



“CreditAccess Grameen Limited
Q1 FY2022 Earnings Conference Call”

August 11, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the CreditAccess Grameen Limited Q1 FY2022 Earnings Conference Call hosted by ICICI 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. Renish Bhuva from ICICI Securities Limited. Thank you and over to you, Mr. Bhuva!

Renish Bhuva: Thanks, Nirav. Good evening to everyone and welcome to the CreditAccess Grameen Q1 FY2022 earnings conference call. From the management team we have with us today Mr. Udaya Kumar – MD and CEO, Mr. Balakrishna Kamath – CFO, Mr. Nilesh Dalvi - VP Investor Relations. We will start with the opening remarks and then open the floor for Q&A. I would like to thank the management team for giving us the opportunity to host the Q1 FY2022 earnings call. I will now hand over the call to Mr. Udaya Kumar for opening remarks. Over to you, Sir!

Udaya Kumar: Thank you, Renish. Good evening to everyone. I thank you for taking your time by joining us today to discuss for first quarter FY2022 financial performance. The quarter was quite challenging as we witnessed the resurgence of COVID with much higher intensity compared with first wave causing large scale impact on human life across the country. COVID 2.0 was quite devastating as we saw our near and dear ones succumbing to the wrath of pandemic. We are deeply grieved by loss of our 8 employees due to COVID 2.0. We are extending all the possible support to families of the departed employees which includes compensation close to four times of their annual CTC, one year monthly salary to the family or a job offering to the family member.

The timely response from the government administrations in form of lock down/ restriction wrapping up of the medical facility, arranging vaccination drives and increased awareness among people learning from COVID 1.0 resulted in COVID 2.0 waning at a rapid phase. We continue to encourage our employees and customers to get vaccinated at earliest as the vaccination was being conducted age wise in a phased manner. As on July 2021, around 60% of our staff and 86% of our head office staffs have got their first dose. As part of our CSR activities, we continue to provide support to local administration by supplying them with health and medical kit and door-step help to our customers who contacted COVID. Further we continue to facilitate vaccination to our customers at every branch working with local authorities.



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Given the shorter duration of COVID 2.0, many businesses have been able to gradually resume their operations, however, the recovery has been relatively slow across states which witnessed stringent lock downs during May and June which got gradually relaxed in July. At CA Grameen, we saw collections excluding arrears to decline from 94% in March to 93% April and 79% in May primarily on an account of inability of field force to meet customer and certain customers holding back repayment to conserve cash in case of any unforeseen COVID emergency. We are looking at employee and customer safety and adhering to the government notification, we announced deferment of collections in second week of May largely up to one month primarily in Karnataka, Tamil Nadu, Kerala and Maharashtra where stringency was quite high while continuing with our collection efforts in other states.

Important to note that there was no DPD standstill observed during the collection deferment period. Decline in collections led to increase in OD portfolio during first quarter, however, with COVID 2.0 subsiding at a faster phase and increasing relaxation across various states in June and July, the collections gradually picked up reaching 81% excluding arrears in June and further gained momentum reaching 91% in July. Collections including arrears reached 97% in July indicating robust recovery on the back of improved borrower confidence. We strengthened our collection team by redeploying from various support teams to enable faster recovery. This has helped us to sustain the collection momentum and work towards fast recovery for coming months.

While it is early to accurately estimate the impact of COVID 2.0 on credit cost, the initial signs are very encouraging. The impact of COVID 2.0 has been less prolonged compared to COVID 1.0 and hence we expect the asset quality to recover at a faster pace. Comparing COVID 1.0 and COVID 2.0 as highlighted in slide six of our investor presentation, peak incremental PAR 30 was around 8.8% calculated on March 31 portfolio compared to 9.8% in wave one. Similarly peak incremental PAR 60 during wave 2 is around 4.3%, calculated on Mar-21 portfolio, compared to 6.7% in wave 1. Similarly peak incremental nonpaying customers during wave 2 are around 4.2%, compared to 6.5% in wave 1. Collection efficiency excluding arrears was 91% within two months post end of collection deferment, compared to four months during wave 1. Similarly collection efficiency including arrears touched 97% after two months compared to seven months during wave 1. While we are quite positive on the speed of recovery, we would be in position to provide a better clarity on credit cost by September after witnessing two more months of repayment behavior.



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In accordance to our early risk recognition and conservative provisioning policy, we have created adequate provisioning coverage based on repayment pattern during the month of June and July. Since we recognize stage 2 after 15 days and stage 3 after 60 days compared to industry, we have created Rs.143.5 Crores of provisions against loan in 15 to 30 buckets and 61 to 90 buckets. About collections in MMFL, the collection excluding arrears declined from 90% in March 2021, to 88% in April, 68% in May and 66% in June, recovering sharply to 83% in July.

