# CreditAccess Grameen Ltd
# Q3 FY20 Earnings Conference Call
# January 23, 2020

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**Moderator:** Q3 FY20 earnings conference call of CreditAccess Grameen Ltd. Today we have with us from the management, Mr. Udaya Kumar Hebbar - Managing Director and CEO, Mr. Diwakar B.R – Director (Finance) and CFO and Mr. Nilesh Dalvi – VP, Investor Relations. As a reminder, all participant lines will be in the listen-only mode. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Udaya Kumar Hebbar for opening remarks. Thank you and over to you.

**Udaya Kumar Hebbar:** Good morning to everyone. I thank you for taking your time and joining us today to discuss our Q3 FY20 financial performance. We recorded a robust business growth along with improved of probability in the third quarter. Gross loan portfolio increased by 45% Y-o-Y to Rs. 8,872 crores driven by 22.5% Y-o-Y growth in or borrower base to 27.7 lakhs. Disbursements grew by 68.9% Y-o-Y to 2,977 crores. Our total branch network grew by 40.8% Y-o-Y to 928 branches and total employees grew by 34% to 10,645 at the end of December 2019. During 9M FY20, we opened 258 branches totally, 80% higher compared to 143 branches during last year 9 months. Our branch implementations during first half has enabled us for this robust growth during Q3 and its expanded brand network will further provide strong growth in fourth quarter in next financial year. We continued to hold comfortable liquidity position and Rs. 2,354 crores funding is in pipeline. This will take care of our growth over coming 2 quarters.

Interest income increased by 30.4% Y-o-Y to 416.7 crores, portfolio yield was 19.7 compared to 20.9 in Q3 FY19. Weighted average cost of borrowing was 10% compared to 10.7, marginal cost of borrowing was 9.4% compared to 10.7 in Q3 FY19. We successfully raised 2,182.3 crores of fresh funds in the quarter at a weighted average cost of 9.3% which also included 398 crores raised in through direct assignment. Net interest income increased by 28.1% to 3,300 crores, cost to income ratio of 34.8% and OPEX GLP ratio of 5.1% Q3 FY20 where lower compared to Q2 FY20 on the back of robust business growth. Pre provisioning operating profit increased by 22.3% Y-o-Y to 200.6 crores, provisions were at 54.7 crores. The profit after tax increased by 8.2% to Rs. 108 crores. Provisions in Q3 FY20 are not directly comparable with Q3 FY19 primarily on account of more conservative provisioning policy adopted in March 2019 and evolution of stabilization of ECL methodology over last 4 quarters. However, we note that there was an increase in provisions compared to Q2 FY20.

During the second quarter we had seen impact of floods in certain districts of north Karnataka and south Maharashtra. The situation has been improving over time and currently 75% to 80% of the customers have regularized their accounts. We have been constantly engaging you with the customers building awareness and focusing on collection. During the third quarter, since November there has been an external interference in 2 districts in coastal Karnataka. The heavy rains in Q2 FY20 had caused stress in certain customers in August 2019, this issue was magnified by certain external elements who started misguiding customer for loan waiver under Karnataka Debt Waiver Scheme, which impact at the portfolio of the industry. The situation is now under control and ring-fenced within the 2 districts. Both the SROs, MFIN and Sa-Dhan and AKMi supporting all the lenders with their extensive work with state administration. State administration continuously supporting us on this issue.

We continue to display patience and maintain continuous customer connect. Many customers have come back and received payment. We have less than 1% each of our portfolio in these 2 districts and our collection is around 70% in these districts. And our conservative recognition of GNPA at 60 days DPD and conservative policy enabled us to have much higher provision coverage against these delinquencies. This policy also enables us to early recognition of impact and provide adequately instead of waiting for 90 days after delinquency. With situation already under control we do not see any further delinquencies due to this impact. Our overall asset quality continues to remain strong. Our GNPA 60-day DPD was at 0.85% in Q3 FY20 compared to 0.52 in Q2 FY20 and compared to 1.1 in a year before which was at 90 days DPD. ECL provisioning was 1.61% in Q3 FY20 compared to 1.23 in Q2 FY20. Credit cost of Rs. 54.7 crores in Q3 FY20 included 28.4 crores on account of normal business growth and 26.3 crores on account of these specific issues. Overall collection efficiency was at 98.3%, the ROA is at 4.6%, ROE at 16.5%, debt equity at 2.4% and capital adequacy at 32.4%.

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

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Ishan Shah from Macquarie. Please go ahead.

**Ishan Shah:** Just on this Karnataka and Maharashtra issue, could you maybe talk about what is the kind of portfolio that you have which is affected in those districts? And maybe what, how big are these districts from an industry point of view? And secondly whether you are seeing this gather steam or is it now completely dying down? Those 2 questions first, please.

**Udaya Kumar Hebbar:** See Maharashtra issue which was basically flood impacted during August 2019. So, it went to a bit of peak with the delinquency of about 80 crores for us at that point of time and come down now about only 20 crores is around there in the (+60) DPD and most 80% of that we have collect that actually. So, from an industry point of view, I do not have a full idea but it could be about maybe about 200 crores-300 crores of the total issue. But I am not sure about the correct numbers. But for entire industry this has come down because it is eventually with almost 5 months now it has come down. It is not that too much impact right now. That is why I just give the update on what you get there right now. Whereas, coastal district which started along with the flood situation there also have the flood at that time we had small delinquency at that time. But overall industry in this place is maybe about 400 crores to 500 crores and we have about totally 120 crores portfolio there and we are collecting our collection efficiencies almost 70% there at this point of time. So, which is less than about, I mean, less has actually less than 1% each of our portfolio in both the districts. And the actual 60 plus is actually not very high at this point of time whereas credit cost we recognize well in advance that is why 26 crores we are already recognized credit cost for this portfolio even though it is not gone into 90 days DPD or so.

