# "CreditAccess Grameen Limited Q2 FY2022 Earnings Conference Call"

**November 10, 2021**

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| **ANALYST:** | **MR. ALPESH MEHTA – IIFL SECURITIES LIMITED** |
| **MANAGEMENT:** | **MR. UDAYA KUMAR HEBBAR – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER - CREDITACCESS GRAMEEN LIMITED**<br>**MR. BALAKRISHNA KAMATH – CHIEF FINANCIAL OFFICER - CREDITACCESS GRAMEEN LIMITED**<br>**MR. NILESH DALVI – VICE PRESIDENT, INVESTOR RELATIONSHIP - CREDITACCESS GRAMEEN LIMITED** |

**Moderator**: Good morning, ladies and gentlemen. Welcome to CreditAccess Grameen Limited Q2 FY2022 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Alpesh Mehta from IIFL Securities Limited. Thank you and over to you Sir!

**Alpesh Mehta:** Thank you Lizaan. Good morning everyone. Welcome to Q2 and H1 FY2022 earnings conference call of CreditAccess Grameen Limited. Today, we have with us, Mr. Udaya Kumar Hebbar – MD and CEO, Mr. Balakrishna Kamath – CFO, and Mr. Nilesh– Vice President, Investor Relations. Without further delay, I hand it over to Mr. Hebbar for the initial comments and then open up the call for a Q&A session. Thanks, and over to you, Sir!

**Udaya Kumar Hebbar**: Thank you, Alpesh. Good morning to everyone. I thank you for taking your time and joining us today to discuss our second quarter FY2022 financial performance. The second quarter witnessed a positive trend on all fronts as business momentum inched back to pre-COVID levels. The country crossed 100 Crores vaccination administration mark that helped ease the challenges posed by COVID. As the lockdowns were gradually lifted in July, we quickly regained our focus on growth and expansion, maintaining pre-COVID disbursement rate, acquiring new customers, engaging actively with our clients leading to a healthy growth in the portfolio and improvement in asset quality. The monthly disbursements have gained strong traction since July consistently being over Rs.1,100 Crores every month at CA Grameen.

As indicated earlier, even disbursements at MMFL have gained momentum starting October crossing Rs.227 Crores. At a consolidated level we disbursed Rs.5,262 Crores from July to October 2021 and acquired 2 lakhs new borrowers, feeding into rural capital creation and significantly contributing to India's rural growth story. Our extensive engagement with our clients yielded great results as we saw collections excluding areas consistently rise as unlocking phase commenced. At CA Grameen, collections rose from 91% in July to 93.3% in September and further to 94.3% in October. Considering 4.7% as non-paying customers, this effectively translates to 99% collection efficiency. The collection efficiency at MMFL, which constitutes 16% of our consolidated GLP gradually improved from 83% in July to 87% in October and the proportion of non-paying customers accounted for 5.4% of GLP.

At CA Grameen, the asset quality indicators saw positive signs as PAR 0 reduced from 30.6% in June to 9.9% in October, while PAR 60 reduced from 7.8% in June to 6.5% in October. This is predominantly backed by weekly engagements and proactive efforts on the collection front. At

Madura, the PAR 0 saw an increase from 15.4% in June to 20% in October. However, we expect the PAR to peak out in November and then gradually decline in the coming months. Historically, there has been a lag in the MMFL collection process, which will improve now, as the processes are already aligned with CA Grameen. On a standalone basis, the gross loan portfolio grew by 21.5% Y-o-Y and 5.3% Q-o-Q to Rs.11,184 Crores in Q2 FY22, while the borrower base declined by 1.7% to 27.5 lakhs primarily due to write-offs of 2 lakh borrows in the last 12 months.

NII grew by 13.1% to Rs.309.3 Crores while NIM stood at 11.3%. Adjusting for the impact of interest income, direct commission and impact of maintaining higher liquidity on balance sheet, NIM would have been 12.5%. We have lowered the liquidity from 15% plus to around 11% as on September and we expect to further lower it to a normalized level of 8% by Q3 FY22, which will further reduce the negative carry impact in FY22.

The cost to income ratio was 42.5% while Opex/GLP stood at 5.1% higher on volume basis primarily due to increased business activity and new branch additions. This should normalize by end of the year with expected portfolio growth during second half. The PPOP grew by 10.6% Y-o-Y to Rs.188.2 Crores; credit cost was Rs.91.1 Crores, which also included the impact of write offs of 129.6 Crores during the quarter.

