Ujjivan Small Fin

Operator: Ladies and gentlemen, good day and welcome to Ujjivan Small Finance Bank Ltd. Q1 FY27 earnings conference call hosted by Antik Stock Broking 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. Manjeet Nayar from Antik Stock Broking Limited. Thank you and over to you, sir.

Manjeet Nayar – Antik Stockbroking Limited: Thank you. Good evening, everyone. I welcome you all to the Q1 FY27 earnings conference call of Ujjivan Small Finance Bank Ltd. Today we have the senior management team of Ujjivan Small Finance Bank represented by Carol Furtado, Executive Director; Sadanand Kamath, Chief Financial Officer; Ashish Goyal, Chief Credit Officer; Vibhas Chandra, Head Micro Banking; Jitendra Jha, Head of Retail Liability; Umesh Arora, Head of Emerging Business; Martin P.S., Chief Operating Officer; Brajesh Cherian, Chief Risk Officer; Siddharth Bharadwaj, Head IR; and Mr. Gaurav Shah, Lead Investor Relations. With this, I now hand over the call to Carol Furtado, ED, for her opening remarks. Thank you and over to you, ma'am.

Management: Thank you, Manjeet. Good evening, and thank you all for joining us today for Ujjivan Small Finance Bank's Q1 FY27 earnings call. Since our MD, Mr. Sanjeev Nautiyal, is indisposed and not in office today, he is unable to attend this call. Please note, I will be referring to year-on-year comparisons with Q1 FY26 and quarter-on-quarter with Q4 FY26.

I will begin with a brief overview of the macroeconomic environment before discussing the bank's performance for the quarter. The geopolitical situation in West Asia, which started in February this year, continued to create uncertainty across global markets during the quarter. While discussions around a ceasefire emerged, the situation remains fluid. Softening of global energy prices from their peak coupled with easing Indian commercial gas supply restrictions has smoothed commercial operations.

On the local front, the weather-related uncertainties continue to pose risk due to the strengthening of El Nino in the months ahead. We believe that the harvest of Rabi crops has led to better outcomes currently, but any delay in sowing of Kharif crops might impact H2 economic activity. This remains a key monitorable. On the positive side, the high-frequency domestic economic indicators have largely shown stability. The RBI in its June MPC review meeting decided to keep the policy repo rate unchanged at 5.25% while maintaining a neutral policy stance. The forex hedging cost dispensations by RBI have been a welcome step and should help in liquidity and hence stabilizing the deposit rates.

While the real GDP growth for FY27 was recalibrated to 6.6%, the inflation forecast was within the band defined by RBI and is projected at 5.1% for the full year. The Governor also emphasized that the banking sector continues to remain resilient supported by healthy credit demand, steady deposit mobilization, and adequate liquidity to meet the productive requirements of the economy.

Against this backdrop, the bank delivered another quarter of steady business growth. Our strategy continues to remain centered on strengthening our liability franchise, building a diversified asset portfolio, and maintaining prudent risk management practices to ensure profitability along with growth. As part of the plan for FY27, the bank has operationalized 38 new branches, taking the total count to 814 as of June 30.

We delivered the highest year-on-year growth in deposits at 25% in the last couple of years, taking the deposit book to 48,129 crores. CASA deposits grew to 12,930 crores, up 37.8% year-on-year. In a tight liquidity scenario, we maintained a comfortable CD ratio. To adjust for the evolving market scenario, we effected rate increases in the month of June on key buckets in line with our intended ALM outcome.

Our focus on enhancing the value proposition for deposit customers continues to deliver encouraging results. The high-net-worth program, Ivory, has witnessed strong momentum and is increasingly becoming an important pillar of our affluent banking franchise. Insurance cross-sell penetration has improved further, reflecting stronger customer engagement. The mutual fund distribution offering now accessible through mobile and internet banking channels is seeing growing customer adoption. Additionally, the co-branded credit card currently in the testing phase is expected to further strengthen customer engagement and product penetration.

Cost of funds continued the downward trajectory and stood at 6.86% for the quarter. We remain in sound liquidity health with a liquidity coverage ratio around 132% for the quarter, reflecting a well-balanced approach towards growth and liquidity management.

