CreditAccess Grameen Limited
Q3 FY 19 Investor Conference Call
February 01, 2019

Moderator: Good morning, **l**adies and gentlemen. Welcome to Investor Call of CreditAccess Grameen Limited , to discuss the Q3 and Nine Months FY19 Results. Today we have with us from the management Mr. Udaya Kumar Hebbar, Managing Director & CEO, Mr. Diwakar BR, Chief Financial Officer. As a reminder all participants lines will be in the listen-only mode. I now hand the conference over to Mr. Udaya Kumar Hebbar for opening remarks. Thank you and over to you sir.

Udaya Kumar Hebbar: Good morning ladies and gentlemen, thank you for taking out your precious time and joining us for the investor conference call to discuss CreditAccess Grameen Q3 FY19 performance. We will start our presentation with key operation highlights of Q3, we acquired 2.82 lakh new customers during this quarter, this is an increase of close to 60% on Y-o-Y basis when compared to Q3 of previous year. Our borrower base stands at 22.61 lakh as of December 18 and there is an increase of 36.6% on Y-o-Y basis when compared to Q3 previous year. The disbursement during this quarter were 1,762 crore with a growth of 36% over the same period last year. The gross portfolio at the end of December 18 stands at 6,085 crore which is growth of 49.3% on Y-o-Y basis when compared to Q3 previous year. Our portfolio growth was mainly driven by new customer and renewal of the existing customers. Our on time collection efficiency stands at almost 99% and this was close to 96% during December 17. Our new geographies Goa, Kerala, Orissa, Union of Puducherry where we started operations during the start of this year have already have over 10,000 customers and with 35 branches . We will continue to further penetrate and expand in these geographies including our existing geographies. As of December 18 our retail finance portfolio stood at 200 crore which comprises of 3.29% of our total portfolio. We have opened 143 branches during this financial year as compared to 79 during the previous year and these branches will also deliver for our growth. We have further improved our positive ALM mismatch even in this quarter . Our average maturity of assets stands at 13 odd months and our majority of liability is 23 months which was 15 months and 21 months respectively during previous quarter. We have healthy cash position of 917 crore and have a drawable sanction of Rs 1,431 crore which can be availed based on our requirement. The sanctions comprise of facilities from banks and FIIs and the direct assignment, securitization. We do not have any exposure to commercial paper borrowings nor we have taken borrowings from mutual fund, the major part of our borrowings were long-term borrowings from FIIs, FDI and developments like IFC NABARD. During this quarter we have expanded our fund-raising base by entering into direct assignment and securitization transactions which together comprises 16.14% of our total liability mix as per December 18.

We have 24 months of positive cash flow and enough sanctions in place to maintain growth guidance for next few months without any fresh sanction. On coming to financials, our NII stood at 213.87 crore for Q3 FY19 and has shown growth of 91% year-on-year basis. PAT stood at 99.76 crore for Q3 FY19 and has grown a growth of 59% Y-o-Y basis when compared to Q3 FY18. Our marginal cost of borrowing for the quarter increased by 142 basis to 10.37 as compared to last year .We consider this as a temporary one time aberrations because of a large high cost borrowing we borrowed and whereas our 12 months marginal cost is 9.63% and weighted average cost reduce by 227 basis compared to last financial year to 9.36%. Our asset quality remained very healthy .Our GNP as December'18 was 1.2% and NNP is 0 where as GNPA was 1.19% respectively at December 17. We made provisions to the tune of 1.63% on our gross portfolio under ECL methodology which includes management overlay. Our efforts to continuously improve efficiency to reduce cost have resulted in gradual decrease in cost to income ratio. Cost to income ratio for Q3 FY19 is 31.9% which is a decrease of 630 basis points on Y-o-Y basis when compared to a Q3 FY18. Operation expense ratio for Q3 FY19 is at 5.2% which is an increase of 30 basis points on Y-o-Y when compared to Q3 FY18 .This marginal increase is attributable to expansion during the current financial year however I would like to mention that 5.2 % operational expense ratio is amongst the best in the industry. With this, I come to an end of our quarterly update. I open the forum for questions. Please to ask any query .Myself and Diwakar our CFO here will be very happy to take the question and answer suitably.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to withdraw yourself from the question queue you may press * and 2. Participants are requested to use handset while asking a question. Anyone who has a question may press * and 1. Ladies and gentlemen we will wait for a moment while the question queue assembles. Our first question is from the line of Renish Bua from ICICI Securities. Please go ahead.