The PAT for the second quarter was Rs.72 Crores leading to ROA of 2.2% and ROE of 7.8%. GNPA reduced from 8.12% in June 2021 to 7.18% in September 2021 and PAR 90 was at 5.4%. The overall ECL was 5.51%.

On a consolidated basis our gross loan portfolio was up 19.2% Y-o-Y to Rs.13,333 Crores and borrower base declined to 37.5 lakhs primarily due to write offs of 3.29 lakhs borrowers during the last 12 months. NII grew by 11.5% to Rs.368.9 Crores, PPOP grew by 11.1% to 218.7 Crores, and credit cost was Rs.139.9 Crores. We have aligned the provisioning policy of Madura with CA Grameen recognizing GNPA as 60 DPD, which led to an increased provisioning of 13.4 Crores and consolidated PAT was at 59.7 Crores resulting in ROA of 1.6% and ROE of 6.2%.

We continue to maintain our focus on foraying into newer markets as a part of our geographical diversification strategy and tap the unserved and underserved markets. A total of 142 branches have opened during July to October primarily across newer markets like UP, Bihar, Jharkhand, Rajasthan and Gujarat. Our overall branch network now stands at 1,566 at the end of October 2021 with a portfolio of Rs.13,646 Crores. Our contiguous district-based expansion has laid out well in the past and will continue to perform in a similar manner in the future. The process integration at Madura has been completed including the system integration and aligning the provisioning policy as discussed above. As indicated before, beginning from October 2021, we shall significantly scale up the business at Madura by offering our bouquet of financial products and services based on the credit line concept.

Given the reduced severity of the pandemic situation along with increasing vaccination throughout the country, we are confident in delivering strong business growth in the second half of FY22 as well as in the coming years. Assuming, there are no further severe business disruption due to COVID, we look forward to achieving consolidated loan portfolio growth of 17% to 19% and our consolidated credit cost for the year would be about 4.7% to 4.9% resulting in a consolidated ROA of around 1.8% to 2% for FY22. Our integrated platform along with Madura underpinned by our rural focus, customer-centric approach, strong liquidity, capital adequacy, highly experienced management team and strong balance sheet places us in the forefront to drive the growth in this industry. With this short update, I will be happy to open the forum for discussions.

**Moderator**: Thank you. Ladies and gentlemen, we will now begin the Q & A session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Chirag Sureka from DSP Mutual Fund. Please go ahead.

**Vivek Ramakrishnan**: Good morning sir and festive season greetings. This is Vivek Ramakrishnan. My question is regarding the laggard states. There are some states that are pulling down your overall numbers, in terms of collection efficiencies and NPA including Maharashtra, Madhya Pradesh, and to a certain extent, Tamil Nadu and Karnataka. Is there any positive trend that you are seeing in these cases or are you going to see a similar trend going forward because of some regions in those particular states. Could you give us more information that would be useful? The second question that I have is, in terms of the reduction in percentage of non-paying customers. It has been very good indeed and it has come down quite well. When you mentioned full payment, is it for that particular month arrears or does it include past years? Those are my two questions.

**Udaya Kumar Hebbar:** Vivek, out of the states that you listed I think, only Maharashtra is a little low. Other states are either equal or more than the company's standard collection, whether it is Tamil Nadu or Karnataka or Kerala, all are doing better than the average. In Maharashtra it was a little slow, given even the impact of COVID 1.0 was quite high there. As of March 31, 2021, our collection efficiency was only 90% there so it was continuing for some time. I think there is residual delinquent account till the whole lifecycle of that completes. There will be some delay in collections in the Maharashtra bucket. Otherwise, all states are doing well because our total collection efficiency is 94.3%, which means collection due for the month and collective for the month. The term non-paying customer implies that the customers have not paid for the last four weeks that is, they have not paid during the month. They would have paid in the previous months yet if they have not paid in the last four weeks, we are considering them as non-paying customers.

**Vivek Ramakrishnan**: Excellent, Sir. I got that and thank you and good luck.

**Moderator**: Thank you. The next question is from the line of Shreepal Doshi from Equirus. Please go ahead.

**Shreepal Doshi**: Sir, good morning and thank you for giving me the opportunity. Sir, my question was with respect to restructuring. So while it is lower at 1.4% for the consolidated book, what is the nature of restructuring that we have given to our customers in terms of the moratorium or the EMI amount getting revised, what is the nature?

