CreditAccess Grameen Limited
Q1 FY20 Earnings Conference Call
31st July, 2019

Moderator: Ladies and gentlemen, welcome to the Investor Call of CreditAccess Grameen Limited to discuss the Q1 FY20 results. Today, we have with us from the line of management, Mr. Udaya Kumar Hebbar – Managing Director and CEO and Mr. Diwakar B R – Director of Finance and CFO. 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 calls please signal an operator by pressing * then 0 on your touchtone phone. Please note that conference is being recorded. I now hand the conference over to Mr. Udaya Kumar Hebbar. Thank you and over to you Mr. Hebbar.

Udaya Kumar Hebbar: Good evening to everyone and thank you for taking your precious time and joining us today to discuss our Q1 FY20 performance. Before I provide a brief overview on quarterly financial performance, I would like to emphasize that we have been able to deliver strong growth despite challenging environment faced by NBFCs. We have remained strong on both liabilities and assets front. We have comfortable liquidity position with an adequate cushion and over 2,800 crore funding in pipeline. Our prudent liability management is backed by well diversified mix of domestic and foreign sources. Moving forward, we target to meet 40% to 50% of our funding requirements through foreign sources by leveraging our strong parentage of CreditAccess Asia to access global fundraising opportunities. Our long-term credit rating of A+ helps us to borrow at competitive rates. We hold more than 80% of our funding in the form of medium and long-term loans which not only helps us to maintain positive ALM but also enables us to focus on robust business growth. Although we are rated A1+ for short term paper, we have not raised any amount through commercial paper. Our gross loan portfolio increased by 39.4% Y-o-Y to 7619 crore primarily driven by 32.1%Y-o-Y growth in our borrower base to 25.6 lakhs borrowers. The average outstanding per borrower increased by 5.5% Y-o-Y to 28,800, which we feel is reasonable. We have achieved growth with consistent investment in branch infrastructure and human capital. Our branch network increased by 31.4% Y-o-Y to 753 spread in 170 districts in nine states and one union territory. We added 83 new branches in Q1 FY20. Our strong human capital grew by 32.4% Y-o-Y to 8,641 employees, including 6,165 loan officers. This will enable us robust growth in the coming months. While we continue to further deepen our presence across districts in market, we also expanded in new geographies. We entered in Jharkhand in Q1 FY20 and subsequently in July we entered in Rajasthan and Gujarat. We are now present in 11 states and one union territory with a well-defined plan to grow district by district and gain market share both in the existing and newer geographies.

We believe there are significant growth opportunities available for microfinance players with strong balance sheet and strong non-urban focused business model. The rural markets seem to be temporarily witnessing a subdued consumption demand and slower growth in asset-based investments like vehicle, tractors, two wheelers etc., compared to last year. However, in such testing times, microfinance plays a very important role by providing timely support to sustain the income generation & livelihood activities of rural households. In any case, a large number of rural household family need to come out of informal borrowings to formal borrowings and microfinance acts as the vehicle for such transition. As a validation to our deep penetration, more than 40% of our new borrowers are first time borrowers to formal financial services as compared to 26% in the Industry during FY 2018-19. This process of reaching the unbanked hinterland will continue in our business growth.

In case of CreditAccess Grameen, our unique customer centric business model helps us to understand customers' specific needs and handhold them throughout their entire life cycle. We have designed our technology backend, systems and processes to provide customer flexibility and manage their diverse needs. Today we have one of the lowest lending rates in the industry, with 59% of our GLP at 18-19% lending rate. We maintain high customer engagement through weekly meetings. Our employees also have sound understanding of the rural market as 90% are hired fresh from rural communities. This helps us to maintain high borrower retention and stable portfolio with a lower loan run down of the portfolio. We can generate healthy growth from existing customers along with lower customer acquisition cost. This helps us to maintain one of the best operating cost efficiency and uniquely positions us to capitalize on the highly underpenetrated credit in the non-urban areas.