Turning to our asset franchise, we are pleased to note that our progress towards diversification of our loan portfolio remains on track with more than half of the loan book being secured at 50.4% as of June 30. Following a strong performance last quarter, growth in our secured book has continued at robust rates and expanded to 21,638 crores, up 42.7% year-on-year and 7.8% quarter-on-quarter.

Management: Bank-level gross loan book reached 42,903 crores, growing 28.9% year-on-year and 5.5% quarter-on-quarter. Disbursements for the quarter were at 9,245 crores, up 41.4% year-on-year.

Driven by the sustained momentum in the micro banking sector, our micro banking book reached 21,371 crores, up 16.8% year-on-year, while disbursements grew by 16.4% year-on-year to reach 4,581 crores. On the asset quality front, bucket X collection efficiency for the quarter stood at 99.68%, demonstrating a healthy portfolio.

After seven quarters of degrowth, the borrower base has started to grow, supported by 1.72 lakh new customer additions in Q1, marginally above the Q4 FY26 numbers. Affordable housing and micro mortgages recorded strong growth with the gross loan book increasing 40.8% year-on-year to 11,210 crores, underscoring resilient customer demand and effective execution across key markets. Affordable housing distributed through 581 branches and micro mortgages through 323 branches benefits from geographic dispersion and a well-defined state-wise collateral framework. Our disciplined underwriting approach, supported by calibrated LTV and FOIR thresholds, continues to reinforce portfolio quality while enabling sustainable growth.

GNPA across affordable housing and micro mortgages remains stable at 1.2% and 0.6% respectively. The MSME portfolio continued its strong momentum, registering growth of 54% year-on-year at 3,470 crores on the back of maintaining prudent underwriting standards. We have enhanced our product offerings within this segment. Working capital and supply chain finance jointly contribute around 28% to the MSME book. The business continues to help in customer diversification and increased deposit mobilization. The MSME PAR dropped 13 bps and new book GNPA remained stable at 0.5%.

Gold loans continue to be a strong growth driver with sourcing across 455 branches with an increase of 106 branches in the quarter. Gold gross loan book stood at 1,020 crores, up 248.6% year-on-year. This increased product penetration and tailored offerings resulted in disbursements growth of 183.9% year-on-year at 467 crores. Origination LTV for Q1 remained comfortable at 75%, while the book LTV remained around 56%.

Vehicle loans with the new two-wheeler segment continue to do well. This product is offered across locations catered by 337 branches with a focus to enhance our mix of mid-premium and EV. The vehicle gross loan book stood at 1,036 crores, up 85.1% year-on-year. Portfolio quality remains steady with GNPA at 1.7%.

Together the new business lines of gold, vehicle, and agri have contributed to 7% of the gross loan book, while the disbursement share was at 9% in Q1. Bank-level asset quality continued to be stable during the quarter with GNPA reducing by 10 bps to 2.17%. The provisioning coverage ratio strengthened further to 85%, providing adequate coverage across secured and unsecured products. Collection efficiency for current due plus overdue remained healthy at 98.4%, supported by consistent execution across our operating network. Write-offs for the quarter stood at 72 crores. Credit cost came in at 127 crores.

We are watchful of the macroenvironmental factors and will continue to take timely corrective steps to address any developments. The business growth witnessed across both our liability and asset franchise in Q1 translated into a healthy financial performance with profit after tax at 317 crores, resulting in ROA of 2.2% and ROE of 18.2%.

Net interest income increased to 1,186 crores, while net interest margin remained stable at 8.5%. Processing fees and insurance cross-sell supported other income.

Operating expenses remained well-managed quarter-on-quarter, while personnel cost increases reflect salary increments effective from April 1, hiring, and adjustments toward gratuity and leave encashments. Other expenses were lower sequentially on account of lower business generation expenses and lower CSR expenses.