Extended lock downs across core markets led to drop in collections during May and June. Collection deferment was allowed during May and June due to inability to meet customer primarily in Tamil Nadu, Maharashtra, Kerala and Karnataka. Collections which have been booked despite collection deferment helped in reduction of overdue resulting in controlling PAR during the quarter. On the back of robust improvement in collection in July, we now again brought our focus back on business growth. In addition to opening 35 new branch in March, we opened 66 branches primarily across newer states as part of our diversification strategy in July. In the month of July, our disbursement reached 1,007 Crores at CA Grameen and 151 Crores at Madura, together surpassing our disbursement during Q1 FY22.

The progress is quite a good validation that we are back in the path of expansion and growth. While we shall drive expansion of brand network at CA Grameen, at MMFL we shall focus on increasing the business from existing branches through new customer acquisition and monetisation of existing 10.5 lakhs customer base by generating higher business in line with our “Single Channel” concept of supporting the growing aspirations and all lifecycle needs. Together, we hope to witness the initial achievement of synergies in this financial year.

We back our rural growth story in spite of current challenging times and shall continue to strengthen our competitive position in the market share. We remain cautious of the possible third wave; however, with increase in vaccination throughout the country, we believe that the impact of virus on both business and personal lives will reduce going forward paving the way for back to normal scope of business. Historically, we have showcased our ability to imbibe learning from adverse events and have risen to the occasion during testing times. The “Observe, Learn and Adapt” approach adopted by us have proved to be a catalyst in providing the much needed capital creation across the hinterland. We shall continue to capture the growth opportunity being the largest microfinance institution in the country.



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Talking briefly about our consolidated performance during Q1 FY2022, GLP grew by 8% Y-o-Y to Rs.12,664 Crores, active borrower declined by 5.6% Y-o-Y to 37.85 lakhs mainly due to the write off during the period. Total income was flat on Y-o-Y at Rs.617 Crores primarily due to the derecognition of 21.3 Crores interest income on stressed portfolio and reduced lending rate owing to reduced cost of borrowing. NII declined 8.3% Y-o-Y to Rs.352.7 Crores. We had to incur negative carry cost on account of maintaining higher liquidity given the volatile situation due to COVID 2.0 in the form of Rs.2 Crores per month. Pre-provision operating profit was Rs.216 Crores. Impairment on financial instruments was 188 Crores, which included the impact of write off of Rs.79 Crores. Our total ECL provision on consolidated basis stood at Rs.732 Crores, amounting to 6.3% of loan portfolio against GNPA of 7.56% of which 90 plus DPD is only 4.02%.

We continued to maintain higher liquidity at Rs.2,222 Crores, which was around 16% of total assets as on June 2021. With improving visibility on business front and normalized operations, we shall gradually look to bring down the liquidity to 10% by September-21 in a phased manner. This will lower the negative carry impact. With an improving business environment and opening up of new branches, our strong liquidity, capital adequacy and balance sheet will help us to drive growth over coming months surpassing our last years performance.

The company has received a Demand Notice along with the assessment order on June 25, 2021 for a payment of approximately Rs.2,333 crore income tax including surcharge for the assessment year 2018-19 from the National Faceless Assessment Centre of the income tax department. The company's legal advice is that demand notice is based on incorrect interpretation of law by assessment officer. The company has reviewed the said assessment order in detail along with legal expert and is fully confident of defending its legal position before the corporate tax authority and to ensure that inaccurate details of arriving at the income tax demand is rectified based on evidence. Further based on advice from the legal and tax experts, the company has filed a Writ petition before the Honorable High Court of Karnataka, Bengaluru seeking to quash the IT demand notice and the assessment order dated June 25, 2021 issued for assessment year 2018-19 by the National Faceless Assessment Centre. The Honorable High Court of Karnataka has further granted an interim stay on the assessment order, demand notice and completion of tax on June 25, 2021, issued for assessment year 2018-2019 by the National Faceless Assessment Centre of the income tax department.



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In light of the said order, the income tax department is restrained from collecting or taking any further steps for the recovery of the demand arising from the assessment demand notice. The legal and tax guidance given to us is that there is no need of any liability in this matter, so with this overview, I would now like to open the forum for question and answer session. Thank you very much for patiently listening to me.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shreepal Doshi from Equirus. Please go ahead.

Shreepal Doshi: Thank you, Sir and good evening. Thank you for giving me the opportunity. Sir, my question was on this collection efficiency number for May wherein we had given holiday to the customers, so bearing the collection efficiency number is only for the non-holiday given customers, how should we read that number?

Udaya Kumar: This is for non-holiday given numbers.

Shreepal Doshi: Thank you. Sir, the next question was with respect to the branches that we have added during the quarter, so our overall branch number has not increased so have we closed down some of the branch during the quarter?

Udaya Kumar: No, this branch opening what we did in July, Shreepal, so that is why June number has not witnessed any change.