**Udaya Kumar Hebbar:** It a combination of two to three items. As we told earlier, the restructuring would be a last resort where if the customers have limited cash flow then we will do restructuring. If they have no cash flow then definitely, we will not do restructuring. We will instead go through the route of provisioning and write offs. Even during the first wave, we did less than 1% restructuring and an overall 1.4%. There are multiple ways, one is little moratorium up to a month, reduced EMI and also probably would have given some additional fund for starting business. All three are combinations in this restructuring book.

**Shreepal Doshi**: Got it. Sir, my second question was with respect to the average AUM upon active borrowers. So if I look at it standalone, that number has increased to almost Rs.39,500 and it used to be close to Rs.34,000 during Q3 FY21. I just want to understand how are we placed in terms of the bucket wise exposure? What percentage of these customers would be below Rs.35,000, would be in the bucket of Rs.35,000 to Rs.45,000 and would be above Rs.45,000?

**Udaya Kumar Hebbar:** See, what is happening is, for the last one-and-a-half years, we have not acquired many new customers because of COVID restrictions and lower business growth. Our existing customers who have been with us are growing. For example, when we said Rs.34,000 average, our long-term customers, who have been with us more than three years were only 33%. However, today it has already moved to 48%. So when we have 48% customers who are with us over three years, there is a tendency of lending little more to them because they have been loyal to us and we have been serving them. As we add more and more new customers, this average will phase out. Probably, the speed of increase in GLP per customer will actually come down. So, the aberration between last two years is because of higher penetrated customers, higher long-term vintage customers that is why you will see little variation. Second part is we have written-off almost 3 lakhs customers where the average portfolio per customer is quite low, which also contributed for increasing the average outstanding. It is a onetime thing, probably as the business becomes normal and as we start acquiring more and more customers like in the last four months we already acquired 2 lakhs customers, so slowly this will get eased out.

**Shreepal Doshi**: Got it, Sir. just one follow up question there. As you said that, now vintage customers, more than four years, have increased for us, so what ticket size are we comfortable to give to these more than four years vintage customers? What is our average exposure for that customer base?

**Udaya Kumar Hebbar:** We are comfortable giving up to Rs.80,000 to Rs.1,00,000. But we always go by the need-based funding. Even though they are with us more than four years, we will provide based on their need. As you know we provide a limit and within that they can draw based on their need. Our average is not very high about maybe Rs.55,000 to Rs.60,000 for more than three years, but the limit available to them is up to Rs.1,00,000.

**Shreepal Doshi**: This is an average number?

**Udaya Kumar Hebbar:** No, actual loan limit available to them is up to Rs.1,00,000, average outstanding for customers over four years is Rs.54,000.

**Shreepal Doshi**: Got it, Sir. One last question was with respect to like you alluded that Maharashtra is lagging for us which is also reflected in the numbers in terms of collection efficiency, so what is the qualitative sense behind the delays in that state like and what are the specifics geography that we can highlight where we are seeing the issue?

**Udaya Kumar Hebbar:** Within Maharashtra, we need to see, even before wave 1.0 we had the flood impact, which was an issue between 2019-2020 and then between 2020-2021 for almost five months, Maharashtra was under lockdown during COVID wave 1.0, which impacted the whole system and the rural economy there. Then again the COVID wave 2.0 impact started early in Maharashtra, so these multiple impacts impacted a bit more actually particularly in the flooding districts like Kolhapur, Sangli, Satara, Solapur, Raigarh and Ratnagiri. Those are the districts that got higher impact than the other districts whereas the northern part, for example, Jalgaon, Nagpur, Buldhana districts are doing well. Some districts in the southern Maharashtra have a little difficulty. They are all coming back to normalcy, but still probably our write off book will be higher for Maharashtra compared to other states. Once we clean up this, we would see a normal behaviour in this state also.

**Shreepal Doshi**: Got it, Sir. Thank you so much for the detail explanation and good luck for the next quarter. Thank you.

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

**Akshay Ashok**: So, will this write-off continue in the next quarter also for Maharashtra because the collection efficiency there is somehow not improving, so you think this write-off will be more incremental for Maharashtra?

**Udaya Kumar Hebbar:** It is not specific to Maharashtra. As we said our credit cost will go up to almost 4% to 4.1%, including write-off and provisioning, so we believe we have about 4.5% customers who are non-paying and are close to more than 90 days. Significant number of them would be written-off going forward, but almost 75% provision coverage is already there for those accounts. We estimate that there will be an impact on our book because of the write-off that we have to take out for Maharashtra as well as other states where non-paying customer who are more than 90 days. If you see in our presentation, which had 4.2% of our PAR 90 are non-paying customers currently, significant number of them may go for the write-off and at the same time, significant portion of that is already provided.