The strong performance across our asset products has more than offset the impact of macroeconomic headwinds and reinforced our confidence in achieving our FY27 planned asset growth of 25%. The expenses planned this year for future capacity building started kicking in from late Q1 and the effect would be seen over the remaining quarters. Capacity building expense is of the nature of branch opening, branding, and tech and analytics capabilities. This deferred commencement of expenses coupled with ongoing efficiency gains will result in full-year OpEx being lower than earlier planned and would now be around 6.4% of average total assets.

We continue to witness encouraging trends in asset quality with credit cost at 0.9%, with absolute slippages during the quarter remaining lower than anticipated. Accordingly, we are revising our FY27 credit cost guidance to 0.9% to 1% of average total assets. Please note, we are moving away from guiding credit cost on average gross loan book to average balance sheet for better alignment.

We remain mindful of the prevailing funding rate environment and the continued competitive intensity in CASA mobilization, along with pricing pressures across key asset products and the resulting impact on margins. Taking these factors into consideration, along with the strength of our operating performance, improving asset quality, and enhanced cost outlook, we are confident in raising our FY27 ROA guidance to 1.8% to 2%.

We continue to invest in creating more levers for liability customers to bank with us. Simultaneously, multiple digitalization and analytics-led interventions are being carried out to further bolster the liability franchise. We are also utilizing the newly created capacities on the forex side by offering attractive FCNRB rates. It is of paramount importance that capacity building continues to happen on all fronts.

Highlighting a few new initiatives on the assets front: unsecured fast-track loans have completed a successful pilot and are ready for scale-up. This is a pure digital product with the utilization of account aggregators and bureau details. Pre-owned cars have been piloted in Karnataka. This will create a growth engine within our vehicle loan business. Lending to mid-corporates has commenced with disbursements in Q1. The MSME product suite has been expanded with purchase invoice discounting. With that, I conclude my opening remarks and request the moderator to open the floor for questions. Thank you.

Operator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Renish from ICICI Securities. Please proceed.

Renish - ICICI Securities: Hi. Congratulations on a good set of numbers. Just two or three things. One is on the asset yield. We are experiencing very high competition in segments like affordable housing or maybe vehicle financing. How are we preparing ourselves from a 3-5 year perspective to sustain these yields, even if competition increases? My concern is that since we are moving away from the MFI business structurally, if we are not able to sustain yields in some of these main products, then on a steady-state basis, maintaining a 2% ROA will be challenging. I wanted to know your thoughts on the non-MFI yield today and how we are placed from a medium-term perspective.

Management: Hi Renish. I will first address affordable housing and then move to the overall yields. On the affordable housing side, our markets are largely urban and semi-urban. We are not present in the metros except in a small way. We are present in about 580 to 590 branches, which has given us a very robust distribution network to be able to maintain growth. A ticket size of 16 lakhs to 20 lakhs is the right mix we have found to maintain the yields we desire. We have been able to maintain yields despite some competitive pressure. However, we feel confident that in the markets where we operate, we should be able to maintain the yields.

Renish - ICICI Securities: Even looking at your internal rates, yields have been hovering around 12.2% to 12.3% for the last six to eight quarters. This suggests the market environment is such that even if we want to increase the price, the market is not going to allow us. Are we confident of sustaining these yields in this segment at this level, or do we have to revisit our strategy in terms of scaling micro-mortgages more aggressively to maintain the overall mortgage book yield?

Management: I was talking about affordable housing being in the range of about 12.5% yield. You have to see the mix of ticket sizes and the geography in which you operate. For us, in affordable housing, we have not had to compromise on yields because of the geographies and ticket sizes we have been operating in. There is a business line of micro-mortgages which we started around 3 years back. It is now about 1,800 crores. Here the yields are much healthier, in the range of 19.5%. About 70% of our business is urban in nature. The average ticket sizes are about 7 lakhs to 8 lakhs in micro-mortgages. Even if we go to 10 lakhs or 12 lakhs, the yield doesn't come down significantly. Again, it is a mix of ticket sizes and geographies.

Renish – ICICI Securities: Got it. My second question is on gold loans. When we look at the customer sourcing mix, this quarter the new-to-bank customer share has increased sharply to 40%. I wanted to know what changed in one quarter that helped in acquiring so many customers from outside. Is it related to branch vintage?