Coming to the financial performance during the quarter, interest income increased by 28.2% YoY to Rs 364.2 crores portfolio yield was 19.7% compared to 20.7% in Q1 FY19. Weighted avg. cost of borrowing was 10.2% compared to 10.5% in Q1 FY19 and marginal cost of borrowing was 9.4% compared to 9.6% in Q1 FY19. We successfully raised Rs.945.38 crore of fresh funds in this quarter, at a weighted average cost of 9.33%%. Net interest income increased by 32.4% to Rs 246.9 crores. We maintained healthy cost efficiency with Cost/Income ratio of 35.4% and Opex/GLP ratio of 4.8%. Pre-provision operating profit increased by 29.6% YoY to Rs 163.6 crores. Profit after tax increased by 32.7% YoY to Rs 95.8 crores. We continued to maintain strong asset quality with GNPA of 0.55%, backed by higher provisioning of 1.1% leading to 0% NNPA. Collection efficiency was 98.8%. ROA was 4.8%, ROE was 15.9% and Debt/equity ratio was 2.0. We continue to maintain robust capital adequacy of 34.6% which provides us significant headroom for growth over coming quarters.

With this brief overview, I would now like to open the forum for Q&A session. Thank You.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: If you look at some of the players like Bharat Financial have indicated that basically there is, over leveraging or a very high competition in certain part of Odisha, some of the other players have also come out and said the similar thing about West Bengal. I know that we are not present in these two states in a meaningful manner, but are we seeing some sign of over leveraging or a very high competition in the states we are operating, that's my first question. And my second question is, you have indicated in your opening remarks that basically there is some slowdown in the rural market. I agree that in our segment the customers need access to finance and the way they do their business, it's quite different from let's say auto market. But overall, do you see at some point in time, that kind of slowdown will also start hurting our customer base as well? And what is the preparedness for both these things. I mean, very high competition and likelihood of any slowdown in our organization?

Udaya Kumar Hebbar: We are not present in West Bengal and in Odisha we are there but in a very small way, we have just started. However, we have not seen any over leveraging or concerns in the areas where we operate. We always remained out of the urban areas in anticipation of some sort of over leverage which always happens there. So, we continue to work in a non-urban market which has been our strength. Therefore, we do not see over leveraging in our operating model and our business areas. In terms of slow down, what I specifically said that there is some sort of slow down you witnessed particularly in investments by the customers in rural markets particularly in auto segment or a tractor or two wheeler, but microfinance is moving customer from informal to formal and creating income generation and livelihood activities, which will continue to be potential particularly in the rural market. I think that clearly shows us that rural potential is still out there. The testimony of this is that in our new customer acquisition, more than 40% are the first time borrowers for micro finance in our segment compared to 26% in the industry. This clearly shows that as we go deep in the hinterland, growth potential is still there, and we do not see any impact on us at least in near future.

Parag Jariwala: Sure, and if you look at our weighted average cost of fund has gone up slightly in the quarter, Q-o-Q but our marginal cost of borrowing has come off. So, is it fair to assume that some of the borrowings which were like low cost got repaid during the quarter?

Diwakar B R: No, this is more arithmetical, a lot of funds which we had been drawn in the month of March had come in the last three, four days of the quarter there by, the interest cost per se was very less whereas the new borrowings led to higher average denominator. In the June quarter, the interest cost on these borrowings was realized for the entire quarter. So, there is no change at all, in fact on an overall basis we have reduced cost of funds. So, this is more arithmetical and there is absolutely no change in the way we have been borrowing funds.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir last two, three quarters we have been seeing our NIMs going down. So, what is the key reason for that given your marginal cost of borrowing is now coming down. So, do we expect some pickup going forward?