**Akshay Ashok**: What about the tax issue that you had? You had a tax demand right, has it been resolved or any update on that?

**Udaya Kumar Hebbar:** It is not yet resolved. As we appealed to all, the court has stayed the process and directed the tax authority to come back with more clarifications. They have not yet submitted their response still, so I think at this point of time, it is as good as stayed so we do not need to respond to tax authority currently. Similarly, even our tax experts or statutory auditors all have viewed that and they also felt that there is no need of any contingency for this demand.

**Akshay Ashok**: Thank you and that is it from my side.

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

**Nidhesh Jain**: Thanks for the opportunity, Sir. Can you talk about any changes in the recent collection trends specifically in Tamil Nadu, there have been severe rains, so are we seeing any changes in the collection pattern there?

**Udaya Kumar Hebbar:** No, Nidhesh, it has been only two days and it is raining, it is not flooding. There maybe one or two days delay, unless it is continued for a week or 15 days, normally this will not impact. Because if we go back next week or even one more week time, they will pay back, so it may delay for a couple of days. Normally we do not get into any delinquent situation, for example, in Raigarh, and Ratnagiri we had almost one week of rain two months back. We had delinquency of almost Rs.25 Crores to Rs.30 Crores for a couple of weeks and eventually we recovered everything. Normally if the impact is longer there will be a delinquency, otherwise we do not feel it is an issue and even if it is, it is very insignificant.

**Nidhesh Jain**: Secondly Sir, can we talk about the customers that we acquired, roughly 2 lakhs customer in last seven months. So what percentage of these customers are new to micro finance sector and any colour in terms of average tickets size of these customers that will be useful?

**Udaya Kumar Hebbar:** In the last four months we acquired 2 lakhs customers and close to 47%-48% are new to credit, Nidhesh, and the balance are with other MFIs, average maybe around Rs.33,000 to Rs.35,000.

**Nidhesh Jain**: Sure, and lastly in terms of the new initiatives that we have talked about in our annual report like looking at the customer from a household level and offering other financial services and products to customer like payments and insurance, any update on that, Sir?

**Udaya Kumar Hebbar:** Some of them are in thought stage and some of them are in pilot stage, for example, the banking transaction at the center meeting. We have piloted working in four to five branches to see how it works, where customers can withdraw their bank balance at our center meetings. Similarly, hospicash pilot is going on. We are also in the thought process and work in progress for secured products like affordable homes or home improvement or secured assets actually through retail platform which is under work-in-progress. Similarly, insurance particularly vehicle insurance or two-wheeler insurance are again work-in-progress. These are all the long term plans which are a part of Vision 2025, obviously we have to start working on it and then successful products will be moving into production.

**Nidhesh Jain**: Sure, Sir and then lastly, in the retail finance book there has been a reduction in number of employees, number of loan officers and the book has also been coming down, so what is your strategy there?

**Udaya Kumar Hebbar:** We got an opportunity to rethink on our retail strategy because we do not have the headroom to grow there at this point of time as our investment in Madura has been treated as a non-qualified asset. So what we did is, we are reworking on the retail business to eventually make the franchise of secured book, whereas unsecured book will continued to be held by the GL branches. We are retaining our employees, we are working on secured products like business loans secured by assets, affordable home improvements and maybe even gold loan in the urban branches. We are also exploring whether we can offer gold loan, two-wheeler, three-wheeler, commercial two-wheeler. We are evaluating these kinds of products for the RF branches. Once our merger is completed, we will get good headroom so that we can actually scale our business there. Quite extensive work is going on to prepare for this kind of secured book building. Also, we have been focusing only for captive customers. With renewed focus we would also go for open market opportunities.

**Nidhesh Jain**: Great, Sir. That’s it from my side. Thank you.

**Moderator**: Thank you. The next question is from the line of Chirag Sureka from DSP Mutual Fund. Please go ahead.

**Vivek Ramakrishnan:** This is Vivek again. Thank you for the second opportunity. What I wanted to know is, in relation to the previous question, in terms of the loan size increasing, is inflation playing an important role there in the sense if I can put it humorously is there a cow price inflation where the price of livestock, etc., which the loans taken from, have they increased? And with that has earning power of the customer also increased?

