CreditAccess Grameen Limited Investor Conference Call
Q2 and H1 FY20 Results
October 31, 2019

Moderator: Good Day, Ladies and gentlemen and welcome to the Investor Conference Call of CreditAccess Grameen Limited to discuss the Q2 and H1 FY20 Results. Today, we have with us from the management, Mr. Udaya Kumar Hebbar – Managing Director and CEO, Mr. Diwakar B.R – Director Finance and CFO and Mr. Nilesh Dalvi – Vice President Investor Relations. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Udaya Kumar Hebbar for opening remarks. Thank you and over to you, sir.

Udaya Kumar Hebbar: Good morning to everyone and thank you for taking your precious time and joining us today to discuss our Q2 FY20 performance. Before I provide an overview on the quarterly financial performance, I would like to highlight that we have expanded our Pan India footprint by entering in five new states - Gujarat, Rajasthan, Uttar Pradesh, Bihar, Jharkhand during June to September 2019. The expansion in these new states has been line with our continuous district-based strategy with strong focus which helps first to effectively manage risks in new geographies while ensuring better operational productivity. With this expansion, we are now present in 13 states and one union territory.

We have already recruited and trained the right manpower particularly freshers for this expansion. This helps us to further diversify our presence across different geographies over coming years. I would also like to inform you that the Board of Directors has unanimously approved the appointment of our director Mr. Paolo Brichetti as a Non-Executive Chairman of the Board and Mr. Manoj Kumar as an Additional Director (Independent) with effect from 30th October 2019. Mr. Paolo Brichetti, Founder & CEO of CreditAccess Asia and Nominee Director on the Board will replace the outgoing Chairman and Independent Director Mr. M.N. Gopinath who stepped down after completing 70 years of age. I would like to thank Mr. M.N. Gopinath for his valuable contribution in providing strategic direction to our company and helping us to build a transparent organization with strong governance standards. Mr. Paolo's appointment as chairman reinforces the long-term commitment of our promoter CreditAccess Asia towards realizing our mission and drive our business growth in future. Mr. Manoj's appointment will help us to leverage his vast experience in banking and technology space to improve our process, productivity and customer experience.

Coming to our second quarter performance we displayed resilience in the face of severe floods in certain states which impacted the day-to-day life of some of our borrowers. Our gross portfolio increased by 36.4% YoY to 7,905 crores driven 27.1% YoY growth in our borrower base. The growth is in line with the trend of Q2 in our business which is normally muted compared to other quarters due to peak monsoon period. Disbursements grew by 39.2% YoY to 2,186 crores. We have been on track with regards to our branch expansion and have opened 217 new branches in H1 FY20 compared to 140 branches opened during H1 FY19. Our total branch network grew by 35.2% YoY to 887 and total employees by 33.5% YoY to 9,817 at the end of September 2019. Our focus during H2 FY20 will be on ramping up this branches, leading to robust AUM growth in H2 FY20.

We have very comfortable liquidity position with an adequate cushion with 2,594 crores funds in pipeline. Our interest income increased by 26.2% YoY to 381.5 crores. Portfolio yield was 19.5% compared to 20.5% in Q2 FY19 and 19.7% in Q1 FY20. Weighted average cost of borrowing was 10.3% compared to 10.5% in Q2 FY19. There is already trending reduction of cost of borrowing which would reflect during H2 FY20. Marginal cost of borrowing was 10% compared to 9.2% in Q2 FY19. We successfully raised 1,472 crores of fresh funds in this quarter at weighted average rate of 9.85%. Net interest income increased by 26.3% to 251 crores, cost to income ratio of 39.8% and Opex/GLP ratio of 5.3% in Q2 was little higher due to branch expansion in H1 as majority of the costs including branch opening, recruitment training etc. are front loaded.

The cost ratio should normalize in H2 FY20 with commensurate growth in AUM. Pre-provision operating profit increased by 18.2% to 154.7 crores. Provisions were 27.7 crores. Profit after tax increased 37.3% to 101 crores. Provisions in Q2 FY20 are not directly comparable with Q2 FY19 primarily on account of more conservative provisioning policy adopted in March 19 and evolution and stabilization of our ECL methodology over last four quarters. However, we also note that there was some increase in stag 2 assets compared to Q1 FY20 due to impact of floods in certain districts across Maharashtra and Karnataka. The situation is improving with each day and we are witnessing regular recoveries from these borrowers with some delay. The overall asset quality has continued to remain strong with 0.52% GNPA and conservative provisioning of 1.23%. Our on-time collection efficiency was 98.8%. ROA stands at 4.8%, ROE at 16.1% and debt equity at 2.2. We continue to maintain robust capital adequacy ratio of 34.2% which provides a significant headroom for growth over coming quarters. With this brief overview, I would now like to open the forum for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: In terms of your cost of funds you mentioned about 10.3% and incremental is 10%, so the cost of funds still is little on the higher note, so what is the stabilized cost of funds you are looking at over the medium term?

Diwakar B R: This is essentially the marginal cost increase in this quarter because of one long-term loan of five years we have taken otherwise cost of funds is in line with our normal plans. So just to give you a perspective, our long-term funding will be in the range of 10.5% to 11.5% and our short-term funding which is the bank funding will be somewhere between 8.5% to 9.5% and we expect the overall borrowing cost to be around 10% going forward.

