CreditAccess Grameen Limited
Q4 FY19 Results
May 09, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Investor Call of CreditAccess Grameen Limited to discuss the Q4 FY19 Results. Today we have with us from the management Mr. Udaya Kumar Hebbar, Managing Director and CEO Mr. Diwakar B.R., Chief Financial Officer. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Udaya Kumar Hebbar for the opening remarks. Thank you and over to you sir.

Udaya Kumar Hebbar: Thank you. Good morning friends. Thank you for taking your precious time and joining us for the investor conference call to discuss CreditAccess Grameen's Q4 FY19 performance. Of late, certain concerns have resurfaced in the market regarding liquidity crunch being faced by NBFCs. Let me assure you, there are no such concerns for CreditAccess Grameen. We would like to make it clear that we do not face any liquidity issues given our positive ALM mismatch and a strong pipeline of sanctions. Our average maturity of assets is at 16 months and the average maturity of liability is at 25 months which was 13 and 23 months respectively during previous quarter. We have a healthy cash position of 615 crores and have funds in pipeline almost 1,172 crores which can be drawn based on our requirements. These sanctions comprises 100% of banks and FIs. We do not have any exposure to commercial paper borrowings nor have we taken borrowings from mutual funds.. Major part of borrowings are from long term borrowings from FIs FPIs and development institutions like IFC. Direct assignment and securitization transaction together comprise 13% of the total liability mix as of March 19. We have 24 months of positive cash flow and have sufficient sanctions and pipeline funding are in place to maintain our planned growth. Hence we would like to reiterate that we are not facing liquidity issues which may be affecting some other players.

To start our presentation with key operational highlights, our borrower base stands at 24.7 lakhs as of March 19. It is an increase of 33.4% on YoY basis to when compared to March 18. Our gross loan portfolio at the end of March 19 is 7,159 crores which is a growth of 43.9% on a YoY basis when compared to Q4 previous year. Our on time collection efficiency for Q4 FY19 stood at robust 98.9%. This was 97.3% during same quarter previous year. Our Goa, Kerala, Orissa, Union Territory of Pondicherry where we started operations last year have over 20,000 new customer with our 35 branches. We will continue to further penetrate and expand in these geographies in the calibrated manner. We have opened 154 new branches during the financial year as compared to 123 branches during the same period last year. These branches will also be drivers of our growth. We have increased our retail finance branches to 60 and as of March 2019 retail finance portfolio stood at 325 crores which is 4.5% of our total portfolio. As explained during your earlier calls, this is a separate business unit with separate branches, technology, employees and entire operating model which caters to experienced captive and loyal customers who would have steady cash flow and aspiring to grow their business. We are witnessing strong and robust business model with quality portfolio in this business.

Coming to our financials. Our NII stood at 202.9 crores for Q4 FY19 and has shown a growth of 33.6% YoY basis when compared to Q4 FY18. NII for FY19 stands at Rs. 717.80 crores with a growth of 69.2% when compared to FY18. As you all remember, we had an outstanding direct assignment portfolio about 400 crores as of December and 450 CR as of March 19, considering the upfront booking of revenue this portfolio will not earn interest during this quarter. So the growing book will carry reduced interest rate compared to higher rate of interest on books being run down ,which will have a small impact on the NII in the quarter. PAT Stood at 76.31 crores for Q4 FY19 and that has shown a growth of 6.4% on YoY basis when compared to Q4 FY19. These are not strictly comparable to previous quarter as and also previous year numbers due to the following steps taken which will strengthen our balance sheet. This is a first full year of Ind AS transition and ECL. We have continued to work on ECL model through the year and have in the fourth quarter strengthened the ECL methodology by reclassifying stage III to 60 days DPD from earlier 90 days DPD; which means the DPD of 60 days will be at a stage III level and actually that we followed from Q3 and reclassified all our earlier portfolio accordingly. Further we also reduced our stage I only up to 15 days and anything more than 15 days DPD will classify as stage II. This overall impacted our higher provisioning against standard loans as compared to the previous quarters which increased our provisioning in our balance sheet which strengthens our balance sheet. We have modified our writeoff of policy also with taking a more aggressive approach by writing off loans which are more than 270 days DPD. In the process we wrote off 42 crores during Q4 FY19 which is sort of one time impact consequent of this revised policy. This has enabled the company to not carry the provisions made on NPAs for far too long in the balance sheet. As a result we have higher provisions to the tune of 1.17% on our gross portfolio, against GNPA of only 0.61% which has resulted in an increase in provision of about 27 crores.