**Udaya Kumar Hebbar:** Vivek, it is quite difficult to access exact reasons for the increase, we go by the limit increase which is in line with vintage. As the customer stays longer with us, the credit line keeps increasing and within that they can draw their limit. As I said the customer can actually draw Rs.1,00,000 but if you see the outstanding average is only Rs.54,000 that means they are drawing based on the need of their project. It could be business expansion, it could be cow price increasing potentially, we do not know really, it could be expansion of additional business income stream they would create. Probably they are running a grocery shop, maybe they want to add a tailoring shop, or they want to add a retail shop, so they draw based on their need and we have created a limit within which they are withdrawing.

**Vivek Ramakrishnan:** Sir, but you said that for that set of customers you are confident about their cash flows, that is why the limit itself is set higher?

**Udaya Kumar Hebbar:** Definitely, yes, one aspect is the cash flow is higher, secondly, our experience has been very good, they have been loyal with us for the last four years, so that is why we are allowing it. As the customer grows more and more with us, we have fair confidence in them, we have higher visibility of their cash flow and higher visibility about the ability to repay and they are strongly connected with us.

**Vivek Ramakrishnan:** Thank you very much. I really appreciated this. Thank you.

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

**Renish Bua:** Sir, good morning and congrats on a great set of numbers. Sir, first question is again on the ticket size for CA Grameen standalone, we are now close to Rs.40,000 per customer, so what is your thought on the this I mean till what level we would be comfortable increasing this ticket size further on the CA Grameen standalone business?

**Udaya Kumar Hebbar:** Renish, if you see for last five years, CAGR increase in the portfolio for customers is about 10.5%, actually we are in line with that. Only this year, it has changed because we are not able to acquire new clients for almost last 18 to 19 months. That is the only aberration, otherwise our portfolio growth per customer is within 10.5%. Probably by end of next year the CAGR will be within 10% only. There is only a bit of aberration for this year because new customer acquisition was low for last 18 months till July this year, otherwise we do not see any change. We will have quite comfortable CAGR growth of GLP per customer.

**Renish Bua:** Got it Sir**.** The thing is that I mean at what level you would be comfortable, let us say within a year if this reaches close to Rs.50,000, will this bother you to bring it down or you will be still comfortable growing this ticket size at 10%?

**Udaya Kumar Hebbar:** See, if I am giving Rs.50,000 or Rs.60,000 on average for a customer more than three or four years we are still comfortable, Renish, so where this is going to change is as we start acquiring more and more new customers, this will again come back to normal. As I said earlier, our customer with more than three years already reached almost 48% now, which used to be 33% two years before because we did not add more and more new customers, and business as usual, this slight change has happened.

**Renish Bua:** Got it, and Sir, just last question on the industry side, so whenever we are entering data for any new customer acquisition, what is the rejection rate now versus let us say pre-COVID level and is there any diverging trend you are witnessing due to COVID whenever you are checking the bureau data?

**Udaya Kumar Hebbar:** Yes, the delinquency is higher and for existing customers when you do the bureau check, the delinquency is comparatively at least 10% more than the normal, that is one thing we witnessed. Secondly, at least 15% to 20% of our own customers are still not ready to expand their business or invest in their business or borrow further because they are probably still in the hangover of one more wave or so because the same set of customers have been impacted twice already. They are maybe waiting and watching for some more time to get a stable situation because if there is one more wave, same set of customers will be impacted because those typical businesses will have an impact. There is some variation in growth because of this also and it will take a couple of months for stable growth momentum and for these customers to get the confidence of expansions.

**Renish Bua:** Got it, sorry just last question, let us say even in the last 18 months apart from the known geographies like West Bengal, Maharashtra, Assam, is there any other state where you see stress building up maybe after the second wave or some observation apart of these three states?

**Udaya Kumar Hebbar:** No, even in Maharashtra, it is a typical COVID issue and it is prolonged with wave 1.0 and wave 2.0, otherwise we do not see Maharashtra as a difficult state definitely. We are quite confident about Maharashtra in any case so, we are not seeing any difficulties in any states. Kerala had some difficulty initially, but Kerala also came back to normalcy now, even our collections have come back to normalcy there.

