



“CreditAccess Grameen Limited
Q3 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to CreditAccess Grameen Limited Q3 FY2021 Conference Call hosted by Investec India. 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. Nidhesh Jain. Thank you, and over to you, Sir!

Nidhesh Jain: Thank you Ayesha. Welcome to the Q3 FY2021 Earnings Conference Call of CreditAccess Grameen Limited. To discuss the financial performance of CreditAccess Grameen and to address your queries we have with us today Mr. Udaya Kumar Hebbar – MD & CEO of CreditAccess Grameen, Mr. Balakrishna Kamath – CFO and Mr. Nilesh Dalvi – Vice President - Investor Relations. I would like to hand over the call to Mr. Udaya Kumar for his opening comments. Over to you Sir!

Udaya Kumar Hebbar: Thank you Nidhesh. Good evening to everyone, I thank you for taking your time and joining us today to discuss our Q3 FY2021 financial performance.

We have always believed that the resilience of any business model, its systems, controls and processes get validated during difficult times. We have time and again demonstrated the strength of our business model successfully encountering external shocks in the form of demonetization, systemic credit crunches, natural disasters, local interferences, or COVID in recent times. This has been primarily possible because of our management strength, ability to manage the crisis, display faster recovery, our prudence in early risk recognition and conservative provisioning, our balance sheet discipline and ever positive outlook towards future business growth.

We began the Q3 on a strong footing with collection efficiency of 88% in September 2020. This further improved to 91% in December 2020 wherein it was 93% excluding Maharashtra state. Our overall collection including arrears is 96% in December 2020 and the trend continues in January 2020 as well. Collection efficiency in Maharashtra improved from 80% in September 2020 to 86% in December 2020. The share of portfolio on account of full paying customers increased from 81% in September 2020 to 88% in December 2020. Partial paying customers decreased from 11% in September 2020 to 7% in December 2020 and non-paying customers decreased from 8% in September 2020 to 5% in December 2020.

In line with the improved collections trend there was also significant reduction in PAR 0 from 18.8% in October 2020 to 11.8% in December 2020, very much in line with the

recovery trend witnessed during demonetization period. PAR 60 and PAR 90 excluding Maharashtra were 4.9% and 3.4% respectively in December 2020 in line with our anticipation of near normalcy by Q3. We expect the PAR to further reduce over coming quarter, as anticipated in earlier conversations, Maharashtra business is in the process of back to near normalcy in Q4.

On the back of stabilized field operations and improving collection trend, strong liquidity and capital position we decided to increase our focus on normalized business growth in Q3. Our disbursements reached to pre-COVID level growing by 35% YoY and 184% QoQ to Rs.4032 Crores in Q3. We added 1,65,194 new borrowers in Q3 FY2021 compared to 18,447 in Q2 FY2021. The share of new disbursements from June 2020 to December 2020 is now close to 49% of total GLP and they are displaying pre-COVID normalized PAR level. Strong disbursement growth has helped us to grow our GLP by 15% YoY and 11% QoQ to Rs.10,203 Crores, higher than March 2020 GLP of Rs.9,896 Crores. We are now comfortably placed to surpass our GLP growth target of FY2021.

Given that COVID impact is now behind us and business growth has normalized we decided to take a stringent view and bold measures on early risk recognition and conservative provisioning. We have built ECL of 5.94% against pro forma GNPA of 6.84% (predominantly at 60+ DPD). If we would have followed industry norm of recognizing GNPA at 90+ DPD, our ECL would have been lower by Rs. 90 Crores at 5.05% against GNPA of 5.09%. We have also written-off Rs.111.9 Crores including accelerated write-off of Rs 84.74 Crores and derecognized interest income to the tune of Rs 61.2 Crores on stage 3 which is 60+ DPD portfolio. We now believe that significant provisioning requirement has been completed and going forward we will only have business as usual provisioning.

Talking briefly about MMFL performance we see it improving but at a slower pace and comparable to the industry. The collection efficiency has improved from 83% in September 2020 to 86% in December 2020, while PAR 0 is around 14.8%, PAR 60 is 5.5% and PAR 90 is 2.9% indicating higher proportion of partial paying customers.

We have been able to display strong disbursement growth of 9% YoY and 144% QoQ to Rs.558 Crores, we added 70,128 new borrowers in Q3 FY2021 compared to 9,794 in Q2 FY2021. GLP has grown by 7% in QoQ to Rs.2118 Crores higher than March 2020 GLP of Rs.2100 Crores, similar to CAGL we have built provisioning buffer of 4.6% against pro forma GNPA of 2.79% and written off Rs.19.94 Crores and derecognized interest income of Rs 5.3 Crores on stage 3 portfolio.

Our capital adequacy continues to remain comfortable at 31.4% at the CAGL and 23.3% in MMFL despite accelerated provisioning and write-offs which led to loss in Q3 FY2021; however, this early recognition of risk will safeguard or profitability over coming quarters with growth already back into normal.