Additionally during FY18, we had written off entire demonetization impact in Q3 of FY18 and consequently there was no write off or provision during Q4 FY18. Therefore, the provision write off numbers are not quite comparable between Q4 FY18 and Q4 FY19. With Ind AS financial Q1 FY19 we will have a clear comparison financial on QoQ from this quarter onwards. On a yearly basis our PAT stood at 321.76 crores as on March 19 as compared to 212.48 crores as on March 18 which is growth of 51.4% whereas our IGAAP number of PAT was 124 crores for FY18. Our GNPA as on March 19 was 0.61 and NNPA is at zero which was a 0.82% earlier in March 18. As mentioned earlier we are holding provision of 1.17% of AUM which is an important strength of our balance sheet. Our marginal cost of borrowing for the quarter decreased by 48 basis points to 9.89% when compared to last quarter. The margin cost of borrowing for FY19 stood at 9.82%. Our weighted average cost of borrowings for the quarter stood at 7.96% which has shown a decline of 233 basis points when compared to same quarter previous year. Weighted average cost of borrowings for FY19 stood at 8.87 which is a decrease of 344 basis point over FY18. Our efforts to continuously improve efficiency and reduced cost have resulted in gradual decrease of cost to income ratio. Cost to income ratio for Q4 FY19 is 35.2% which is a decrease of 80 basis points on YoY basis when compared to Q4 FY18. Cost to income ratio for the FY19 is 33.9% which is a decrease to 530 basis points from FY18. Operational expense ratio for Q4 FY19 is 5% which is decrease of 40 basis points on YoY basis when compared to Q4 FY18. Operational expense ratio for FY19 stood at 5% which is a decrease of 10 basis point from FY18.

With this, I come to an end of our quarterly update. I open the forum for question. Please feel free to ask any queries. We shall be happy to answer them. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jehan Bhadha from Nirmal Bang Securities. Please go ahead.

Jehan Bhadha: Sir, we observe that the yield have come down quarter-over-quarter by almost 300 basis points. And along with that NIMs have also come down. So can you explain why this has happened?

Udaya Kumar Hebbar: Thank you Jehan. The yield is interest on portfolio has come down a bit because of two important events. One is on growing portfolio which is at the new rate of interest which was for the year FY19 as against which was the interest rate higher in the earlier because the renewal portfolio had a higher rate of interest where as new disbursal will have a new rate of interest which will have a change of interest income, that is one point. Point number two is, as you know we had direct assignment as of December end about 400 crores portfolio and 450 crores portfolio as of March end which will have, we have already booked upfront income in the last quarter which will also not earn interest in the interest income bucket. So which will together reap, together which actually there will be lesser interest income to that extent actually. Otherwise it is comparatively the numbers are not different.

Jehan Bhadha: Okay. And sir second question is on the provisions, if you can provide the breakup of the provision expense, how much was due to standard assets and how much due to shift to 60 days in the ECL methodology and also you have taken write offs of over 270 days, so please if you can provide the breakup of 34 crores number for this quarter?

Udaya Kumar Hebbar: Sure. The write off will not have any significant effect because we have already provided against that. So it may be a very minimal impact about 2 crores or so whereas by changing the policy of making the 15 days plus as a stage II and 60 days plus as stage III has increased the total provision by about 27 crores-28 crores. That is the impact on the Q4 balance sheet.

Jehan Bhadha: Okay. So sir this is one time event right, so from next quarter this won't be there?

Udaya Kumar Hebbar: That will be only incremental. The write off event is one time. The next quarter onwards incremental on the same policy basis, anything more than 15 days will be treated as stage II and anything more than 60 days DPD will be treated as stage III. Only incremental days will happen.