**Participant:** And just one follow up question. Are there any other regions also similarly which are flooded which have not yet seen intervention which may potentially see intervention?

**Udaya Kumar Hebbar:** No actually, whatever the impact is only these 2 which is already got flood particularly Kolhapur, Sangli and Belgaum which was happened in August which has come down which is today maybe 20% we have to recollect, it is going on. Whereas, these 2 districts which is ring-fenced completely. So side by districts impacted and we believe this will actually come down eventually. So and we are not seen any other place in our all the 13 states any other place we have any other issues we are seeing.

**Participant:** And just one last question. There were some headlines about the District Collector of Kolhapur district asking for microfinance companies to submit data which was then to be table with the Chief Minister. Is that something which is usually happens or could you, any qualitative comments over that do you think that situation can escalate a little bit?

**Udaya Kumar Hebbar:** This is actually part of the flood impacted district where the delinquent customers requested that they need waiver from the Government. That is why DC asked the data on delinquent customers, so that Government can plan some support to customers without waiving the loan.

**Participant:** What you mean by support service like support?

**Udaya Kumar Hebbar:** They would support building the house or buying essentials.

**Udaya Kumar Hebbar:** To do that we need the data that is why they collected data.

**Moderator:** Thank you. The next question is from the line of Antariksha Banerjee from ICICI Mutual Fund. Please go ahead.

**Antariksha Banerjee:** So, the first question is related to the previous point regarding the 2 districts. So, if I heard it correctly 120 crores is in the coastal Karnataka and 20 odd crores is in south Maharashtra, Karnataka, is that right?

**Udaya Kumar Hebbar:** Yes, you are right.

**Antariksha Banerjee:** And the total provision on these 140 crores together is 26 crores what you have taken …

**Udaya Kumar Hebbar:** No, we said only credit costs increase in this quarter**,** our provision is see actually our 60 days DPD 0.85% and our provision cover is 1.61% of the portfolio like almost 200% coverage we have.

**Antariksha Banerjee:** So, the point I was driving at is because you have taken such a high cover and you are also seeing your collection efficiency pick up. Do you expect these to reverse in the coming quarters, as your PAT guidance is unchanged for the last 3 quarters?

**Udaya Kumar Hebbar:** Yes, we do not see any significant increase of any provision for next quarter maybe we will have a normative business growth will continue to have because we always provide for standard assets as well. Every growth in our business will have to cover additionally that is what the way we made our policy. But we will be definitely in a position to meet our annual guidance.

**Antariksha Banerjee:** And the other question is, what is the direct assignment pipeline we have for the year? And how do we go about it?

**Udaya Kumar Hebbar:** Direct assignment is not targeted number it is only based on relationship and some banks specifically request for it along with our term loan we will do otherwise direct assignment is not our regular plan because it is a short term funding. We always control it within our 10% to 15% our total portfolio. But it is only done if there is a specific need for any bank, otherwise normally we do not do much direct assignment.

**Antariksha Banerjee:** Demand will pick up in the fourth quarter, right?

**Udaya Kumar Hebbar:** Yes, of course. But we not do much actually we may do maybe our 10% of our raising we may do DA if required, that is all.

**Antariksha Banerjee:** And on cost wise it is at par with our other borrowing cost?

**Udaya Kumar Hebbar:** It is lower because it is a short term funding.

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

**Nidhesh Jain:** Sir, firstly the 28 crores run rate over the normal business is also on the slightly higher side versus our historical run rates. So, should we assume that this will be a normal 1.3%-1.4% credit cost run rate on a sustainable basis?

**Udaya Kumar Hebbar:** Nidhesh, this is due to our conservative provision policy. Provisions will also go up in line with growth in business as we make higher provisions even for standard assets – 0.6% for Stage 1 and 40% for Stage 2 assets. But overall credit cost should not be more than 1% on an annual basis.

**Nidhesh Jain:** Secondly, I have noticed that we have grown, we have added lot of branches, we have added lot of employees in last 9 months. This is a very different trajectory of growth versus last few years. At the same time we will be doing integration with Madura. So, what is the rationale of growing at a fast pace when next year we will be integrating with Madura?

**Udaya Kumar Hebbar:** See, normally we grow by about 25% to 30% infrastructure. But we did little higher this year. Just because we entered into 4-5 states, new states we thought we should have at least a significant number of at least 15 to 20 branches in each of the states. That is why we have added some 30-40 additional branches as against to our original plan, which also will be a position of advance opening for the next financial year also. So, because we have a sufficient bandwidth needed for integration everything. Probably we will not do the similar infrastructure for next year because these infrastructures will give us growth next year automatically. Our next year growth, I mean infrastructure growth maybe little less than the current year because we have to do all these integrations. So, we are well planned on this point of view.

**Nidhesh Jain:** And sir, lastly on the ticket size for the customers, I have noticed that it has grown almost 7% sequentially and customer growth is not commensurate to the infrastructure growth. So, should we expect substantial client growth in next few quarters and so that this ticket size will again moderate to 30,000 odd levels?