Renish Bua: Sir couple of question one on the AUM mix so basically non-income generation loan mix is actually increasing because large is driven by the increasing share of the home improvement loans which is now close to stands at 15% of the mix versus 5% a year back so can you please show some light on what type of customer segments are this and which geography are driving this home improvement or it is at the pan India level.

Udaya Kumar Hebbar: This is basically to our customer who are want to build sanitation or bathroom or improve their home; because we have a large set of experienced old customers who would keep enhancing their lifestyle or home improvement requirement. So that is why though it is consumption loan, it is within the JLG .This aberration of between 15 to 20% which continue to happen because almost 20% will be our non-income generation which moves up and down during the year. And during the first quarter it would go up to almost 18% and last quarter it may come to 20% also so that varies and home improvement is basically sanitation and a small home improvement where they will add a wall or build toilet or build a bathroom like that, so this is in the JLG group of lending.

Renish Bua: Okay, sir. So that I understood that it is under JLG model but is there any criteria wherein we will decide so after second cycle or third cycle we will give home improvement loan or it will be like even for a new customer we might give improvement loan.

Udaya Kumar Hebbar: To clarify this our loans are provided under the limits to the customers where basis on their life cycle requirement .First loan always income generation loan and over a period they can enhance the value, the limit they can actually use for multiple purposes for their day to day requirement like home improvements or children education or medical emergency so it is under that, and only for the experience customers.

Renish Bua: Okay. So just trying to assuming that it will be only after the customer completes the first cycle.

Udaya Kumar Hebbar: Maybe half cycle and then afterwards first cycle. Half cycle they will start getting a small loan and where after two or three cycle they will actually take for this type of home improvement higher cycle of up to 25,000.

Renish Bua: Okay, which is up to 25,000 then what will be the average ticket size under home improvement.

Udaya Kumar Hebbar: It is actually about 15 to 18,000 it majorly goes for sanitation which is 15,000 only.

Renish Bua: Okay. Sir my second question is on the gross NPA ratio, so basically in this quarter we have seen a slight increase in the gross NPA ratio to 1.20 so can you please share some more data like what the fresh slippages is which portfolio is driving this slippages, etc.

Udaya Kumar Hebbar: You are talking about gross NPA?

Renish Bua: Yes

Udaya Kumar Hebbar: It is 1.19 to 1.2 and the quarter-on-quarter basis increase by about 1 bps probably. It is basically we did direct assignment and which changes a bit of on account of thisto the extent of direct assignment the portfolio goes out of the book it is basically arithmetic change actually there is no increase in the actual NPA.

Renish Bua: Okay. So in absolute terms you are saying it is same.

Udaya Kumar Hebbar: Correct.

Renish Bua: Okay. And sir if may ask one last question on the retail finance book, so our book is now close to 200 crore and we were being investing in this business from last one, one and a half year so what is the basic ROA difference between the group lending and the retail lending is there any difference first of all or it is a ROA .

Udaya Kumar Hebbar: This is a new business it will take at least two years' time to get a steady status, so this is a first year of what you call its full operation what we started but our estimates, by year third it will be equivalent to group lending business.

Renish Bua: Okay. in terms of the productivity.

Udaya Kumar Hebbar: Correct.

Moderator: Thank you. Our next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: Sir my first question is, we have a press release for NCD issue as well so are these Tier 2 or say normal course of business.

Udaya Kumar Hebbar: Sorry, we could not hear Parag can you just make it bit louder.

Parag Jariwala: Yes, what I am saying that, we have issued a press release for an NCD issue of 3,000 odd crore so are they going to be Tier 2 bonds or it is a normal course of business normal borrowing.

Diwakar BR: Yes, this will be normal borrowing Parag, effectively we have always been raising NCDs as part of the our fund raising, the liability mix effectively this is more technical arrangement of taking a onetime approval from the board so that we are in a position to regularly issues these NCD as per the fund raising requirements and it is the requirement to go the board every time for specific issue. So this is more a composite approval we have taken and as and when we avail the facilities from different investors we should be taking this, these are normal say normal bonds and not Tier 2.

Parag Jariwala: And do we have any Tier 2 or it is only equity.

Diwakar BR: We do have a little bit of Tier 2 very little bit we have possibly I can give you the exact number just we have a Tier 2 of about, this is a very old one, one from Deutsche Bank which we had avail in 2012 and also a little bit which we had availed from Capital First sometime back so the combined amount of the Tier 2 currently that we have is around 36 crore that is, its been there for some time and that Tier 2 we have currently.