Diwakar B R: These are all long-term funds with maturity of 3 to 5 years. Therefore, the costs are obviously expected to be lot more than the bank funding which is generally two years, which is a major component of our overall borrowing and comes at 8.5% to 9.5%. Therefore, the overall costing will stabilize around 10%.

Deepak Poddar: Sir, you were earlier guiding for about 425 - 450 crores kind of profit and despite tax cut your guidance remains same. I thought that your guidance might increase to over 500.

Udaya Kumar Hebbar: There are two components, one is the DTA adjustment to some extent which we have taken up completely this quarter, and second is the little higher provisions that we already provided in this quarter. Hence our guidance will remain in the same range with a deviation of 5-10 crores.

Deepak Poddar: And provisions also you mentioned would be on the higher end.

Udaya Kumar Hebbar: That is what has already been realized in this quarter.

Deepak Poddar: And my final query on the medium term, what sort of CAGR are we looking at on maybe on a three to five years basis in terms of our AUM?

Udaya Kumar Hebbar: We already stated this earlier, our next five-year CAGR could be about 30% in terms of AUM growth.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

Piran Engineer: I just have a couple of clarifications, firstly what was the fresh borrowing in Q2 and can you also give the breakup of which instruments?

Diwakar B R: So we raised about 1472 crores in the quarter and out of this the overseas borrowing was around 100 crores, then we had a long term funding from financial institution which is around 300 crores and the remaining consists of bank borrowings and one direct assignment of around 125 crores with one domestic bank.

Piran Engineer: The PAT guidance if I heard it correctly is 425 to 450 crores for FY20.

Udaya Kumar Hebbar: That is right.

Moderator: The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: I have three questions, one was macro question on the rural economy are you seeing anything out of the ordinary in terms of what lies on the horizon, anything which is worrying you because different companies give different commentary on the rural economic scenario, so I was wondering what are you seeing. Second is you have expanded into new geographies now and I also saw that there was a fairly decent jump in employee cost, so how do you see your cost on the P&L going up with this round of expansion to new geographies and when you enter a completely new district or a completely now state how long does it take for the fresh branches to start contributing meaningfully to the ROE of the company and when do they breakeven?

Udaya Kumar Hebbar: The rural slowdown has happened several times in the past, but for MFI segment of business we do not see any impact of slowdown. It could be there for the investment in assets and investment in four wheeler, two wheeler but not in MFI which helps in bringing the informal borrowing to formal borrowing and moving into financial inclusion. I think we do not see any problem in this business because of any rural economy issues. We have been showing growth continuously in every quarter-on-quarter as well as on the year-on-year. In fact, we find more opportunity because of some of the former players particularly NBFCs are not supplying enough in the rural I think which is of advantage to us. The second one on the cost of expansion as I said initially most of the cost which is recruitment, training and new employees hiring is front loaded and branch opening also front loaded which is little higher this quarter whereas the returns start coming from the next quarter onwards. So we do not see any significant increase in the additional cost during two quarters because of this other than the employee normal budgeted cost of salaries we do not see any other significant cost coming in that is a second point. The third one is about the new branches. So as a process we go by only contiguous district approach so that the district where we are growing beforehand. We are able to replicate the same quality despite the border of the state is changed for us its next district that is the way we grow so that will have a stable expansion and with replication of the quality very well in the geography. Our normal branches will start producing business in two to three months of start of the business, and within 14 months they will actually breakeven that is the trend we are seeing and we will be in the same trend going forward as well.

Agastya Dave: Sir, my question was precisely because I remember you mentioning that you generally go very slowly and you go into the neighboring districts and then you do a chain of such districts, so how can the cost be so much front loaded? Have you done a more corporate expansion strategy this time where you are actually opening across the board in all the new districts and then ramping up?

Udaya Kumar Hebbar: Yes we did exactly the same thing in terms of moving to the next contiguous district and incidentally if the next district happens to be in a neighboring state we have gone to a new state and that is how the footprints have gone into new states. So we have gone exactly with the same strategy in terms of contiguous district expansion and there is no change in that particular strategy and as we have cost and we had mentioned earlier ours is an asset like model the branch expansion and the recruitment and training takes place before the end of the second quarter as always which has also happened this financial year and the benefits of branch expansion in newer geographies and portfolio ramp up in those places comes in the third and fourth and we are on course to do the normal course of business which we have been doing all these years. There is no change in strategy, or we have not taken any new approach to expansion any manner this are in line with our normal business projections and the strategy remains the same.

Moderator: Thank you. The next question is from the line of Apoorv Trivedi from Moon Capital. Please go ahead.

Apoorv Trivedi: My question was on direct assignment the volume of direct assignment seems to be somewhat lower related to expectation, just wanted to understand how are you seeing the demand on that side my sort of recollection is that your guidance was 20% of incremental funding would be a direct assignment it seems to be running materially lower than that?