**Udaya Kumar Hebbar:** See, the customers will grow definitely in the next 2 quarters actually because of the growth, I mean, infrastructure what we have put in. But there will be a small increase in ticket size will happen because of the retained customer base is continuously going up. That is why if you observe in the last 5 years our ticket, our average GNP per customer kept on going between 10% to 12%. So, because of that because we have more than 40 plus almost total 41 customers are more than 3 years with us. So, which will keep increasing. However, also one more point is regulator also allowed the cap to 1.25 lakhs now which is another reason that GLP per customer might go up, even the industry level also. However, we thought that it may not be good to increase beyond 100,000 beyond a point. We would retain within 100,000 but in between, between 40,000-50,000 level probably we may increase a small 5,000 kind of increase because to remain in competition also. So, that is why there will be kind of 10% increase on an annual basis we will remain a normal normative increase of ticket size for the customers.

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

**Renish Bhuva:** So sir, question on the industry dynamics. So, we are hearing lot of articles in newspaper and people are kind of giving sort of soft commentary on few states, north eastern, a few in south. So, sir what is our reading, at what is happening at the industrial level and how CAGL is placed to navigate all these issues?

**Udaya Kumar Hebbar:** Yes, I think, the commentary what you heard is about north east basically not very relevant to our current business actually where we are not operating. However, we need to keep watching such issues to get the early warning signals. That is definitely important for us to keep reading and keep understanding and revalidate with our business. Whereas, Karnataka coastal I already specified, specific event within 2 districts and we are able to control that and our district specific risk control of not having too much portfolio per district also saving us in this case because our portfolio per district is less than 1%. If you see close to 90% our districts we are operating less than 1% our portfolio which itself is a big risk control mechanism what you put in. And within our own business we always looked at a resilient business with customer centric, high touch weekly collections, continuously innovating and desiring products at the customer requirement to their life cycle. These are the very strong propositions to have the high customer connect actually which will eventually help us and which helped us in every earlier events and we believe this will help us in all times. At this point of time except these 2 districts which had an issue which is already controlled other than we do not have any issue. Whatever happened because of the flood in Maharashtra, the Kolhapur, Sangli, Belgaum, we are able to come back almost 70%-80% in the last 5 months. So, that itself shows that our readiness even if 1 or 2 such events in any districts.

**Renish Bhuva:** Sir, second question is on basically our state wise asset portfolio so if you can just give us the Stage II asset number as of now?

**Udaya Kumar Hebbar:** Stage II we have about 90 crores, which is 60, it is 16 days to 60 days.

**Renish Bhuva:** This is 16 days to 60 days?

**Udaya Kumar Hebbar:** Yes, correct.

**Moderator:** Thank you. The next question is from the line of Aakash Dattani from HDFC Securities. Please go ahead.

**Aakash Dattani:** My first question is, the progress on the merger with Madura Microfinance. There is, is there any change in the timeline or anything of that sort or does everything stand as it is?

**Diwakar:** No, there is no change in the timelines. It is going as per our schedule and as per plan. We have submitted our application to RBI and to the exchanges and the normal process in terms of the merger approval is going on and it's we expected to be going as per our timelines.

**Aakash Dattani:** And Madura microfinance, I believe also has some presence in these areas that you have mentioned in your investor presentation. So, would you be able to comment if they have seen any issues any similar issues?

**Udaya Kumar Hebbar:** No actually. We are in touch with the business we have not seen any developments in any districts where they are operating. So majority of the, all the places where they are operating we are also there. So, we have the first hand information of the geographies.

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

**Parag Jariwala:** If you can just update me one is the personal loan portfolio which we are doing in addition to microfinance. I know our endeavor is to grow is slow and steady but any update that that is one. And secondly how far you handling the acquired entity in the merger process is complete. So, are they doing the business on their own or you have people along with the outgoing management team to handle the growth and other aspects?

**Diwakar:** So, I will handle the second question, which is related to the merger Parag. So, here the point is still we get our approvals, till we do the first part of the merger process which is essentially the acquisition, they will operate as per their original schedule business plan. And we are actually not even getting into any of that at any point of time, it is not really required nor it's allowed. So, they will continue to do their business as normal and we continue to do our way. That said, once the acquisition is done again there is a process, there is an integration management and there is a program where there is a process in which we will integrate the 2 entities leading to an eventual merger. So, till such time they will be doing their business on their own. First part, Udaya will answer.

**Udaya Kumar Hebbar:** On the first part is basically you have talked about individual loan portfolio, if I understand correctly.

**Parag Jariwala:** Yes.

**Diwakar:** So, our growth is not less but we are going little slow because it is a new business no, of course we have to be quite careful in growing it. So, which will even the speed of the growth will pick up only maybe after 1 year or so because there is why we keep growing slowly make the right business model, so not to just grow there. So, that is the whole idea that is all.

**Parag Jariwala:** And lastly, if again chip in basically on the capital raising plan on**.** Anything which we want to highlight or probably just one thing is that whenever we raise capital how much tenure you think that should be sufficient before you raise in the next round? So, will you rise for 2 years, 3 years capital requirement at a go?

**Udaya Kumar Hebbar:** So Parag, as I said the last, in the last concall we are yet to finalize our capital raising plans in terms of timing size and all that. Having said that typically when you raise capital as you rightly said it will be for slightly a horizon which is more highlightable for both the coming investors and also the existing ones and which will take care of reasonable level of growth for at least a few years. We will appraise you as and when we finalize our capital raising plans.