Parag Jariwala: Okay. And in terms of the securitization what we do are we booking all the incomes upfront.

Diwakar BR: Under securitization as per the guidelines we are not allowed to book any income upfront it is amortized and recognized as and when the actual income is passed on from the trustees as regards direct assignment the regulation currently allows income booking upfront which is being followed by us as per the IndAS regulation in September quarter as well as in December quarter.

Parag Jariwala: Okay. So isn't it fair to say that direct assignment is around 9% of our total borrowings if we maintain this kind of an run rate say next year also we were somewhere at around 9, 10% hypothetically then is it fair to say that the income would be lower next year, because most of the gains have been booked upfront or entire gain has been booked upfront.

Diwakar BR: So the way to look at this Parag is, direct assignment and securitization is a normal course of our fund raising and liability mix. As and when the opportunities arise we do it and the recognition of this is more driven by the requirement of regulation and whatever is permissible. We sense that these two will be part of our liability mix going forward as and when they are undertaken we will be doing this, it's fair to possibly assume that we will continue on a regular basis although we would not really be looking at any higher level of recognition on account of a larger level of traction we will be doing these transactions on a regular basis on a sort of a calibratedbasis to ensure that the recognition also and the fund flow also from these two sources is both.

Parag Jariwala: That is fine but what I am trying to say is that a entity which has zero sell down but in a year if you increase the sell down to 10% and on the 10% you are booking things up front obviously I am not saying that it is permissible and this is the way regulator want us to do so I am not disputing that but to that extent the profits or the income is higher.

Diwakar BR: Yes, that extent depending on the tenure it could be marginally higher.

Parag Jariwala: Okay. And what proportion you are comfortable as an off book and on book.

Diwakar BR: The current proportion is comfortable for us especially on the DA side.

Parag Jariwala: So around 15 odd percent.

Diwakar BR: That is the maximum.

Parag Jariwala: Okay. And can you just talk about the competitive landscape because when you see data again most of them started growing very aggressively do you see any losing in terms of standards not by us but by the industry in general are we seeing kind of start of cycle where credit availability becomes very-very easy and there are some compromise on lending and etc.

Udaya Kumar Hebbar: Parag as you see us from over five to six years we always worked on a very calibrated and very controlled growth what we had and though sometime industry would have grown higher but still we maintained our own way of expanding district by district going deep penetrating and go to next district and our way of expansion is always say controlled and calibrated. We do have competitor but the way we expand is the right quality implementation all the time and every district where we operate. Landscape is changing and expanding in the rural which is always potential, also expanding more to rural your potential still very large and that is why we always choose to go towards rural. competition landscape if you see it is more at the urban landscape so there is always mismatch between us and the competitors. We do not see any immediate issues for our expansion and growth, our previous last four-five years of the growth pattern I think we will be able to maintain with our deep understanding of the rural and deep penetration in the rural. And with the high level of customer connection and the way we expand our business in our very calibrated and contagious district model.

Moderator: Thank you. Our next question is from the line of Anand Bhavanani from Unify Capital. Please go ahead.

Anand Bhavanani: Sir just wanted to understand as you are doing retail finance now how are you measuring and managing the risk at family level, so there must be certain clients of yours who are already micro finance clients and if there family members come and ask for a retail loan how exactly the system capture it and how are we ensuring that at family level or combined exposure is not beyond a certain limit.

Udaya Kumar Hebbar: See retail finance is implemented on our continued philosophy of growing with our customers or follow our customers need continuously. As you have a lot of customers who have been with us as a micro finance, they have an ambition to become an entrepreneur or to expand their business. To support that we expanded the business that means we give individual loans only to our customers whom we are following actually over a period of time, so that is our first factor, the second factor is we check the guarantor who are basically the spouse or somebody in the family will be the guarantor. We check both of their borrowing capacity or repayment capacity, already existing borrowing with the credit bureau both micro finance bureau as well as the consumer bureau so that we have a large information available to us . Also this is done with a very high risk mitigation process where our risk manager, credit manager go to their shop assess them very carefully and end to end technology with the cashless operations and a completely different set of people who will do this business, not the micro finance team as there are different branches, different business setup, different employee, different technology and different processes. So that is what the way we built this business, which is fundamentally for our own customers whom we have been experiencing so the large extent our most preferred customer are into this lending segment so that is where the differentiator we have.