Udaya Kumar Hebbar: Yes, we had indicated in a financial year 20% of our borrowings should make up from a short term sort of funding which is direct assignment and securitization which is generally the trend. However, we always said that direct assignment is something that we do to basically to manage the relationship with the bank because if the banks prefers direct assignment for any quarter we generally oblige. But it is not an issue for us because the fund raising has been normative. 20% is something that we need to definitely do in a financial year essentially because we have been able to raise our funds for our growth requirements comfortably through the term loans. Also the fact remains that direct assignment has been in the same proportion as what we had done in the first quarter which is 125 crores to essentially see that the revenues are coming out of this are more or less stabilized and are expected on lines that can be predictive that is how we have done it rather than any other reason. September quarter is also a quarter where banks they complete their sanctions and would like to avail the term loans for their own internal reasons and therefore we have availed a good number of term loans during the quarter. We will continue to avail the DA route and the securitization route as it maybe in terms of the overall relationship we have with the banks and the costing that is associated with it and given an option we will choose whichever is better for us.

Moderator: Thank you. The next question is from the line of Aseem Pant from HSBC. Please go ahead.

Aseem Pant: Sir, the first question is I remember you had said last time that you are the only lender to around 30% of your borrower base in microfinance is that correct?

Udaya Kumar Hebbar It is about 33%.

Aseem Pant: And sir as you go into these new geographies, these new states for those borrowers there does that proportion change I mean are you the first lender to them or typically are you the second or third lender?

Udaya Kumar Hebbar: See our experience is that we will have a large number of new customers coming as fresh because our focus is rural and not urban. So we feel that type of unique borrower base will continue even in the new geographies.

Aseem Pant: And sir secondly I believe your income assessment for a borrower generally at the borrower income level, but is there a way for you to capture the household indebtedness or the household income. How do you kind of know the household indebtedness so if the husband is also carrying some debt or what they are having loans from Kisan Credit Card etc?

Udaya Kumar Hebbar: Currently we are not looking at the threshold indebtedness from the data point of view or a bureau point of view, but when we do the group appraisal, when you form the center there will be enough evidence for us through the discussion with the group. We have evidence about the borrowing and their overall income which is a unique process by our senior people. The group know each other, who stay together, who are in same geography and rural so that is why this is the most important thing what we do. So that is why the rural helps us where the lesser number of such possible incidences and we will have a higher confidence on such kind of customers who are not exposed to such different kinds of borrowing.

Aseem Pant: And sir right now wherever you have seen crisis do you see that the borrowers who have maybe multiple loans have a higher PAR or PAR is spread evenly across the borrower base?

Udaya Kumar Hebbar: There is a different trend, borrower who is having sufficient experience in microfinance and have a sufficient cash flows, multiple loans will not impact them where as if someone is rushing the money with the large amount for the new customer then there will be an impact.

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

Nidhesh Jain: Sir, firstly can you share the number of customer added in this quarter what percentage of the customers are unique to us and have no borrowings from any other MFIs?

Udaya Kumar Hebbar: We have about 33% of the customers which are unique for us. I think we added net 76000 borrowers this quarter.

Nidhesh Jain: So 33% is also on an incremental basis.

Udaya Kumar Hebbar: Incremental basis it is slightly higher because our new customer acquisition has 44% of new customers unique for us when we start, but over one to two years that will actually fall to 33% so on an average about 33%.

Nidhesh Jain: And secondly sir what percentage of our customers will have overall loan outstanding of more than 1 lakh?

Udaya Kumar Hebbar: Actually we do not have that data right now, but in our case it is very limited because we restrict at 80000 to most our customers, but still there could be possibility only after borrowing from us, there might be possibility of borrower taking another loan, otherwise while we lend it cannot be more than 1 lakh for any customer.

Nidhesh Jain: And sir just lastly any trends on PAR 30 and PAR 0 because PAR 60 has been very good, but I think because of floods there may have been some impact on PAR 30 and PAR 0?

Udaya Kumar Hebbar: There is a bit of increase if you see our stage 2 provision has gone up little higher let us say 11, 12 crores of provisioning higher is because of the impact of the flood situation in about 40, 50 branches where we operate, but they are all paying latest installment or near installment and paying with a delay of one or two months. Our PAR 0 is 1.5%, PAR 30 is 0.9% and PAR 60 is 0.5% which is our GNPA.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Two questions one is on the tax rate and the impact on earnings and you kind of mentioned that you are not changing the guidance I mean it could be a 10-15 crore here and there, so obviously that would mean that you know the tax liability going down it would mean that and the PAT not changing it would mean that your PAT would have been lower now than whatever would have envisaged earlier and is the decline primarily or almost fully because of higher provisions?

Diwakar B R: So Nischint it is more to do with the second quarter expenses generally more so you are right on one point the PBT having been lower compared to the previous quarter. So from that standpoint essentially it is because of increase in front loading of expenses related to our expansion and the provisions that we have taken in this quarter consequent to the floods. So the PBT is on that line and the next part is on the PAT. We continue to be essentially focused on the guidance that we had given because we do not see any significant change in terms of what we expect to deliver because our third and fourth quarter are expected to be in with the business that we have envisaged considering that we have completed our expansion and opening of the branches and the expenses have actually been front loaded as always.

Nischint Chawathe: And on the provisioning side you think that large phase is done or is it something that even the next one quarter maybe you could see slightly elevated provisions?

Udaya Kumar Hebbar: As we know we have our stage II and stage III at a more conservative level. So the provisions that we have taken are essentially ensuring that we have sufficiently covered our provisions and we do not see it is going up in the third quarter.