Diwakar B R: You may see the NIMs have got sort of normalized now. If you look at the last year and now, this is the first one full year of IndAS transition and completion. So, what you can see is more of regrouping and plotting the numbers in the manner which is as per the requirements of date, but if you look at the Q4 NIM which was around 12% and now it's 12.6% and for the entire FY19 the NIM was around 12.7%. So, this is after our complete year of IndAS transition and this is the sort of NIMs that we expect, given the rates and the yields that we have. So, we believe that we have reached a level of stability in terms of our net margins.

Deepak Poddar: Okay, so this is the range we might be looking at terms of stability?

Diwakar B R: Yes.

Deepak Poddar: And in terms of cost to income ratio, there was some increase this quarter right?

Udaya Kumar Hebbar: I think the increase is very small 35.2% in Q4 FY19 to 35.4% in Q1 FY20. There will be some difference from quarter to quarter, but if we see for the entire year, we don't see its going up and will remain around 34-35%.

Deepak Poddar: Okay, understood and my final query is related to your AUM. Now, we have been growing quite strongly. So, over next three to four years is this the rate that you would be comfortable with like on a sustainable basis in terms of growth?

Udaya Kumar Hebbar: From a CAGR point of view for next five years probably growth would be about 30% CAGR, it will come down from the current level as our loan book size grows. So, it will slowly come down and average growth would be in range of 30%-35%.

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

Renish Bhuva: Sir couple of questions, what is your reading from the data sourced from the credit bureaus with respect to further penetration at the Indian level?

Udaya Kumar Hebbar: Okay. So, the data that is available from credit bureaus is at the state level which shows some penetration higher in terms of portfolio per customer which is slightly high in the east, but when you look at the population versus the penetration, it is still low, and it shows that there are a lot of opportunities. However, it differs between urban and non-urban. So, I think we at CreditAccess Grameen want to keep these two different set of business opportunities. So, in non-urban and rural, we have not seen over-penetration in any parts of the country. We don't see any challenge in terms of the growth, or any risk in this business. We will continue to follow our model and we will not go to urban because the supply side is quite high in the urban areas. So, we have always kept this basket away from all business.

Renish Bhuva: Right, so just a follow up on that. When you enter a new geography on the rural side, are you basically the first lender to that district or center or you are competing with other players?

Udaya Kumar Hebbar: For close to 50% of the customers, we are the first lender in the rural. For remaining, there will be one or more MFIs or banks. We still compete in the other 50% cases. But we ensure that when we are in the rural, we keep it low value for new customers and keep tracking them over the time and provide other services. So, 40 to 50% are new customers to any form of borrowing

Renish Bhuva: And sir what's the average ticket size we offer to a new to formal platform kind of a customer. Let's say cycle one, cycle two if you have any break up on that?

Udaya Kumar Hebbar: We provide a credit line of 35,000 to the new customers, however if I give a breakup of my portfolio, 56% of my borrowers have less than 30,000 average at this point of time. Only 28% of outstanding portfolio is on account of borrowers with more than 50,000 average as against 33% of borrowers more than 3 years old in the system. So, average in the group it is 28,800 outstanding per customer, which increased by just 5.5% over last one year.

Renish Bhuva: Got it. We have hired couple of gentlemen on the technology side and new business development. Where have we reached in terms of the technology upgradation as far as the new business development?

Udaya Kumar Hebbar: From a technology point of view, we have been technologically advanced since last three to four years. We have built the right kind of processes, the multi-product processes and operating efficiencies all driven by technology. We hired a person recently more on the innovation front which is an ongoing process. For example, recently we have done complete end to end online audit and risk control and monitoring system. Every data, every information is online for even our branch manager or area manager when he visits the branch or center. All data is online and analytically driven and supported to them. And already the branches are operating on a tab, the online information is available and instant credit check is under testing right now in pilot phase. So, many things are happening on the field. Even the cashless disbursement which used to be about 20-30% is now at 52%. Retail financing is 100% on cashless mode, both collection and disbursement. So, technology development is an ongoing process and we are continuously building on that.

Moderator: Thank you. The next question is from the line of Rajiv Pathak from GeeCee Investments. Please go ahead.