Jehan Bhadha: Sir, I meant this run rate of 27-28 crores will not sustain, right? This will come down?

Udaya Kumar Hebbar: Will not be there. Its is on incremental additional portfolio only, right? It's only on the incremental portfolio.

Jehan Bhadha: Okay. And sir lastly on the credit cost front, obviously this quarter seems to be a one off, but for FY20 what can be your credit cost?

Udaya Kumar Hebbar: We would actually we do not see very high , even this year also because we took this additional clearance write off, it was slightly higher looks like and the initial provisioning. Otherwise the overall credit cost should be within 1%.

Moderator: Thank you. The next question is from the line of Amaresh Mishra from HSBC Mutual Fund. Please go ahead.

Amaresh Mishra: Sir, I have just two questions. One is, I mean you have taken a slightly conservative stance in terms of strengthening your ECL methodology and framework for provisioning, I mean incrementally do you see further tightening of this going ahead, I mean what led you to review this and though it is good but what led you to review this and how should we look at it I mean getting into next year will you further take a conservative stance here or this would be it for the year into FY20?

Udaya Kumar Hebbar: You know we always been in a conservative stance about the provisioning. If you all remember, before Ind AS implementation we used to provide 2% of our portfolio so that we will be always ahead of the curve in this provisioning path. But today with all analysis and Ind AS in place we are able to provide higher than the GNPA, if you look at we are at 1.17% of the provision against GNPA of 0.6%. I think this is going to be the trend going forward because that is what the policy we have finally after 3 quarters of analysis and reviewing all the old data and possible implications on the micro finance and this industry. So we have gone through a study around it and I think this will be the continue to be the policy. It will be conservative but it will be well ahead of the requirement. This will continue, this churn will not further enhance only if there is a requirement otherwise they should remain.

Amaresh Mishra: Sure. And one more question. Basically what is your exposure to Odisha as a state, what is the total exposure to Odisha as a state and how many number of districts in Odisha we are present if you can throw some light on that?

Udaya Kumar Hebbar: As you all know that we always follow the contiguous district expansion approach like what our operation in Odisha is started from Chhattisgarh actually. The border in district of Chattisgarh only we are operating. There are about 5 districts we are operating. Our total exports to Odisha is only 40 crores as of March 19 and we are not in any of the districts where there is an impact.

Amaresh Mishra: Sure. Just one more broader strategic question is like, in terms of like sales incentive apart from the fixed remuneration, how are sales guys right now incentive from a sales, from a growth perspective, if you can just, that is my last question. Thanks.

Udaya Kumar Hebbar: Our expansion and growth is more come from an aquisition of new clients and retaining the old clients. These are the two parts. Our employees are incentivized to follow the process and replicate the same quality and maintaining the customer service and always meeting the high audit quality of the branch. The incentives are linked to those item and getting the new fresh clients to the system. So these are the client incentive which is about 10%-15% of their total salary. So we always ensure the higher fixed salary and reasonable incentive linked to customer retention, customer acquisition and following the process quality.

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

Renish Bhuva: Sir, just couple of more questions. One on the yield side, so you mentioned that incrementally, so basically what in opening remarks you have said is that incrementally yields are lower, is it versus the last year period?

Udaya Kumar Hebbar: Yeah. What happens is last year our interest rate was between 18% to 22% and the effective April 1st our interest rate have become 18% to 21%. So and also the renewed cycle for the customer we have made it 19%. To be within the regulatory norm of the 10% over cost of borrowing. Therefore yield is not a key thing to observe here. We should actually look at NII rather than yield because there will be always a change based on the market or borrowing cost. So that is what, but now actually it will be by and large standard because there is no rate change after the last change. I think as such we are not expecting at least next two quarters also. So the most of the portfolio which were at higher yield were run down actually. So now it should be a standard continuation.

Renish Bhuva: But you are confident to maintain the exit margin in FY20 full year, or there will be moderation in margin in FY20?

Udaya Kumar Hebbar: FY20 we should be by and large remain much in within the same range. We are not anticipating any reduction in the margin.