Management: Hi Renish, this is Vibhas. As far as the gold loan is concerned, it is a very promising business but also a new business for us. If we look at this quarter, we have activated more than 100 branches for gold loans, and that naturally leads to new customer acquisition. At the same time, we have seen that demand from microfinance customers has also increased in Q1, leading to new customers from this segment coming in as well. These two factors combined have changed the numbers.

Renish – ICICI Securities: Any ballpark absolute number we have in mind for the gold loan book, like reaching 5,000 crores by FY28?

Management: Renish, in this business, we are looking at increasing capacities. This has been a consistent strategy for the last 2 years. We keep activating branches and enhancing capacity. This quarter we have done on average about 160 crores to 170 crores a month. June exits at around 170 crores to 175 crores. We have a plan to take our active gold loan branches from about 430 to 440 up to about 575 by the end of this year. Therefore, we will significantly add capacity. The exit number for disbursement should be somewhere in the range of about 250 crores a month by March 2027. This will result in the book increasing significantly.

Renish – ICICI Securities: Very helpful. Thank you.

Operator: Thank you. The next question is from the line of Shripal Doshi from Equirus. Please proceed.

Shripal Doshi – Equirus: Hi. Good evening and thank you for the opportunity. Congrats on a good set of numbers. My first question was on the liability side. We have seen cost of funds and cost of deposits coming down on a sequential basis, but we have taken rate increases in some ticket size buckets. Incrementally, do we expect the cost of funds to move up? You highlighted that the liquidity situation remains tight. In that scenario, would the incremental cost of funds go up, and to what extent are we expecting that to close for the full year?

Management: Hi Shripal, Hitendra here. The deposit cost has been broadly aligned with the asset growth. We also have other avenues to support funding if required and to optimize margins, such as IBPC refinance and securitization options which are open to us. We remain cognizant of the deposit pressure in the market. Those impacts have been accounted for and baked into our ROA guidance of 1.8% to 2%. We do not see a very significant increase, but a marginal increase is expected.

Shripal Doshi – Equirus: Encouraging to see the current results. Do you see any further rate hike requirements at our level in certain buckets, or are we okay with the current rate hikes taken in Q1?

Management: As such, we don't see any immediate requirement for an upward revision. We will continue to remain at the same levels and will be watchful of how the market moves.

Shripal Doshi – Equirus: On the vehicle finance portfolio, we plan to add the pre-owned car segment. Do we also plan to explore CVs such as LCVs and SCVs in that category?

Management: Shripal, we have just completed the pilot for pre-owned cars. This is a business that we will test during the year in two or three geographies and plan to scale up next year once we understand the customer segment, pricing, and the local flavor of those geographies better. HCB and LCV, if and when we plan them, would be only after this financial year.

Shripal Doshi – Equirus: One last question on the fee income side. This quarter we have seen a dip in the insurance income. What explains that? Should this be the run rate incrementally, or will we see a bounce back?

Management: Hi Shripal, Hitendra here. What we have seen is that our income has gone up by almost 50% year-on-year. We are hopeful to maintain that kind of growth rate as we go along.

Management: Shripal, just to add, it all depends on the disbursements. Q4 disbursements were at an all-time high, whereas Q1 is not comparable. That may explain the difference.

Shripal Doshi – Equirus: Got it. Thank you.

Operator: Thank you. The next question is from the line of Rajeev Mehta from Yes Securities. Please proceed.

Rajeev Mehta – Yes Securities: Hi. Good evening. Congratulations on a very strong set of numbers. Can you share the investment amount you want to put toward this capacity building, such as branch opening, branding, and tech and analytics? I am looking at your current rate of profitability, which is 317 crores in the first quarter when typically other income is lower. Your guidance implies about 250 crores of profit at a 1.9% ROA. Are we building in some NIM compression throughout the year, which is why we will remain at the same rate of quarterly profits? If you could tell us the amount that will be spent on capacity building throughout the year and whether NIM compression has been budgeted in the ROA guidance.