Rajiv Pathak: This time around the credit cost has come down to less than 1%. So how are we seeing this credit cost panning out over the year? And how are we seeing the movement in the 0 DPD, the 30 DPD buckets if you can just share that?

Diwakar B R: We have all along been saying that in our business once we have the right systems and processes, we can control our gross NPA less than 1%. What we see now especially in the last three-four quarters is that we have come to this level of gross NPA because of the way we operate in this business. So last quarter it was 0.61% and now it is 0.55%, so we expect it to be in this range and we continue to maintain a very high portfolio quality.

Udaya Kumar Hebbar Further, when we say 0.55%, this is at 60 DPD and not 90 DPD as we had changed our provisioning policy in Q4.

Rajiv Pathak: We have been growing our infrastructure at 30-31% kind of a run rate and are now at 35% cost to income ratio. So how are we seeing this trajectory now?

Diwakar B R: So as mentioned the last couple of quarters, we have a strategy wherein we go ahead with our expansion plan in the first two quarters of the financial year. And ours is an asset light model where we don't really invest much in setting up branch infrastructure. So, what you see is a normative comparative increase in the cost to income ratio, compared to the fourth quarter where you have seen the peak of investments completed. But this is not something that will impact us much, we will continue to be in this range of 30 to 35%, depending on the quarter we are and that's where we will be most of the time.

Rajiv Pathak: Okay, I heard Jharkhand is one of the states where we entered, which are the other states that we are expanding?

Udaya Kumar Hebbar: In July we have expanded to Rajasthan and Gujarat around their border with Madhya Pradesh, as we always follow district by district contiguous penetration. So bordering Madhya Pradesh we entered in Rajasthan, Gujarat and Jharkhand.

Moderator: Thank you. The next question is from the line of Karthik Chinapa from Buena Vista Fund. Please go ahead.

Karthik Chinapa: In your opening remarks you had indicated that 40% of your customers are sole borrowers of CreditAccess Grameen, what will this ratio be for Karnataka and Maharashtra alone?

Udaya Kumar Hebbar: What I said was that more than 44% are the new customers which we acquired during FY18-19, and they are new to any kind of borrowing. So, our unique customers who only work with us is about 39% at this point of time. I don't have data right now for Karnataka, Maharashtra specific but we are still around 32-39%.

Karthik Chinapa: The reason I asked this question is because of your relatively deeper penetration in Karnataka and Maharashtra. I would think that for a new entrant or for a marginal player, their first port of call would ideally be a customer who has already done three or four cycles with you to establish the repayment track record. So, I would think in your main markets of Karnataka and Maharashtra the ratio of borrowers who borrow only from you would have come down over period of time?

Udaya Kumar Hebbar: No, it's not come down because Karnataka and Maharashtra together form almost 78% of our business and these two states also have similar levels of unique customers.

Karthik Chinapa: Got it sir. My second question, is there over-leveraging in your states? How do you measure over-leveraging?

Udaya Kumar Hebbar: Maybe it will be good to understand how we measure the district when we plan to open a new branch in that district. We look at demographic data like population, rural vs. urban, poverty level, economic conditions etc. We track the number of players in urban and rural, amount of portfolio already created by the number of borrowers already there, number of MFIs already present, number of defaulters. Based on the pin code, we try to understand where there is over penetration, risk of default or risk of higher competition, and we track this data over a period.

Karthik Chinapa: Got it. And sir my last question is, if you were to look at your loan officers today, let's say in a very seasoned market, like even in Karnataka or so, what is the limit up to which with respect to the number of cases they can handle per month?

Udaya Kumar Hebbar: We ensure that our employees are not overloaded and hence loan officers will on an average handle between 400 to 500 customers. We don't want them to handle too many because this is a relationship-based business. We need to create trust with the customers to build a good relationship. So that is why we have a customer centric business and high customer retention ratio.