Shreepal Doshi: Got it and in the ECL so far our stage 3, the overall ECL is close to 58% to 59% of the consolidated also and for the standalone also broadly similar, so I understand that for stage 3 it used to be around 70% to 75% so do you expect that we will have to do incremental provisioning to reach to that level or we expect roll backs?

Udaya Kumar: We expect the roll back that is why we provided less. It is because there are large number of customers who are paying customers, they are paying more than 50% of their monthly dues so where we have taken little lesser LGD, that is why the average comes down to 57%.

Shreepal Doshi: Sir, just one last question with respect to this roll back so based on your experience and our customer track record also what percent of the customers tend to roll back to say on the date of payment they are able to repay, so basically becoming standard from part 2 bucket, so have we done any analysis or any work on that where we will come to know on this side?



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Udaya Kumar: This is very different from a stable period to pandemic period, Shreepal, so in the pandemic period the people going into 30 to 60 bucket was quite fast and similarly coming out was quite fast, in stable period. In the case of current situation, I cannot say it is a continuous process at least July month we observed close to 52% to 54% roll back in 30-60 bucket and 36% roll back in 60-90 bucket. It is a standard stable process because the speed of coming back was fast this is what only I can validate here.

Shreepal Doshi: Right and just one questions is that does the weekly collection model help us here because the EMIs are relatively smaller as compared to the monthly model, so it helps probably weekly collection model more to roll back versus the monthly collection model, so because we have Madura which is on the monthly side and we are in the weekly side?

Udaya Kumar: I do not want to talk about others. For us weekly model has always worked well and we continue to work on weekly mode, which has been validated multiple times for us.

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

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

Apoorv Trivedi: Sir, thanks for the opportunity. Few questions from me, one on the tax issue, just clarify what kind of timing we expect for resolution, have you received any advice from your lawyer on this?

Udaya Kumar: Yes, with the stay from high court, it is back to tax officials to reconsider their demand and come back with justifications.

Apoorv Trivedi: Litigation for their decision?

Udaya Kumar: Yes, they have to come back and till then we are not supposed to act on it actually, so as of now there is no order for us.

Apoorv Trivedi: I guess it depends on what the tax department comes back with and say something that there is going to be subsequent processes?



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- Udaya Kumar:** Yes, from the legal and accounting expert point of view there is no case that is why they said there is no need of any provision requirement, contingency provision requirement at current point of time.
- Apoorv Trivedi:** But, just to be clear, so the High Court has asked the tax department for explanation of demand notice right they have not said the demand notice is not valid?
- Udaya Kumar:** No, what they said is demand notice is stayed, if any objection arises they have to come back. With the stay on the demand and unless income tax will come back with clarification or a modified demand or anything, anything will start only after that, till then it is null for us.
- Apoorv Trivedi:** Sure, second question on the disbursement so you mentioned that they have normalized almost in July, I just wanted to understand what criteria you are using in terms of handling out disbursement especially to existing customers we know where there maybe for example, overdues and things like that?
- Udaya Kumar:** See, currently the majority of this is happening for the customers who closed loan between April to now and for some of them in March also, and currently we do not see any abnormal disbursement for any customers. So earlier we were very rigid about even one week overdue we would not have disbursed but we are now realizing that we need to be respecting the situation so even there is one or two weeks of overdue, if they payback you will disburse to them. Also there is no further big change in the disbursal patterns and we have already started the new customer acquisition. Also I think in August and September you will see increased customer acquisition plus anyway we have opened many branches, so the new customer acquisition will start going forward.
- Apoorv Trivedi:** So just to clarify, when you say one to two weeks users are also given loans...
- Udaya Kumar:** Yes, they have paid it and hence we are disbursing.
- Apoorv Trivedi:** Last question in terms of additional provisions you mentioned actually has about Rs.143 Crores of excess provision, how do you think about utilizing those provisions, the way I am thinking is, in the first wave you had a total of 810 basis point of total provisions and in the second wave so far it is less than 2%, is it fair to assume that you are going to see elevated provision for the next two to three quarters or you would be utilizing the excess provisions?



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Udaya Kumar: See, what I said that is the provision is compared to the industry standard because we provide at a 60 days basis. That is why compared to industry, we have at least 143 Crores of provision. However, it is a part of our ECL because ECL itself is a early provisioning process, which automatically carry the ability to overlay so in addition overlay that is the 143 Crores, and having said that your question is about what will be the potential provision going forward, so our strong view is that we will not have any additional provision requirement in September, we have covered significant requirement for ourself. So Q2 should be business as usual.

Apoorv Trivedi: Alright, thank you.

Moderator: Thank you very much. The next question is from the line of Amit Nanavati from Nomura. Please go ahead.