Anand Bhavanani: Okay. Sir but in general our understanding of whatever little understanding we have of the sector generally there is high credit cost in case if we are funding the people who are going to entrepreneurship for the first time among our client segment so do we have any differential rates for these retail finance and what is their differential and what is credit cost by how much more are we expecting in percentage terms. So the yields and credit cost if you compare for both these segments.

Udaya Kumar Hebbar: First actually we will be providing this only for our best customers who have been with us, so the credit risk is less because she has been with us and for her we are the preferred lender. Two, if you look at this business we do not have any customer acquisition cost. Which is the biggest cost in this segment, so that is why we actually provide this at lower rate than the market considering that we do not have any acquisition cost here and since there experienced customer our credit cost also low, though we provide about 2% in our book but if you see our last one and a half years' experience our credit cost is even less than 0.2%.

Anand Bhavanani: Okay. And sir do you have any, you must be having some income to debt ratio at the client level that you kind of monitor so at our overall portfolio level do you have any such matrix that you share with us as to the underline the way we have debt to GDP for countries, debt to income for our clients because here the risk that we have is because we are continuously giving to the existing client maybe his overall we might be touching the limits of the overall borrowing capacity of the individual or the family so how do we kind of monitor that and measure that.

Udaya Kumar Hebbar: You are talking about the group lending or the retail finance?

Anand Bhavanani: The retail finance now.

Udaya Kumar Hebbar: Retail finance what happens is the limit what we give is based on the cash flow and not just based on the business based, on the cash flow based on the entire review. It is very clear and not that it is just like micro finance you decide the limit. It is completely underwritten properly with the full data from them. So that is why we do not need to worry on that factor, but we can think about this as well as additional information as we grow. because this is some how of first year of our experience and already we have kept a very strict level of the underwriting process here. But as we grow definitely we can look at this type of analysis as well.

Moderator: Thank you. Our next question is from the line of Agam Shah from KDS Trading. Please go ahead.

Agam Shah: Just had two questions on the leverage side so as we can see that they are leverage for 1.8x so where do we see going ahead like what will be the cap in terms of leverage and what will be the stable one to assume and another question on the NCDs that we are raising 3,000 crore so that will be through mostly through FIs and banks or what will be the mix.

Diwakar BR: Okay. The first point which you asked in terms of leverage so the way we have built our business plan essentially is that we will leverage debt to the maximum of four times so we will have 4:1 that is what the maximum we will go to, currently it is low on account of the IPO and of course the capital that was raised in the immediate past and the fact that we did DA and securitization indicates that the current leverage is low but as we go forward this will inch up with our growth that is the part, the second part with regard to this NCDs is that we haven't really had any experience or we have not raised anything from the domestic capital markets till date, all our NCDs that we have on our books and which we have done for the last 7, 8 years has always been from foreign portfolio investors, so these bonds and these debentures that we have raised all through have always been from abroad and we intend to go ahead on those lines. The limit that we have taken as explained earlier was more for a composite approval for our fund raising in future.

Udaya Kumar Hebbar: This approval we had taken in the AGM for change in Articles, , this approval from board because it is a process that we need not go back for each transaction.

Agam Shah: If I just can squeeze in one follow up question so this NCD that we are raising, so can I say that you are raising 3,000 crore so the amount of growth you are saying going ahead is on a high growth phase because we are already having capital adequacy ratio of 40% so is it that we are seeing a very high growth going ahead.

Diwakar B R: No, the growth numbers and what we have envisaged continue to remain the same and what we have planned and those are all going as per course and there is no change, as mentioned earlier this is more an approval taken from the board as part of our fund raising plans. I will just clarify it to ensure, suppose if I need to raise 200 crore NCD from a facility which I am taking next month the process currently envisages that I need to take board approval so to ensure that I do not call for a board meeting only for this purpose of this 200 crore we have taken a composite approval and that is the way to take it forward so this is part of our process and this is part of our fund raising.

Agam Shah: Okay. In terms of branch expansion we will be going ahead in Tamil Nadu and that side only or is it any other specific area we are looking at?

Udaya Kumar Hebbar: Always our expansion is based on the contiguous district whichin Tamil Nadu we already have almost 100 branches in all districts .In fact we already crossed over to Kerala and then started operations there similarly Madhya Pradesh, Chhattisgarh we have almost finished and moved to Orissa and similarly Goa. So that actually we continues to expand beyond our districts where we are operating, this year we added about 36 districts and we reached about 156 districts and next year again based on plan again we may get into another some 20-30 districts .