**Renish Bua:** Great, Sir. Thank you so much and best of luck, Sir.

**Moderator**: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

**Sarvesh Gupta**: Good morning sir. If you look at the billing collection efficiency it has more or less stayed constant in the last four months, which is a bit sort of counter intuitive given the other segments of the economy have seen a much larger rebound. Is it more because of the weakness in the rural economy and we being more present there or what are the reasons that are contributing to the stickiness in that collection efficiency number which is hovering in the same range for the past four months?

**Udaya Kumar Hebbar:** Sarvesh, I think I would contradict with you because our non-paying customers are about 4% to 4.5%. It is the residual of COVID wave 1.0 and wave 2.0 together actually. If I say 94.3% is the collection efficiency that means for the month of October, it is what we have billed and then recovered, which is per month. If you have 4.2% non-paying customers more than 90 days, if we add together, we are actually 98% to 99% of collection actually. I strongly believe that we are having better income and being an unsecured book, we are doing better and improving. Yes, there are a couple of states which are not doing better because of some of the reasons I already explained, otherwise it has been good comparatively, even the secured book in some states are behaving the same way.

**Sarvesh Gupta**: And when are you expecting things to normalize assuming that there is no third COVID wave, when do you think that you will achieve a normalized month in terms of both disbursements as well as collections?

**Udaya Kumar Hebbar:** See, disbursement is normalized, we are disbursing more than Rs.1,100 Crores every month in the last four months, which is almost at pre-COVID level. Collections as I said we are at 94.3% on time collections, on same month and 4.2% customers are completely not paying which is near to 98% to 99% which is also near normal, so both are near normal as of now. If there is no wave 3.0, I think this should only further improve from here onwards.

**Sarvesh Gupta**: Understood and any impact on the slowdown in the rural economy in terms of what we were expecting versus what we are achieving right now?

**Udaya Kumar Hebbar:** Not really, as I just before said there maybe some set of customers may not be willing to invest right now because they maybe still thinking that if there is one more wave it will hit them because those are the businesses which have been impacted twice already. But for them probably 15% to 20% of our borrowers are not investing right now, they are hesitant to borrow and invest also, so they should get confidence. Maybe in a couple of months if they are confident that there won't be another wave, they will also start borrowing and investing. To that extent there is a lag in the expansion or growth in this business.

**Sarvesh Gupta**: Understood, Sir. Thank you and all the best for the current quarters.

**Moderator**: Thank you. The next question is from the line of Vibha Batra from FairConnect. Please go ahead.

**Vibha Batra**: My question is on if you have any plans to convert to a small finance bank, if yes, broadly at what stake would you think of that conversion?

**Udaya Kumar Hebbar:** We have always had the chance to convert, Vibha, but we decided not to become a small finance bank. We would continue to stay as a NBFC-MFI and our focus will continue to be towards rural low-income households.

**Vibha Batra**: But don't you think that when you achieve a larger scale, liquidity could be an issue and I am not talking about the normal scenario, especially the stress scenario given the kind of understanding and also the confidence or lack of confidence whatever way you want to put it, it could be quite stressful to manage liquidity in prolonged stress events?

**Udaya Kumar Hebbar:** Yes, I agree, we have to definitely plan liquidity that is why if you see in the last 6 to 8 years, we have been one of the companies, which diversified our liabilities beyond India. Already 14% of our liability is outside India and we are working to expand it to 25% to 30% by the next two years, which is quite possible. Similarly, within India also it is diversified into long-term and short-term in different type of institutions, which is one of the strengths of Grameen in the last several years. We are quite aware about the liability management because we are not just a disbursement business, it is management of borrowing also so we are quite conscious about it and we are confident about arising enough funds at low cost, remaining to be a low-cost lender in the segment. Despite banks being able to give a lower rate, we are able to give much better pricing to our customers.

**Vibha Batra**: Sure, but what would be your state of two or three rationales for not converting to a bank, not optic to convert to a bank?

**Udaya Kumar Hebbar:** So, it is a choice you know, we can become bank. Our view is that we have a larger highway to grow in the rural space of India, which is potentially possible by remaining as a NBFC- MFI. We have already demonstrated a low-cost operation despite working deep in the rural, and then we are able to give reasonable return with that., We do not feel a reason to go. The only reason probably is liability which we saw in the last five years even many of them transformed into SFBs, but we have not seen the customers pricing has come down. Whereas we being remaining as a NBFC-MFI are able to bring down the pricing much, much beyond the banks or others.