Our consolidated liquidity position continues to remain strong and with continuous support from our lenders we have Rs.1506.9 Crores of cash and cash equivalent, Rs.1599 Crores undrawn factions and Rs.4113 Crores of sanctions in pipeline as on December 31, 2020. This places us in a comfortable position to achieve our growth targets of FY2021. Overall we now believe that COVID stress is behind us and now we can look forward to robust business growth over FY2022 and 2023.

With the strong balance sheet position we have the opportunity to increase our market share as well as we scale up our presence in existing and newer geographies. We have to take accelerated provisioning depending upon the current PAR situation; however, since we expect the PAR to reduce over coming two quarters we believe that the eventual credit loss or write-off will be lower than the current provisions.

With this overview, I would now like to open the forum for question and answer. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Renish Hareishbhai Bhuvra from ICICI Securities. Please go ahead.

Renish H Bhuvra: Good evening Sir. I have a couple of questions. So one is on this accelerated provision just wanted to understand that despite we do not have any exposure to the problematic states like Assam and West Bengal, what has made us to sort of upfronting the provisions despite we bring the confidence about our customer base being more resilient than the other geography. So just wanted to understand that part Sir first.

Udaya Kumar Hebbur: Renish, it is accounting journey because Maharashtra still has a lot of pending collections, hence our additional provisioning primarily goes for Maharashtra. So as we anticipated earlier Maharashtra will take two more months or three more months to come back to normalcy; however we have to actually go through the accounting journey of provisioning against the PAR 60, PAR 90 of that state. So I think our majority of the provisioning is basically for this part of the portfolio.

Renish H Bhuva: So it is to assume that the provision is more in sort of a technical in nature and we might see a provision reversal as we enter the FY2022 when things normalize for Maharashtra.

Udaya Kumar Hebbar: Yes there will be a combination of two things one is a combination of growth as well as combination of write back both will be possible between Q1 and Q2 of FY2021-2022.

Renish H Bhuva: Secondly, I am referring to your slide #8, so our PAR 0 as we speak today stands at almost 12% including Maharashtra against which we have sort of provisioning at 6%. So what about the balance 6%, I mean, do we expect the current recovery trend sort of to take this number to the desired level of collections or do we foresee some sort of extra provisioning in Q4 as well?

Udaya Kumar Hebbar: I would like to ask you to see #9 in the presentation where we explained clearly what is the partial payment, what is the no payment, and what is the full payment. 88.2% of the portfolio is full payment, 6.9% is the partial payment where we expect the majority of the portfolio will come back, we have only 4.9% of the portfolio which is zero payment where also we expect about 10% to 15% to come back.

Renish H Bhuva: So basically in nutshell our Q3 provisioning has peaked out and going ahead we might see a reversal and not be a further provision in Q4.

Udaya Kumar Hebbar: Exactly, we are talking about all the required risks are mitigated at this point of time.

Renish H Bhuva: If I can just squeeze in my last question on the growth front. Sir we have been hearing a lot of MFI players been going slow on the growth path and we sort of trying to coming back to normalcy from Q4 onwards. So if you can just throw some light on which geography is sort of target for us and how we are mitigating the risk in the new disbursement?

Udaya Kumar Hebbar: See our majority disbursement is coming from the new branches actually almost 64% growth come from that branches, but yes it is evenly distributed between the old geography also Karnataka, Tamil Nadu also some part of Maharashtra which is quite good in terms of coastal or Northern part of Maharashtra it is quite doing well. As well as other states like I mean Bihar, Jharkhand, UP, Rajasthan, Gujarat also doing well, all of them are close to 98%, 99% of recovery states, so there we are doing and our customer acquisitions are normal and the behavior of new portfolio also is quite sound and at pre-COVID level, which you can see in maybe slide #10 of our presentation. So we believe by and large we are back to normal in terms of growth and we are seeing FY2021-2022 in a quite positive note.