Management: Hi Rajeev, Bala here. We had already informed you that we are planning to spend around 250 crores. Not much was spent in Q1, which is why there is a positive impact on the profits. However, the spending started in June as it required planning for marketing and IT. Many branches opened in June, so this will build up in the coming quarters. That is why we have given you a guidance of 1.8% to 2%, which considers the spend of this 250 crores in the coming quarters.

Rajeev Mehta – Yes Securities: And on the NIM side, what have we budgeted in the ROA guidance?

Management: Regarding NIM, my colleague CRO Brajesh explained the cost of funds. On the other side, MFI is doing well, which helps in keeping the yield up along with our higher-yielding segments like gold, two-wheelers, used cars, and micro-mortgages. We don't see any major changes in the cost of funds going forward because we have various instruments such as IBPC refinance and securitization that we did not use in the first quarter. We will use them to keep it stable. You can go forward with the NIM guidance we gave at the beginning of the year, which we achieved in the first quarter.

Rajeev Mehta – Yes Securities: Regarding liability mobilization for funding this asset growth, how are you looking at productivity? You mentioned adding branches and pricing changes. Is there anything from the productivity side to ensure you get the deposits required to fund this 25-30% growth?

Management: Rajeev, Hitendra here. There are two strategies. Number one, we are adding 144 branches this year. 38 have already opened, and 106 more will open, providing distribution. Number two, from the beginning, we have guided that our focus on the liability side is on the top 8 and top 30 markets. We are seeing robust growth of roughly 75% year-on-year on CASA and 36% overall growth there. We will continue to focus on these markets. Number three, we have introduced products to acquire customers. We are now more segment-focused, looking at HNI, NR, TASC, and corporate salary segments. With the new branches, we are confident we will garner the deposits required. We also have FCNRB opportunities, which have given us good results with 60 crores in Q1. We are hopeful to reach the numbers we guided earlier.

Rajeev Mehta – Yes Securities: Can you share the current ROA profile of the affordable housing book, excluding micro-mortgages?

Management: Hi, this is Gaurav. Rajeev, we are not looking to give product-level numbers currently. We will come back to you once we plan to share those.

Rajeev Mehta – Yes Securities: Thank you and best of luck.

Operator: Thank you. The next question is from the line of Kaushik Agarwal from Haitong. Please proceed.

Kaushik Agarwal – Haitong: Hi. Thank you for the opportunity. On the credit cost side, what gives you the confidence to cut the guidance? How is the MFI portfolio performing, and are you seeing any early warning signs related to weather or other factors? Also, regarding affordable housing, the growth has been strong; do you expect that momentum to continue? Finally, on margins, there was an improvement in the cost of funds but margins were largely stable. Did the borrowings that were supposed to be repriced finish this quarter?

Management: Hi Kaushik. I will answer the question on microfinance first. The credit cost is a function of bucket X collection efficiency. In Q1, we saw 99.7%, which is very healthy. Trends in July are remaining roughly the same. Therefore, we feel this trend will continue. If there is a 5-7 bps change, it would lead to a marginal change in credit cost, but as long as this trend continues, credit cost will remain under control. On affordable housing, the momentum is due to the urban and semi-urban geographies where we are present. The ticket sizes and yields we have maintained have helped grow this business. It is largely a distribution-driven business.

Management: Similarly, on the micro-mortgage side, we are already present in about 325 branches. As we go through the year, these branches will start to give better efficiency. In terms of PAR, there has been a marginal increase, but this business is only 2-3 years old and the book is still small. As we go forward, there will be a natural increase in PAR as the micro-mortgage book matures over time.

Kaushik Agarwal - Haitong: On the margins, what explains them remaining stable despite the improved cost of funds? And has the repricing of the book been completed?

Management: Hi Kaushik. On the repricing side, those benefits have mostly been realized. For further visibility on repricing benefits, we feel it will remain at the current level or be slightly elevated due to market pressure. We don't see significant changes to current levels beyond a few basis points.

Kaushik Agarwal - Haitong: Thank you so much.

Operator: Thank you. The next question is from the line of Abhishek from HSBC. Please proceed.