Nischint Chawathe: So this should possibly normalize to from the third quarter onwards?

Udaya Kumar Hebbar: Yes.

Nischint Chawathe: The other one was just a small question on your cost of funding from foreign funds if you could give some color?

Diwakar B R: So I was telling you typically these foreign funds are overseas borrowings which is part of our strategy to diversify further and not rely on domestic borrowing and to that extent these range between 10.5% to 11.5%, but they have the advantage of three year plus in terms of the tenure which essentially helps the balance sheet stabilize better and also this when coupled with our domestic borrowings which are in the range of 8.5% to 9.5% typically the overall cost actually balances to around 10%. This is where the strategy has always been, the marginal cost in a quarter can go a bit here and there between 5 and 10 basis points, but overall the cost gets normalized over 10%. For example, I will just give you the sanctions in pipeline that we currently have of around 2600 crores which we raised for the next half year, around 40% of that will be at lower rate of 8.5% to 9.5% and that will significantly change the overall color of the liability book. So, we as a company always look at the liabilities at balance sheet level and mix of domestic and overseas borrowings and the rates here stabilize around 10% given the varied tenures of these two instruments.

Nischint Chawathe: And these are fully hedged for everything?

Diwakar B R: So, let me put it like this. There are two types of foreign borrowings one is where the hedging is completed at the lender side itself and we get an Indian rupee loan. Currently the entire balance sheet comprises of such borrowings. In future now that we are allowed by the regulator to raise foreign currency bonds, then the hedging will be done by us from our side. So, when I say cost of borrowings from outside it includes both instruments although the second type of instrument is something that we will raising in future.

Moderator: Thank you. The next question is from the line of Shubhanshu Mishra from BOB Capital Markets. Please go ahead.

Shubhanshu Mishra: I wanted to understand what are your ticket sizes in Utter Pradesh, Bihar, Jharkhand and Orissa?

Udaya Kumar Hebbar: Our overall ticket size is normally within 25,000 to 35,000 and average outstanding per customer is at 29,000. We do not see it is increasing significantly in the near future.

Shubhanshu Mishra: Any specific numbers you have for these four states?

Udaya Kumar Hebbar: We start our business only between 25,000 to 35,000 even in all those states. As the customer remains with us for longer period they will get the higher benefit, but the initial loan size whether they are from different microfinance or the fresh borrower we lend between 25, 000 to 35,000.

Shubhanshu Mishra: I wanted to understand your collection infrastructure specially in the newer states that you have entered, how many people have you deployed in the new states like Gujarat, Rajasthan, Utter Pradesh and Bihar, and is that on a branch basis or they are at a particular collection center, what kind of buckets do they do?

Udaya Kumar Hebbar: All the branches opened in these states have sufficient trained manpower for the collections

Shubhanshu Mishra: How many sir?

Udaya Kumar Hebbar: I do not have numbers right now here at state level. The process is to create the infrastructure which includes recruitment training of the employees and the branch setup before starting the business. We follow this efficiently in advance as we hire and train and then open the branch. We have enough manpower in all places, normally recruited fresh and trained. We do not recruit from other MFIs. We train ourselves and then build our own culture in this business so that is why we are able to maintain the same quality in our business.

Moderator: Thank you. The next question is from the line of G. Vivek of GS Investments. Please go ahead.

G. Vivek: My query is regarding there is some overheating in select pockets in India in the microfinance sector for example Orissa and PAR in certain districts in Orissa is very high?

Udaya Kumar Hebbar: Orissa is not our largest, Orissa portfolio is 1% of our business. We have not seen any heating points in Orissa. We operate in rural and non-urban space. So, we are not seen any heating in any of these places where we operate in Orissa. Our largest portfolio is in Karnataka, Maharashtra, Tamil Naidu, Madhya Pradesh and then come from Chhattisgarh and Orissa. In Orissa we have around 58 crores portfolio.

G Vivek: You are not witnessing overheating in microfinance space where you are operating?

Udaya Kumar Hebbar: No, we have not seen any places in 13 states where we operate.

G Vivek: Some other things which I would like you to highlight are whatever differentiator for example we have some international exposure or international experience also in different countries other than India. What is the microfinance potential say for example in Indonesia and Bangladesh versus India, I believe these two countries microfinance potential has been much more than what we have in India so far.

Udaya Kumar Hebbar: I will give some global view on this as we have some information or access to such business, but while compared to any business across southeast Asia, Indian microfinance is quite stable, robust, technologically advanced or well-regulated with credit bureau. I think we are at least a decade ahead compared to those countries.

G Vivek: Including Bangladesh?

Udaya Kumar Hebbar: Yes, including Bangladesh. So, in Bangladesh microfinance has been functional over last 50 years whereas in India you can say that it is effectively the last 20 years, but if you look at the interest rates in microfinance in India versus Bangladesh, Bangladesh interest rate has remained virtually around those high rates of 30% plus whereas in India they are in the current range of 18% to 22%. So that sum up the growth and evolution of microfinance in India and potential that is available in India is far more than what has been currently tapped because the hinterland and the rural is yet to be tapped and we have just begun this journey and the opportunity that is available is far too large. We are far too large a country and there are so many people and there is a lot of requirement of finance and access to finance from formal institutions is quite low and therefore what we have in India is far more compared to any country including Bangladesh where microfinance has been prevalent.