- Renish H Bhuv:** Thanks a lot Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Amaresh Mishra from HSBC. Please go ahead.
- Amaresh Mishra:** Two questions basically in your comments you talked about business as usual provision in Q4, so what should we understand by that.
- Udaya Kumar Hebb:** Yes, I think probably I will answer it in two counts Amaresh, one is what I said is your business as usual you use to have about 0.75%, 0.75% to 1% of provisioning, which will obviously come as a part of it because we are talking about today covid related provisioning, but there is a business as usual which continues. So to that extent there could be provisioning plus the growth also will give you provisioning because even for standard asset you need to keep providing, if I grow more I have to provide more to that extent. So to that extent that could be set off or write back or additional, so that is what the part of business as usual.
- Amaresh Mishra:** So it will be in that 0.7% and 1% kind of range is what you have taken and then write off is something which is one off, but otherwise business as usual would be your normalized credit cost which used to be put a non-COVID scenario that is what we need to understand from this resources.
- Udaya Kumar Hebb:** But one disclaimer probably I would anticipate a question actually whether pre-COVID business as usual is equal to post-COVID business as usual our reading is that probably the on a ongoing basis based on behavioral changes due to COVID as well as the moratorium impact and then regulatory forbearance all those things would change the borrower behavior to some extent that is why your earlier credit cost used to be about 60-70 basis might go up by about 30-40 BPS for a business as well as usual at least for near to medium-term level.
- Amaresh Mishra:** Yes, I understood Sir. Just one more question on basically on Maharashtra now given the situation which you just highlighted in other question in Maharashtra how are we approaching growth in Maharashtra
- Udaya Kumar Hebb:** Yes, I refer back to our earlier discussions because Maharashtra was under COVID lockdown for close to four and a half months which actually led to customers not able to come back to normalcy immediately compared to other states that is why we refer Maharashtra will take two months more compared to other states that is why we always said that, but for Maharashtra business will be near normal by December, Maharashtra would

take two more months. So if there is nothing wrong in Maharashtra it is only the pace of change is little slow because of the four and a half months of delay or four and a half months of lockdown as compared to one and a half month or two months in other states. So this impacted the Maharashtra business some extent for the even rural, urban, Semi urban everywhere. So it is back into normalcy in fact the speed of recovery in Maharashtra is quite fast as of December we believe in two months time Maharashtra also will be back to the normalcy so by Q4 we should be near normal in Maharashtra also. So we are not seeing any challenge in Maharashtra, whereas growth in Maharashtra is also normal. Some part of Maharashtra is doing pretty well for example coastal Maharashtra is already about 98% of recovery in fact Vidharba is which was one of the places impacted during demonetization which is showing almost 94%, 95% recovery rate, so that there are pretty good districts in Maharashtra whereas the southern Maharashtra which impacted by floods last financial year impacted badly and by the time they recovered in March they impacted by COVID for four and a half months of lockdown and again in October there was a flood which impacted the crop losses which impacted certainly the two, three district which has some impact which would take little more longer time otherwise Maharashtra also coming back to normalcy within two months time we are seeing that trend.

Amaresh Mishra: So 60 to 90-basis point credit cost is the range at normal as business as usual provision. Thank you Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Akshay Ashok from Dalal & Broacha Stock Broking. Please go ahead.

Akshay Ashok: Sir what is the current competition you are seeing from banks and other players in terms of microfinance. How are we progressing on geographical diversification outside Karnataka. Thirdly, why is Madura recovery slower and when do see it normalizing.

Udaya Kumar Hebbar: Yes, there are three questions if I understand correctly one is about competition we are not seeing any variant whether it is pre-COVID or post-COVID as it is a normalized competition which we have seen, there is no different variant at this point of time however being rural our overlap with any of the MFIs or large bank is low. So we do not see that is impacting our business. The second part is about the growth in what you call diversification we continue to expand in the states beyond Maharashtra, Karnataka and Tamil Nadu. Karnataka portfolio keeps coming down, we had anticipated 40% by March end but already we have 38% portfolio in Karnataka which is already lower and that is keep coming down whereas Maharashtra is about 25% whereas the new growth what we are seeing is majority coming from the northern states particularly Rajasthan, Gujarat, Bihar, Chhattisgarh as well as Jharkhand and Odisha. So over a period of time and today currently more than one third

of our branches are in the new geographies, which will eventually grow, it is keep coming down we are focusing more on diversification which is happening, but in the meantime we continue to ensure that our district penetration was quite low today 97% of our district having less than 2% of portfolio so our risk to the extent of districts is quite low we look at district as a concentration rather than state as a concentration. So which works much better and we have seen all the evidences so far we have seen is the district centric risk points what we saw. On the Madura front, Madura is always a different collection model which is monthly model and there is always a bit lag in collection, if you see in Madura collection our on-time collection is low but collection in terms of part collection is quite high there. So there is a delay in collection, but the what you call the collection the loan going into 90 DPD is quite low that is why we are not having too much worry about Madura we were monitoring very closely how to improve the on-time collection there, we already moved into a much more than what it was and then we are closely monitoring that so we are quite aligned with that enhancing the on-time collection process there other than going into a partial collection, so which we are working and we are reaching that maybe next two quarters we will see more improvement there. Having said that the collection is by and large equal to the industry in a monthly collection process whoever do that there it is actually comparable to that.

Akshay Ashok:

And then Madura has exposure in West Bengal and Tamil Nadu right, so next election state elections are coming up in 2021. Do you see some waivers and any precautions we are taking, what is the ground scenario in West Bengal and Tamil Nadu?