Renish Bhuva: Okay. Sir one more question is on the strategy front. So if I look at the income generation loan, our average ticket size is now running at 35,000 which I am assuming it would be amongst the highest in the industry. So what would be the strategy going forward, I mean what is the growth guidance number one on AUM and how much of that would come from the volume growth versus the price growth?

Udaya Kumar Hebbar: See, our volume growth is always as you know we are one of the very high customer retention strategy what we have been adopting. because in business our growth comes from the existing retained loyal customers, so which will continue to happen and the higher ticket size will go to the loyal customers who have been with us for a longer period. So that is strategy of retaining and maintaining the loyal customers will continue which will almost 60% to 65% of our growth will come from our existing loyal customers, only about 25% incremental customers, correct.

Renish Bhuva: Okay.

Udaya Kumar Hebbar: Incremental growth about 60%-65% comes from the existing loyal customers and about 25% comes from the customers we will be acquiring from the existing branches and about 15% customers come from the new acquisition in the new geography, new branches. So this has been the strategy and higher ticket size majorly growth for the loyal long term customers.

Renish Bhuva: Okay. So basically like what ticket size would be cautious, let us say 40,000-45,000 or we have not thought on that way as yet?

Udaya Kumar Hebbar: If you look at our business model, I think the best highest customer who have been long in the system would be about Rs. 60,000 it is the ticket size maximum, but our average ticket size is still at 29,000 and we have only about 14% of customer having more than 50,000 ticket size.

Renish Bhuva: How much sir, 14% of the total customer base?

Udaya Kumar Hebbar: 14% of the total borrowers.

Renish Bhuva: Are having more than 50,000. But max is 60,000?

Udaya Kumar Hebbar: Yeah, between 50 to 60, basically 50,000 to 60,000.

Renish Bhuva: Okay. And sir this 14% customer base would be with us from how long, I mean 3 years-5 years.

Udaya Kumar Hebbar: Minimum 4 years.

Renish Bhuva: Okay. And sir just accounting question on the full year basis, on the interest income part, which is like roughly 1,200 crores this year versus 860 crores last year, is it possible to give us a breakup of how much of this has actually come from the securitized portfolio versus the on book interest income? Is it possible to get that break up?

Udaya Kumar Hebbar: May be difficult right now. We will share with you probably one-on-one we can, or we need to do some analysis and get back to you on that.

Moderator: Thank you. The next question is from the line of G Vivek from GS Invest. Please go ahead.

G Vivek: Sir, few queries. First of all what is the growth you are expecting in the years to come FY20-21 and opportunity size also if you can throw some light on it and what is the value add being done by the parent CreditAccess decides total liability that is competitive rate of interest and what is the rate of interest you are able to focus?

Udaya Kumar Hebbar: Sure. I will tell about the growth perspective, maybe Diwakar will tell about the parent value add because liability is the majority from parent. Growth prospective as you would see, we have been growing at about 50 plus percent over last 5 years. This year we grew about 43%. As I said last time, I think there will be slightly downturn from the 50% now on based on the bid as well as the size of the company, as well as the industry growth. What we see is, if you ask me for next 5 years what will be your CAGR it could be about 30%. So that means actually it will from 50% to 40% to 35% like that it will move other side and next 5 year CAGR would be about 30%. Opportunity wise if you ask that is actually really very good opportunity still there in India particularly rural economy, as you know that the GDP of rural is almost 47% whereas credit supply there is just 10% including every formal institution together. So that means there is a huge opportunity in rural and we being rural by exposing by almost 82% of our customer are in rural and our ability to go into rural and acquire customer in the rural which we don't see a difficulty to acquire more customers because I think we have acquired the art of going into rural and acquiring rural customers. There is huge opportunity. My sense is that the growth will be between 30% to 50% from now maybe 30% CAGR for next 5 years, is our expectation here. Diwakar can you just add?

Diwakar B.R.: Coming to the liability side, as far as CreditAccess Grameen has actually had a very strong parentage in terms of building help by CreditAccess Asia which continues to hold 80% plus in our equity and one of the chief strategy of the company is to actually maintain and diversify our liabilities and since we will ensure that reliance on domestic Funds or liabilities is reduced to around 50%. The way this works is that we will continue to tap foreign sources of fund whether it is development financial institution like IFC or FMO or FPIs and NBIs like Blue Orchard and likes of such agencies which are active in the space of micro finance and that will continue to be worked by our parent CreditAcces Asia based in Amsterdam who will be enabling us to tap these multi sources on a regular basis and ensure that we are in a position to tap those sources.