**Moderator:** Thank you. Next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

**Arpit Shah:** I have 2 set of questions. One, what would be your PAR 30 or PAR 15 in this Karnataka portfolio? And why is the finance cost in absolute terms of gone higher when your marginal cost of borrowings has been 60 bps sequential?

**Diwakar:** So, can you repeat the second question, please?

**Arpit Shah:** Why your finance costs have gone higher in absolute terms as compared to your income?

**Diwakar:** Our PAR 30 in Karnataka is about Rs. 90 crores and PAR 60 is about Rs. 35 crores and PAR 90 is Rs. 21 crores. And cost of finance in absolute terms has increased because the borrowing has gone up. So, with the volume growing up the portfolio grown up by 40%, our borrowing also grown up the same way. So, that is why the actual value of interest paid definitely increased.

**Arpit Shah:** No, we had about 10% in Q2 of FY20. We had about Q3 FY19 it was about 10.7% and for this quarter is 9.4%.

**Diwakar:** You are talking about cost of borrowing**;** is you are talking marginal cost which is the borrowing for that quarter. In that quarter our borrowing cost was less because we got a funding from Mudra at about 6.5% of 250 crores. This is the cost of that average on during that quarter. That is why it is showing little low for that quarter, specific quarter.

**Arpit Shah:** As in for the borrowing this quarter goes up 72%. So, major part would have been replaced by this lower cost, right?

**Diwakar:** No, there are many borrowing we did even the DA we did about 8 point something percent and the term loan from SBI we did about 9.05% on average cost it is the total replacement cost will not come in this marginal cost. What is the fresh borrowing during that quarter what is the cost that is what comes under marginal cost.

**Moderator:** Thank you. The next question is from the line of Omkar Kulkarni, an individual investor. Please go ahead.

**Omkar Kulkarni:** What would be your targeted growth once you receive the approval as and when you get it as a combined entity? And what would be your target ROE for the combined business as well as for the standalone basis in the coming 2 years?

**Diwakar:** See, Omkar ji the way we look at this business and acquisition is that they are very similar business and similar line and the way the 2 entities have culturally done the business has been on a very similar path. So, historically the way we have built this business in terms of the growth and also the ROEs we do not see any significant difference in terms of the potential impact or a change in the future as well. We expect these 2 even now be normative as much as possible in the coming quarter also. This proposition of acquisition or in venture will not in any manner impact our growth rates ROEs.

**Omkar Kulkarni:** So, it will remain the same as it is now?

**Diwakar:** Yes, it is value accretive fundamentally as because of acquisition mainly because the difference in pricing between what we are and what they are and therefore the ROE differential will accrue automatically and normatively. That aside there will not be any additional peace in terms of the average comes through and therefore that the benefit of that merger will come through. So, that ROE change is inevitable but over and above that we do not see any significant difference in growth rates and ROEs.

**Omkar Kulkarni:** And in terms of provisioning what would you expect in the next financial year, say would it be continue to rise or would you be able to contain it?

**Udaya Kumar Hebbar:** We do not expect increase in provisioning same it is. We do not estimate any provisioning more than 1.25% of yield. That is with the conservative provisioning policy what we have right now.

**Moderator:** Thank you. The next question is from the line of Kislay Upadhyay from Abacus. Please go ahead.

**Kislay Upadhyay:** My first question is on yield. The 45%-46% increase in GLP did not translate into increase in interest income because primarily of yields going down. Can you give a commentary and outlook on how the yields would be going ahead?

**Udaya Kumar Hebbar:** Yes, actually we had mentioned about this in the previous quarter, the yields had essentially been sort of coming down couple of quarters essentially because of revision in interest rates which we had done. But in November 19, we have revised our interest rates on our repeat loans to 20% from 19%. So therefore the drop in yield is rated which actually has come down and you were actually have started seeing reversal in terms of the increasing the yield now. So we expect the yields to stabilize around these levels because of the increase in rates of interest from November 19th.

**Kislay Upadhyay:** And what was the rationale for the decrease rates and then the subsequent increase?

**Udaya Kumar Hebbar:** Yes, our interest is essentially driven more by the regulatory spread gap which is around 10%. That is the cost of borrowings plus 10% is the maximum at which we can charge. So as and when we have reduction in cost of borrowings we need to pass on the benefit to our borrowers by reducing the lending rate, which is what we have done last year. Whenever we see that we have a cushion to when there is a case for us to improve our yields and that the regulatory spread we are going down a little bit more than what is tolerable. We can increase our rates and that is one of the reasons why the yields have gone up.

**Kislay Upadhyay:** Because almost entirely for the regulatory spreads.

**Diwakar:** Yes.

**Kislay Upadhyay:** Sir, if I see PAR 90 and if I am rightly understanding that the 2 events will not have a major role to play in the PAR 90 numbers. The PAR 90 has gone up by about 20 basis points. Is it, so if you could help us understand is it our general economic or increase delinquency across all districts but how we should see it?

**Udaya Kumar Hebbar:** The PAR 90 of 0.6% is by large normative in microfinance actually. There was a slight increase because of the last whatever the flood situation what we had, some part of that moved whatever is beyond 60 is also in the part of 90 also. Otherwise it is a normative increase. Industry comparison is the GNPA of 0.6%, right?