Udaya Kumar Hebbar:

Our exposure in West Bengal is very low around Rs 18 Crores, actually we just opened some branches last year I think just 6%, 7% exposure is there and then to Tamil Nadu, Bihar we are larger actually together Grameen and Madura together we have about almost 20% of the consolidated book there, but now elections will not impact the microfinance business we have seen it earlier also. Even loan waiver announcements will not impact actually for example we have seen loan waiver announcements by parties in Chhattisgarh, UP, Madhya Pradesh and Karnataka in the last four years and we have not seen any impact even the announcement of farm loan waivers have not impacted microfinance because these are two different category of businesses and the farm loan waivers and the microfinance are too different. So it is not impacting only even in election times your growth is little muted because you have to follow a code of conduct, cash business is impacted, I mean, making the group together, working together, make some challenges for us. So for the industry there will be little muted growth during the election, but for that we do not see any challenge in terms of election because election keep happening in one or other states continuously, so we do not see any challenge because of the elections coming in and that business impact at least we have not seen so far in our businesses.

- Akshay Ashok:** So the stress point is currently only Maharashtra so that is the only thing.
- Udaya Kumar Hebbar:** Yes, even in September we had estimated that Maharashtra will take two more months and currently the result is quietly aligned with what we are thinking and we are sure about the Maharashtra coming back to normalcy. As on December actually the flow back of Maharashtra is more than the other states so that it clearly shows that Maharashtra is coming back to normalcy.
- Akshay Ashok:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.
- Shreepal Doshi:** Sir, my question was with respect to the disbursement number that we have during this quarter. So that is close to 4590 Crores, our AUM book is 12321 Crores and last quarter there was a disbursement that the AUM number was close to 11000 Crores. So basically in last quarter we had highlighted that there will be receivables for this quarter of close to 2300 Crores, so what explains the difference between the receivable and the repayment. So I see that there is a difference of 1000 and 1100 Crores between these two. So what would that difference be?
- Udaya Kumar Hebbar:** Yes, Shreepal, what happened is Q1 and Q2 customers are not able to draw money or customers who are near to closure of the loans they are not able to close it because it took the extra time because of the moratorium and the pandemic situation. So Q3 we allowed the customers if they are already paying well, if they want to take the next level of what you call the loan what they are eligible because of the delay they did not wait for that six months of moratorium ending or a rescheduled value, they can go for the next loan by pre-closure of old loan, if they are already in good standing so, and second point is that all the loans what we had given earlier were running at a 21% rate whereas our rates have come down to 19.35%, so if the customers want to encash that benefit of lower rate they can do. So for the customers for example they have outstanding of 10000 they are eligible for 50000 or 40000 based on the new norm if they are good standing and they can take this benefit which allowed them to do that so that actually is the difference between collections and disbursement value.
- Shreepal Doshi:** Sir the second question was what would be the collection efficiency trend in the largest 10 district exposure that we have I think which will broadly be in the state of Karnataka and couple of them in Maharashtra I suppose.

Udaya Kumar Hebbar: Karnataka collection efficiency is already about 95%, since most of the larger districts are in Karnataka, they are behaving very well, one of the districts is probably Kolhapur which has relatively lower collections as that belt was impacted thrice in the last 12 months or 14 months – floods followed by COVID and again floods, so that is why probably Kolhapur is one which is lower at about 80%, otherwise that also not the large district among the top five but still one among the top ten districts.

Shreepal Doshi: Sir just last one question, how do we see the loan book split changing over the next three years from the geography point of view

Udaya Kumar Hebbar: See our view is that we will grow faster in the other states while Karnataka, Tamil Nadu, Maharashtra will grow at a slower pace which may be about 10% to 15% or lesser than 10% We believe that the Karnataka today is about 38% will be around 25% to 26% by next three years time and similarly Maharashtra might come down to 20% whereas Tamil Nadu will remain at 20%, 22% and balance will be the other states

Shreepal Doshi: Thank you so much Sir, good luck for the next quarter Sir.

Moderator: Thank you. The next question is from the line of Gokul Maheshwari from Awriga Capital. Please go ahead.

Gokul Maheshwari: Just two questions. One is on the partly paying customers have you reversed the interest income. Second is while provisioning is ahead of the curve, what would be the eventual credit losses

Udaya Kumar Hebbar: See the actual credit loss or write-off during demonetisation was 3.9%. So we are looking at a similar 4% kind of write offs eventual out of the COVID book. The second question is partial paying customers when we said we have reversed the income only if the partial customer is more than 60 DPD, so all the reversed interest will be recognized when we recover the money.

Gokul Maheshwari: Okay great, thank you so much and all the best.

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

Apoorv Trivedi: Just a couple of questions. First you know I just wanted to understand in terms of your interactions with the rating agencies or do you think they will be comfortable with the loss

in terms of rating action and for related point in terms of your funding covenants, would there be any breach because of the loss.