Amit Nanavati: My question is again on the credit cost, so if we look at PAR 0, wave 1 versus wave 2, 18% peak was in September and now it is 31% peak in June and provision covers in wave 1 where we were sitting at 70% and that has come down to 55% to 60% so how should we look at the credit cost in the context of wave 1 customers where you have provided 70% to 75% that should now because you had a wave 2 immediately after the customer coming, should be a 100% write off case and then you have a wave 2 impact on top of that right, so are we comfortable with this credit cost, it used to be lower in FY2021?

Udaya Kumar: Yes, I think what our anticipation is clearly cost of credit for wave 2 should be much less than wave 1. Earlier in the last quarter we talked about it, however, we said that based on the experience of our employees, base on the experience of the customers, based on the high risk customer already delinquent as of March 31, 2021, so the additional incremental cost for wave 2 should be much lesser than wave 1, but I think these are too early time to give a guidance number at least by end of Q2 we should be able to give a real indicative, but as per in an advance estimation, our credit cost for wave 2 should not be more than 60% of the wave 1.

Amit Nanavati: Understood and secondly one of the chart that you provided on slide 7, so on stage 2 level 6% of customer which is not paying you, that number on the overall basis nonpaying customer is around 13% that has come now to 6.5% in July, so do we expect is that large part of that is just the improvement in stage 2, right?

Udaya Kumar: Yes, large part of them are in stage 2, correct.



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Amit Nanavati: So, on a similar level one is not seeing that kind of improvement in part paying customers around 17%, so would the nonpaying 6% customer will now be part paying customer, is that a fair assumption?

Udaya Kumar: Sorry, I could not completely get your question, basically what is happening is non-paying customer move to partial, if you see non-paying is 12.9%, which came down to 6.5%. So basically 6.5% of non-paying become paying as of July, so basically as of July 6.5% majority of them now becomes stage 3 because 3.5% of March 31, 2021, which was in 60 bucket has moved to 90 bucket in the June quarter.

Amit Nanavati: Understood, last thing I did not catch your comment on your 60 day plus DPD customers what roll back you have seen in July?

Udaya Kumar: I said about 50% to 52% is roll back in July with 60 to 90 DPD being 36% and 30 to 60 DPD being 54%, the roll back in July months. I think it is quite speed we have to see in August and September. The low hanging fruit should be done in July right again. September story is moving to the buckets, it cannot be stable but in a quarter, we should be doing better overall.

Amit Nanavati: Thank you so much.

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. On the credit cost if I look at stage three number on that we are making a provision of 60%, this is a reasonable or likelihood that we will have to make almost 100% provision on this book over a period of time probably 8% number may reduced to 6%, which is the indication that we have got in July, but going forward the improvement may be much lower so there will be still probably elevated credit cost for one more quarters before we see a normalized credit cost coming in?

Udaya Kumar: I agree, there will be credit cost with the additional cost to P&L when we write off, but today already where there are no payments, we are making 75%. Wherever paying customer they are paying more than 50% we are providing 50% only. So even when you are writing off whenever I agree about 20% or 25% we have to take down the cost to P&L, but at the same time almost 25% will also come back, so if you even say that is the net of the cost, the flow back will take care of that additional requirement.



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Nidhesh Jain: And in Madura also I think there could be a possibility that the credit cost may deteriorate in the coming quarter because there the collection trends are inferior to great excess?

Udaya Kumar: Yes, correct. So, Madura normally there will be one quarter lag between us and them so probably we will have to do little higher in Q2 because if you see all the last four quarters, we have seen that there is little lag going into stage three because of monthly collection and they follow 90 days DPD bucket norm, so there will be a slightly increased potential in the Q2, but still we believe it would not be significant.

Nidhesh Jain: And lastly by when we would be moving to weekly model in Madura, the complete integration with Madura?

Udaya Kumar: Yes, I will tell you, as on July, integration of 410 branches has been completed, wherein the new customer acquisition is on a weekly new model. By September we expect all MMFL branches to get integrated post which, starting October even the renewal will happen in CA Grameen model.

Nidhesh Jain: Sure, Sir. That is all from my side.

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

Pratik Chheda: Thank you for taking my question. My question is more on cost of fund, we have seen a sharp increase in cost also, marginal cost of borrowing on a sequential basis so is it completely coming from your higher liquidity on the balance sheet or are there some increase in lending rates from our lender as well?

Udaya Kumar: Actually, we have borrowed very little in the quarter. The marginal cost increased because we got only two long-term funds from international and domestic that is why the cost looks high and on a normal course our cost is not high. Our overall cost is a little high because negative cost is still there whatever you borrowed of short term fund in the last 9 to 12 months, so there is a rundown of the low cost funds so that overall cost of borrowing is still at 9.2% only. Overall cost of borrowing is still low and our pricing to customer has not changed.