**Vibha Batra**: Thank you and all the best.

**Moderator**: Thank you. The next question is from the line of Abhijeet Sakhare from Kodak Securities. Please go ahead.

**Abhijeet Sakhare**: Good morning. Sir, first question is, just to understand the JLG product better, so we tend to give limits to the customers which they can use on a flexible basis. Wanted to understand generally what is your observation of using these limits especially by overdue customers, do we allow that and do we see overdue customers drawing down on these limits in a more aggressive way during the COVID period?

**Udaya Kumar Hebbar:** No, Abhijeet, there are rules for drawing the money. They should be non-delinquent and the group should be non-delinquent as well. They should be non-delinquent outside Grameen also, so those are definite. Second, their cash flow is reviewed before giving the loan and the group approval is taken before giving the loan, there are lots of checks and balances, we are not seeing any aggressive borrowing from them.

**Abhijeet Sakhare**: Understood, by delinquent you mean like zero plus or 90 plus?

**Udaya Kumar Hebbar:** It is actually zero plus delinquency. Within us we will review for one or two weeks due to covid situation, otherwise even zero delinquency is not tolerated.

**Abhijeet Sakhare**: Understood, second one is, in our core markets of Karnataka, Maharashtra, and Tamil Nadu, what would be the share of customers where we would be the sole lenders and some general distribution of the number of loans that you see in your core markets?

**Udaya Kumar Hebbar:** We have about 43% of our customers that are unique for us who have not borrowed from anybody and again another 42% of customers are having only one outside lender.

**Abhijeet Sakhare**: Understood, this is very helpful. Thanks a lot.

**Moderator**: Thank you. The next question is from the line of Madhu Gupta from Quantum AMC. Please go ahead.

**Madhu Gupta**: Thanks for taking my question. I just have one question which is regarding the harmonization guidelines which had come by year end any update on that?

**Udaya Kumar Hebbar:** No, we do not have any update, we are also awaiting for the guidelines.

**Madhu Gupta**: Thanks.

**Moderator**: Thank you. The next question is from the line of Shripal Doshi from Equirus Securities. Please go ahead.

**Shripal Doshi**: Sir, just had a question with respect to the strategy, so we are seeing that some our peers operating in the MFI ecosystem indicating their intention to enter into secure products such as gold, MSME, and affordable housing and you said that we are also evaluating that aspect. Are we also looking at exploring those products if you can just throw some light on this part it will be very helpful?

**Udaya Kumar Hebbar:** Shripal, you know as an MFI up to 15% of the products can be part of non-micro finance book. We are exploring to use this opportunity to build the secured book that is the only reason we are working on how to enhance the products which are secured potentially based on the non-micro finance allowance that we are getting.

**Shripal Doshi**: Got it, so within that we would be exploring gold and MSME secured product?

**Udaya Kumar Hebbar:** Yes, MSME secured, you are right, we are exploring whichever is the best one, we will pilot and test and the best one can be expanded.

**Shripal Doshi**: Got it, thank you so much and good luck for the next quarters. Thank you.

**Moderator**: Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

**VP Rajesh**: Thanks for the opportunity. Just two, three questions, first of all these 15% to 20% customers that you said are little hesitant in industry in the business phase, is there a regional texture to that is it concentrated in one particular state or is it across various states where you are present?

**Udaya Kumar Hebbar:** This is actually across the states where customers are not in the essential service who would get impacted if there is one more COVID wave, because they got impacted before. Some set of borrowers are already delinquent, some of them struggled and paid back, but still they may not be borrowing again immediately unless they are quite sure that there would not be another wave. For instance, assume the transportation sector, they are in the ecosystem of pilgrimages or tourism, or they are in the non-essential sector such as beauty parlor or salon, they may not be investing and expanding their business currently. They struggled twice, so it is across geography, not specific geography actually. The geography tourism probably there is a higher number of customers, geography as a pilgrimage center the typical customers are higher, basically the business where they are in or ecosystem where they are in.

**VP Rajesh**: My next question is, you said 94% of the customers are current in this market. So how should one think about their past arrears if there are any. Should we assume that these 94% they are all cleared for their past dues as well or how are you taking care of that in book?

**Udaya Kumar Hebbar:** 94% is the collection efficiency, 94.3%, I think stage one is about 91% where less than 15% due, so maybe 2% odd will be basically between 15 days to 60 days past due customers.

**VP Rajesh**: Which paid in the current month, but they may still have some past dues and all?

**Udaya Kumar Hebbar:** Yes, correct, This is available in our presentation.

**VP Rajesh**: My last question is, I am just checking with your new customers or current customers if they have been vaccinated or not?