Udaya Kumar Hebbar: Yes, Apoorv, I will answer the second question I agree that there are covenants in the borrowing, but I think they also will understand the situation for the temporary period. I want to take you through the earlier case where in demonetisation actually we had reached almost 8% GNPA at a point of time and all the lenders had accepted our request and not even charged any penalty even though they can legitimately charge penalty. So I think it is a whole industry in the stress so obviously they will recognize this, so we do not see any challenge about the covenant bit so we obviously as the result it declared automatically we will communicate to all the lenders wherever there is a breach wherever there is a covenant and we do not see any challenge. Similarly rating agencies so they also anticipated the kind of what you call the pool rating they do and the industry rating they do they also understand that there would not be any major reaction for this purpose because they do know that there will be eventual 3%, 4% of the loss and early recognition probably they will appreciate more than the taking any reactive positions. So we do not see any challenge there also. Obviously we will not be able to talk to them before.

Apoorv Trivedi: Second question well in terms of this growth having picked up fairly robustly wanted to understand your sort of outlook for the next three, four quarters on growth as well as how you are thinking about capital at this point, I mean, I know you did a decent capital rate, but I just wanted to understand in terms of timing do you still think you would be comfortable for next two to three years.

Udaya Kumar Hebbar: Yes, definitely. See I think we are seeing the business as usual going forward at least as we said earlier also for a next four or five years perspective we should look at 20%-25% CAGR growth even in the industry and I think we are back into a similar situation going forward from FY2021, 2022 while it will taper down a bit, but it can start from when we compare to previous four years it is about 40 plus CAGR probably it will slow down from 40 to 35 going back to 20 in the fourth or fifth year so that kind of growth we can see that is as possible and potential. So we do not see any challenge about it.

Apoorv Trivedi: Growth outlook.

Udaya Kumar Hebbar: Growth outlook. I think I missed one more point, capital sorry. Capital today we already have about a very good capital adequacy, we do not see any capital requirement for FY2021, 2022 we may, FY2022 to 2023 and probably we have to look and review because as a policy we do not want to fall below 20% of capital adequacy at the combined entity we should be looking in the second half of 2022, 2023 to review the requirement whether that

year or next year kind of thing till that period we do not see a challenge about going back to capital requirement.

Apoorv Trivedi: Thank you.

Moderator: Thank you. The next question is from the line of Kaushik Agarwal from HTI Securities. Please go ahead.

Kaushik Agarwal: Sir, so I have three questions. First question is regarding the NIMs. So as highlighted on slide #18 on standalone basis the NIM was 8.7% which was mainly because of higher liquidity that the company is carrying. So what is your stance on the liquidity surplus in the short to near-term future as you mentioned that the growth is back. Second is on cost of borrowing, so your cost of borrowing is coming down so what are the trends that you are seeing, where would you like to end for FY2021 and what are the trends for FY2022. Third, in terms of branch expansion what is the target for FY2021 and for next year and in which geographies can we see that new branches are getting opened up

Udaya Kumar Hebbbar: So one on the NIM when I say 8.7%, in fact one more component is there because we reversed interest of almost 60 Crores, which impacted the NIM. So actually, but for that NIM would have been around 11.5%. So the real impact because of the liquidity was just about 0.4% or 0.5% whereas the higher impact is because of the onetime derecognition of almost 60 Crores of income. So similar is the impact on the portfolio yield. So we see this is only one time impact or about on account of the liquidity that currently we wanted to carry about 12% to 15% at least for this quarter because we still see uncertainty in terms of liquidity position because we wanted to see through this year fully and then we will come back to 8% kind of thing by Q1 and Q2, so I think our continuous position is we will not be holding more 8% off our AUM, but this financial year we will continue to hold about 12% to 15% owing to the various criticalities in terms of the COVID or second wave or any another liquidity squeeze we have to see that is why we just wanted to hold to that extent. So which may be a cost we need to carry for the current financial year and in terms of cost of borrowing we are already down but quarter borrowing obviously will get into passing on the benefit to our customer owing to the regulatory requirement; however we continue to enjoy the 10% margin. So if cost of borrowing comes down then the benefit will be passed on to the customers. We already have lowest pricing among the MFIs, banks and everybody and we continue to have that positioning going forward, thanks to lenders lending us at a lower rate, which will help us to reduce, I mean, increase our customer acquisition as well as customer retention because of the low pricing. We see a stable pricing going forward already it is about the new borrowing is about 8% to 8.5% average borrowing cost between 9%, to 9.5%, so I think this will continue for next three, four quarters, so that is what we

estimate for the cost of borrowing and the third one is about the expansion two components one is where to grow and how much to grow. We always follow the policy of growing the infrastructure by 20% to 25% every year we give a break in this financial year, but for that we would have grown we would have established branches to the extent of 20% to 25% of the existing and predominantly in the new geographies, so obviously what the new branch will open is will be the new geography so that the expansion will normally happen only new geography. So this will give us the potential benefit of the growth in the next three, four years.