Pratik Chheda: So, do you plan to change your pricing in the upcoming 6 months or do you see the cost of borrowing doing a lot better?



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Udaya Kumar: We do not see cost of borrowing going up probably. It will remain stable for some time, we are not anticipating increase in the cost of borrowing. However, we have to see how the new regulation comes, may be there is an opportunity to increase some pricing.

Pratik Chheda: Okay, thanks.

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

Akshay Ashok: What is the percentage of top up loans in this disbursement done in July and if you can give some idea?

Udaya Kumar: What is the percentage of which loan you said, sorry?

Akshay Ashok: The disbursements that you have done in July which exceeded the entire quarter of June, what percentage is the top up loan?

Udaya Kumar: There is no top up loan.

Akshay Ashok: So it is not to customers, right?

Udaya Kumar: It is a renewal of the loan for those customers who have paid back in March, April, May, June and couldn't be disbursed loans because of all this strict lock downs and restrictions. Accordingly, the renewals have been carried on, there may be insignificant other loans.

Akshay Ashok: What is percentage of restructuring done in this quarter?

Udaya Kumar: We are not doing any restructuring in this quarter, our overall restructured portfolio is only 0.7%, which was majority done in the quarter of March and I think hardly 6 Crores in this quarter, we do not have a restricted portfolio much.

Akshay Ashok: So, you do not have?

Udaya Kumar: We will exhaust all the opportunities before moving ahead with restructuring and restructuring is only where there is at least some cash flow with the customers. So without that we would not restructure and it will be only a postponement. The last time also we did very little and at this time we may do very little where some cash flow is available, but they



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need some support, we will do but maybe in August, September we will do but it will be very little, we are not anticipating too much restructuring.

Akshay Ashok:

What is percentage growth you guys are expecting for FY2022 in GLP growth?

Udaya Kumar:

I will tell you, I will give a comparative, last year we got five-and-a-half months or six months of growth period, we are able to grow close to 13%. This year we would get including July if you say we will get almost 9 months of period and just I am praying again that there will not be Wave 3, so given that we get 9 months time, definitely we will surpass what we did last year.

Akshay Ashok:

Last question for this micro finance company is always comfortable if collection efficiencies are high as 99% levels right. So you think if normalized you feel we will reach those kind of levels because micro finance for it to be very successful, you need to hit high collection efficiency numbers of 98% to 99%, at least by the end of FY22 there is no third wave you get those collection efficient numbers again?

Udaya Kumar:

I think 98% is potential.

Akshay Ashok:

No, Sir, before COVID GNP is below 1%?

Udaya Kumar:

Wait I am coming there, so the behavioral change has changed the overall credit cost to some extent. Our sense is 99%, the 1% cost probably will move to 1.25% to 1.3% going forward on a stable cost for a stable period and it would not change too much, but at least 20 to 30 bps will increase from our earlier period so that means about 1.25% to 1.3% should be a potential stable credit cost, that is our estimation.

Akshay Ashok:

Thank you so much and all the best.

Udaya Kumar:

Just to give you a clarity even in March we have done about almost 94% to 95% collection, so we did about 3.5% 60+ portfolio so that means we reached 98%. We had 3.5% NPA and 95% collection so that that the shortfall is only 1.5%, right.

Akshay Ashok:

All the best for the next quarter.

Moderator:

Thank you. The next question is from the line of Shreya Shivani from CLSA. Please go ahead.



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Shreya Shivani: Thank you so much. Sir, I have two questions, one is from the side of the state wise on zero book, the experience has been that in Wave 1 we saw Maharashtra struggle and we saw the recovery in the state delayed with the collection efficiency struggling in that state for quite some time while we understand that you are anticipating lesser impact of Wave 2. Can you talk about Karnataka and Tamil Nadu because the PAR zero book I mean Karnataka is the highest and Maharashtra and Tamil Nadu are somewhere at par. so if you can talk about these two states specifically and what kind of recovery or challenges that you are facing over there and the second question, your annual report talks about these loans that you have come up with where this COVID exigency loan and three year term loan to help restart businesses so if you can give a little bit of detail about these loans, how many customers have been given these loans, what kind of share of the gross loan is it, how big is it, how small is it, can you give some details on this?

Udaya Kumar: Sure, if you see slide 4, the Karnataka already come back to 92% collection in July if you see so that is why we do not see any worry in Karnataka actually, so nor we have any worry in Tamil Nadu, which also reached to 90% already. We are little worried in Maharashtra only despite it has done very well, but still we may have a residual impact in Maharashtra more because of the continuous lock down in many places for a longer period, also followed by again flood impact in majority of southern Maharashtra so we still have some challenge in Maharashtra. But we do not see any challenge in Karnataka and Tamil Nadu from our personal perspective, the progress what you are seeing is quite positive in these two states, so Maharashtra is a little challenge, MP has little challenge, but in other states we are doing very well.