Coming to the second point of the cost that you have taken, micro finance business, NBFC, MFI there has been a regulator bridge in where in The Reserve Bank cost of net interest margin of maintaining 10% which is the cost of funds and the experience that we have, the cost we charge on borrowers. The way we look at this is, not exclusively the cost of fund, only for the foreign fund, but a blended rate based on what we are able to tap from domestic sources. For example, foreign sources generally are of long term basiswhich I are of 3 years plus whereas domestic liability which we tapped, some banks are two years and below which means that those banks are at the lower cost compared to the foreign funds. But the blended rate of these two funds essentially ensures that we are in an overall margin of around 9.5% or 10.5% on reliability for cost of borrowing and our main thing somewhere between 19.5% to 20.5%. We are in a position to comfortably maintain our regulatory NIM of 10% and at the same time continue with our healthy net interest income margins. So the support from our parent CreditAccess Asia is there for quite immense and we will continue to more inflows from our foreign sources in this coming financial year.

G Vivek: Okay sir and how do you cover the currency risk and what about the risk management policies followed by as it is totally unsecured and many in the investment world are not comfortable about micro finance sector due to unsecured nature of lending. How to cover that expense?

Diwakar B.R.: Micro finance industry is actually regulated by the Reserve Bank in terms of the security that we are supposed to take from our borrowers. Essentially it continues to remain so called unsecured margin, because it honors the principles of joint liability group methodology in which our company has been I would say in the forefront for the last 17-18 years in that business and historically we have had a very low credit cost as the data has shown. We do not see any difficulties in continuing with the model nor do our investors or our lenders really discomfort in this, the fact the industry has continued to show resilience and had very low credit cost even in difficult times has proven the model well and our lenders and our investors continued to show the required confidence in the model and continue to lend us. So we do not feel any difficulty in continuing with our model.

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

Parag Jariwala: First of all thank you for adopting the conservative accounting for NPAs. The second is, if you look at this slide #17 where you have stated that the branches and the employees count has gone up by 30% YoY, but if you look at borrowers to branches or borrowers to loan officer it has been largely flat. I understand what even you are trying to mention is that basically we have taken an upfront investment in branches and employees. My question is basically, let us say we stopped at 670 odd branches, what kind of borrowers to branches we can see. I am trying to find out what proportion of our branches and our employees are not fully utilizing the potential mainly because they are new in the system?

Udaya Kumar Hebbar: Parag, we always take a very nuanced recruitment approach for our new branches. Actually for the FY19-20, probably we will complete our branch openings in the first half itself. That is what we do all the year, last year also before September we opened 150 branches. So that we recruit in our advance,train well in advance and then put them into the new branches so that they will be able to start the quality business immediately. So that is why we always have a buffer staff to manage this. But you need to look at the other side, where our cost of operations. Are we bulging on cost basis? No, because that is a very economy of operation we are handing also the very efficient way. These are the trainees who will be there in the system, at least the good 10% of people are available so that we can continue to enhance the branches, implement the branches and then start recruiting for the next enhancement. So this process always will be there. But we need not look that as a productivity point of view. What we need to look at productive point of view is how much portfolio for employee we are handling. I think we are the best in the system in that. So this numbers are basically to dictate the infrastructure in place for the future growth.

Parag Jariwala: And sir last thing, at what leverage we are comfortable with, so I understand we are growing if upwards of 30%-35% odd percent where the internal accruals would be somewhere around 18%-20% odd percent. So at what leverage you would like to raise further equity?

Diwakar B.R.: Parag, our strategy of leveraging which we have explained even earlier, are continuously saying are saying there is no change. The business plans have been built in a manner where you know the capital adequacy will always be maintained at a rate of around 20% and minute it will go below the 20% which means that if we leverage 5 times we will try to scout for the next level of capital. We are comfortable at that particular level and there is no change in strategy with regards to the leverage of 5 times.