Agam Shah: And what is the average rate for branch expansion every year any targets.

Udaya Kumar Hebbar: What?

Agam Shah: Any targets to open branches per year.

Udaya Kumar Hebbar: Normally if you see our last four, five years we normally added about 30% of our existing infrastructure so probably we aim to go in that similar fashion .

Moderator: Thank you. Our next question is from the line of Pallavi Deshpande from Smartkarma. Please go ahead.

Pallavi Deshpande: Sir, I just wanted to know on your sources of funds where you have seen a slight decline in your foreign sources so what would that be still to.

Diwakar BR: Actually if you will look at the mix from the numbers there is no reduction. There was one redemption of one of the NCD so to that extent we have, to that extent that is a slight decrease but if you look at the other mix we have done DA securitization and also taken from FIs so that has increased, so we only draw funds to the extent that we require and as we continue to diversify our liabilities this quarter we have entirely utilized to ensure that we have all the lines fully covered in terms of our bank exposures FIs, foreign sources and DA and securitization and to that extent we will continue to draw funds from multiple sources as per the requirements.

Pallavi Deshpande: Right sir, so would it be fair to say that the foreign sources are cheaper than the bank lines.

Diwakar BR: So just to give you a picture the way we look at our liabilities is that our business is essentially a regulated spread regime from RBI perspective we need to maintain a net interest margin or regulator spread of 10% so the way we look at our mix of interest rates from foreign sources and bank funding is that we are within this particular regulatory spread so even if the foreign sources are higher by 50 bps or 100 bps or whatever we actually get cheaper funds from banks and this mix ensures that we are well within the regulator spread and we maintain our net interest income margins so that is how we build the entire business.

Pallavi Deshpande: Right sir, and lastly sir what would be the share of your between the first time borrowers and second time so in the loan mix what would be the breakup.

Udaya Kumar Hebbar: We have about 30% first time borrowers and the balance would be second the repeat borrowers.

Moderator: Thank you. Our next question is from the line of Nishchint Savate from Kotak Securities. Please go ahead.

Nishchint Savate: Just a couple of questions, on slide #33 we are able to see that your marginal cost of, I am looking at numbers on a quarter-on-quarter basis and your marginal cost of borrowing has gone up for obvious reasons but your weighted average borrowing cost has actually come down so just trying to understand what has happened over here.

Diwakar BR: So the way we need to look at this is, why the marginal cost has gone up I had mentioned during my earlier call that we have sanctions from FIs and all that we had actually arranged a we got a sanction of 1,000 crore from NABARD for five years and we had availed half of that in the month of November essentially because we wanted to demonstrate that we do have sanctions and it is a long-term funding so the cost which has inched up is essential on account of that particular loan that is one, more importantly as you know we have had funds from various sources over including the foreign sources the redemption of NCD which was at relatively higher rate and also the relatively higher cost of funds which have been coming down as a proportion compared to the funds that we are raising during this financial yearensure that the average cost comes down while the marginal cost has gone up.

Nishchint Savate: When you say marginal cost it is marginal cost of the loan sanctioned and not really the loan drawn is that the way to think about it?

Diwakar BR: It is actually marginal cost of the loan drawn because what happens is, we calculate it based on the actual availment so while I have got a sanction of 1000 I have only availed 500 crore so this cost is essentially for what I have drawn, whereas when you look at the overall cost it includes the financial expenses for the period over a period of time whether it is a quarter or an year to that extent because the high cost funds relatively are proportionally coming down as compared to the funds that have been raised at a lower rate, the overall cost has come down.

Nishchint Savate: No, the funds are being raised at a higher rate right.

Diwakar BR: Yes, that was for the last quarter, only for the last quarter.

Nishchint Savate: Sure. Just moving back to slide #31 if I look at point number D which is others, the reconciliation between IndAS and IGAAP such as that there is a difference of around 11.5 crore. Is this solely because and I guess in others there is some small item apart from DA income, now does it primarily mean that if you had not booked the DA income upfront let's assume theoretically you have not done that, then your earnings would have been higher at a PBT level would have been higher only by 11.5 crore.

Diwakar BR: No, the way to look at this is I will talk about the reconciliation later, the first part is on simple terms if you had not recognized a direct assignment transaction for this quarter our PBT would have been lower by 22 crore, that is one part.

Nishchint Savate: No, but the thing is that then these loans would be on balance sheet right, so you would have earned some interest income which I guess is getting reflected in the IGAAP number.