Kaushik Agarwal: Thank you so much Sir. That is it for my side.

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

Nilesh Shah: You mentioned that the normal credit costs are about 60 basis points in a business as usual scenario, but because post COVID due to some behavioral changes they will go up by another 30 to 40 basis points. So can you just tell us what is the base behavioral change which has happened post COVID because of which the credit costs on a business as usual scenario gets by a spiked up from say 60 basis points to 90 to 100 basis points.

Udaya Kumar Hebbar: Yes maybe I will for the sake of everybody's benefit I will take this back to a situation where before Andhra crisis we were almost I mean microfinance industry was about 99.9 collection not more than 10 bps of losses post other cases we saw the credit cost moved to by another 20, 30 bps because of the situation where probably industries were not lend to customer on time or the defaults were happened, that is what happened, then the demonetization came into about 2016-2017, post demonetization regular credit cost has changed by another 20 bps gone to 50, 60 BPS because of the potential customer can default, can delay and can pay later, so that is what the behavioral change. Now because the regulator allowed them to pay or not to pay for six months if they want they can delay by six months thereafter what you call they can pay later so this kind of allowance can create some customers mind that they can pay later, they can delay it, so that is why and then eventually they may not pay also. So that is why this behavioral change can trigger another 20, 30 bps of the credit cost, this is why what our estimation I only will be very happy if I am proven wrong, so that is why we estimate this kind of behavioral change possibility.

Nilesh Shah: This is very helpful. I also just on an extended note, so you said that there was of course Andhra happened then demonetization now COVID happened and the experience of demonetization was that maybe at that point of time the credit loss was about 3.9% and probably around this time also will be the same. So if I look at it over a period of last four to

five years we had about additional 8% hit which is both 4% each of demo and the COVID. So should we kind of as investors in fact more look at it saying that the normal business as usual credit cost will be between say 80 to 90 basis points and then because of such one-off events which keep happening for the industry maybe we should factor in additional on an annualized basis another 200 basis point as credit cost would that be kind of a fair way to look at say the adjusted credit cost for these kind of events.

Udaya Kumar Hebbbar: Maybe right, I am not pretty sure about every two years you will get into such kind of issue situation, but we have seen two cases at least in the four years gap, I mean, I will leave it to the investors fraternity to think about that, but if you see Grameen even the year of demonetization we gave almost 2.3% ROA and even this kind of situation we are confident that we will be giving ROA more than 2%. So I will leave it to the investor fraternity to think about how to build the credit cost.

Nilesh Shah: Thank you so much Sir. All the best.

Moderator: Thank you. The next question is from the line of Pratik Chheda from IIFL Securities. Please go ahead.

Pratik Chheda: Sir, I would just want to understand given the GNPA of 6.8% are there any specific districts in Maharashtra that are showing additional amount of stress?

Udaya Kumar Hebbbar: Yes, there is basically what I told earlier also that districts which have suffered because of the flood in the last year and then again the COVID and again the flood that district particularly Kolhapur, Sangli, Sholapur and the part of Satara actually. So these are the three districts have little higher delinquencies compared to other parts of Maharashtra.

Pratik Chheda: Any of these disbursements have been I mean the disruptions have been driven politically or it is in normal related issues only.

Udaya Kumar Hebbbar: No, there are no political interventions anywhere actually. It is more of a stress there. Yes there is some local activism because of the too long the lockdown there and there are some municipal elections used to happen so obviously some localized leaders will create some issues sometime in the last two months, but there is no interference in terms of collections at this point of time. So we feel we are confident that we will be back to normal within next two, three months time.

Pratik Chheda: One more this last question so given the high amount of slippages that we are looking at, I mean, how is the JLG model playing? Are other members being given the relaxation for a

payment of dues of the defaulting member or what is the stance right now in the JLG model? So is the liability of the other members going up or they have been given a relaxation.

Udaya Kumar Hebbar: We ourselves are not actually forcing the customers at this point of time because we also need to be patient enough with the customers. So we are giving the enough relaxation to our customers also to take their own time to pay in such situation because it is unforeseen that JLG if for example 10 customers, 4 of them not paying asking another 7 to take the load we are only actually making more risks to our system, so currently because of COVID we need to be patient, otherwise the centers which are 99% payment we do not see any challenge. They are already automatically whenever there is somebody is not well, not able to pay they are taking care of them on their own, but where the extra stress is there, we are actually allowing them not to what I call a fall back to the customers who are paying because they are also paying with difficulty sometime. So we need to be careful, we need to be patient, we need to recognize a stress there. So our employees are trying to manage that very well.

Pratik Chheda: Okay thanks Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: I have like two, three small questions. So first on just operations right now, how has COVID affected you or as like how normalization has happened, what kind of changes have you made to say group sizing, do you run it in batches, have you reduced the group size or have there been any alterations to the frequency of group meetings and just what is the outlook of group meetings? That is the first question.