**Kislay Upadhyay:** Yes, that is true like.

**Diwakar:** It is equal to and by enlarge, industry comparison of 0.6.

**Moderator:** Thank you. The next question is from the line of Tushar Sarda from Athena Investment. Please go ahead.

**Tushar Sarda:** I wanted to understand how does the risk management happen for example the situation in Karnataka or with Assam. When you come to know that there is disturbance, do you recall the loans quickly or has to stick to the schedule of repayment and then how much does it translate in terms of loss and call back and if you get early signal, then what are the steps you take because there is some money already out in the system. You can control your disbursements but what is out in the system how do you manage that?

**Udaya Kumar Hebbar:** Yes, what you say is right. Now what is out in the, already disbursed you cannot control immediately. Wherever we find early warning obviously we will slow down the business in that districts or locations or villages actually. But wherever is already disbursed when you find some situations we cannot recall the loan. These not the loan which is based on asset or something, so we need to convince and continuously connect to the customers keep them awareness about the issues and work with them to come back to normalcy. Further disbursement we will stop in this district but existing disbursement till the normalcy comes we will not do many a disbursement there. To that extent normally in our all the experience 60%-70%-80%-90% even in the demonetization time we recovered almost 90% our delinquencies. So eventually we get back the money reason being one is these customers are, all their details in credit bureau, they cannot borrow any money from any MFI post such delinquency with us or any others. And even other lenders we do not lend to them. Banks are not lending to them. So, eventually they will come back but still about 5%-10% maybe a loss, there is what the loss we always eventually come back within, overall within 1% that is what the way we maintained our credit got so far because of the few small event but it eats away some money.

**Moderator:** Thank you. The next question is from the line of Vignesh from Emkay Global. Please go ahead.

**Vignesh:** I had two questions. One was on data and other was on our strategy. So if I see your PPT on Slide #17, I am able to see that borrowers per branch and borrowers per Loan Officer sequentially has been declining so whether it is group or whether it is retail finance. So, any color on this?

**Udaya Kumar Hebbar:** Okay, I will answer that, this is basically a numeric because we open 258 branches and we added almost 4,000 customers. Obviously the current data get divided by this additional numbers. So that is what is the reason, it's gets normative once these branches become full productive.

**Vignesh:** That is what I was also think it's a sequential

**Udaya Kumar Hebbar:** Yes, you are right.

**Vignesh:** Because of this additional branch openings, this has been reducing and this should start picking up once your overall branch openings should normalize, right?

**Udaya Kumar Hebbar:** Yes, exactly. That will, as the branch become productive, normally the branch is productive between 14 to 18 months' time by that time all become normalized actually.

**Vignesh:** So, with your accretion happening this will remain under pressure for a while, can we assume that? Because we had enough….

**Udaya Kumar Hebbar:** We don't see any such, I mean impact on our acquisition because of this, that is only 20% of our business, this is 80% actually.

**Vignesh:** And my second question have been more on theoretical basis. Now what we are seeing is there has been significant checks and processes as far as CIBIL check what is your recoup exercise everything is concerned. My concern remains with technically with 2 guys, 2 set of customers. One which are completely new to banking. Suppose those guys there will not be any data available to you right then how do you access those guys and number 2, the customers which are already there with some SHG, Self Help Group and those customers if comes to you, so how do you access that whether that particular set of customers are over leverage or under leverage and all. Because for new to bank for new to a system, they could have taken money from some money lenders and all. So, how do you access that or what is your process to check or to tap such kind of customers or how to, how you deal with them? So, if we …

**Udaya Kumar Hebbar:** I would request you to go through the slide number 26 in our presentation, which clearly defines the way of how we actually acquire our customers and how we apprise the group, how we, I mean, this is equal for a new customer as well our old customer. But I agree with your view that the credit bureau when the new customer it could be zero right. But in such case we are actually not lending also too much. We are lending only maybe 25,000-30,000 to test them initially. And eventually they once they build the business once they are able to showcase the creditworthiness and repayment track records then it is keep increasing by 10%-20%. So there is a different methodology between the new customer and the old customer. Old customer would have already displayed the repayment capacity, repayment trend that are available from credit bureau and the new customer we have our own views within one year time we will know exactly how they behaved because we have a check of their cash flow, we have utilization check, we have repayment check, we have multiple information available by the next one years' time.

**Vignesh:** And SS0G, by anyway can you check with that particular customers taking loan from SHG or not or you the same way that your smaller ticket will start with it and then probably based on that lending you will grow, your methodology.

**Udaya Kumar Hebbar:** Yes, methodology is same. But in SHG cases in some cases we get the credit bureau data but in some cases you may not get credit bureau data. We assume that in SHG there will not be any multiple and large loans because normally this is bank lend funding. One loan over a period of time there is no guarantee that they will reduce our loan. So, we check only to the group and methodology. Wherever credit bureau data available of course it gets added and cash flow mechanism when we check with the customers we get certain inputs to arrive the repayment capacity of them along with that loan also. So long it is within the total overall about Rs. 100,000 we still go ahead, if we have the data with us. Some time we may not have data but it is insignificant actually.

**Vignesh:** And just lastly who will be yours this personal loan customer? Will this be the, this will be the existing customers only right?

**Udaya Kumar Hebbar:** We do not have personal loans. This individual loan is basically a business loan for the graduated customer who are already in the group experience we tested them who has stable business and stable cash flow we give the higher than MFI loans to them on an individual basis. This called the retail finance. So this is basically our captive customers who have shown the good repayment capacity as well as good cash flow and good business.