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

Agastya Dave: I want to understand on the credit cost. You just mentioned back how it will be less than 100 basis points. So, in terms of qualitative processes in place, what would you attribute is the biggest reason for such nice number and do you expect this 1% number to be there through the cycle? If I take a 5 to 7 years long cycle do you think that credit cost will still average below 1%? Because India has shown this tendency where something or the other will happen after like three to five years, which would throw even good business models out of the window. So, in terms of those contingencies, what do you have in place? And again, as I said, the main question is that what is it in your process, which ensures that the credit cost remains so low?

Udaya Kumar Hebbar: So micro finance is a business which is not lending model but a collection model ensuring that every process is followed, monitored and audited and all employees aligning with these processes is very important. We don't incentivize our employees on disbursement on collection, we incentivize them on following the process, right kind of training to customer, right kind of servicing the customer. Following the right process is the key in this business to have a right kind of selection and right kind of attitude towards our customers. We build our entire training model by acquiring only the fresh employees and train them. This is our strength. We implement the strong quality systems. When you said one or two incident black swan events which have impacted, but even such times it impacted us less because of our resilient business model. Even post demonetisation, we had a very small delinquency of 3.9%. I think the resilient model of delivery is very important, which has fundamental process controllers which provide multiple levels of protection and quality control. Starting from forming the group, training the group, nurturing the group centers through multiple communication to customers. So, these are our many fundamental pillars around which our resilient model is built. So, it is not the capital constraint or a borrowing constraint, we need to grow very responsibly, very carefully with how much we can employ, how much we can train, how much we can control the cost. So, this is the fundamental philosophy in our growth that is why our model is very sustainable.

Agastya Dave: Great. Sir in that case, do you have a rejection rate number, do you out rightly reject the groups application, do you control this quality before lending itself happens? Or do you restrict this with the collection on the collection site? Where do you place more emphasis?

Udaya Kumar Hebbar: Even when we are recruiting as a customer or a borrower I think about 10 to 12% potential customers get rejected not based on credit bureau or something else, but based on whether they know each other well or not, whether they are living in the same economy or not, whether they understood the process, whether they got to know that how the co-borrowing will work, based on that we reject about the 10-12%. Then the question of credit bureau, question of cash flows all will come. So afterward, even when we relend or after the renewal I think we have about 30% rejection to the site we don't lend based on experience, based on the behavior at the center, based on the over borrowing tendency, based on not participating in the center meetings, based on not utilizing the money in the proper way because we check every loan whether utilized for the purpose or not. So, lot of risk control mechanism is there when we have renewal of the earlier customer.

Agastya Dave: Right. And this is when you said that you throw out or reject 10 to 12%. So, this would ensure that the entire group gets rejected or just few individuals in the group?

Udaya Kumar Hebbar: Few individuals in that group.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Sir, can you please let us know the growth rate in your core states like Karnataka, Maharashtra, and Madhya Pradesh. And the new states that you are entering. What is the sustainable growth rate in your core states and others?

Udaya Kumar Hebbar: As the base increases the rate of growth will come down. For example, in Karnataka, our growth rate is far lower compared to other states where we started operating. The AUM growth in Karnataka was around 20-25% whereas in MP and Chhattisgarh it is about 60 to 90%. So, the portfolio in Karnataka and Maharashtra is still growing with deep market still available. But other states like MP, Tamil Nadu, Chhattisgarh shall grow more than 50% because there is still large potential available in these markets.

Pranav Tendulkar: Correct. So, in large states like Karnataka which are well penetrated with microfinance institutions, what is the sustainable growth rate for the next 10 years?

Udaya Kumar Hebbar: 10 years is too long, but I can tell you one thing, when you have large number of retained customers even if I stop growing the customer, I still will be able to grow the portfolio. If we consider new customer coming in, some of the legacy customers growing to next level, still 15-20% growth will continue to happen.

