state elections are coming up, and we have a large exposure in Bihar. Any impact you can see?

Govind Singh: So as I mentioned that Utkarsh as an institution is working in that geography, especially UP and Bihar for around 16 years. And we have seen multiple general elections, state elections, even panchayat elections. And elections have never impacted as far as the ground level JLG part is concerned.

So we don't foresee any challenge, any such impact, because of the general elections coming in Bihar. In fact, some of these governments, which are supportive of the microfinance movement, because getting the loans for livelihood -- especially in the states like Bihar is very important even from the government side. So we don't expect any disruption or any such thing because of elections.

Vinay Nadkarni: Okay. And what is the written-off amount of loans in the book as of...

Vinay Nadkarni: Written-off loans. What is the total written-off loans in the book?

Puneet Maheshwari: So basically, this number is a cumulative number. And if we would put all technical written-off amount, it will be about INR1,000 crores. This will be cumulative over a period.

Govind Singh: Almost 8 years amount.

Vinay Nadkarni: Yes, I understand. So INR1,000 crores is the written-off book. Any recovery -- because your recoveries are very low. So because I think most of it will be microfinance. But any chances of recovery happening in that?

Govind Singh: So in terms of recovery, what you might have seen slow is, because there are a lot of -- it's a recent one, and there were guardrails, because of that getting money from people was becoming a little difficult. Disbursement are also low. But historically, -- even JLG and non-JLG both, we have been able to recover money.

In fact, today also in some cases, we recover even during demonitisation period amount, we are able to recover in some cases. So we do expect the recovery will keep happening in these cases. And even today also, we are able to get old -- very, very old recoveries in JLG and in non-JLG also. So I mean, it's very difficult to put a number right now. But yes, we do expect the recovery proportion and recovery percentage will significantly improve from here.

Puneet Maheshwari: Write-off collection in current financial year, it is more than INR80 crores.

Vinay Nadkarni: INR80 crores.

Puneet Maheshwari: Yes, more than INR80 crores.

Vinay Nadkarni: Okay. And secondly, if I remove this impact of this change in accounting policy for quarter 4, both from income as well as from expense, your opex-to-income ratio is nearly 74%. And if you are saying that is a one-off event and definitely it will not be recurring in the next year, but your collections still happen in the same manner. 74% is pretty high. Do you see that impacting in the coming quarters?

Sarjukumar Simaria: So you are right. The one-off also is part of the amortization that we used to do for loan processing fee in terms of payout to partners has been booked upfront. But if you take one-off out, then honestly, the opex increase Y-o-Y is around 20% in FY25 and Y-on-Y around 4% in

Q4 FY25. So technically, what is business as usual cost. So to that extent, the incremental cost will be business as usual volume-driven increase, and that is what we see to happen.

Govind Singh: So -- what is also happening, all these ratios are getting impacted by the denominator factor. So because there is no growth, but expenses were there. So obviously, as I mentioned, it's a matter of a few quarters before we will start improving -- improvement in all the parameters across.

Vinay Nadkarni: Yes, this quarter was quite sad. So therefore, if you remove the factor, it would have been really miserable quarter. And if you think that is going to continue for the next 2 quarters, there will be a pain that we should see in H1?

Govind Singh: No, no, but we didn't mention that pain will be like what was in quarter 3 and quarter 4. I mean, when we talk of pain, it is the overall pain. Whatever are the delinquency of previous quarters, there may be additional provision on that. Suppose you have done 50%, you have to make now additional 15%, 20% provision on that. So that is the type of pain. Certainly, collections are improving and especially the rate of delinquencies are coming down significantly. So it won't be on those lines.

Vinay Nadkarni: So can we expect a higher disbursals in the next 2 quarters because that's the only way you can increase your income?

Govind Singh: As I've indicated that end of quarter 1 or maybe beginning of quarter 2, we should see an improvement in disbursement. That is what we expect right now.

Moderator: Next question is from the line of Kapil from GC.

Kapil: Yes. This is just a culmination of some of the things discussed. Based on the opex accounting changes and the income accounting changes, do you feel that the bottoming out of the pre-provisioning profit, I'm not referring to the final PBT number, the pre-provisioning profit of INR235 crores is virtually the bottom?

Because things have stabilized. There would be some level of better recovery and the disbursement would have lesser reversals. So is there a bottoming out of the pre-provisioning profit? That's one.

The second is, given that there is a gross NPA closer to INR1,000 crores still there and there's a -- do you think another INR300 crores to INR400 crores is the max provision relating to the old book which would be made? So that is number one. And based on that, what would be the medium-term credit cost which we should budget?

This INR400 crores or INR500 crores would be onetime. But what is the medium-term credit cost we should budget on the microfinance book and the non-microfinance book? And culmination of all of this, again, would it be fair to assume that the PPoP could be therefore well in the range between INR1,200 crores to INR1,400 crores in the coming year?

Sarjukumar Simaria: As we mentioned in the beginning of the call, I guess we will come back with more -- in the mid of the year on exactly what you are seeking. At the moment, I guess, to create a crystal ball, I guess, it would be a little premature.

Moderator: Ladies and gentlemen, we take the last question from the line of Anant Mundra from My Temple Capital.

Anant Mundra: Sir, when do we expect to complete the fundraise and by what mode are we planning to do this?

Govind Singh: So we had discussed last time also in terms of fundraise. One is obviously market situation. We need to be careful about market situation. As far as the capital adequacy is concerned, we are still above 20% capital adequacy. And you are aware that RBI requires 15% as a statutory requirement of capital adequacy.

So we will not be in hurry. And you are aware that we have taken approval for up to INR750 crores Tier 1 capital that we can raise for market. So we'll certainly look at market. The moment market is receptive and good, then certainly, we'll go for this. But we'll not be in hurry because we are adequately capitalized as on date.

Anant Mundra: Got it, sir. And sir, any color on the modes of the fundraise? Like can it be through a rights issue is what I'm trying to understand.

Govind Singh: So I think, we have kept it open. And as I mentioned, based on our interaction with the investors and the overall market conditions, we'll take a call. It is not yet closed that way, as I mentioned, because you have seen the market is not that steady right now. So we need to be a little cautious about that part. So certainly, whatever mode is doable and useful for us. We'll take that mode. Certainly we'll come back to all the investors before it is done.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Govind Singh: Yes. Thank you, all of you, for joining this call. And as you have mentioned that market is through -- especially microfinance part, other businesses are well on track in terms of other assets, in terms of liabilities. Yes, Microfinance is passing through a tough phase. We are seeing that it is in the process of bottoming out, and we should see good traction, good improvement in next few quarters. And we'll keep engaging with larger fraternity on this part.

And again, thank you very much for attending this call, and look forward to your continued support and guidance to us. Once again, thank you. And thank you, ICICI Securities team for arranging the call.

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