Diwakar BR: Yes, that is fine to that extent if you do it, it will be reflected proportionately, but solely on the IndAS basis this particular DA transaction which is recognized 25.33 if we had not recognized it and we had not done the transaction essentially or we have normatively booked it, the PBT would have been less by 22.1 crore.

Nishchint Savate: No, but the thing is that if you assume, you take a scenario we have not booked it then if it were on books you should have booked that income if you do A and B both together you cannot take only one scenario in isolation my question is that then the impact is only 11.5 crore.

Diwakar BR: The PBT is what we look at essentially from a perspective of what would have been because this is upfront booking for the entire duration of the loan so what would have been booked if we had not done this transaction would have been only to the extent of those 20 days or 10 days of income proportionate to the portfolio.

Nishchint Savate: Then how do you explain the difference only of 11.5 crore.

Diwakar BR: Which slide you referring to?

Nishchint Savate: The same slide, I am saying that you reported 27.33 under Ind AS, 15 point Which I guess is most of it is the DA income 25.33 crore, the IGAP income is 15.87 so I am assuming that IGAAP income is the one that is the NII that you would have booked in case of you have deffered this, so I am just saying that look the delta that is there at a PBT level assuming a scenario that you had not booked a DA income upfront but assumed a differed DA income the delta at a PBT level is only 11.5 crore and not 22 crore.

Diwakar BR: I will come back to you on this.

Nishchint Savate: Sure, definitely.

Udaya Kumar Hebbar: We will come back to you because there is some more element of comprehensive income issues there where the difference between what we assign and what the current rate of interest that is some more calculation comes under Ind AS but our straight forward calculation shows us that 22 cr income difference between these two because our DA was done in almost last week of the December, there is no income difference much because of that but the calculation, and the straight forward calculation was clearly this is 22.1 crore difference. But because of some more Ind AS related calculation which make some change maybe we will calculate and let you know separately.

Nishchint Savate: Sure, I got it. The other thing is just moving on to slide #39 now when I look at your disbursement trend this year it appears to be sort of more linear across quarter while there has been some amount of seasonality that you have reported in the previous years, I am not sure if it is because of retail business because I think retail disbursements are still just around 4% of total disbursements, so two parts what is driving it and can I sort of expect more flattish disbursements in the fourth quarter.

Udaya Kumar Hebbar: If you see in last quarter it has jumped even last year also, we expect the bit of increase disbursement in the last quarter this year also so that will remain, it is not because of retail or so. A bit of linear is because of one important aspect if you see our entire expansion three fourth of our expansion we did in the three state which is MP, Chhattisgarh and Tamil Nadu. Which had some type sort of new branches business have taken up a little late because of bit of difficult economic conditions due to elections and all those things, so it has taken a bit late otherwise you would have grown and Tamil Nadu also we have a bit of difficultly to take off because of the cyclone and all almost one month we had to mute it actually so that is the reason otherwise it will actually grow in the next quarter, typically the last quarter will be spike in our business as well. If you see all three years there will be a spike in the last quarter.

Nishchint Savate: Any impact of the change in E-KYC norms?

Udaya Kumar Hebbar: No, we were not doing E-KYC earlier we used to do authentication through Aadhar which currently we are not able to do because of the regulatory requirement. However Aadhar for a credit bureau we are allowed and we are doing it so there is no impact of that.

Nishchint Savate: Sure, and just one last question this is on slide #41, we are just trying to understand if I look at the business from whatever the percentage wise exposure across districts and I am looking at last two columns which is 2Q FY19 and 3Q FY19, then there seems to be some swing between slightly higher business from in the first line which is 0.5% and some decline in the second one again some increase between one, two, three. So, am I trying to kind of read too much into these numbers or is there any specific trend that we are reading?

Udaya Kumar Hebbar: No, basically you are right because where we started new districts last quarter, some of it is near to 0 and this quarter it has increased automatically. numbers are increasing because some more districts added during the last quarter. where some numbers are moving within as new districts has gone up actually no districts reduced actually. So it is just a arithmetic thing so it will actually change a bit more going to higher penetration in a district in two, three quarters you will see more changes. And normally we first two quarters will implement branches and third quarter, fourth quarter we start business there, that is why the total proportionate change happens in the 1 and 2 bucket on a continuous basis. Regular in our pattern of growing.

Nishchint Savate: And just finally if you could share the cost of borrowing of DA and securitization in the second and the third quarter.