Abhishek - HSBC: Hi. Good evening and congratulations on the quarter. In the MSME business, the ticket size is increasing steadily. Is this LAP or working capital, and what is the yield range on this higher-ticket business?

Management: Abhishek, this increase is a conscious strategy we started in Q1 of this year. The increase in ticket size is both on LAP and working capital. LAP was around 58 lakhs to 60 lakhs; we are currently in the range of 80 lakhs to 90 lakhs. Similarly, on working capital, we were in the range of 70-80 lakhs and have now taken it to 1.1 crores to 1.2 crores. The yield, therefore, cannot be maintained at the previous 11-11.5%; it would be somewhere in the range of 10.5%.

Abhishek - HSBC: So the disbursement yield is lower than the book yield?

Management: It would be lower than the book yield.

Abhishek - HSBC: Where do you draw the line on migrating up the ticket size curve to protect yield?

Management: We are monitoring yield and OpEx as variables. As the ticket size increases, OpEx also comes down. While it doesn't fully compensate for the decrease in yield, OpEx and credit risk management together take care of the decrease. We feel we are currently in a range where we should continue for some time. We might look at further ticket size increases next year, but this year we will likely work in the same band.

Abhishek - HSBC: So you approach this as a leverage product where you might make a high ROE even if the ROA isn't the highest?

Management: Absolutely, Abhishek. It also gives us a foothold into liability relationships, overall banking relationships, and bank guarantees. There are non-fund-based opportunities in higher ticket sizes. We are starting to see some early success there.

Abhishek – HSBC: Regarding the mix between micro-mortgage and affordable housing, what will keep the mix trending toward micro-mortgages? Where do you expect that mix to settle?

Management: We are not looking at the ratios specifically right now, but rather at the capacity we have built. On affordable housing, we have built a capacity of about 350 crores to 375 crores a month. In micro-mortgages, we are seeing a 100 crore per month disbursement number, which we expect to reach 140 crores to 150 crores by March 2027. The incremental book will be marginally more toward micro-mortgages.

Abhishek – HSBC: On OpEx, should we think of this quarter as the underlying run rate, with the additional 250 crores added on top for the full-year target?

Management: More or less, yes. The extraordinary spend of 250 crores was delayed due to planning and being cautious of macroeconomic factors. We started spending in June, so you will see that impact in the coming quarters. We want to spend that money because it supports the bank's development and future growth. As mentioned, the guidance for OpEx to average total assets will be around 6.4% for the year.

Abhishek – HSBC: Thank you.

Operator: Thank you. The next question is from the line of Ashlesh from Kotak Securities. Please proceed.

Ashlesh – Kotak Securities: Hi team. Good evening. First question is on the liability profile. You are seeing CASA growth of about 35%. Do you expect that to continue in FY27? Are you still on track to get the CASA ratio closer to 30% by the end of this year?

Management: Hi Ashlesh. We are confident of maintaining the CASA growth we delivered this quarter. We have taken various steps for that. We are committed to the CASA ratio we projected and may slightly over-deliver.

Ashlesh – Kotak Securities: There seems to be a higher reliance on bulk deposits over retail term deposits recently. The share of individual depositors also declined. What has been the strategy there?

Management: Our bulk deposit ratio is about 30%, and our guiding principle is to keep it around that level. Throughout the year, we will make sure we are close to that. We have other interventions to bring it within that guided ratio.

Ashlesh – Kotak Securities: What is the rough ballpark cost of retail TD versus bulk TD?

Management: Retail TD is now definitely cheaper than bulk TD. We are getting good momentum in retail TD and will continue that.

Ashlesh – Kotak Securities: On the loan mix, what is the target for non-MFI by March 2027 and March 2028? Are you still guiding for 56% in non-MFI by March 2027?

Management: Ashlesh, we maintain the same guidance of 56% secured by exit March 2027.

Ashlesh – Kotak Securities: Can you share the slippages in rupees and the provision coverage for the MFI business this quarter?

Management: Slippages were less than 2%, and on an annualized basis, the slippage was 1.72%. The provision coverage ratio for MFI is in the range of 95%. Provisions held are about 657 crores.