G Vivek: Some differentiators if you could highlight for our company for example I have heard that we are the only MFI which has a five day week for the operations and takes care of the employees at a very good level, other differentiators you can highlight sir?

Udaya Kumar Hebbar: We believe loyalty of customers and loyalty of employees are very important for this business. This is people business and process business that is why we take care of these hygiene factors providing the staying facility for all our employees and five-day week for them so that they can go back to their family and come back during the weekend. From the customer point of view also we have different products, flexible products, flexible interest rates and flexible repayment options. If you see 55% of our customers pay on a weekly basis, about 39% pay on a fortnightly basis about 7% pay on a monthly basis. Within a group, within a center there is flexibility for them, they decide what they want to pay. So, these are quite unique for us and we also focus only on rural, we do not look at urban and we go by contiguous districts which is again a differentiator because we want to understand the district better before stepping in, our ability to go there and start the quality operation with same employees in the contiguous districts. So, these are quite unique compared to industry.

G Vivek: Last question was on impact of severe floods on us?

Udaya Kumar Hebbar: There are certain branches impacted that is why our stage 2 assets increased and let to increase in provisions by 10-11 crores. There is an impact, but I think with customer centric business model and our way of operation I think we will be better off. The customer is already paying the installments now so we will be back to normal shortly by this quarter end.

G Vivek: Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati: Sir, I have two questions, first is on stage 2 assets which have seen an increase, but in the course of the year if we see these assets coming back into stage 1 do we have a policy that will write back additional provisions and do you see this happening and my second question is what should be effective tax rate for us going forward, should it be in the range of 25%-26%.

Udaya Kumar Hebbar: Yes, the first part of the thing so what we do is it is not necessarily a policy that we do for writing back. We look at what is the stage 1, stage 2, stage 3 at the end of the quarter and whatever remains in that bucket, based on the ECL percentage we do the provisioning. So coming back to your specific point, if for example there have been certain loans which have gone back from stage 2 to stage 1 obviously on an overall portfolio level to that extent the provisions will be reduced. Second, the effective tax rate going forward for us will be 25.17% which is the revised rate.

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

Renish Bhuva: Sir, couple of questions one is on the portfolio yield, so if I look at the yield, our spread on portfolio has been declining from almost 10.3 to 9.2 now. So just wanted to get your sense on this I mean are we cautiously reducing spread to be on conservative side of the regulatory requirement of 10% or is there something else which is playing out there and where it should stabilize in terms of this portfolio spread?

Udaya Kumar Hebbar: See comparison between Q2 last year to Q2 this year may not be appropriate because the price to customer was changed between these two periods, our 22% rate of interest was prevalent at that point of time whereas 19% has become prevalent during this quarter. So, if you see Q1 to Q2 the change is only 20bps. Having said that now the cost of borrowing has stabilized, the liquidity position has also stabilized. So, there is an opportunity for us to review the interest rate which we are looking into this quarter and which will make small difference, but our NIM will be in the range of 12.25%-12.5% over a period of time, but as the leverage goes up it will come down a little bit. However, it will not impact on our PAT.

Renish Bhuva: So basically just to get the sense, the current spread which is 9.2% is kind of bottom for us at least from a quarterly perspective?

Udaya Kumar Hebbar: I think so that is what we also look at.

Renish Bhuva: Second just on a qualitative stuff one of my colleague has already asked so when we collect the data from household, what sort of data for each of our customers is collected like say in terms of income generation post loan disbursement to them on a yearly basis or quarterly basis I mean how do we track the income improvement because of loan given to them?

Udaya Kumar Hebbar: It will be a little difficult to capture because income is not static. We do not capture that as a data at this point of time. What we collect is the purpose of the loan, family demography, overall outflows at that point. The net funds available with them to pay is captured every time when we provide income generating loans. We also track how they utilize or not utilize, whether they attend the center meeting or not, we capture these on a continuous basis so that for the future decision these are very important.

Renish Bhuva: If the same customers come back for other loan after one and half year how do we underwrite the loan for the same customer, do we follow the same process or we just check the credit bureau?

Udaya Kumar Hebbar: We follow the same process of rechecking the ability of them to pay.

Moderator: Thank you. The next question is from the line of Avinash Tanawade from Dalal & Broacha. Please go ahead.

Avinash Tanawade: I just want to know about the opportunity in the overall industry when we are talking about 30% growth for next five years, so how big is the opportunity, most of our competitors are having the same kind of guidance, so how big the market is in microfinance for example if you look in terms of penetration out of 718 districts already 619 districts have a microfinance business. The penetration level may be different from district to district?

Udaya Kumar Hebbar: Footprint and the opportunity are different. There is footprint in about 600 odd districts I agree with you. In overall terms 90% of our districts we have less than 1% of our portfolio, but actually we have to look at the low-income household segment in this country and what is already touched based by microfinance industry. Industry so far by all the segment of players including banks, MFIs, BC NBFC has just 30% penetration. 70% of the segment is not touched by anybody so that is the opportunity. The opportunity of untouched households is almost near to 100 million, of that 75 million is in rural and our segment of business is in rural that is why the opportunity is quite high.