Pranav Tendulkar: Sir, also you have started the retail finance and that is a very intelligent thing to do, because as users translate into next needs and next uses of the fund they will be catered through this channel. So are there any regulatory limits where a micro finance borrower if he translates into say vehicle finance, will be still be classified as a micro borrower or will not be subject to the micro borrowing limits that are set by RBI. Or you can translate these people into unlimited other borrowing needs?

Udaya Kumar Hebbar: A microfinance company can do non-micro finance business up to 15% of balance sheet assets. So, there is no limit in terms of a pricing or in terms of tenure or security like a NBFC, so you can do that there is no limit. However, the limit as a total portfolio cap which is not more than 15% of the balance sheet asset. And we are about close to 5% at this point of time.

Pranav Tendulkar: Sir, what are the avenues of fee income from these customers? The worry we have is that as these customers grow they might probably think that banking channel is the channel with less cost of borrowing for them and that situation will be worsened if we don't have many hooks in the customers. So, if we have many hooks like some products, which we are selling or some payment facility etc that we are providing, so what are the avenues that you have considered in terms of having more hooks into existing customers so that good customers stay with us and right to weed out bad customers stays with us.

Udaya Kumar Hebbar: This will be applicable to only good customers, retained customers, captive customers who have a sustainable business and cash flow after lot of checks and balances. Now, the question is how long we can hook them with us. Today, we continue to follow our customer, customer needs. Even tomorrow, if they want 10 lakh we should be able to give them 10 lakh loan, if they have a right kind of business and a right kind of cash flow. It will take longer time, right now they are transiting from micro to a probably MSME. If you see our average outstanding in retail finance business is around 75,300 at this point of time. But this customer will grow to next level and we will continue to support them. Over a period of time we will be able to give them many more financial services be it investment, savings, fund transfers, we will be able to get those facilities available to them through different partnerships. But that is after some time when we create a fundamental business model. So, we are in that process right now to create a fundamental model. Maybe over one to two years we will have this study this business, then we can get other facilities to them. That is what our view.

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

Renish Bhuva: Just couple of data points. So sir what is the outstanding borrowing as on June?

Diwakar B R: So the borrowing outstanding is around 4900 to 5000 crore.

Renish Bhuva: Okay. So, this is including securitization or ex securitization?

Diwakar B R: No, we are talking of borrowing which do not include securitization. Including securitization, it is around 5100 crore, excluding securitization it will come to around 4,900 crore.

Moderator: Thank you. The next question is on the line of Manan Shah from Moneybee Group. Please go ahead.

Manan Shah: Just wanted to know if you can provide some background of our workforce like their qualifications, etc.

Udaya Kumar Hebbar: As said earlier we recruit majority of our employees only from rural because we are working in the rural area, so that they will be able to see our clients and think about the client well. And in terms of qualification also it's lower in such case because they are from rural and they are operating in rural so that helps. So majority are from rural and majority are a first-time employee of Grameen because we provide them to grow into loan officers and bank manager and area manager. Over a period of time, while we have people who joined us a loan officer having 12th pass qualification in states like Karnataka and Maharashtra, but other states more or less we have a graduates. At head office particularly we take professionals for audit, IT or finance, primarily through lateral hires. Otherwise normally we don't take lateral employees in our operations, we groom and train them and grow them internally.

Moderator: Thank you. The next question is from the line of Shritam Daga from Synergy Capital. Please go ahead.

Shritam Daga: I just wanted to understand if you are seeing any impact of the rural consumption slow down, that is being talked about by other companies?

Udaya Kumar Hebbar: No, I think I said first only that rural consumption is not negative. What we observe is slowdown in the investment in asset classes, particularly assets in terms of the tractor or two-wheeler or vehicle. Microfinance however continues to be the requirement of these kind of low-income households for income generation and livelihood activities and for majority of customers who are moving out from informal borrowing to formal borrowing. So, that is why we don't see any problem in terms of growth or in terms of quality in this business.

Moderator: Thank you. The next question is on the line of Saptarshi Chatterjee from Centrum Wealth Management. Please go ahead.