Shreya Shivani: Sir, but the table on figure 4 it excludes EMI holiday customers, right so in spite of we do not see any challenges for Karnataka, Tamil Nadu that much?

Udaya Kumar: No, we had not seen any challenges in Karnataka and Tamil Nadu.

Shreya Shivani: Sir, the entire state does not have any pockets of lock down the way Maharashtra has been taking those district wise lock down is still happening?

Udaya Kumar: See, towards very, very few states if you see for example, Mysore has a complete lock down and currently because of bordering district have some lock down, bordering of Kerala has some restrictions, but we have not seen any major impact in those states, some delay, but we do not see any challenge there. Maharashtra, we have seen some challenges because of the multiple impacts, particularly in Souther Maharashtra. If you see there for two



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consecutive years, there were multiple impacts continuously including the flood, the COVID, the long term lock down, again flood, again COVID and again flood, so events started in last 24 months, so which is over for that geography and we respect that. There will be some impact if at all and delinquency will be high in Maharashtra, not Karnataka. and on the annual report data, the three year loan what we started is in the micro finance, if the loan is more than Rs.80,000, it is a three year loan, not the two years because we do not want the high EMI burden for the customer. We have not disbursed many such but maybe we have 6% 3 year loan portfolio.

Shreya Shivani: 6% of the gross loan portfolio?

Udaya Kumar: Yes, three years portfolio.

Shreya Shivani: Sir, the COVID loan that is there?

Udaya Kumar: No that was done initially in the first lock down time. It is basically a Rs.2,000 loan if customers wants in form of emergency. The money was credited to their bank account because of the restrictions imposed by lockdown. No movement was there, but only banks were operating, I am talking about March-April of 2020.

Shreya Shivani: 2020, okay, Sir.

Udaya Kumar: Yes, so at that time what we did we informed the customers if they have very urgency, very emergency they can call us, we can disburse to their bank account Rs.2000 on a OTP authentication, but it was not very high, I think 200 to 300 people have taken that advantage at that time.

Shreya Shivani: Thank you. That is it from me, thank you.

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

Abhijeet Sakhare: Good evening, Sir. Sir, just to go back to the DPD moment especially the zero to 31, what we see is that the zero to 30 has moved down sharply in July, whereas the older buckets are close to kind of flattish, so want to understand like in the context of what you said like they are seeing some disbursement support to the borrowers as well, so want to understand like still the Rs.1,000 Crores or Rs.1,100 Crores kind of disbursements that you have done in



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July, if you can quantify what share of that would have been to the pool of customers which were in zero to 30 pool as of end of June?

Udaya Kumar: So, I think zero to 30 could be some, but I do not have right now classification of that, but majority is as I said earlier it is a renewal of loans where customers have paid the loans already between March, April, May and June. I don't think there is a relation between the older bucket moving under disbursement, so the older bucket will move because whichever in 60 day bucket even 30 day bucket of March 30, 2021, there is a high tendency of moving in Q1 because there is a lesser ability for us to go and followup and recover at that point of time.

Abhijeet Sakhare: Got it.

Udaya Kumar: So, that is why the higher bucket remains at that level.

Abhijeet Sakhare: And just from a thought process point of view, want to understand why we have refrained from doing any restructuring as such like if you are able to cut down the EMIs for the borrowers by let us say half should not that itself a kind of drive better behavior on the ground?

Udaya Kumar: We need to realize that a group of customer have their own coercive approach, we should recognize that. If 15 people are there, five people like to go for restructuring., there is an impact on the behavior of the entire group. We should be careful in doing that. That is why we take this as a last approach, we want to go with the current trend because everybody has their own tendency to approach, they have a coercive nature, they support each other with a specific value and their ability right, so we on our own should not go and dilute that initially. We will take all the steps possible to recover in a normal course. Changing the pattern will be last resort and conducted only wherein there is the ability of customer there to pay at least some money because we cannot go and just do the restructure., This is not necessary actually. Even the last year, we only restructured loans of some 11,000 odd customers. and we believe this will give us good result at this time also. It is not an individual loan, please keep in mind this is a group of customers who came together and we are working with the group, we should be extremely careful doing tinkering the loan of an individual within that group.



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Abhijeet Sakhare: Got it, Sir. When I look at the past trends for Madura, we do not see similar kind of movements as we see for trade access this is on slide 8, so has there been a DPD freeze during the interim months like April and July until June?

Udaya Kumar: Yes, in Madura we had some DPD freeze done in the month of June actually, the moment is quite low, we expect the movement will happen in this quarter, let us say there will be some lag in the movement into DPD bucket so we can expect a little higher credit cost coming in Q2 for Madura, but in overall perspective it will be insignificant because we do not expect anything other than business as usual in CA Grameen, that is why overall we do not see any impact.