Avinash Tanawade: So, there are few reports saying that there are some segments of the districts where there is overleveraging, giving higher ticket loans to borrowers and giving top-up, so what is your opinion about that?

Udaya Kumar Hebbar: Giving the higher loan need not be over leveraging, giving the loan to the senior customer who has the ability to manage the cash, has a stable cash flow, giving the loan is not a problem and if we see the trend, such higher lending is in the districts or states where microfinance is there for at least two and half decades where larger number of customers are well experienced in this business, so that is where you could see little higher loan per customer whereas the lower experience microfinance states have lower ticket sizes. I think overall it is quite okay giving higher loan where there is a stable cash flow and stable business. If you see the last three years data, more leverage districts versus higher PAR districts, they are different. We have been observing this trend, but we have not seen any such risk in areas where we operate.

Moderator: Thank you. The next question is from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: Just a few months back, there were some media reports which talked about the government proposing some legislation where with exposure below 50,000 if anybody defaults you cannot proceed legally against such kind of a borrower, I mean is there any kind of truth in this media report and if yes what is the status and what implication it could have for our business?

Udaya Kumar Hebbar: This is under the personal insolvency proceedings where there is something called fresh start where any personnel borrowing, where the person's income is less than Rs. 60,000 and the loan outstanding is less than Rs. 30,000, if he is not able to repay he can go and take the coverage under the personal insolvency case. This should not be impacting us because we would not be lending to that type of segment at all. Two even if such things happen automatically the borrower will go to credit bureau first and it will show as a default so by the regulation no microfinance player will go and lend to that customer. We do not see any risk in this case.

Nilesh Shah: So what is the average income of our borrowers?

Udaya Kumar Hebbar: The income will be between 1.2 to 1.6 lakh which is the recorded income, but our own knowledge shows that it is higher than this level.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Can you tell why the cost to income ratio rises in this quarter?

Udaya Kumar Hebbar: As explained in the beginning we have expanded largely in the Q2 and Q1, training more than 2,000 employees and opening more than 200 branches. Higher opex in Q2is a trend in all the years, on an annual basis this will come down below 35%.

Ravi Naredi: Sir, where are you finding headwinds in the business?

Diwakar B R: We do not see any headwind in our business at this point of time. As it was explained in terms of the data and opportunity available in microfinance and we being a rural player with a strategy to contiguously expand and ensure that our footprints and with the type of customer retention ratio that we have you know we have all the right strategies in place to continue with a business normatively and given the latent demand that is there and opportunity available we are on course to continue with our journey in terms of expansion and growth.

Ravi Naredi: Sir, when we are going to reduce the promoter stake to 75%?

Diwakar B R: We have three years from the date of listing, we just have completed one year, we do have sufficient time to comply with the regulatory requirement and as and when the need arises in terms of the growth requirement in terms of capital or otherwise we should be able to do it within the normal course of time.

Moderator: Thank you. The next question is from the line of Aseem Pant from HSBC. Please go ahead.

Aseem Pant: Just one question this typical average income that you mentioned 1.2 to 1.6 lakh that is at the household level I believe?

Udaya Kumar Hebbar: Yeah that is household level.

Moderator: Thank you. The next question is from the line of Ashok Doshi from Proinvest Wealth Managers. Please go ahead.

Ashok Doshi: In the presentation you had mentioned that 40% to 45% of your employees are from active borrower families. I just wanted to understand the rationale behind this and wanted to understand what is your incentive structure for these employees?

Udaya Kumar Hebbar: Rational is to provide opportunity for our customer segment as we always are a customer centric business model because we operate in rural and there in rural, we can provide a rural employment opportunity for our customer segment that is the first reason. While we are doing this we do not place them in the same village, we will place them at least 100 kilometer away in our own new different branches by providing them the living accommodation and allow them to come back every week by providing five days week. Both employee perspective as well as the family perspective that is our logic of building this business because when we operate in rural our requirement of employees is rural only not in urban. So obviously the segment of the family is our source of employees so that is a simple logic actually and we predominantly give a fixed salary almost 90% of the payment is fixed salary maybe 10% to 15% is incentive which is linked to the process following and customer service, we do not provide incentive for disbursement or collections. So they will have an annual bonus, they will have annual increment that is based on the performances and the incentive for quality of operation and customer service ability.

Ashok Doshi: I also just wanted to understand why is the Q4 disbursement on a higher side?

Udaya Kumar Hebbar: That will be normal as you see the business infrastructure is built in the first two quarters which will obviously give result in Q3 and Q4. If you see the model, if you see all last five years you see that is the trend and that will continue.

Ashok Doshi: And just wanted to understand what would be our provisioning number for this quarter in the last quarter I guess it was around 17 crores?

Udaya Kumar Hebbar: This quarter it is 27 crore as we said initially it is not comparable because we changed the provisioning policy from March 19 that is not exactly comparable, but we also said that there is slightly increase in this quarter.

Moderator: Thank you. The next question is from the line of Alok Shah from Monarch Networth Capital. Please go ahead.

Alok Shah: One quick question I was just trying to understand this movement in our home loan improvement portfolio we kind of peaked out at 894 crores in Q3 FY19 and since then this book has been running down, is it more of a normal course of business or you just trying to focus at the retail finance business and the normal IGL business?