Saptarshi Chatterjee: What is our salesforce attrition. Further when the attrition happens and new employee comes on board, how does he manage the old groups handled by previous employees. When salesforce is moved from one rural region to another, how does it work?

Udaya Kumar Hebbar: Our employee attrition is quite low compared to industry at about 20-22% which is quite positive in this business. As a process, we have a rotation policy wherein no employee works in any branch for more than two years, and no loan officer handles the same customers for more than one year. This process is more of a risk mitigation. We have a process of pre-hire training and we keep the potential employees ready for taking over the positions. We have 500-600 employees undergoing training and they will be able to do the exact transaction within one month of their joining in the system. So, we always have a high number of employees in pipeline. In case of employee attrition, there is a notice period, in case they are not able to serve the notice period then there is always a backup of 10% employees in every branch. So that if event of the holidays or a leave or somebody not coming, somebody absconding, there is a backup available all the time. So, we don't have any handholding issues or such incidents where we don't have people to manage the attrition. It is a neat process and backup is maintained at all the branches.

Saptarshi Chatterjee: I also wanted to understand that as you said the relationship with the client and the sales guy that matters. So, like when attrition happens or maybe if someone is moved to other location, does it have an impact over that collection process?

Udaya Kumar Hebbar: No, not really because the previous employee will always introduce the new employee before going to next branch or next location. We have not seen any handholding issues. The handing over is a process, the branch manager will go along with the new officer and old officer to ensure smooth transition. So, we have not seen any issues in such transfer.

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

Agastya Dave: Sir historically for the sector outright droughts have not been such a bad situation, we have not seen a real blowout happening on the asset side and the two parts of the rural economy the agri and non-agri part have been fairly well behaved independent to each other. So, this time around the monsoon is currently negative 16% and there are vast portions of the country where it is much worse than negative 16%. So, in that case do you think that there can be any stress for microfinance business?

Udaya Kumar Hebbar: You are right, the agri impact is normally not spilled in to microfinance, so we believe that will continue to happen. Because as microfinance lender we are not lending to the agri economy, we are lending to more of a non-agri or agri allied like buying a cow or goat or a sheep. So that is an additional income generation activity for the farmers or partly farmer. These are basic livelihood providing activities which even in a drought or difficult situation provide support to the rural people.

Agastya Dave: Sir let me give an example. So one of the activities which have been historically shown to be extremely profitable as an income generating resource for rural people who are taking microfinance loan is animal husbandry and milk. So in case you see a real problem on the agri side and you have lack of water supply and lack of quality fodder or the price is going up, in such scenario logic dictates that there will be a hit on the economics of animal husbandry. So if there is 20% deficit in monsoon, do you think at some level of agrarian distress will spill into the microfinance and in such a scenario what is the hit that you are likely to take?

Udaya Kumar Hebbar: When it comes to drought, Karnataka and Maharashtra faced drought continuously for two to three years in the last decade. We did not find any such issues in our business. In such scenario, for the customer or for her low-income household microfinance becomes a captive minimum supply or last resource of borrowing and maintaining the history clean is critical to access such finance in future. I think that is basically the philosophy what we always saw, whenever there is a distress situation the customers tend to keep this option open by having a free and a quality repayment history so that they can access this finance all the time. This is what we observed in all the incidences of droughts in the interior of Karnataka and Maharashtra all the time. Probably I can only give the historical evidence to you.

Agastya Dave: Right. Even in let say Vidarbha and Marathwada where we had probably a decade of continuous drought.

Udaya Kumar Hebbar: Yes, exactly I am talking about the same places.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to Mr. Udaya Kumar Hebbar for closing comments.

Udaya Kumar Hebbar: Thank you. It was quite a good conversation. We look forward to next quarter may be in October.

Moderator: Thank you. On behalf of CreditAccess Grameen Ltd. that concludes this conference. You can now disconnect your lines. Thank you.