**Vignesh:** So an average how many cycles this customer would have completed?

**Diwakar:** Minimum of 3 cycles.

**Vignesh:** So that is the benchmark. Nothing …

**Diwakar:** Yes, we start with that.

**Moderator:** Thank you. Next question is from the line of Kaitav Shah from Equirus. Please go ahead.

**Kaitav Shah:** Sir, this relates to over a 3 year period how do you see your geographic concentration reducing which stage looks better today for lending over a 3 year period?

**Udaya Kumar Hebbar:** See our concentration basically we started in Karnataka and then stepped in next state. Obviously Karnataka, Maharashtra, Tamil Nadu looks little higher and eventually as we grow more and more this still automatically comes down. In 3 years down our view is that Karnataka will come around I mean less than 30%. Maharashtra would remain about 20%. So that will happen actually.

**Kaitav Shah:** And any specific or couple of states where you all focusing today more?

**Udaya Kumar Hebbar:** One was our view was to do exposure, I mean take a higher exposure or do higher business in Tamil Nadu, which we achieved through the acquisition route that is the one we achieved actually. Other state, continuously exploring more districts, new states we enter particularly Gujarat, Rajasthan or UP, Bihar we keep on evaluating each district which are contiguous to us and keep on exploring it. So, there is no specific state that this targeted state or targeted districts for us. We will target all the contiguous district and explore it, this is what the way we have been growing and that is the good methodology which is very strong in our point of view and we will continue to explore such way.

**Kaitav Shah:** Sir, my second question is, so are there any district stress or states where you have slowdown or existed in the last 6 months apart from what we have already discussed? Are there any visible signs of stress in any other states that you all see districts?

**Udaya Kumar Hebbar:** No, actually we have not. See, what happens, see some time when we start district if we know that districts may not be good we may end up with only one branch. We have about 20 odd such districts where we have end up with only branch. We have not expanded beyond. So there is what the beauty of this, I mean contiguous expansion. Or some districts we not even enter because we find the sense of problem we will not even enter that district. Several districts within our own operating area we have not entered also. So, that the process helps us to do that. But there is no evidence so far that we actually stopped business in a district or close our business that we are not done so far. I mean not found such situation so far.

**Kaitav Shah:** One last question, what would of the percentage of your customers what would be first time credit takers? New to credit?

**Udaya Kumar Hebbar:** New to credit is, last financial we had about 46%, this financial it may be about 40%. However, may be the other point of view with our 42% our customers are only with us. I mean they open it only with us.

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

**Rajesh Ranganathan:** You already answered the question with respect to the lower productivity in terms of branch numbers mainly because you have open lot of branches. Typically your branch opening stops in the first half, this is year it has not actually continue to be quite aggressive in third quarter as well. Can you help us understand what is the reason for that?

**Udaya Kumar Hebbar:** Yes, Ranganath. What happened is since we entered into 5 states, we thought that we will have little significant number of branches in each state so that we can evaluate properly for that at least 15 to 20 branches in each states. So that is why though we have completed from a target point of view we have finished but we thought we will add some another 10 branch each any of these states. That is why we thought to have a significant numbers in these states. So, about 40 branches we have added later basically as an advance from the next year point of view.

**Rajesh Ranganathan:** Because that is difference from your normal SOP so to speak.

**Udaya Kumar Hebbar:** Exactly, basically advance for next year we open this year itself.

**Rajesh Ranganathan:** And the concentration in the top 10 districts that is something which had been reducing previously. But if you look at this presentation you can see that process is stopped in the sense the concentration in the top 10 districts has not dropped any more. And is there a plan or a target for you to do that because that number I would say is relatively something which is cope to reduce.

**Udaya Kumar Hebbar:** I think, it is not that value of the district will come down because we continue to service the customer there. Percentage wise it is already comedown.

**Rajesh Ranganathan:** It has not in the sense, I think the top 10 districts this quarter versus say previous 2 quarters, it is not falling anymore. In turn do you have a target on what that number should be?

**Udaya Kumar Hebbar:** Look at the slide number 19 where we have the data. The top 10 districts, top 1, top 3, top 10 what is the percentage and what is the contribution of growth there which clearly shows percentage all is coming down contribution from after growth from both these also coming down, even this quarter.

**Rajesh Ranganathan:** What is your target though, in say and what time frame?

**Udaya Kumar Hebbar:** Today we have only 4 districts having portfolio more than our 3% actually. While we had 5% is a minimum in the district we are eventually moving into less than 3% per district. So within next 1 to 2 year we will be less than 3% per district of concentration which was 5% earlier. Our target is to keep moving down actually maybe in 3-4 years coming down to 2% per districts

**Rajesh Ranganathan:** And this problem that you had in Karnataka, couple of districts, did I hear you correct in saying that the problem being sorted out already or not yet?

**Diwakar:** Its controlled and ring-fence it. We are not seeing any more disturbance that this point of time.

**Moderator:** Thank you. The next question is from line of Rohan Advant from MultiAct. Please go ahead.

**Rohan Advant:** Sir, my first question is our data point question. Our collection efficiency that we have reported is 98.3%. I just wanted to understand how is this calculated because one of your peers report something called on time repayment rate and another reports cumulative repayment rate. So I just want to understand what are the difference in these terminologies or it has the same thing called differently.