Udaya Kumar Hebbar: No, this is an opportunity what we give to customer to a build a toilet and also to improve their house. Toilet is a onetime investment. So, people once they build toilet they will not borrow for that purpose, but wherever they need they also borrow for repairing their home. So, onetime expenditure on toilet or water connection will not repeat. So, we are not seeing that as a product segment growth. It is overall supporting the customers for their basic needs.

Alok Shah: The second question is what percentage of our total customers today would be in second cycle or more?

Udaya Kumar Hebbar: We have about 62% in second cycle or more.

Moderator: Thank you. The next question is from the line of Manoj Shah from Laxco Investments. Please go ahead.

Manoj Shah: We are inching into new states like UP, Bihar and Jharkhand and Gujarat, do you have to tweak or change our underwriting guidelines for the borrower keeping in mind the mindset of the borrowers here is slightly different from what is being in the southern state or west or central India?

Udaya Kumar Hebbar: No, because these are the same low income households. We are not going to a completely new geography. We are going to next districts so we do not see any cultural shift there and when we start with the small amount we do not need to change anything other than normal replicating of the same quality of group formation. We monitor the quality in the first one year and we put extra vigilance on the quality of implementation. So long we are able to implement the same quality we do not have any challenge there.

Manoj Shah: Have you found in your survey the kind of delinquency level in these states are higher as compared to the central India or the southern India?

Udaya Kumar Hebbar: No, we have not seen any different delinquency in those places.

Manoj Shah: Other MFI players who are there, so for them is it like in the same range or it is slightly higher than that?

Udaya Kumar Hebbar: When we go to a district we do study in those districts the delinquency pattern which includes the risk events other than delinquency and the growth potential. We see all these points we need to have a potential; we need to have a low risk only those districts we enter, we do not enter every district.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Management. Please go ahead.

Moderator: Thank you. The next question is from the line of Radhika Swaminathan from Flowering tree Advisors. Please go ahead.

Radhika Swaminathan: I just have two questions so the first is on the branch expansion I think you had mentioned in one of the previous calls that you look to expand branches about 30% every year and right now we are about 32% so does that guidance remains the same for the year?

Udaya Kumar Hebbar: It remains same we are almost done with the branch expansion maybe few here and there otherwise we are done with it. Over 95% of our plan is completed already.

Radhika Swaminathan: Also previous in the call you had said that the yields are not comparable entirely on a YoY basis is that because of the rate reduction which you took in April of last year so the average yields on the book will be lower this year versus last year?

Udaya Kumar Hebbar: Each loan will stay in the book almost for two years. So earlier whatever previous year what we lend will be there in the last year's book. So because with change in the interest rate proportionately changes that is why more comparable will be quarter-to-quarter rather than year-to-year in the yield segment.

Radhika Swaminathan: And now that cost of borrowings have sort of stabilized we can look at spread going up from here?

Udaya Kumar Hebbar: Exactly.

Moderator: Thank you. The next question is from the line of Abhinav Malhotra an Individual Investor. Please go ahead.

Abhinav Malhotra: Sir, what was the rejection rate in H1 and what was the top reason for the rejection?

Udaya Kumar Hebbar: The rejection rate in H1 is about 40%, 38% or so, but after we review those cases where it could be error or customer will go back for the lesser value ultimate rejection about 28%. Top rejections are basically either over borrowed or borrowed from more than three institutions.

Abhinav Malhotra: Sir, since last three years I have seen that we have reduced the loan book exposure to top three states, what is your future guidance on this like three or five years where can we see the loan book exposure to the top three states, this is very concentrated right now?

Udaya Kumar Hebbar: So, this is more to do with normative expansion as we grow. We have a strategy of contiguous district expansion and eventually we get our footprint into new states. If you look at the expansion and growth in the last three, four years we have entered new territories. Consequently, the growth in those new areas and geographies has ensured that the top three states concentration is steadily coming down. So this is a normative business piece in terms of diversification and going forward the diversification will continue and concentration in these top two, three states will reduce that is a normative way of looking at this business.

Abhinav Malhotra: That is how the business is diversifying, but is there any target that you have in your strategy?

Udaya Kumar Hebbar: We have a simple strategy basically the Karnataka is looking high that is what the observation. We believe in the next three years' time we will be close to 30% in Karnataka.

Moderator: Thank you. The next question is from the line of Ronald Dalal from Ambit Investment Advisors. Please go ahead.

Ronald Dalal: So firstly you had mentioned that 33% of your borrowers are first time borrowers and the second thing is that 60% of your loans go to existing customers. So as borrowers prosper they become more credit worthy, would not they logically shift to some other competition or someone who is being able to give them at a lower rate of interest and what I am getting at is that does not that mean that as the years pass on over say two or three year period the lending rate which you are lending at will have to come down. However the borrowing rate is right now more or less in the stable region and may not come down so much?