Parag Jariwala: No, so Diwakar is it 5 times leverage your comfort or tier 1 of 20% because when you sell down, the tier 1 requirement actually falls.

Diwakar B.R.: So Parag now this is more of accounting thing, because after the new Ind AS regulations, when securitization has also been taken as part of your balance sheet, it really doesn't matter so much in terms of tier 1 and knocking off that extra portion because of the securitization in a way that normally we are expected to get. So today as we speak with new regulation in place where our securitized portfolio is also counted as part of the balance sheet on an overall basis, whatever is net worth you will still take it by 5 times and that is why we are comfortable, how much you can really knock off a little bit and maybe check it by a quarter or two, you know that is a matter of detail , sorry if we remain the same, we would not really leverage more than 5 times.

Moderator: Thank you. The next question is from the line of Shiv Kumar from Unifi Capital. Please go ahead.

Shiv Kumar: Sir, I just wanted to get your sense on the current commentary on the rural economy stress, since almost 82% of your AUM comes from rural areas. Are you seeing any signs of stress which are giving you sleepless nights in terms of maybe expectation of higher NPAs going forward? Anything like that which you are digging up from your core areas?

Udaya Kumar Hebbar: I think there is a difference between rural stress and the farmer stress actually. I think what is being resounding is basically the farmer stress probably. Whereas rural stress is not so higher, rural stress wherever micro finance what we do is not to farmers, thus always sometime we get confused with such statements . Our exposure, or even micro finance industry exposure to farmer is very limited, maybe 4%-5% because maybe very small farmer having small land in the backyard and growing flower or vegetables would be accessing , otherwise most of our customers are landless laborers or having the small land but they do major part of their laborer in the different segment or small traders like the bangle seller or fruit seller or a bullock cart vendor, the carpenter, so those kind of things we have not seen such stress in those areas, that is quite good. And even then the credit supply there is very limited at this point of time, so their dependency of micro finance will not come down . Two,their awareness about the credit bureau is quite high, I mean thanks to the awareness being created by the industry over last 5 years. So they also know that if they are not able to pay or if they default they will not be able to get the access to such simple credit in by any micro finance institution then say the default chances are very less which is the reason for the resiliency of this industry against either farm loan waiver or an election for the political promises all those things which is a reason that there is a good resiliency by this segment of customers. The immediate side the supply is limited. They will continue to keep their credit worthiness very high probably this type of credit.

Shiv Kumar: Sir in terms of AUM growth you are guiding again for a 40% kind of a growth for FY20. I know you gave a number of 30% CAGR for the next 5 years, but then in the immediate future for FY20 can one assume it is going to be something close to 40% at least?

Udaya Kumar Hebbar: So we are aiming to grow the rate at which what we grew this year, there could be a slide because what I am indicating that there will be downturn in the total growth. Our aim is to grow repeat the same what we grew this year but since I will keep your provision of about 2%-3% downturn as this moving towards the downturn based on the base as well as the industry growth already happened and stuff. So the period which the growth that which side of the business will not be at the 50% norm.

Shiv Kumar: And your guidance on the number of branches that you will be doing in FY20 and the geographies where they will come up?

Udaya Kumar Hebbar: See, as we normally explained to you earlier also, to grow this level we normally grow 30% of our infrastructure to next level. If you see last couple of years, we have been growing the infrastructure about 28% to 30% infrastructure in terms of branches, in terms of people. So that will lead to our anticipated growth for next year. I think we will remain in that range going forward.

Shiv Kumar: Alright sir. Sir, are you planning to add any more states or you will stick to the existing states?

Udaya Kumar Hebbar: Again our expansion strategy is to look at contiguous district. If you see last year we crossed over Chhattisgarh to Odisha or a Tamil Nadu to Kerala, Puducherry or Maharashtra to Goa. By and large we are full in the states where we are operating particularly Maharashtra, Madhya Pradesh and Chhattisgarh. Some of the bordering districts we already occupied, there is chance that we will get into another 3-4 states in this financial year.