Operator: Thank you. The next question is from the line of Param from Investec. Please proceed.

Param – Investec: Hi. Thanks for taking my question. Regarding OpEx, you mentioned 6.4% of assets for this year. How will this track over the next couple of years?

Management: This year we will be at 6.4%, but because this year involves significant capacity building, the incremental investments will be slightly lower going forward. You will see year-on-year improvement as efficiency gains kick in.

Param – Investec: Among the non-MFI businesses, which verticals are yet to reach P-POP level break-even?

Management: We don't give vertical-wise guidance at this moment.

Operator: Thank you. The next question is from the line of Ritesh from DAM Capital. Please proceed.

Ritesh – DAM Capital: Hi. Congratulations on the numbers. Is credit cost the primary driver for the revised ROA guidance? What gives you comfort in revising credit cost downward?

Management: The revised ROA guidance is based on both OpEx and credit cost. In microfinance, all states have stabilized. We are getting a consistent 99.7% bucket X collection efficiency. Guardrails have kept lending to four or more lenders below 1.5%, so there is no over-leverage. Repayment is consistent. We feel the credit cost reach for unsecured might be lower than the initial 2%. Q1 was about 1.9% on the microfinance gross loan book.

Ritesh – DAM Capital: On micro-mortgages, PAR is increasing; it went from 1.2% to 1.5%. Where do you think this will settle, and do we have higher LGD on this portfolio?

Management: Ritesh, the micro-mortgage book is only 3 years old, so the 18-24 month-on-book data is still maturing. We see about 95% on-time repayment and 99.7% bucket X collection efficiency consistently. There will be a natural increase in PAR because the product has not matured. However, even the 18-24 month-on-book has not touched 2.5%, so we feel the location and customer profile are working well for us.

Ritesh – DAM Capital: Which states are contributing to microfinance growth?

Management: We are witnessing demand across almost all states. Kerala is one state where we strategically limit our presence, but otherwise, demand is good everywhere. Our branch opening is happening across many states, particularly in UP, Rajasthan, and Bihar, where the portfolio has behaved better in recent years.

Ritesh – DAM Capital: On the liability side, your liability-only customers reached 53 lakhs. Does that include term deposit customers who don't have a savings account?

Management: No, largely all customers have a savings account. We do not onboard standalone term deposit customers. Whether through micro-banking or the liability franchise, they are backed with a savings account.

Operator: Thank you. Due to time constraints, this will be our last question. The next question is from the line of Sagar Shah from Spark Capital. Please proceed.

Sagar Shah – Spark Capital: Good evening. Congratulations on the healthy earnings. How are you expanding the gold loan portfolio in terms of branch count and productivity? Also, regarding the revised credit cost guidance, are you seeing healthy recoveries in the MFI space?

Management: Hi Sagar, I am Vibhas. It is a new and promising business for us. This year we will be activating gold loans in about 250 more branches. We intend to offer gold loans from almost all branches we operate. In branches where we start operations, productivity typically reaches 25 lakhs to 30 lakhs per officer within a year. Being a late entrant, we benefited from understanding market nuances and built a product that fits well with RBI policies. While gold loans are heavy in the south, we see opportunities in the East, North East, and North.

Sagar Shah – Spark Capital: On the MFI side, what is driving the credit cost improvement?

Management: On the microfinance side, we have seen a significant reduction in slippages. Bucket X collection efficiency is steady at 99.7%. On an annualized basis, slippages were 1.72% in Q1 compared to 2.68% in Q4. This reduction in slippages leads to better credit cost for the full year.

Sagar Shah – Spark Capital: Thank you very much.

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

Management: Thank you. I once again thank all the participants for their time and interest. We at Ujjivan Small Finance Bank Ltd. remain focused on delivering profitable growth while we build an enduring institution. Please reach out to our IR team for any unanswered queries. Thank you.

Operator: Thank you. On behalf of Ujjivan Small Finance Bank Ltd., that concludes this conference. Thank you for joining us and you may now disconnect your lines.