Udaya Kumar Hebbar: There are two things. One is that the new customer fresh to microfinance is about more than 40%-44%, 33% is our unique borrowers they borrow only with us. As they grow on year-on-year they are able to borrow a little higher and pay higher, that is why the repeat loans and increase in loan size gives you 60% growth from the existing customer segment subject to 85% customer retention. So our business if you see last five, six years our retention is always between 85% to 90%, hence about 60% growth comes from the existing customer because we have a very good customer centric model where you have more than 85% customer retention. We also need to look at the customer who requires more than Rs. 1 lakh as she might go to different segment of lender, that is why we created the opportunity of retail finance within our segment for our own captive borrowers who are having the stable business and stable cash flow and require more money and can move from group lending to the individual lending under the retail finance, that is why we created this business which is again a very successful model what we have able to build right now.

Ronald Dalal: So as customers move from group lending to individual lending would there be more chance of higher NPAs?

Udaya Kumar Hebbar: We have not witnessed anything like that because we are giving only to the existing loyal customers who have displayed the good credit behavior so far. There could be a small behavioral change, but we anticipate the stable business here.

Ronald Dalal: And last question is that in terms of capital adequacy you said the capital adequacy is 34.2%, so just trying to understand that for microfinance what is an ideal level of capital adequacy and do you have some target capital adequacy?

Diwakar B R: So just to put in perspective the regulatory limit is 15%, this being a borrowing model where we need to borrow and leverage our equity to the maximum possible extent. We would ideally want to maintain a capital adequacy of around 20% and that is how we have build the model. This will be sufficiently more than the regulatory requirement which ensures that the lenders have the traditional cushion and comfort to continue to lend to us as we grow at this rate. So internally we do have this target of maintaining a 20% and we know we are getting close to 20% or following below that we will raise the next level of equity for the next set of growth numbers so that is where we stand.

Ronald Dalal: And capital adequacy was maintained at this level 34% and also some of your peers are having high capital adequacy, so is the reason for this that may be like in the past there was like say farm waiver and because of farm waiver there was you know increased risk of the people not paying up. Due you foresee something like that and why are we insulated now from a farm waiver or political intervention or something like that?

Diwakar B R: So the capital adequacy that we currently maintain is purely because of the level of equity that we have raised last year that is one and as you would have seen between the previous quarter and now the leverage has slightly increased. So going forward this ensures that the capital adequacy will be coming down as we grow. With regard to the second part we do not really see any such situation of the farm loan waiver coming up and you know even if you notice the last two, three years at some point of time there was a talk and there was an announcement of a farm loan waiver, but that did not have any effect on our portfolio quality and you can see that it is maintained the portfolio quality remained the same and the announcement have not had any effect on our portfolio quality.

Diwakar B R: We do not lend to farmers, they would need much more money higher than 25,000, 30,000. Microfinance borrowers are more of laborers or landless laborers, or having small businesses, or milch animals, 90% of customers are non-farmers in microfinance space.

Ronil Dalal: I am saying from the point of view when people are not paying their loans then does that mean even we feel that as a borrower we do not want to pay back our loan or there is some sort of resistance to pay back the loan.

Udaya Kumar Hebbar: It is almost a decade now we have faced all these things not one time we had an impact or anyone one in the microfinance segment.

Moderator: Thank you. We will take one last question from the line of Nikhil Valecha from Sundaram Mutual Fund. Please go ahead.

Nikhil Valecha: Sir, I was just looking at the slide from Q4 19 March 19 presentation and where our ticket size for IGL is around 35,000 and for retail finance it is 96,000 while in our latest slide we have restated the ticket size for IGL and retail finance to 20,000 and 77,000 so why have we done that and what is the difference in the calculation?

Nikhil Valecha: Even the outstanding book per borrowing is also different in our latest additions?

Nilesh Dalvi: In fourth quarter presentation the 35,000 IGL that you are referring that was the ticket size of disbursements and now we are giving this on the AUM basis.

Nikhil Valecha: So that would be average outstanding per borrower right.

Udaya Kumar Hebbar: This will be what we are presenting now it is average outstanding for borrower.

Nilesh Dalvi: What I was saying is that the ticket size is on a loan basis at a loan level. So if a borrower has one IGL and one non IGL loan total outstanding might be say 28,000. So you might be having say two loans for example. What we are trying to say is that now in the presentation the ticket size which we are giving at the loan level this we are giving as an average of our existing AUM and in the post quarter presentation the figure which you saw that ticket size was on the incremental disbursements. So we have changed the representation from first quarter onwards.

Diwakar B R: So Nikhil I will just add to what Nilesh and Uday has said. You have to remember that we are a multi-product institution and not a single product institution. Therefore when we do let us say an IGL versus an education loan or even an emergency loan which is Rs. 1,000 the average ticket size of disbursement for all these three loans will ensure that this 20.5 is obviously lower than the outstanding, outstanding for borrower could be around 28,000 but the average disbursement taking into account one or two or three loans disbursements we will ensure that it is less than this. I hope this clarifies.

Nikhil Valecha: And second question is could you please give us the stage 2 asset numbers?

Nilesh Dalvi: Stage 2 assets total is around 53 crores.

Nikhil Valecha: And what was this last quarter?

Nilesh Dalvi: It was around 10 crores.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Udaya Kumar Hebbar for closing comments.

Udaya Kumar Hebbar: Thank you very much for joining us in this investors call and taking time from your busy schedule. So we will continue to be in touch quarter-on-quarter. Thank you very much have a nice day.

Moderator: Thank you. On behalf of CreditAccess Grameen Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.