Shiv Kumar: Alright. Sir, and given you would have crossed into Odisha in the adjoining district of Chhattisgarh, in all likelihood you wouldn't have much exposure to the coastal districts of Odisha, can I say that?

Udaya Kumar Hebbar: I think I already explained to somebody. Our total exposure to Odisha as of March 31st is only 40 crores and all those are in the districts adjoining to Chhattisgarh and we don't have any impact to the cyclone impacted district. We don't have any exposure to any of the districts.

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

Rajesh Ranganathan: Just a couple of questions, one related to the ECL methodology itself. So when you change the definition of Stage II and Stage III and you make it tighter, it is conservative, it is good. But doesn't also your expected loss go down because you are just changing the methodology. The underlying credit quality hasn't changed. So while you may have higher level of delinquency at particular Stage, the loss given delinquency would be lower. Therefore the actual expected loss should remain the same or am I missing something?

Udaya Kumar Hebbar: I think you are missing one simple point Rajesh. When we moved to stage II for 15 days DPD which means a customer who is ready to pay with one installment of fornight, we will move it to stage II and start provisioning higher. Similarly, if somebody is at 60th day we start providing almost close to 100% because we treating this almost stage III, almost NPA, so which actually that portfolio together we started forwarding very high which leads to higher provision which means in the provision we have a very high provision available against total standard assets. So that is why we have 1.17% of provisioning as against NPA of only 0.67%. So this gives a cushion for us for the future any difficult situations. Am I clear?

Rajesh Ranganathan: You are clear. So basically you have kept a loss given delinquency the same and just changed the definition of stage II ?

Udaya Kumar Hebbar: LGD also will change to the certain extent for that because of the, when we moved back all the things and automatically you were comparing the all the portfolio of that particular 15% LGD ratio also will change a bit actually which gives us an additional cushion to create provision against standard assets.

Rajesh Ranganathan: Thank you and on the gross loan, I think you have a target of 7300 crores plus. I think we reported it on 7100 crores from this you for some reason has decided to grow a bit slower in fourth quarter or again am I reading the number slightly incorrectly?

Udaya Kumar Hebbar: No, I think we said about 7200 to 7300 something we said actually. We actually crossed 7200 but actually now we have written off 42 crores. If I added that it will be 7200 crores, correct? So we are close to the target. So it is not that we have missed anything.

Rajesh Ranganathan: Okay. And with respect to the ongoing elections, in any case first quarter that is the June quarter is a slow quarter for you because that is where you build up your infrastructure for the next year, so in that sense there is no impact of elections per se?

Udaya Kumar Hebbar: Should not be. Though function will add the new business, the ongoing cash flow will continue. So there will be definitely growth. But yes, we are not anticipating any impact because of election results.

Moderator: Thank you. The next question is from the line of Aseem Pant from HSBC. Please go ahead.

Aseem Pant: Sir, a couple of questions. One is that for how many of your borrowers would you be the only lender at least only formal lender, would you have that data point?

Udaya Kumar Hebbar: Yeah, we have close to 33% of our customers, we are the only lenders and one more data point probably is interesting to you, every month when we acquire new customers close to 48% of the customers are new to micro finance or they are first time coming into formal finance system.

Aseem Pant: Okay, thank you sir. That is helpful. And sir secondly, your retail finance book is growing quite well and my understanding that is currently comprised only of your earlier micro finance customers, correct?

Udaya Kumar Hebbar: Yeah, you are right.

Aseem Pant: So firstly what is you said 30% CAGR over the next 5 years in terms of AUM growth, where do you see this month kind of percentage contribution of the retail finance book at let us say 5 years down the line, currently it is around 5%?

Udaya Kumar Hebbar: Now it is low based, it shows the higher CAGR but I think another 2 to 3 years' time it will be a stable business. I think that also over a period of time that also fall into the same micro finance business call and CAGR growth.

Aseem Pant: Sure. And sir what kind of competition do you see in this product, I mean let us say any other companies, what is the kind of competitive intensity for this kind of product for MFI clients that you are observing?