**Udaya Kumar Hebbar:** We do not check vaccination status while lending to them, but we keep tracking that the customer's vaccination status. We have some data probably maybe you can reach out Nilesh, he will give it you later.

**VP Rajesh**: Thank you.

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

**Renish Bhuva**: Thanks for the opportunity again. Sir, just one question on the competition, so you know we have been hearing the lenders are pretty hesitant to lend to the smaller MFI's. What is the ground feedback you are getting in terms of the competition?

**Udaya Kumar Hebbar:** You are talking about the competition in microfinance lending right?

**Renish Bhuva**: Yes, Sir.

**Udaya Kumar Hebbar:** We are yet to see any significant visibility on that, Renish because there are not many who are aggressively acquiring new customers. Maybe this quarter we should see probably as some of them have PAR 0, PAR 30 quite higher. For example, even in our case if a branch has more than 10% delinquency, we are not allowing them to acquire customers. We concentrate more on collection and stabilizing the branch, so obviously 30% of branches, we are not allowing them to do a fresh business right now. Only renewals and collections, so obviously similar difficulties will be there for many of the lenders which depends on the geography, I think that this will shape properly maybe in the next one to two quarters.

**Renish Bhuva**: Right, but I mean let us say even if you look at the industry subsegments like SFB clearly not willing to expand MFI book and they are incrementally focusing on selling non-MFI book, wherein the smaller NBFC-MFI I am sure they must be getting difficulty in raising funds. So ultimately the new market may open up for guys like us who are NBFC-MFI so from that perspective do you see in the next couple of years would be far better for us versus we have been in last five years?

**Udaya Kumar Hebbar:** Obviously, I have been telling that the higher opportunity for MFIs particularly focused on rural. The urban market definitely will be captured by SFBs, formal players and SFBs not expanding is not a new trend, in the last five years if see the CAGR growth of customer is just 4% to 5%. Only the portfolio growth happened and then obviously they are not moving to rural though we have opportunities, we are particularly rural based, we see a large opportunity continuously at least for next half decade.

**Renish Bhuva**: Got it and last question from my side which is sort of repeating in nature, so since we are operating or maybe we are having a customer history for a longer period of time of course you highlighted that we are exploring this two, three new products, but in terms of the entire financial ecosystem for the rural customer, have we started thinking from that perspective let us say shifting away from a single product MFI company to a larger organization or the conglomerate will be providing all financial need of the rural people?

**Udaya Kumar Hebbar:** See, if you read the document what we have highlighted in our annual report, it talks about Vision 2025, where our thought process is to support the entire family of the low-income household rather currently the loan product for the home actually. In that direction we are operating, for example, some of the things we are working on is hospicash or two-wheeler insurance or bank transaction at the center. All these things are directed to support the entire family requirement maybe tomorrow, education loans for the son or daughter of the family, business loan for the family, or investment opportunities. All these are being tested, whichever is most important for the family, based on that we will work on the partnership. The idea is to move towards supporting the family and becoming the financial partner for the family.

**Renish Bhuva**: Got it, just a followup on that, so I mean does it make sense for a company like us who are having a deep rural presence and such a wide branch network of around 1,400 branches to have a micro ATM or enable payment services serving at our branches, so ultimately this customer is going to withdraw from somewhere so why not provide that facility at our branches itself?

**Udaya Kumar Hebbar:** See, opportunities are much more actually, not just the ATM. It is one of the definite opportunities, but having India move more towards cashless and online transactions, I do not know if ATM maybe relevant or not in the next five years or ten years time, we do not know really. Definitely they would need an opportunity to invest, to withdraw cash, deposit cash, basically cash in and cash out, pay bills, pay mobile bill charges, and all those facilities will be available in the rural and can be done in a Grameen center meeting actually. Basically, we are ensuring all the financial needs of the family can be taken care of in the center meeting, which is the vision we have for 2025.

**Renish Bhuva**: Got it, Sir. This is very, very helpful, Sir. Thank you so much, Sir.

**Udaya Kumar Hebbar:** Somebody asked the question about the vaccination status; our customer vaccination status is about 75%.

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

**Udaya Kumar Hebbar:** Thank you everyone for sparing time and I look forward for the newest engagement. I wish you all a happy Deepavali once again.

**Moderator**: Thank you. Ladies and gentlemen, on behalf of IIFL Securities Limited that concludes this conference call. We thank you for joining us. You may now disconnect your lines.