Diwakar BR: So we had raised DA one assignment deal was at 9.65 the other DA was around 9.8 and in the previous quarter you are talking on second quarter right?

Nishchint Savate: Yes, I am just trying to compare on a quarter-on-quarter basis how the difference was.

Diwakar BR: Third quarter one was 9.65, the other one was 9.8.

Nishchint Savate: And second quarter?

Diwakar BR: In second quarter it was 8.9.

Nishchint Savate: Sure. And on the securitization front?

Diwakar BR: Securitization front it has been the third quarter was around 9.35, and in the second quarter it was around 8.75.

Moderator: Thank you. We have our next question from the line of Nikhil Walecha from Sundaram Mutual Fund. Please go ahead.

Nikhil Walecha: Could you please share PAR 0 and 30 for this quarter as well as the previous quarter, also if you could please share the PAR 0 for the state which had announced waiver recently and in which state we are the highest PAR.

Udaya Kumar Hebbar: PAR is 0 for the previous quarter to this quarter. PAR 0 it was 1.61 in the previous quarter and this quarter it is 1.53 and it's reduction in this and our total PAR less than 180 days is 0.52% and there is no significant change in the states whether MP or Chhattisgarh. There is very-very insignificant change. We do not have any impact because of any of such rumors or the elections there, the PAR high state is still Maharashtra particularly the Vidarbha region actually that continues to be. iIttakes some more time to get in to normal, we expected that to take some more time to get into normal, otherwise no other variation in our portfolio quality.

Nikhil Walecha: Okay. And the second question sir had this liquidity crises impacted smaller MFIs and has it rejected funding to them and which had helped us to capture some market share or there has been business as usual.

Udaya Kumar Hebbar: Smaller MFIs total market share itself is only 5 to 7% it is not that the huge market which is available there to, their operation is very-very small it does not make much difference between such variation actually. Of course it is impacted a bit whoever dependent on NBFC sector. , Those who wee dependent on banks or participant certifications or for FPIss it is not impacted, only where the NBFC they are dependent it has impacted but the market share of them is not high because the proportion is very – very small actually.

Nikhil Walecha: Okay. And sir if I can just ask one more, if our ticket size similar across all the states or it varies the first time ticket size.

Udaya Kumar Hebbar: It is same all across in as per our states but what we observe is MP, Chhattisgarh capacity to borrow is slightly lower so we could see slightly lower ticket size in these two states.

Nikhil Walecha: And what would that be?

Udaya Kumar Hebbar: It is about 18,000 only there actually 18,000 to 20,000. In other states like Karnataka, Maharashtra it is about 25,000 to 28,000.

Moderator: Thank you. Our next question is from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.

Saurabh Dhole: I have two questions, one is can you throw some light on the floating provision policy that you follow this is mainly because the kind of segment or the kind of business that you have is prone to cyclical downturns and these can be very-very deep so that is one on your floating provisions.

The second question is, in terms of the competitive landscape now that we see many of these MFIs which have especially into converted into SFBS, how do standalone or typical MFIs like yourself how do they compare or how do they compete with SFBs because SFBs generally would have a larger bouquet of products and how do you plan to sustain or ring fence your borrowers from moving to SFBs which have a larger product portfolio. Those are my two questions, thank you.

Diwakar BR: I will talk about the floating provisions essentially as you are aware under the Ind AS regulation we are forced to follow the ECL methodology and our ability to make any floating provisions is restricted in terms of the regulation so effectively we cannot do any separate provisions, any impairment that we need to carry out needs to come through the ECL methodology which is currently evolving. Having said that if you recall our enduring the IGAAP regulation note when we were doing our finance accounts the provision that we followed was about 2% although the regulatory percentage was 1%, what we tried to do under the Ind AS is that we tried to compute the ECL methodology and have a level of management overlay about that to ensure that we still are in a position to have a slightly higher provision than what actually is required. So this is something that we plan to further improve as we go ahead but a floating provision has a separate line item would not really be feasible under the regulation and we hope to improve on the ECL and ensure that we are in a position to at least reach out to the level at which we feel that we are comfortable with a provision and we do has sufficient cushion to take any shocks that is it, may be Udaya you can take the next question on competition.