Udaya Kumar Hebbar: See, these customers whom we are lending are basically our loyal retained customers. So though there is competition from different segments like may be a SFB maybe the NBFCs in the urban, but rural nobody is there. But still every possibility our customer prefer to borrow from us because they have been with us and they know the quality of our delivery. So we believe in that strength actually and another thing is in this business I think our pricing is lower than all the competitors because we believe that this customer who is moving from group lending to individual lending should not be placed higher than what we are lending in the group business. So I think that the competition needs to be taken care by pricing _ to our customers.

Aseem Pant: Sure and sir these are LAP loans, is that correct. I mean there is a collateral?

Udaya Kumar Hebbar: No, these are not LAP loans. These are all actually you know if you see the average ticket is only average outstanding is only 90,000 per customers. These are all beyond micro finance but not into security, less than 2 lakh ticket size, 1-1.25-1.5 lakh and they are unsecured. Majority is unsecured. Anything more than 2 lakh we would look at property as security, that is just started.

Moderator: Thank you. The next question is from the line of Manav Shah from Arjava Partners. Please go ahead.

Manav Shah: Yeah. I just wanted to know what is the one-time provisioning in the quarter?

Udaya Kumar Hebbar: There is no one time, provision is based on the ECL strengthening. I think we have about close to 28 crores ECL provisioning we had to make.

Manav Shah: Okay and that was the incremental provisioning in the quarter, 28 crores?

Udaya Kumar Hebbar: Yeah, approximately. I gave you an approximate number.

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

Saurav Dhole: Just a couple of questions. Firstly when you have revived your gross stage III recognition norm, what difference will that make to the end borrower? So earlier you were possibly imposing a fine or penalty charges post 90 plus, would you be doing that on 60 plus now and would your collection become much more aggressive or much more strict post 60 now?

Udaya Kumar Hebbar: If you see with this changes, provisioning changes is more in the financial statements and our books whereas from customer point of view, actually by regulation we cannot put any penalty or a financial charges to them which is prohibited in this segment. However, our internal monitoring mechanism has increased actually probably within 30 days of delinquency, our rigor of follow up slightly imoproved actually, so that is what we look at. But our financial front we cannot do, that is not permitted here.

Saurav Dhole: Okay and if I mean correct, in the opening remarks you also mentioned that to reduce the interest rates this year. So why would you reduce it?

Udaya Kumar Hebbar: See, if the microfinance regulation allows us to charge only 10% on our cost of borrowing. Last year our cost of borrowing and the lending rate difference was higher, more than 10% that is why by regulation we have to come down to 21% as the maximum rate of interest. As against earlier we where charging 22% rate of interest. So because of the regulation we need to keep reviewing our rate of interest because that is the regulated regime.

Saurav Dhole: Yeah. I think you clarified saying that NII is something we must track, but if I look at sequentially also, on slide #27, your NII has sequentially dropped from 14.4 to 12.3 why would that be?

Udaya Kumar Hebbar: So, I explained in the first also that because we have upfront already, booked the income under direct assignment in the quarter 3 which has an impact in the next quarter because to the extent of 400 crores portfolio, we will not be able to book interest because upfront we already if you see our quarter 3, we had very high interest and NII. So to that extent it has changed. If you actually equate both, if you change it to remove the exception there weren’t any change actually. It will remain 12.3 or 12.7 something.

Saurav Dhole: Okay. Just one last question. In out of whatever 157 odd districts that you are present in today, how many of them would have you as an only MFI or SFB present?

Udaya Kumar Hebbar: Chances are less actually, but to our surprise one district in MP we are the only but it is , so remote that nobody has gone there. But by default there will be some MFIs and some SFBsor banks in most districts, but what is more relevant is who is more than rural, who is more than urban. So the key is the entire micro finance business, 62% of micro finance portfolio today are in urban whereas in our case 82% of our business is in rural, that is more relevant here.

Moderator: Thankyou. The next question is form the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: My questions have been answered. Thankyou.

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

Udaya Kumar Hebbar: Thank you friends. I think it was very interesting questions and I hope we are able to clarify to the maximum satisfaction. In any case, anyone of you have a difficulty or any other issues to be asked to us, we are quite happy to address separately. Thank you for being with us this morning. Have a good day.

Diwakar B.R. : **Thankyou everyone.**

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