Abhijeet Sakhare: And there was one news article which said that Sa-Dhan which is the industry body has recommended the SHG loans should also be included when calculating the household income under the new set of guidelines. So want to understand like how does it impact our set of newer geography in terms of overlap with SHG portfolio that banks run otherwise let us say Tamil Nadu or some of the southern states where we operate?

Udaya Kumar: No, that is already there, Abhijeet. even today if a customer has borrowed and the data is reflected in bureau record, automatically we would have all done it right. So the first step is they should work, I mean all of us are insisting RBI and banks that SHG data should be on the bureau so once it happens, we do not need any other rule. Automatically one will not lend to them given that will be part of that total exposure requirement but the problem is the non-availability of SHG data on the bureau. I think the drive is to make the data on bureau so once that happens, automatically the overlap will come down.

Abhijeet Sakhare: Got it, Sir. Thanks a lot.

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

Manan: I am from ICICI Prudential Mutual Fund. Sir, I had one question on the collections front, the data that you presented so we understand that the collection deferment could not have gone past June, so is it right to assume that the data that you presented for July include the entire portfolio and the collection around it or there is some deferment into July as well?

Udaya Kumar: In the entire July month, there is no deferment at all. It is completely due for the entire portfolio and collection for the entire portfolio. In May and June there are some deferment,



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so the collection value is less, the demand and collection both are less whereas in July there is no deferment., by second week of June our deferment was over. I think June 12, 2021 we started entire collection, so all the book has more than 2 to 3 weeks minimum as of June 30, 2021.

Manan: Got it, fair enough. Thank you.

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

Sarvesh Gupta: Good evening, Sir. Just wanted to understand little bit more on this income tax issue obviously this being two-third of the net worth is a very, very large issue to deal with, so how exactly is this Rs.2,300 Crores demand computed because it looks very, very large compared to the size of the operation, so you can just throw some light on the calculation of this Rs.2,300 Crores, what is it actually?

Udaya Kumar: I think we have clarified to the exchange whatever we can clarify. As we said there is an inaccurate calculation by the tax authorities and also we said that the tax and legal people have reviewed it and assured that there is no requirement of contingent liability that they can take, Sarvesh.

Sarvesh Gupta: No, like this Rs.2,300 Crores can you break it up between penalties and interest component and how?

Udaya Kumar: No, it is prejudices, we cannot speak about it. The matter is in court, so we are not able to do that. The legal, tax consultant and the accounting consultant clearly said that there is no need of provision so that much we can clarify.

Sarvesh Gupta: And other thing is that when they have advised you, have they advised you on some settlement amount or anything which you might have to pay to settle this?

Udaya Kumar: No, when the stay is there, there is no demand as of now. Stay means demand is not there. There is no need of any contingent liability.

Sarvesh Gupta: And putting in the data for the first week of July, what has been the trend in this month of August like August 10, 2021 or something in terms of the collection?



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Udaya Kumar: So, the trend in July is continuing as of now. If you see we week of July, the similar trend is continuing in page 4 you can see the trend week wise, July 10, 2021, July 17, 2021, July 24, 2021, July month, so similar trend is continuing here on.

Sarvesh Gupta: So, given this in absence of any third wave are you suggesting that you might see some reversals in the provisions in quarter 2 and beyond?

Udaya Kumar: As I said earlier normally low hanging will get captured in July and slowly, slowly will get into a harder collection that it does, so I cannot say the same trend will be there for the entire quarter and it is an early stage. It is one to one-and-a-half month, so we need to see carefully for the entire quarter that is why we will have difficulty to give a complete direction of when we should move, but what we can really tell you that we have covered significant requirement and the total should be only business as usual requirement. If at all there is a provision we anticipate during first month, but we would need little more time to comprehend the accurate estimation.

Sarvesh Gupta: Understood and on the gross loan portfolio growth any guidance for this year?

Udaya Kumar: As I said considering last year we got only five-and-a-half to six months, we still have grown 13% Y-o-Y despite we have been down at 8% as of September. So considering that we are getting almost nine months right now subject to no third wave, we should be doing and we should be beating last year's number.

Sarvesh Gupta: And this recent change in regulation or rather the proposed change in regulations for removal of the interest cap, the spread cap, so when are you expecting that to come in and when is the company going to act on it and increase the pricing or rather the spread?

Udaya Kumar: Difficult to say now because we do not know when the regulator will come back because I think they collected the feedback up to July 31, 2021 that is for the time. Normally regulator will take one to two months time, but we do not know really, but I think as I said we are always ready for changes in regulations and we believe it will be positive for micro finance industry and for us also. Being in rural space will be more helpful than the urban player in this regulation, so we believe we are ready whenever it comes, this will give an opportunity if at all whatever the draft will come into rule, we do not know really what will come into rule, what changes will come for the draft. The pricing change will be definitely a good support so that we will be able to price based on the credit risk rather than depending on the margin cap. Today micro finance industry, particularly NBFC-MFI, we are not in a position



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to price based on the credit risk other than pricing based on the margin cap, which is very unique in the world, so we welcome that change comes as quickly as possible

Sarvesh Gupta: Understood, just one suggestion on the presentation I think now that we had Madura for almost more than 12 months and all the comparisons are Y-o-Y, I think we may consider just having one consolidated picture instead of having two separate pictures because now it is basically one entity only and it has been there with us for more than 12 months?