Udaya Kumar Hebbar: Yes, actually SFB they have been the micro finance and over a period they moved into bank and able to provide more bouquet of services, but if we look at the landscape of data for last two quarters the ability or their view if you look at SFB micro finance portfolio is not growing. Its growth is very-very small within the micro finance landscape if you look at MFIN data or if you look at other empiric data SFB size of micro finance portfolio is not growing and the number of customers actually coming down if you see the data is already data is available, which shows that the potential growth from SFBs are not happening in the space at this point of time, may be they are diversifying more in to different products and different products like maybe personal loan or car loan or vehicle loan or home loan. That type whatever diversification **in** process. Which only provides more opportunity for MFIs like us. so that is what we see, two - is our rural focus which always have advantage for us because most MFIs as well as the SFBs are today 62% of the business is in urban whereas 82% of our business in rural so there is a less of competition or less of overlap between MFI and SFBs, and potential sounds to be better for us in this space.

Saurabh Dhole: Okay. Just coming back to the first question, I did not understand which line item would that additional provision that you would take where exactly would that appear?

Diwakar BR: Line item is under expense number two impairment of financial instruments if you look at the format this is a format given by SEBI and also the MCA in terms of how the Ind AS needs to be drawn out, there is no scope for any separate line item for floating provisions and whatever needs to be built in has to be under one item through the ECL which we are trying to suitably work around and improve in such a manner that we will have some cushion built up in the model itself and which is an evolving one this is the first year of Ind AS for everybody and more so everyone is trying to understand the ECL methodology what is appropriate and typically as an MFI we have a challenge because we have never had defaults our par has been historically we have had a very low PAR our net and gross NPA has always been in the range of one person maximum and therefore to build a model also for the ECL and have sufficient provisions is always a challenge that is why we have provided with some management overlay and increase our provisions to some extent but we will not be able to do any floating provisions.

Udaya Kumar Hebbar(However, maybe in the slide #26 you can see the point 4 will give you the picture about it.

Moderator: Thank you. Our next question is from the line of Anand Bhavanani from Unify Capital. Please go ahead.

Anand Bhavanani: Sir can you give some sense of our new branch opening that you are planning for FY20 and what kind of overall ball park AUM are we targeting for FY20.

Diwakar BR: Actually Udaya had motioned this that our expansion plans in terms of the branch opening and the branch size whatever we do for the financial is around 25 to 30% of our existing infrastructure, this is the way we have been always doing our business and there is no change in our approach to building the business on similar lines in future. So we will be going around on similar pattern of growth expansion and regarding guidance we have already given for this financial year which is already available in slide.

Udaya Kumar Hebbar: Slide #36.

Diwakar BR: Yes, so that is the guidance we have given for this financial year.

Anand Bhavanani: Sir I was asking for more of FY20, so this financial year you are close to kind of?

Diwakar BR: That guidance we will as and when we are supposed to make it public and we firm up and we are regulatory able to announce that we will definitely let you know as of now the guidance that we have given is for the current financial year end.

Anand Bhavanani: And sir secondly on leverage what kind of peak leverage is the organization comfortable with and you have kind of set a number to and if you can share that number.

Diwakar BR: This was also asked earlier, we have built the business plan in such a manner that we will have maximum leverage of four times than to equity so it will be a total we will be taking debt to the extent of maximum of four so that is the plan in which we are comfortable with and we have picked the plan all along.

Anand Bhavanani: So sir given that we are currently underlevered in terms of securitization and portfolio assignments do we see that from here on you wouldn't be doing any such securitization.

Diwakar BR: Yes, DA and securitization will be part of normal fund raising plans and as we grow ahead in future the leverage will also certainly improve.

Moderator: Thank you. Our next question is from the line of Pallavi Deshpande from Smartkarma. Please go ahead.

Pallavi Deshpande: Coming back to this on the yield side if you could share what was the yield I understand on the slides you have a yield with the gains on the securitization excluding that what was the yield and the portfolio in Q3 versus Q2.

Diwakar BR: Securitization and income is part of yield calculation, so that is again something that is included and that is part of interest income.

Pallavi Deshpande: Yes, I understand so I will put it in other way, what was the increase in rates you have taken for your borrowers like you have the 18% to 21% any increase in the last quarter.

Diwakar BR: No, there has not been any change in the rates of on lending to borrowers they continue to be in the range of 18 to 21%.

Moderator: Thank you. Ladies and gentlemen that was the last question for today's conference. I now hand the conference over to Mr. Udaya Kumar Hebbar for closing comments. Over to you sir.

Udaya Kumar Hebbar: Thank you all for early morning time on this quite a hectic day. I hope our clarifications were useful and we look forward for a continuous support have a nice budget day and take care.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of CreditAccess Grameen Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.