**Udaya Kumar Hebbar:** Two are two different terminologies. On time repayment is due and on that day due and collection, okay. Whereas, cumulative is probably last weeks due were collecting today that become cumulative it can go beyond 100% also, correct. So what we publish is on time collection rate. Today it is due and today it's collected, that is on time collection. Something due of yesterday if I collected I will not add to this collections.

**Rohan Advant:** So sir, something is due of yesterday and they have only paid last weekly instalment but not paid this weekly instalment. So if they are behind by a week will, what will be the…..

**Udaya Kumar Hebbar:** I will give an example. Today 10 customer supposed to pay Rs. 10,000 you collected, then it's on time, okay. For example today somebody is not one is not paid you become 99.9. Whereas, last week somebody defaulted paid today and it can become then become 100% cumulative but on time payment 99.9 only.

**Rohan Advant:** Sir my second question is sir, during times of stress like you are seeing say in, you have seen in Karnataka. Do you see any meaningful difference in collection efficiency based on the collection frequency as in say a weekly, biweekly or monthly group is behaving better than the other and be in terms of the cycle that the customer is in?

**Udaya Kumar Hebbar:** See, all the events so far whether it is demonetization or any other stress situation we found that higher customer connectivity we will yield better. So that is where the advantage what we have collection weekly meetings. So there is why our collection behavior is much better than the collection of fortnightly or a monthly behavior. So which is proven all the time actually. So I think this business is basically a high touch business. So high touch institutions will have advantage always.

**Rohan Advant:** Sir but around 40% of our collection is still biweekly, so any thoughts on shifting it to weekly?

**Udaya Kumar Hebbar:** No, I think what I said is weekly meetings. So, they would have chosen to pay fortnightly but they still collect weekly. So, we basically position our repayment to the customer, we give them the choice to pay but the meeting will happen every week.

**Rohan Advant:** And on the cycle of the customer is there any difference in behavior?

**Udaya Kumar Hebbar:** Actually no that little tricky to say because the higher the cycle there is a chances of higher borrowings also including 1 or 2-3 institutions also. I think, the higher the outstanding there the delinquency even number of borrowers less but the volume can be higher. So, this quite difficult to say which is said but there is no much difference in terms of total volume point of view.

**Moderator:** Thank you. The next question is from the line of Harsh Agrawal from Infina Finance. Please go ahead.

**Harsh Agrawal:** Just wanted to understand in these 2 districts of Karnataka where we have an outstanding of around 120 crores. Are we still disbursing in these areas?

**Udaya Kumar Hebbar:** See, 70% of customers are paying where in any village and any locality where there is no disturbance customers are normal, they pay back. So, we do their due disbursement. Where in a village where even one center is default surrounding center is default or some probably in that location we avoid. So, we will choose and disburse them. So, our growth is very less there actually if you see Q-o-Q, I think our growth is just 1% there. But it is not that we just stop disbursement to everybody in the district because one village maybe working, one village may not be working. So, where village working properly we disburse money.

**Harsh Agrawal:** And sir just follow up on this like when we say 70% of the customer are paying we are talking about the OTR of 70% or it is the cumulative rate of 70% profit?

**Udaya Kumar Hebbar:** It is OTR, one time repayment.

**Harsh Agrawal:** So the 70% is, as on December 31st is 70%.

**Udaya Kumar Hebbar:** Correct.

**Harsh Agrawal:** For the month of December?

**Udaya Kumar Hebbar:** Exactly, yeah. It is one time means it is on daily basis, they due and paying.

**Harsh Agrawal:** Yeah but this 70% would be for the whole of December, right?

**Udaya Kumar Hebbar:** As of December, yeah you can say that way, right.

**Harsh Agrawal:** So, but still there might be …

**Udaya Kumar Hebbar:** No, there is some see October-November, October is much better November is slightly reduced but December end by that time it is 70% on time.

**Harsh Agrawal:** Right but that 70% is only of the dues which were so the amounts which were due in December, right 70% of that but there was some amounts which were due in November and …

**Udaya Kumar Hebbar:** No, those are, it is not that is basically know if 70% of customers, their due they are paying regularly. So, there may be 30% of customers are not paying on a regular basis one time they are not paying, sometime they pay late, sometime they do not pay that is why that is the delinquency is there.

**Harsh Agrawal:** So, sir just for a broad understanding like we have these 120 crores outstanding. So, would it be fair to understand that it's around 30% of this which is around 35 crores is what is not been collected on time like which is …

**Udaya Kumar Hebbar:** Yeah, you are right.

**Harsh Agrawal:** Some payments are delayed and we have …

**Udaya Kumar Hebbar:** Delayed or not paid, some people are not paying, some people are paid partly or intermittently. So, all these together it is.

**Harsh Agrawal:** Yes, together that would be around say 35 crores-40 crores and that is why we have made 26 crores of provisions.

**Udaya Kumar Hebbar:** Correct.

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

**Akshay Ashok:** See your Q2 numbers your retail loans have gone up by almost Y-o-Y 128% and will the proportion of your IGL and retail loans continue to remain the same going forward that is your target, or would there be where in Q3-Q4 your retail loans percentage will increase and your IGL will decrease? What would be your IGL percentage?

**Udaya Kumar Hebbar:** I think currently we are maintaining 95% only. I think at least for next 2-3 quarters it will remain there only.