Udaya Kumar Hebbar: Yes, actually we have made certain changes to the group meeting initially when the COVID was little high, since we are meeting on a weekly basis we have that opportunity to tell the customers that only one-fourth of them can meet every week, so that we have connect with all of them at least once in a month and after September, October we moved it to 50% and now we moved it to 75% so that we have a higher connectivity to them, there is one change we did for temporarily. Two we actually complete the documentation and simplified the documentation, so that the documentation for the new loans are completed at the field itself so that customer need not travel to our branches using public transportation all those things, we transfer the money to our bank account. Also made the one more changes wherever customer centers help let us say they are in the situation our employee cannot go, they cannot come back because of the COVID situation they can pay through either GPay or the Nearby Pay or a BBPS, there are many other options are given to customers. Some

customers will pay from there also. So these are the couple of changes we did in the field process. So some of them, we have been following earlier also because we are not collecting from every customer separately. We collected the group basis which were trained the customers earlier also there is a one among the group member need to be there to pay the money among them. So I think those processes what we did earlier helped us very well and this additional process was basically safeguard the customer from travel or to maintain the strong social protection protocol also.

Nishant Shah: Second like just a couple of data questions. Could you tell us like during this quarter what was the percentage of your disbursements to new customers like new customer acquisition number as well as like just the amount disbursed during this quarter to new customers?

Udaya Kumar Hebbbar: Yes, we acquired about 1.65 lakhs of new customers in this quarter and about 15% to 18% of our disbursement happen to the new customers and the balance about 80%, 82% customers the disbursement happens the current customer who are renewing or additional funding wherever required.

Nishant Shah: Just last one data keeping question what would be the cumulative write offs that you would have taken on a standalone and console basis in nine months so far.

Udaya Kumar Hebbbar: Write offs you have taken only this quarter actually, we are not taken any major write offs in the previous quarters maybe about 5, 6 Crores would have done in September which was because we had to regulatorily give that and hold the same asset grade during that moratorium period, so we have not changed the totally 143 Crores consolidated we have taken up, in that current quarter is 111 Crores plus 19 Crores that is 130 and earlier together is some 13 Crores that is all.

Nishant Shah: Perfect, yes that answers it perfectly. Thank you so much.

Moderator: Thank you. The next question is from the line of Aakkash Dattaani from HDFC Securities Limited. Please go ahead.

Aakkash A Dattaani: Thank you for this very detailed set of disclosures and for taking my question. So I have two questions, firstly how is the sort of integration with Madura progressing now given that the situation around COVID is even get back to normalcy.

Udaya Kumar Hebbbar: Yes, maybe, yes there are two parts of the integration one is the legal merger, one is the process integration. So first I will talk about process integration as we indicated earlier we appointed PWC for the integration purpose and we created the work streams between both

the leadership teams, so we are quite ahead in that curve and we should be ready for operating model by March and April and we are already aligned with the processes in terms of the products, the processes, the risks, the governance, the financing, funding all those things we already aligned with the common process and the majority of our loan book will start moving into Grameen model in a three stages starting from February initially first phase we will do some branches in the month of February second phase will take some more branches in April and May and some more branches in June and July so that the model of CA Grameen will start implemented in the MMFL book and the people movement and all we can do only after legal day one that is what the second part where we already approached the both exchanges one exchange already approved other exchange is, I mean, about finalizing approval then we will go to SEBI, then SEBI we expect the SEBI to approve maybe three to four weeks time then we can go to NCLT while it is a bit black book but we expect that approval should come in three, four months time, which means either Q1 or Q2 we should get the legal merger approval also. So we are quite ahead in terms of process merger and process integration may be little delayed on the legal day one, but we are process merger ready, legal merger ready with the process integration by March and April. So we are quite advanced in that.

Aakkash A Dattaani: My second question, so as of December 31, so far on, for CreditAccess on a standalone basis your PAR 90 is close to 5% on a book of about 10000 Crores on a standalone basis of that book if I refer to slide #10 close to half this acquired in the past six months. So that would if I were to back calculate on half of your book that half of your book is contributing almost entirely to that PAR 90. So a) is it the correct way to interpret that, and b) if so does that, how would you read into that, does that worry you in any way.

Udaya Kumar Hebbar: I think it is a two way of looking about, one is the new book is behaving very well and the past book is not behaving very well which is impacted. So basically we have recovered that much of money in the last five months right. So that is why the COVID book will continue to come back for example after one year, we will say that the 100% of the old book is PAR, it is possible, but the overall ways what was the book as of March and the COVID hit, out of that what is going to be a loss. I think we have to see that way rather than the current book outstanding versus the total outstanding right. So we are recovering that continuously, so you are absolutely right about 5% which is including Maharashtra, which is taking little longer time, but for March at 3.2%, so we estimate that also to come down a bit, but we have to look at the COVID impacted book which is the book available which was existing at that point of time and the percentage of the credit loss based on that book that is what the way we should calculate.