Udaya Kumar: Yes, agreed we are already planning it, maybe next quarter or so we will start planning to merge the slide that will give one single picture.

Sarvesh Gupta: Sure, thank you.

Moderator: Thank you. The next question is from the line of Balkrushna Vaghasia from Axanoun Investments. Please go ahead.

Balkrushna Vaghasia: Good evening, Sir. My question is related to competition because of high growth in last decade that is seen across micro finance industry, so we see more competition because of future growth potential, are you seeing more competition presently or do you expect more competition in future?

Udaya Kumar: See, competition will grow, but there is a large opportunity still out in this particular segment as per our estimation. The un-banked and low income household in this country are quite large and only 30% to 40% of them have been assessed by micro finance through all the form of micro finance, whether be bank , SFB, NBFC or NGO. So despite competition I think we have large opportunity going forward.

Balkrushna Vaghasia: Sir, my second question is related to borrowing cycle, do you have a classification of borrowers on the basis of borrowing cycle?

Udaya Kumar: Yes, we have, we do, I think we have in presentation as we mentioned more than three years we have about 12.1 lakhs borrowers, which is quite large actually almost 30%, which is quite substantial, but we always believe the customer retention is most important. We have the highest customer retention with 87% which is very important for us, which will help us to grow with lower acquisition cost and lesser risk in terms of large customer base.



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Balkrushna Vaghasia: Another question would be more recognition and standardization of micro finance industry by RBI, do you see political risk getting reduced gradually and more stable and sustainable growth in the next five years or ten years?

Udaya Kumar: Hoping so but having said that I am not sure we are into any major political risk in the future, today the regulator will support you, the government will support you, central government will support you, all state government support you, they are supporting the micro finance operation in every state, except for some states which we are giving separately, by and large all states support, we do not see any major political risks we are facing today.

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

Shreepal Doshi: Sir, thank you. Sir, just one question. Our strategy has always been to grow the on book balance sheet while this quarter we have seen on book overall coming down to 85% so going forward and the situation normalizes will we see when the normal growth drive in the overall growth?

Udaya Kumar: We are entirely on book only. I think it is basically the direct assignment what we did with some banks for raising funds. It is not non-book portfolio, because of the balance sheet Ind-As perspective, we cannot hold those portfolio in our book leading to differences.

Shreepal Doshi: Got it, just on the write-off side, so once we write off the customers we would never lend to those customers incrementally, right?

Udaya Kumar: No, not necessarily if they payback the loan they have to payback the whole loan right. If they payback the whole loan we are happy to lend them later, no problem at all. There is a rigorous effort in recovering the money and also if they payback the money, we will lend them, they joined the group back or they found the group, we can lend the loan them again.

Shreepal Doshi: Like if some customer has been written off by some other lender, so that affects his credit score so then in that case do we take those sort customers also?

Udaya Kumar: That is very less, only we look at our customers in this kind of lending, so normally bureau based customer where there is a negative remark, we normally do not lend.



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Shreepal Doshi: Got it, Sir, just one aspect like in our annual report you have highlighted about becoming a single channel for all financials use of our customers headwind, so do you think that also leads to increase in the risk because while we are eating up the entire pocket of the customer that also increases the risk because we are lender to the customers segment so any thought process you have?

Udaya Kumar: Off course we need to review every potential risk in our expanded thought process. So far also I think we are one of the high risk governance model we will expand that to our new model also. This thought process is moving from a borrower to borrower family . Eventually our purpose is to address the need of the family not only the loan today we are adjusting all loan requirement to them maybe they want loans obviously we will give a very set of risk piloting each one of that, identify the risk, identify the controls and go with what is controllable. We may not do everything, but what is controllable and what is not uncontrolled, we will definitely will not venture into, but the risk governance, business potential, revenue potential all those things will be taken care before expanding such businesses.

Shreepal Doshi: Got it, thank you so much, Sir.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as our last question. I will now hand the conference over to Mr. Udaya Kumar for closing comments.

Udaya Kumar: Thank you, all. Thank you for your patient hearing and we as an institution will continue to put our best efforts to protect the company's interest, protect the investor interest and I think the management team is redirecting themselves to ensure coming back to normalcy and we are confident about it. Thank you very much, have a good night and stay safe. Thank you very much.

Moderator: Thank you very much. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.