**Akshay Ashok:** And last one more question this Madura timeline by when you expect the approvals to come down mostly?

**Diwakar:** Yes, we have targeted at least the first part which is acquisition part hopefully to be completed by the end of this financial year expecting the approvals from RBI and SEBI to come through for the first part essentially before this time. That is our expected timeline.

**Moderator:** Thank you. The next question is from the line of Saurabh Dole from Trivantage Capital. Please go ahead.

**Saurabh Dole:** So, I have 2 questions. One is on the average ticket size or may be the average outstanding amount per borrower. As you already mentioned that this has been inching up in the last few quarters partly because more number of customers are moving to the non-first cycle and also because the regulator has raised the cap on ticket sizes. But just to understand from you what is the growth in this average outstanding per customer that we can foresee in the next 1 year. So, right now it is sets about 31,000 and it was at about 26,000 last year. So, what is the growth that you are seeing in the next 1 year on the average outstanding per customers? So, that is question number one. Question number two is on this Madura acquisition, as I understand the book there is largely the TN base book and we are already quite heavy on the TN sides. So, what is it that this acquisition brings to you in terms of synergies or in terms of complementarity if you could elaborate on that? Thank you.

**Diwakar:** I will take the second question first before Udaya gets on to the average ticket size piece. See, the Madura piece incidentally if you said gone through the details of our previous call post announcement we had mentioned that there are about 11,00,000 borrowers and the overlap the borrowers per say is hardly around 50,000-60,000. So, essentially we were having around 5% of overlap and all the geographically there could have been an overlap in terms of branches. The fact that there is not much commonality between borrowers essentially meant that we are technically getting a 10,00,000 borrowers straight away into our fold. So, the merger per say is actually helping us to straight away increase our customer base without much effort. So, that is one of the key reasons. So, the synergies of the merger if we come to it culturally Madura has been an organization, a very old organization and build with the right principles in terms of customer centricity which aligns very well with CreditAccess Grameen's methodology and approach to building business. So, no better combination in terms of the right type of entities to get merged. And the fact that it combines well with us in terms of our diversifying our current portfolio in different states. Thanks to their presence in Tamil Nadu which is currently or as of

September 70% of their portfolio is in Tamil Nadu. It is not that they are exclusively in Tamil Nadu they are also in other states. So, it brings a good variety for us, ability to diversify ready set of customers and mainly they are fully leveraged and that brings in and their high ROA, ROE company. So, it gels very well with our current set of numbers also and it is value accretive from day one. So, that is the reason why we are going ahead with the, this particular acquisition and merger maybe.

**Udaya Kumar Hebbar:** Yeah, on the ticket size if you observe with the last 5 year we have actually our ticket size just gone up, I mean outstanding for customer has gone up almost 10.5% CAGR. So, it is a natural that the more you have the customer retention which is supposed to be the most important thing in microfinance to that extent it keeps going. So, with this change of the policy there is a slight change while RBI told up to 125,000 we said we will not take the 125,000 on the top level, we will restrict at 100,000. Whereas, in the the start and middle we will probably take a beat. So, with that change maybe it will go up by about 15% from on a year-on-basis for next 2 to 3 years' time. So, it will not change too much but it is all linked back to our retained customers who have more experience and better handling the cash.

**Moderator:** Thank you. The next question is from the line of Sandeep Agarwal from Naredi Investment. Please go ahead.

**Sandeep Agarwal:** Sir, my question is regarding in our liability makes securitization portfolio reduce to 0.1%. Sir, any specific reason?

**Diwakar:** No, there is no reason as such. During the course of the year, we do DA, direct assignment and securitization transaction and it is just that we did very few transactions in the last 18 months. And that has actually run down and this particular financial year we did more of a DA and that is it. It is a normative reduction and nothing specific.

**Udaya Kumar Hebbar:** You always need to see both together actually. So, not independent because both are the similar characteristics for short term funding.

**Moderator:** We move to the next question from the line of Deepak Hooda from Sapphire Capital. Please go ahead.

**Deepak Hooda:** Sir, my first question is regarding your Madura microfinance. Now you mentioned that there is no significant difference in terms of growth rates. So, that particular business is also growing at in the range of 40%-45% that we are growing?

**Diwakar:** Yes, they have actually grown in that range last year and the previous year also around that same range.

**Deepak Hooda:** And in terms of our base business do we expect the current run rate in terms of our AUM growth to basically continue as we go into next year FY21?

**Udaya Kumar Hebbar:** As I told earlier also the growth will reduce a bit. So, today if you see when you see it is 45% it is 45% at the base of December 2018 if you see the annualized growth of the current year it is 31% only. So, we would be not growing 45% on the annual basis but it is a correct, I mean arithmetical. So, our view is now the growth will actually taper down from 40% to 35 to 30 like that overall next 4-5 years we may have a CAGR of 25% to 30% growth for the next 5 years point of view.

**Deepak Hooda:** 25% to 30% growth rate?

**Udaya Kumar Hebbar:** Yes.

**Deepak Hooda:** So and in terms of PAT I think PAT has always lagged and especially in this year maybe it might be because of your impairment of financial instruments. So, is that the PAT which should also be following our AUM growth or will that be any other factor that might impact your PAT tracking your AUM growth.

**Udaya Kumar Hebbar:** That should be in similar range actually unless except some circumstances.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Udaya Kumar Hebbar for closing comments.

**Udaya Kumar Hebbar:** Thank you very much for your questions and hope we answer the questions to your satisfaction. We look forward for the next quarter in the month of April or May. Thank you. Have a nice day.

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