Aakash A Dattaani: If I may just add here is, has this sort of dichotomy rise in previous asset quality events as well such as demonetization.

Udaya Kumar Hebbbar: Yes, also when we said 3.9% that the portfolio at the time of demonetization against that.

Aakash A Dattaani: All right thank you very much. Those are all the questions I had.

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

Renish H Bhuvra: Sir just on this write off, the accelerated write off is from which book, I mean, is it from the existing gross NPA which we were having at the end of September or this is from the current PAR portfolio.

Udaya Kumar Hebbbar: This is basically the pre-COVID GNPA, so if you remember we had a book which pertained to Coastal Karnataka and the flood hit book in southern Maharashtra and northern Karnataka so that book you are carrying which had almost past 180 days plus in, I mean, including additional time given by regulators. So we thought that it would be good we should actually write off that now and we continue to do the effort of course, but we thought, we would take an accelerated rate of that book so that we have only COVID book today.

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

Amaresh Mishra: Thanks for taking my question. Again just one more question from my side was when you say accelerated write off of 85 Crores what do you mean I mean this 150 Crores that you took 160, 140 Crores that as you explained in the previous quarter, previous question was it was on account of that 180 days past due.

Udaya Kumar Hebbbar: Amaresh basically as a policy we write off at 270 days whereas here we talk everything anything more than 180 days. So that is why it is an accelerated write off.

Amaresh Mishra: Just one more question sir, on more from a strategy perspective I am not looking at COVID, but how do you see credit access from three, four, five years perspective because like we are now at 12000 13000 Crores right now combined people put together both in the system is 25% 30% which you have explained earlier from the run rate perspective and then we have seen most big guys have become banks or whatever, I mean, historically they have become actually doing a lot. So how do we see ourselves from that perspective like how

long can we continue to run like an MFI like this, just in the JLG and doing some individual loans etc., what are your thoughts around it, if you keep in this we get to aside and then see if you can give some color to investors on that? Thank you.

Udaya Kumar Hebbbar: Amaresh let us talk about 2025 maybe that could be the milestone which we have set out, set ourselves as vision 2025 which to be the business partner for Indian low income households by providing the credit as well as any other requirement financial product requirement to the customer and their family is what our thinking for 2025 perspective which means we will continue to work with the rural households which we continue to work with the low income households and we would remain working as a microfinance institution which can address the low income households requirement. We might further add the products to customers beyond credit currently we are doing only credit only if the borrower we will find the opportunities of what else we can provide to the family of the customers which is feasible way with a sustainable way whether directly by us or by with partners by piloting and based on success of the pilots. So our vision is to remain working for the rural households and working in the rural and the remaining as a microfinance institution. So at least I can talk about those milestones.

Amaresh Mishra: Thank you Sir, thank you for taking my questions.

Moderator: Thank you. The next question is from the line of Nikhil Rungta from Nippon India Asset Management. Please go ahead.

Nikhil Rungta: Sir just one question from my side, on the stage III side we have indicated that our EAD percentage is 6.8% as of December end, how much of that would be partial payment it is included even both partial payment and no payment.

Udaya Kumar Hebbbar: Yes, we have about 2.5% partial payment in the case of stage III and 4.3% is the no payment in December.

Nikhil Rungta: You expect write offs to be at 4% to 4.5%, final write-off.

Udaya Kumar Hebbbar: Yes, that is what our estimation Nikhil.

Nikhil Rungta: Sir just one more thing from next year onward as you mentioned we will start getting write back from these COVID provisions so the normal business as usual provision of 1% and write back coming from these. So we can start seeing at net level write back in the numbers as we saw in FY2018 also a similar way we can start looking at the numbers.



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Udaya Kumar Hebbar: We have to see once it moved to a 90 days bucket and all, it could be a little slow that is why I said it could be between Q1, Q2, it could be more of a net of nature other than when rating back possibility we do not know, but our strong position today is that we have covered significantly whatever the risk at this point of time. So Q1, Q2 that depends on business growth as well as the credit cost our estimation is slightly what you call about 75 to 100 basis point and the growth perspective also we have to provide right if I grow my 1000 Crores I have to provide another 1% equivalent to standard asset on that also. So totally probably total net, net may not be the write back, but it prevents the further provision probably. So, but our strongly with that there will be more profitability going forward than the provisioning.

Nikhil Rungta: This year if I heard you correct you indicated that we will do at least 2% ROA right.

Udaya Kumar Hebbar: Yes, you are absolutely right, we will be more than 2% ROA.

Nikhil Rungta: That is all from my side. Thank you.

Moderator: Thank you. 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 participating in this late hour and we thank you for your continuous support. See you next time.

Moderator: Thank you. On behalf of Investec Capital Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.